

## Dick Youngblood: Lighting installer builds a bright business

An Owatonna entrepreneur has built an \$11 million business out of lighting, electricity-related endeavors and recycling.

By Dick Youngblood, Star Tribune

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OWATONNA, MINN. - Steve Kath is my kind of guy, a gent who shares my bemusement with technical matters such as electricity and the way it works.

“The only thing I know about electricity is that when you flip a switch, a light or fan comes on,” Kath was saying the other day at his corporate headquarters in Owatonna.

The difference between us, however, is that while I stumbled into my dotage having never gotten beyond the flip-a-switch phase, Kath has constructed an \$11 million business out of design and installation of energy-efficient lighting and a variety of other endeavors having to do with electricity.

Kath, 55, is co-founder and CEO of the Retrofit Companies Inc., an outfit that has capitalized not only on the drive for energy efficiency with its lighting retrofit business, but also on growing concerns over hazardous waste, with a recycling operation that serves 12 Midwestern states.

Throw in a bit of conventional electrical contracting and a dash of lighting product replacement and you’ve got an enterprise that is on the way to more than \$12 million in sales this year, up from \$11.3 million in 2006.

“We’ve got competition at every level of our business,” said Kath, who employs seasoned electricians to make sure that something happens when a switch is flipped.

“But there are very few that do all of what we do in-house.”

Using this broad array of services as a model, Kath and minority partner Eric Kylo now are developing what they hope will be a national chain of Retrofit franchises.

All of which is fairly impressive for a guy with a high school diploma and an allegedly minimal grasp of the finer points of the electrical field.

Kath and Mike Noble, both of whom worked as salesmen for a distributor of energy-efficient lighting products, started the company in 1992 with a single



*Steve Kath, 55, is co-founder and CEO of The Retrofit Companies Inc.*

focus: performing energy audits and designing and installing more energy-efficient lighting systems.

“Before that, energy-efficient products were a hard sell,” Kath said. “But then utilities began offering incentives for energy conservation and we saw a growing market for a company like ours.”

Kath and Noble, who sold his

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*(cont.)* share of the business in 2003, built the company by quickly embracing such opportunities as they emerged.

First came a call from state regulators late in 1992: Despite the fact that the company was farming out the installation of lighting systems it designed and sold, it still could not bid the labor side of such projects without a license, the owners were informed.

So they hired a master electrician and proceeded to do their own installations. And then they discovered it made sense to bid a few conventional electrical projects as well.

The upshot: Today the energy-efficient lighting business -- dubbed Lighting Retrofit -- is generating 55 percent of the company's revenue with a client list that includes Honeywell, Chevron, Siemens Building Technologies and Johnson Controls. Meanwhile, the electrical contracting division, called Retrofit Electric, is contributing another 10 percent to sales.

Those two divisions alone add up to a sizable business, with revenue of \$7 million-plus in 2006. But more opportunities presented themselves.

## Retrofit Recycling

In 1994, Minnesota banned the

disposal of mercury, including fluorescent lighting, in landfills. That presented a problem for Retrofit clients and persuaded Kath and Noble to start Retrofit Recycling to handle disposal of such products. Since then, the division has grown beyond disposal of lighting products to include chemicals, electronics and other sensitive materials for 6,000 Midwest clients.

The payoff: Retrofit Recycling now accounts for 30 percent of the company's sales, a total of nearly \$3.4 million last year. Another 5 percent of revenue, more than \$500,000, is produced by Retrofit Supply, a division begun in 1997 to resupply lighting products for the company's clients.

The latest addition is the franchise business, which was started late in 2006 with the sale of a franchise in Oregon to a former Retrofit Companies salesman. Kath and Kylo are betting that their expertise in a business that is deceptively complicated will turn out to be a marketable product.

"Energy audits are one example," Kath said. "You have to determine existing costs, identify the most efficient upgrade to provide both savings and lighting quality." Beyond that, figuring a client's return on investment involves calculating rebates and incentives that differ from utility to utility and

savings that vary from technology to technology, he said.

Similarly, keeping the recycling business profitable requires a complex system of route design to assure a maximum of full loads, Kath added.

So far, the Oregon franchise is the only sale. But Kylo said that's by design.

"We're not looking to sell thousands of franchises," he said. "We're planning a limited number of large territories, and we want to make sure we get the best possible people."

In short, he said, "we're evaluating [prospects] as much as they're evaluating us."

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