



SYSTEMS RESEARCH
CORPORATION

Focus Group Summary:

Residential Market for HVAC



RESEARCH • ANALYSIS • STRATEGY

Prepared for:
SMACNA/SMWIA
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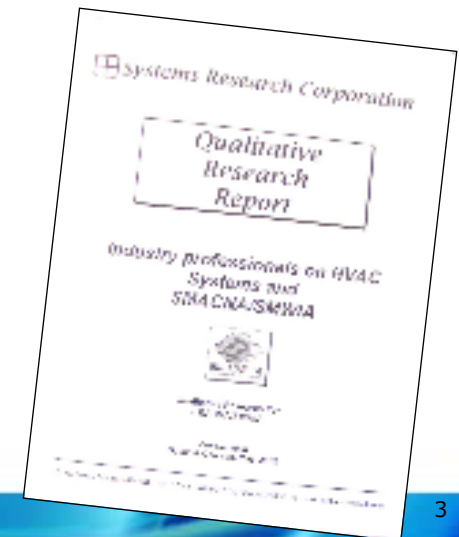
Objectives

1. To **understand** the dynamics of the residential market for sheet metal and HVAC services.
2. To understand the factors for success and failure in the residential market, and specifically for SMACNA contractors and SMWIA labor.
3. To **determine best practices in this market.**
4. **To determine areas of opportunity and how to best succeed in residential contracting.**
5. To determine the value of SMACNA/SMWIA in the residential market, and how to expand both organization's influence. #

Research Methodology



- One Four-hour Focus Group held on 12/10/02 in San Diego, CA with nine (9) Union contractors who have been successful in the residential market. The session was video and audio-taped.
- Participants recruited by SMACNA.
- Moderated by Dan Sklaire of Systems Research Corporation of Rochelle Park, N.J. (Also the author of this summary.)
- A full report was issued to SMACNA/SMWIA.





Key Findings

1. **In the residential market, opportunities are split between two distinct areas:**
 - **New Construction**
 - **Retrofit, Add-on and Service**
2. **New Construction work is highly competitive, and most contractors do not use union labor. Competition is fierce. Margins are low. Opportunities rise and fall with the economy.** Large developers look for the lowest cost, and worker benefits are not very good. **It's not where SMACNA/SMWIA members will find the most opportunity.**
3. **The Retrofit, Add-on and Service business is the area of greatest opportunity.** Business is awarded by home owners based on **reputation, expertise, experience, service and relationships.** Margins are higher, you get paid faster, and the lowest bidder doesn't always get the contract. Union wages are not as much of an issue. **This is the way to succeed in residential contracting.** What does this mean? **\$\$**

Key Findings (cont'd)

4. **In new construction work, competition reduces opportunity. A new competitor can start up overnight.** They can source materials from Home Depot and, by giving the lowest bid, get business instantly at far lower prices and margins. Best price often wins. Builders look for low cost. You make your \$\$ in volume. ***Why compete with this?***
5. **In residential, margins are more lucrative, and the buyer is not an "expert."** A SMACNA contractor can leverage their expertise, and relationship building to get and maintain customers. It's a sale built on making a positive impression with homeowners, and giving good service.
6. **In residential, continued business depends on doing good, solid work, which will yield referral business. Referrals are the heart of new business growth in residential contracting.**
7. **There are some issues with labor in the residential market.** Once residential union workers get trained and seasoned, they often want to move on to commercial work, which often pays higher. As well, some union training does not focus on the residential market, but rather, commercial.

Key Findings (cont'd)

8. **Residential contractors did believe that union tradesmen were better trained than non-union.** This factor mitigated the higher cost and benefits that they paid them. They also noted that the union promoted drug testing.
9. Many retrofit contractors **promoted** the fact that their workers belonged to the union, and the benefits of that, including training and benefits. They also promoted their people with uniforms to give them a very professional look.
10. Those dealing with builders and new construction **did not promote** union worker membership. They felt that builders would not give them a job, because they felt the cost of their hiring union workers would be higher.

Key Findings (cont'd)

11. Factors Governing **Success** in the Residential Market – **New Construction**

- Supervision and management of work “is number one.”
- Focus on Productivity.
- Develop relationships with homebuilders. These can carry them through rough times (Working 30-day, 60-day and 90-day payments).
- Offer 24x7, 365-day service.
- Continually negotiating purchasing of materials, equipment and insurance.
- Develop relationships with city government.
- Do what others can't or won't do. (Niche markets)
 - Specialized Custom homes.
 - Geothermal.
 - Infrared.
 - Air filtration.

Key Findings (cont'd)

12. Reasons for Failure in the Residential Market – New Construction

- Competition low-balling bids to get the work, with lower costs, no benefits...
- Low margins. Bidding jobs too low to make a reasonable profit.
- Lack of builder supervision and guidelines.
- High receivables; failure to keep on top of receipts/aging.
- Interest costs. (2001 problem)
- Problems brought about by seasonal weather conditions.
- Some builders not wanting to work with union contractors.

Key Findings (cont'd)

13. Factors Governing **Success** in Residential Market – **Retrofit, Add-ons & Service**

- Reputation is very important. Do good work, with integrity, as promised.
- Give 24-hour service.
- Replacing doors, curves, etc.
- Always leave company name and phone number stickers on equipment to get future business.
- Promote Service contracts.
- Promote Expertise.
- Generate higher margins.
- Remember, you are dealing with the customer, but not the builder.
- Retrofit provides steadier overtime.
- Retrofit provides Faster pay. Get paid when job completed!
- Do things others can't or won't do.
- Taking advantage of manufacturer support and training programs.

Key Findings (cont'd)

14. Factors Governing **Failure** in the Residential Market – **Retrofit, Add-ons & Service**

- Not watching Cash flow.
- Not Balancing the level of the workforce (experience levels, etc.)
- Not caring about employee retention.
- Not providing or getting workers trained.
- Lack of awareness of price competition.
- **Feeling that they were “too good” to handle small jobs.**



Key Findings (cont'd)

- 15. Sales Approach – Successful Contractors emphasized high quality, expertise and longevity in business.** They told them that they would be around tomorrow to take care of them, cause they've been there for a long time already. **Technicians were given sales training, which had increased sales as well. Some gave incentives for new business.**
- 16. Sizing Requirements Exercise gives confidence** – When visiting the customer's home/location, they measured and calculated requirements for heating or cooling, heat gain/loss assessment and discussed it with them. This gave customers confidence in their capabilities.
- 17. Emphasis on placing Name Stickers on HVAC equipment** – It is imperative that name/phone contact and service information stickers be left behind prominently to generate future business, even if the contractor did not install the system originally. This generates future sales!
- 18. Marketing** – Outbound Telemarketing was not used. They perceived it to be a "shady" practice. **Yellow Page ads don't work. Referrals work best!**

Key Findings (cont'd)

19. **Marketing** (cont'd) – Other successful marketing methods included:

- Signage on trucks.
- Cable TV and Radio
- Local newspaper ads.
- Billboards.
- The Internet.
- Direct Mail, particularly to real estate closing and older homes.
- Letters to current customers, offering Service plans or specials.
- Usual calendars, rulers & ad items given out to churches, clubs, etc.

20. **Outbound Telemarketing** was not used at all. They perceived it to be a “shady” practice. Referrals work best! **Ask for referrals from customers!**

21. **Almost all had Websites for consumers** – Websites provide credibility. On them, they offered specials, informational messages.

Key Findings (cont'd)

- 22. Service contracts are promoted in “off months” to increase revenues.** Service business is better in a “bad” economy, because people will repair then, before they will replace.
- 23. Union Issues – There were issues about the flexibility of Union workers,** which prevented them from being fully productive and profitable to contractors in residential jobs. This was about inflexible shift timing, increasing apprenticeship ratios and being asked to do minor, quick tasks which another union might typically be required to do. Given the price sensitivity of the market, this was important. **SMWIA leadership noted this.**
- 24. Contractors asked that SMWIA organize non-union workers,** by making them aware of the health, welfare and benefit issues available to them as a union worker. If non-union workers realize what they pay out of their pockets, working as a union member becomes a lot more interesting.
- 25. Value of SMACNA/SMWIA –** Idea sharing, education, standards, cooperation.

44 Best Practices in Residential

Participants were asked to write out best practices which maintained their success. Here they are:

1. Cross-training workers in residential and commercial contracting.
2. Marketing programs and community activities to raise company image.
3. Unusual colors on trucks that make them highly visible.
4. Pay wages, benefits and course costs for almost any employee.
5. Flexible time programs for workers to meet their personal needs.
6. Informal meetings with division heads on how management can do a better job.
7. Marketing services and SMACNA programs on radio.
8. Voice-overs by them on their own commercials to make them "more real."
9. Flat-rate pricing on service.
10. Visiting job sites to get a handle on worker concerns.
11. Joining SMACNA peer groups.
12. Restocking work teams with materials in the field to increase productivity.
13. Keeping workers in the field, and not in the shop.
14. Foremen responsibility for work in specific segment areas of their geography.
15. Selling service agreements.
16. Treating employees as family.

44 Best Practices (cont'd)

17. Treating employees as family.
18. Periodic meetings to keep employees informed of company business activities.
19. Birthday bonuses for employees, i.e., one hour's pay for every year of service.
20. Extra training for all employees beyond what's available through the union.
21. Extended warranty programs.
22. Working in niche markets, like geothermal radiant floors, computerized zoning and tankless water heaters.
23. Customer surveys.
24. Safety training.
25. The best and latest power tools.
26. Business cards for all employees to market the company.
27. Recruiting carefully, interviewing extensively and sending new hires to the union hall for training instead of hiring out of the hall.
28. Providing Uniforms for all outdoor workers.
29. Heat loss and gain calls.
30. Providing workers with Nextels for faster communication.
31. Participating in volunteer projects.



44 Best Practices (cont'd)

32. Daily time reports.
33. Comprehensive jobsite supervision, i.e., daily visits.
34. Door-to-door target selling on new homebuilder tracts.
35. Using trained female salespeople to handle company telephones.
36. Maintaining contact with existing customers via mailings.
37. Aggressive selling of maintenance agreements.
38. Utilizing supplier training programs.
39. Paying workers over-scale, plus bonuses tied to year-end company profits.
40. Paid holidays, because of savings in the health program.
41. Using two-man crews at new construction sites to increase productivity.
42. Providing workers with a \$20 cell phone allowance.
43. Free giveaway trips for key people, like service managers.
44. Providing water coolers to workers onsite during warm months.



Analysis

1. The residential market, on the surface, may not appear to be as lucrative and perhaps more difficult than the commercial market. **However, there are opportunities, which can be very profitable. SMACNA members are making \$\$ in this market right now.**
2. **The “bright spot” is the area of retrofit, add-ons and service.** Focus on this. Avoid new construction, unless you love competition and low margins! In retrofit, you are mostly working with the homeowner, whose business is based on trust, reputation and relationship. **This can be profitable business!**
3. The key to the retrofit, add-on and service business is **reputation, expertise, experience, service and relationships.** Promote and maintain relationships with your customers! Reward employees and workers for good customer relations! *Send them to Dale Carnegie for personal relationships training!*
4. **Worker training is important.** If you have a commercial business, this market may be good training for your commercial tradesmen.
5. **The right marketing methods are important.** Don't depend on yellow pages! Use letters, newspaper/TV advertising and referrals.



Recommendations

- 1) **Go for more business in the residential market.** Its profitable, and competition is less challenging. Go for Retrofit/add-ons/service, not new construction!
- 2) **Review and adopt the best practices.** Print these out as a check list!
- 3) **Focus on the retrofit, add-on and service businesses.** These are the "sweet spots."
- 4) **Focus on interpersonal contact skills. It's a business where relationships and service are critical.**
- 5) **The right Marketing methods are important. Your name on STICKERS on HVAC equipment are IMPERATIVE. Also:**
 - Send out letters to current customers.
 - Reward service and other employees for getting new business.
 - Use media advertising, including newspaper, radio and cable.
 - Consider rewarding current customers for referrals (free month's svc.)
 - Create a **website** for residential prospects and offer specials!
- 6) **Review the reasons for success & failure.** Print it out!

Emphasize Quality, Service and an ear for new business with your employees!



The End.