
Residential Retrofit and Service Operations Management Program

Prepared for:
Sheet Metal and Air Conditioning Contractors' National Association, Inc.



2004 Residential Retrofit and Service Operations Management Task Force

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Preface

The Residential Retrofit and Service Operations Management Program was developed specifically for the use of *SMACNA Contractors*. Research includes surveys, interviews, ideas, and the knowledge and wisdom of the Residential Retrofit and Service Operations Management Task Force. Much thanks goes to the *Task Force* for its cooperation and support in developing this program.

This course was not developed as a “How to Program” but rather as a baseline to exploring the residential service and retrofit market. It is recommended that each attendee take the information and apply it to each of his or her individual needs.

We also want to make it clear that this is not a program to teach you how to magically enter the market as a union residential service and retrofit contractor. It is understood that if you are in this program that you have a good background and understanding of what it takes to make it as a successful contractor.

This class was developed to give attendees a good understanding of what it takes to be a successful union residential service and retrofit contractor, and to show the pitfalls and opportunities that exist. We hope that each attendee will take this information and analyze it along with other sources to make a more informed decision in regards to the union residential service and retrofit market.

This is a working workbook that was developed as a teaching aid to help in the learning and discovery process. Our goal of the program along with the workbook, is to give attendees ideas and insights of what it takes to run a successful residential service and retrofit HVAC business.

The program is divided into four sections. The first section covers residential service and retrofit sales and marketing strategies and tactics. The second section covers the financial aspects of running a union residential service and retrofit business. The third section covers the people and production aspect of the business. The fourth section is an open question and answer forum.

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Three Keys to Building Your Residential Service and Retrofit Business

- Marketing and Advertising
 - Getting the customer to call
 - Keeping the customer calling
- Financial
 - Making the number work
 - Yes the numbers are better but the costs are higher
 - More small jobs
- People and Production
 - Finding and keeping good people is a challenge unto itself
 - Service Techs
 - Dispatchers/Support
 - Sales Reps
 - Installers
- Putting your Package Together

Section

1

Sales and Marketing

The Nuts and Bolts of Building a Residential Service and Retrofit Organization

- Price Vs Value
 - You have to decide which one – “Must Be Value”
- A satisfied versus a loyal customer
- Dealing with difficult customers
 - Are they difficult or just looking for a deal?
- Unsophisticated Competition
- “How’s” and “What’s” of what we do
- Communication Process
 - Your internal communication process
 - How information flows within your company
 - Your external communication process
 - How information flows from your company to your customer
- Technology “customers expect instant answers”
 - Technology itself will not give good service
 - Having a Web site, or having a sophisticated phone system does
not mean you give good service
- Your ability to be successful is in direct proportion to how well you treat your customers

Providing Professional Service Can and Will Make the Difference

- What do your customers want?
- What do you want from your customers?
- What do you want from your company?
- Modern technology does not mean modern service.
 - We must leverage our technology.
- How do we give good service?
 - Do people or products give service?
- The Golden Rule.
- Think of a business that treated you badly.
- How many customers does your company come in contact with daily? Weekly?
Monthly? Yearly?
- What can we do to make sure that this does not happen?

Evolution of a Service and Retrofit Contractor

Evolution –All contractors go through an evolution and development pattern, service is no different.

- “Our customers want service so we do it reluctantly” ...a necessary evil in order to get other work.
- The “WE choose to”...We generate some business with good GROSS PROFITS if the phone would only ring a little more.
- The “Gotta grow it”...we need to keep the techs and installers busy year round.
- The “our annuity”...captive customers mean captive, repeating profits, we can actually count the number of customers who have yearly maintenance or service agreements. I actually have a thriving business.
- The “initiative”...you know you can strategically grow this business through thought-out processes and planned actions.

Evolution of Service Employees

- The “oh no” I got to fix it but I hate talking to customers.
- The “this is ok” mostly nice people, steady work.
- The “sell a little more” and I make a little more then I used to. I get year round steady work and treated with respect.
- The “these are my customers” they see me as an expert and when I make a recommendation they listen, they would never think about calling anyone else.

Why Techs Don't Sell

- They became a service technician to fix things, not sell.
- They don't know how. They make all these excuses but when you pin point it they have never been taught to sell.
- They don't feel the prices are fair and don't understand why you charge so much.
- They are already busy enough and if they sell more they will have to work more.
- The sales process is too cumbersome and difficult, so why do it.
- There is no incentive.
- They don't understand the selling process and how it works.
- They really don't understand how to come up with what to charge.
- They put themselves in the customer's shoes and would never do what you want them to offer to the customer.

Pitfalls to Service and Retrofit Success

Building a service and retrofit organization is not easy. Many pitfalls stand in your way. The primary obstacles you encounter are:

- Operations Driven
- Shortage of Skilled Technicians
- Poor Development of the Organization
- Failure to go from Customer Service to Sales Driven Company
- Lack of Training
- Inability to Take Risks
- Overhead

In summary, service companies can be particularly difficult to change as they are driven by many small jobs, intense operations and shortage of skilled people. However, these same pitfalls also help to make service more profitable and less competitive than open bid market work.

You and Your Customer Need Value

Value needs to be measurable and seen from the customer's perspective.

Your Customer

- Something that works
- Proactive
- Savings
 - Energy
 - Repairs
- Trust/Piece of Mind
- Comfort
- Health and Allergies

Your Company

- Profitability
- Year round work
- Residual income
- Cross selling opportunities
- Net Worth of Business

Establish a Professional Image for Your Company

- Image Is based on a perception
- Reputation Is based on history
- A strong image makes it easier to pick you
- Provides justification for paying more
- Makes the customer feel comfortable
- Gives your company and your people credibility

Consistency Builds a Strong Brand

- Market Awareness
 - Job signs, proposal packets, professional trucks, uniforms, business cards, direct mail, yellow page ads, print advertising, radio advertising, billboards, door hangers, Web, logo design, etc.

- Initial Contact
 - How we answer phone, phone script qualification process, our initial presentation, did we show up on time, are we more professional than everyone else, our sales presentation, qualify prospect, etc.?

- Follow-up
 - Do we have a database, do we stay in-touch even if we don't get the job, do we make follow-up phone calls, do we send thank you notes, do we make it easy to deal with use, walkthrough, etc.?

How Everyone in the Company Sells

- Owner
- Service Manager
- Administrative Staff
- Dispatcher/CSR
- Estimators
- Sales People
- Supervisors
- Service techs
- Installers

Sales and Marketing

- If You Want to be the High Value Provider; You Must!
 - Learn to Sell
 - Leverage Union Training
 - Differentiate
 - Target Your Efforts
 - Consistently Market
 - Target Your Advertising
 - Sales
 - Is convincing
 - Is tactical, overcoming objections, negotiating, persuading
 - Marketing
 - Generating interest
 - Demographics
 - Being in the right place at the right time
 - Hope is not a strategy

Farming Residential Areas and Neighborhoods

- Use point of sale advertising
- Sponsor community activities
- Join local associations
- Offer Do-It-Yourself clinics
- Direct mail to your targeted area
- TV/Radio Experts

Establish A Professional Phone Process

- Pick An Appropriate Option For The Phone
- A Live Person Is Best, A Pleasant Personable Person Can Make A Big Difference
- Cell Phones; With Today's Technology Cell Phones Are Also Viable
- Answering Services Are Also Available For After Hours Service
- Initiate Person-To-Person Contact
- Train Your People On Professional Phone Etiquette
- Try To Help Caller, Not Screen The Caller
- Gather Information
- Establish Phone Policy
- Web Based Dispatch Systems Are Becoming More Cost Effective
- GPS Systems Can Enhance Service And Help Control Costs
- Technology is changing fast and becoming more affordable and upgradeable.
- Make sure you use the technology that you have now before you invest in more or upgrade.

Target Customers by Demographics

- Types of residential developments
- Geographic areas
- Income levels of home owners
- Competitors
- Existing customers
- Age of homes or developments
- Similar subdivisions
- Growth areas
- Current regulations
- Maintenance or service contract customers
- Condo and homeowner associations
- Other sources

Know Your Competition

- If your customers do not buy from you, what are their alternatives?
- Know your competition
 - Strengths, weaknesses, indirect competition
- Are you really more technical competent than your non-union competition?
- Who is the best in your area at selling themselves?
- What brings business to you?
 - Relationship, price, service, location, product lines, longevity in market

Service and Maintenance Agreements Checklist

Service and maintenance agreements drive service and repeat business.

- The proposal itself has to look professional (High Quality).
- The proposal should be able to sell itself without any explanation.
- It should be very understandable and not full of legal jargon.
- Offer different and highly differentiated options.
- Let the customers know that the agreement is a high value purchase.
- Maintenance can be the base line of all your service offerings.
- Everyone in the company should offer it to potential customers and it should be highly profitable to sell it.
- Agreement should allow customers access to discounts, preferential service, and uncommon value. While residential and commercial services have similar needs and formats, each has specific areas that drive their success.

Residential Maintenance Agreements

Companies that do well in residential maintenance agreements develop specific proprietary options.

- Acme Bronze: Just a check-up once or twice a year used to get foot in door.
- Acme Silver: A semi annual or quarterly check-up, with preferred pricing on all work.
- Acme Gold: Full coverage on all mechanical parts, includes checkups / covers everything

Residential Maintenance Agreement Checklist

- Develop a contract
- Keep simple and understandable
- Should be able to sell itself
- Develop a sales system
- Tech training and role
- Office and administrative role
- Mail and marketing role

Using Maintenance and Service Agreements to Grow Your Business

- Develop and/or copy service/maintenance agreement.
- Change the wording of the contract to present the advantages and benefits more appropriately. Make it a high quality document.
- Offer two or three distinct options for the customer to choose.
- Develop a mailing and mail to current customer list.
- Develop a script for dispatcher to use when answering the phone. Such as "Ask your technician about the Pro Agreement and you could save on this and your next call."
- Train, role-play with dispatchers, sales people and technicians on how to offer the agreements.
- Develop an incentive plan that is worth their while.
- Develop leave behind materials for the agreements.

Section

2

Financial

Financial Notes for a Service and Repair Shop

- Non-Billable Vs Billable Hours
 - Service organizations need to track the amount of time that is billed directly to the job
 - 30 minutes per day can equate to 125 hours a year per man
 - Also include any call backs into non-billable hours
 - Post Mortems

- Techs As A Profit Center
 - Every tech and retrofit crew should be tracked as a profit center to see if there are missed opportunities.
 - It also allows you to see training voids.

- Tracking Techs Daily.

- Maintenance Vs Service Retrofit Revenues
 - Insure that your financials statements categorize job types to see what is the true gross profit per job type.
 - Use your service tickets to track techs and crews daily.
 - Develop financial benchmarks for tracking.
 - Track techs and installations crews as profit centers.
 - Service is high Warranty; Maintenance is Gravy.

Tracking Your Numbers to Insure Success

1. Raw labor percentage to sales
 - a. Contribution per man hours
2. Gross margin and cost cutting
3. Gross profit percentage
 - a. Type of work, tech, department
4. Sales per non-field employee
5. Cost of sales and estimating
6. Cost of project management
7. Closing ratios
8. Billable vs. Non-billable field time
9. Setting benchmarks- set targets and establish set crews
10. Average job size
11. Cost of travel and missed opportunities
12. Collections
 - a. Types of players
13. Capital and cash needs

Determining What It Costs To Run a Service Shop

- Yes, the margins are higher but so are the costs.
 - Administration
 - Sales
 - Vehicles
 - Other

- It does not matter whether you use flat, flex or an hourly rate you still have to charge more than it costs.
 - Flat rate
 - Flex rate
 - Hourly rate

Understanding Cost Categories

- Material Cost

- Labor

- Sub Contracting

- Special Job

- Overhead
 - Fixed
 - Variable

Budgeting

- Owner Compensation and Benefits
- Administrative Salaries
- Un-Billable Field Payroll (Incl. Shop Time)
- Administrative Payroll Tax
- Administrative Employee Benefits
- Advertising (Yellow Pages, mailings, flyers, etc.)
- Business Education (Consulting and Training)
- Dues and Subscriptions
- Entertainment and Meals
- Office Supplies and Postage
- Accounting, Legal and Professional
- Rent, Utilities and Maintenance
- Telephone

Budgeting (continued)

- Field Communications (radios, pagers, cell phones, etc.)
- Office Equipment Depreciation and Leases
- Administrative Vehicle Expenses (Gas, Maintenance, etc.)
- Administrative Vehicle Depreciation and Leases
- Field Vehicle Depreciation and Leases
- Major Tools and Equipment (Over \$200)
- Charitable Contributions
- Business Insurance (Do not include payroll taxes)
- Business Licenses, Property Taxes, etc.
- Interest Expense
- Depreciation
- Miscellaneous Overhead Items
- Catch All (Any overhead item not accounted for above)

Pitfalls

- Administrative Owners Salary
- Labor
- Administrative Field Payroll
- Downtime
- Depreciation
- Bad debts, legal, allowances
- Interest and return on investment
- Deductions
- Variable Overhead

Section

3

People and Production

Recruiting Good Service and Retrofit Employees

It is easier to teach a hard worker a craft than attempt to teach a poor worker how to work hard. With this in mind, remember these points:

- **Recruit work ethic and hire the right ethic.**
 - Don't be willing to accept someone else's rejects. Check all references.

Avoid the pitfalls of hiring people because they are super-qualified, you like them, or because you are desperate.
 - Hire the most suited person for the position. Ask applicants:
 - "Tell me about your first job."
 - "What might your former employers say about you?"
- **Use third-party qualifiers.**
 - Consider using a third-party qualifier such as a coach, teacher, minister, or parole officer.
- **Ask for employee referrals.**
- **Develop mentors.**
 - Assign teachers and mentors within your company.
 - Establish a "top gun" program to train key employees.
- **Training.**
 - Set specific training goals and objectives.

Recruiting Good Service and Retrofit Employees (continued)

- Train for career employment opportunities.

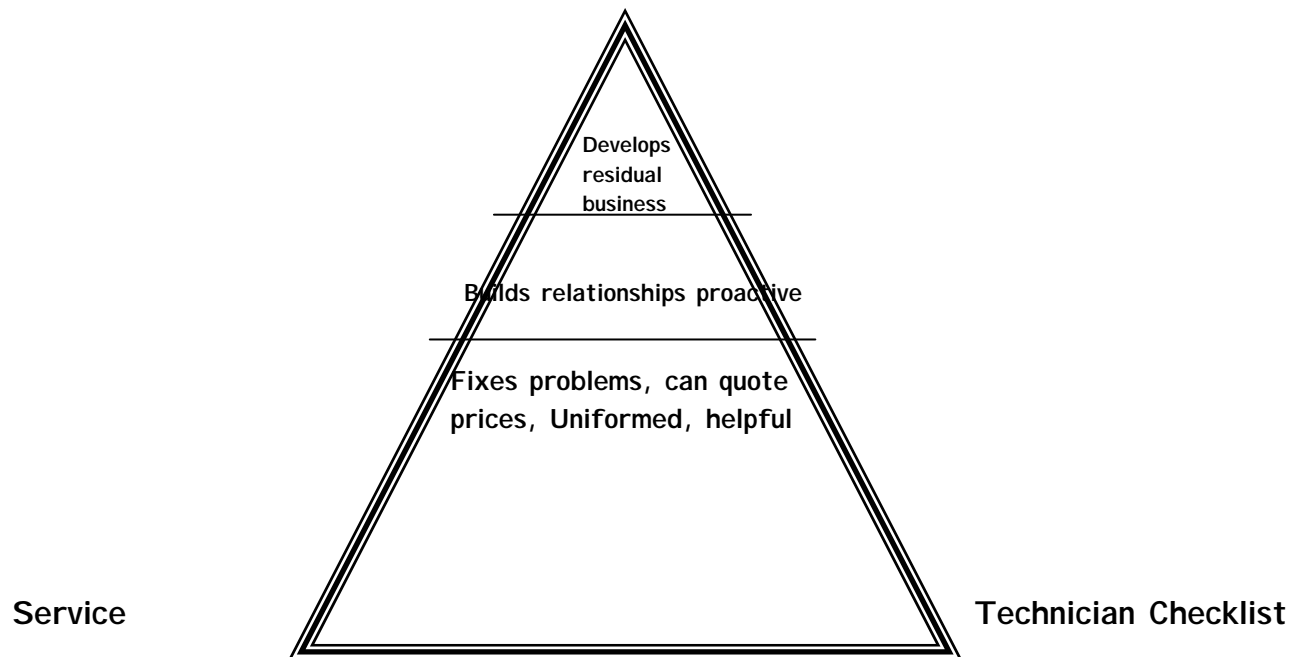
While most companies feel positive about recruiting the right people and setting up a training program, few actually put an effective program or system in place. Implementation is the key to success.

Understanding the Residential Service and Retrofit Transition

Transition into Residential Service and Retrofit is difficult. Front-line employees are caught between the office and field, thereby making the transition even more difficult. Being a good worker does not ensure success.

- **Being a good dispatcher, service tech, sales person or service manager requires a different set of skills other than just being a good worker.**
 - New employees should be coached and trained in the areas of customer service, communications and complaint handling.
 - When possible, new employees should be temporarily placed into service with an avenue available for possible return to prior position.
- **People as an Investment**
 - People are like any other investment. With proper planning and selection, you can maximize your return. While there is no guarantee you will be successful, you can increase your odds.
- **Productivity and Communication Pitfalls**
 - The larger a business becomes, the greater the likelihood of production and communication problems. Working smarter, not harder, is the key to enhanced productivity.

The Service Tech's Role

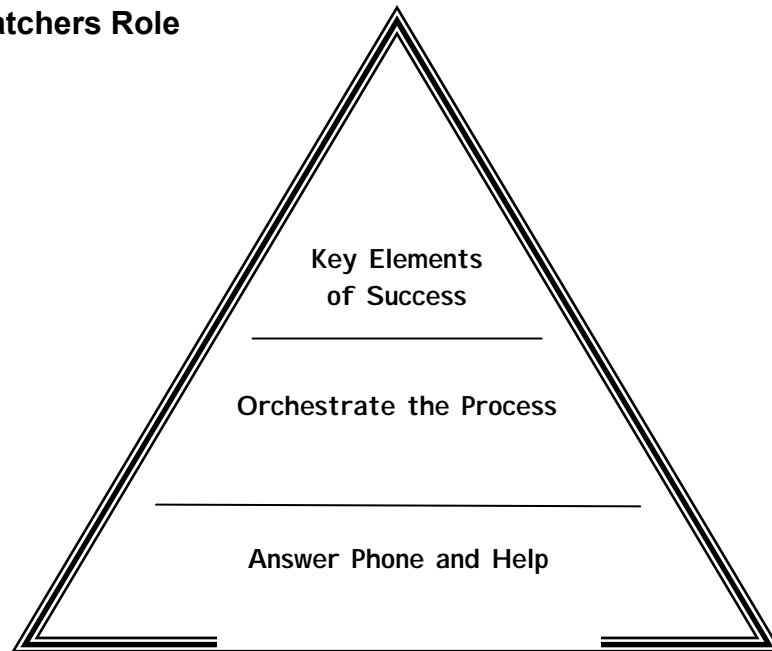


- Personable
- Uniformed and professional
- Technical experience
- Follow standard introductory procedures (Always)
- Follow standard job procedures
- Follow standard departing procedures (Always)
- Frequently ask questions, training and understanding customer objections
(Ability overcome standard objections)
- Technical expertise and qualifications
- Fully understand how to price and quote to the customer
- Capable of high understanding of the technical sales process

The Service Tech's Role (continued)

- Can sell and persuade customers that service agreements are a good value
- Communicates well with dispatcher

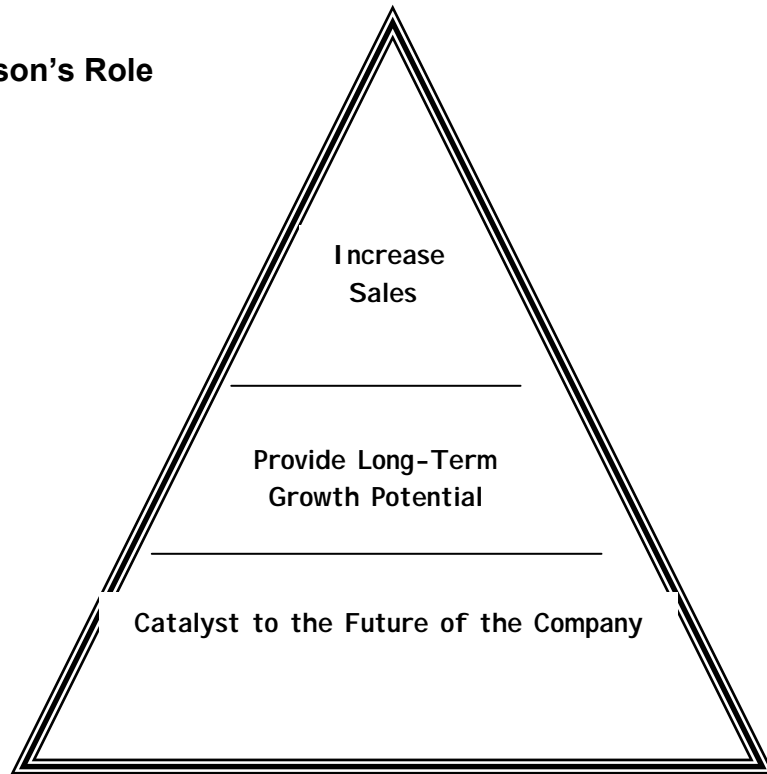
The Dispatchers Role



CSR/ Dispatcher Checklist

- Pleasant voice
- Personable
- Team player
- Understands current service software
- Always follows standard phone script
- Communicates effectively with the customers
- Communicates effectively with the techs
- Understands service process
- Quote and close sales
- Follows-up on unclosed proposals
- Technical competence

The Sales Person's Role



Service Sales Person Checklist

- Proper image
- Personable, likeable and community oriented
- Consistent with high integrity goal oriented and highly organized, willing to put quality time in Strong listener, persuader, writer, and communicator
- Technical understanding to the point of effectiveness
- Strong follow-up skills
- Understands the sales process
- A sales school graduate

The Service/Sales Managers Role

Service development won't just happen. Managers must act as leaders to develop long-term goals.

- Manage the process
- Provide mentorship, training and coaching
- Account reviews
- Manage the gross profits
- Responsible for the growth and profitability

Only by evaluating where your service operation is today and building for the future will you be able to improve the quality of your service shop and life.

Service Technician Checklist

- Check-in procedures
- Techs impression
- Emotional intelligence
- Be wary of embarrassing and potential conflicts
- Providing what the customer wants: time, service, and products
- Check-out procedures
- Follow-ups and add-ons
- Handling complaints

Check-In Procedures

1. Park truck in a high visibility area.
2. Check your appearance.
3. Know specifically why the customer called.
4. Have a contact name and other information to help you service the customer.
5. Ask customer specific questions: parking, pets, etc.
6. Turn on the good attitude and smile.
7. Do not judge your customer.
8. Have a business card handy.

Your People's Impression

- Uniform, age, hair, hat, cleanliness, neatness, grooming issues.
- Your tools, vehicle, equipment.
- Body language and mannerisms.
- Genuine interest and sincerity.
- Personal habits, tobacco, radios.
- Do your people show empathy?
- Do they care about what you do?
- Do your people respect the customer's environment?
- Do they listen?
- Do your people treat the customer the way the customer wants to be treated?
- Are your people opinionated?

Check-Out Procedures

- Ask for approval.
- Be wary of stealth situations.
- Leave job cleaner than the way they found it.
- Thank customer.
- Leave the customer a way to get in-touch with you in the future.
- Check for tools left behind.
- You are the expert, do you make recommendations?
- Add-ons are a customer value.
- It is your responsibility to bring issues to the customer.
- Give options and let customer decide.

Action Items for your Personnel to Grow Sales

- Upgrade quality/uniqueness of company uniforms.
- Develop and enforce onsite procedures such as introductory, departing, and complaints.
- Develop sales scripts for personnel and practice.
- Empower employees to solve complaints and customer concerns before they reach management.
- Set aside time and resources for employee training.

Summary

We thank you for attending this presentation. Should you have any questions on the material covered, please call Kevin Dougherty 941.926.0141 or 714.680.6585

Should you like to know more about our consulting or seminars, please speak with your instructor.

Resource Page

For additional information go to www.smacna.org

Partial list of program's which may provide you with additional help and support.

"Customer Service for Field Personnel"

"Nemi" Survey

"Customer Trust"

"Service Manager's Training Program"