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Are Your Contractors Recession-Proof?

by Blaine W. Fox

No one has to tell you that times are tough. Just ask any fellow wholesaler and you'll hear familiar tales of woe: overdue and defaulted balances, business failures and other hard-luck stories. The new construction downturn has put exceptional pressures on wholesalers, including decreased revenue and stagnating business leads. Plus, RNC HVAC contractors have entered the replacement market with predictable results: shrinking margins and higher warranty costs.

So what can you do to survive this challenging economic climate—and keep your bottom line as healthy as before?

The key is to examine your customer base and identify which contractors are RRC (recession risk contractors) and RPC (recession proof contractors). A thorough, dispassionate review of your HVAC dealer base is in order.

When it comes to RRCs, you already know some of the signs. These are those HVAC companies that show indications of pending financial collapse, like going from a 30-day balance due customer to a more than 90-day one. Maybe you've even noticed a parking lot of idle service vans at one of your dealer's shops.

On the other hand, RPCs have developed strategies to help them meet and overcome the economic downturn head on, from streamlining employees

to eliminating excess inventory. A recession-proof contractor is fixated on the cash position of his business, with an unyielding focus on his asset and equity ratios. What's more, RPCs are still discounting their bills (if offered) or paying on terms with you and other primary suppliers.

Why RPCs Thrive?

It's not just dumb luck that makes an HVAC contractor recession-proof. In reviewing the business practices of hundreds of these contractors, certain common bonds emerge.

We've observed that the RPC has a clear understanding of the back-office, or overhead cost structure, and adjusts its staff to the correct ratio with current or projected revenues. The RPC may

have consolidated its offices or even moved to a smaller building. This presents a dilemma. The RPC focuses on the control of the company's G & A and does not carry the burden of a bloated support staff. However, the RPC must also take action to retain and support its top technicians, installation mechanics and sales people, cutting no corners with such key personnel. This is a balancing act that the RPC must monitor constantly as the local situation changes.

More Customers, More Profit

RPCs focus not only on revenue generation but customer satisfaction and loyalty. To keep customers content,

“Economic downturns reward the aggressive advertiser and penalize the timid one.”

—Strategic Policy Institute

RPCs set up clear retention strategies, such as loyalty programs and well-trained, empowered customer service and dispatch personnel. RPCs “know” their customers when they call: their service and work histories; any special needs they may have; their cell phone numbers and other pertinent personal data.

An RPC will offer an active Service Agreement retention and growth initiative. For HVAC contractors, Service Plans have proven to be one of the most effective strategies to increase cash flow, normalize work flow and generate increased sales revenue. And well aware that some contractors will not survive the economic downturn, RPCs will continue and perhaps even increase their Service Agreement acquisition efforts. For instance, they may set up strategic marketing in more upscale neighborhoods or target established housing developments that are reaching their 10- to 12-year anniversaries. They may also provide sales training for service technicians to convert COD customers to Service Agreement clients.

Winning with the Web

Another element in the RPC success profile is its evolution from implementing traditional marketing techniques with innovative strategies. Not too long ago, potential customers looking for an HVAC company would consult the Yellow Pages or look for an ad in the local newspaper.

Today, RPCs are increasingly using Web sites to advertise their services and product lines and to satisfy customer needs, like scheduling service appointments or processing service

plan renewals. RPCs understand that, done well, Web sites can be a valuable asset for improving customer loyalty and communication, selling HVAC services and acquiring new customers.

On the other hand, RRCs (recession risk contractors) may be buying larger Yellow Page and diner placemat ads—even offering tributes to the weather gods in a desperate attempt to get enough work for the month.

Inventory Control

During these challenging economic times, RPCs have been analyzing and decreasing their on-hand inventories of equipment parts and supplies. They return materials not used for jobs in the next 30 days and have inventoried and analyzed their service trucks and refreshed them with only with the parts necessary to serve their customers. In addition, these contractors have an understanding of universal parts products that are available to reduce their inventory. (Hopefully, they learn this from your company!)

While inventory reduction may not seem to be the best news for wholesalers like you, in the long run it is a winning strategy for both wholesaler and contractor. By improving its cash flow through inventory control, the RPC can continue doing business with you.

Tougher Credit Policies

One final element that contributes to the success of the RPC is its tightened credit policy. RPCs have reduced billings and increased COD arrangements and credit-card processing. In some cases, they may have revised credit terms as well as sharpened

collection procedures. Because of A/R concerns, they may also have stopped doing business with certain builders and general contractors--at the risk of their own top line. Plus, RPCs maintain a laser-like focus on DSO and have multiple consumer financing products that help to close sales but reduce their own collection risk.

Steps You Can Take

Once you have identified the RPCs in your customer base, you should review how you do business with them. Are you dedicating your sales and marketing personnel to these customers? RPCs need to know each and every opportunity that is available to them from their value-added wholesaler. Coop advertising funds, sales and technical training, and efficient returns processes have significant value to the recession-proof contractor.

Do you offer these contractors incentives to encourage them to increase their orders from you? In a period of economic uncertainty like the one we're going through, it's essential for you as a wholesaler to have absolute clarity on the viability of your customer dealer base.

Let's face it: They won't all make it.