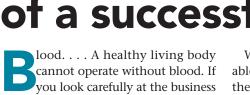
#### by Gary Elekes President, EPC TRAINING

# Service agreements – the lifeblood of a successful contracting company



cannot operate without blood. If you look carefully at the business of contracting, the service agreement acts as the "blood" in our customer retention and marketing strategy by forming deep, lasting customer relationships.

Let's define the "service agreement" as a paid in advance (yearly/monthly) agreement to provide future work. This can be a precision tune-up (PTU), or possibly some form of extra insurance, such as parts and labor full coverage. We will define the various products and options a bit later as there are many variables and paths to success. The agreement, the connection, the brand promise, allows us to stay in touch with our clients, build fences around them, and get paid while doing so. The agreement also connects us to the future replacement opportunity.

The "service agreement" represents the single greatest marketing opportunity in contracting, and yet, some contractors have not bought-in or fully adopted the strategy, failing to see the connections between service agreements and profitability and maintaining positive cash flow during shoulder seasons.

To quote the great Ron Smith in his book, HVAC Spells Wealth, "The road to prosperity is paved with Service Agreements." Why does Ron state this? Simple, it's accurate, as service agreements create options for us as contractors. The puzzling aspect is that service agreements have been around since the 1950's, yet new generations of leaders still have not adopted them as a strategy for sustained success for fear of labor usage.

The most important premise is service agreements are not just a technical product, but instead the main bridge in our marketing strategy to BUILD relationships with the clients. Existing clients spend 67% more money on products and services due to the trust created in that existing relationship. The service agreement provides a company the opportunity to build client experiences that are positive in a non-crisis situation instead of a volatile demand service call where the emotional wellbeing of the client is under serious stress.

We were fortunate in the 1990's to be able to study the top 45 companies in the consolidation model to determine why they were producing over 20% pretax operating profitability (after paying a general manager wage). And the single key performance indicator that emerged? All 45 companies had over 1000 service agreements per one-million in sales (demand service + maintenance + replacement), and the top 20 of those 45, with closer to 25% earnings, were at 1500 agreements per million residentially.

Clearly, this high-performing group had learned to sell agreements, but more to the point, they had learned to communicate with their clients -- discussing accessories, replacement equipment seeds were planted, while general service recommendations of a suggested repair were all trusted at a higher level due to the relationship built over time by the service agreement. Trust is the intersection of credibility and likeability, and the engine driving that trust is the service agreement.

This is the cornerstone of what makes the service agreement so impactful, since we provide a great value to the client, and at the same time have a chance to communicate with them about our company store.

#### **Philosophies:**

Many companies have been successful marketing service agreements. They all share a basic common high-level theme: They have a philosophy, a true culture, to market and sell service agreements, and they measure and incent for performance. It's a part of their DNA.

It becomes part of the daily metrics, the ritual, the reporting and is never far away from a value structure of customer experience.

## Various Types of Service Agreements:

The next consideration is what kind of products or services will you offer?

In the residential markets, examples are:

**1. Safety Check** – the most basic: a safety inspection, typically limited to a few checks

- **2. Precision Tune-Ups** a specified cleaning only: defined by tasks in the tune-up
- **3. 1-Year Service Agreement Plat- form** may consist of multiple tuneups in a year/warranty
- **4. A Multi-Year Agreement** 5, 7, 10 years: some states have laws on prepayment
- **5. 1-Year Labor Only** covers the equipment for labor on repairs for 1 year, plus the tune-ups
- **6. 1-Year Parts and Labor** full coverage on all parts and labor for 1 year, plus the tune-ups
- **7. Extended Years Labor** labor coverage for a specified amount of years: 3, 5, 7, 10?
- **8. Extended Years Parts and Labor** full coverage full specified number of years: 3, 5, 7, 10?

In the commercial markets, examples are:

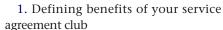
- 1. Basic Maintenance Agreement to Cover a Fixed Client Budget – do what they can afford
- **2.** A Recommended Maintenance **Schedule** priced to do what is recommended by you as a vendor; also clean up recommended repairs up-front
- **3. Full Guaranteed Coverage** a full parts and labor coverage agreement on all equipment, once the recommended repairs are completed and paid, usually for 1 year then renewed. All repairs completed and inspection when unit replacement schedule is issued. Full coverage then granted.

All these products can be adapted, and these are simply some of the many options of what the industry has offered. Aligning the pricing, selling strategy, and marketing comes next and needs to be communicated to your company teams.

#### Strategies in Selling/ Marketing Service Agreements:

The marketing and pricing of service agreements is a key element in developing a service agreement culture and success in your company.

You need internal marketing to train your team and staff. It starts internally with these areas as examples:



- 2. Creating buy-in among your employees commitment to go forward
- 3. Appointing a "Champion of Service Agreements" in your company (Focus)
- 4. Training and education of ALL employees convincing is not education
- 5. Developing bonuses and spiffs around the service agreement process
- 6. Creating operating practices that work to create service agreement sales
- 7. Developing a process to take advantage of service agreements leveraging the service agreement and maintenance business we now have.
- 8. Tracking and measurements for service agreements goal boards, reports, service technician debriefing and all manner of work with the service team.
- 9. Set up a pricing strategy that supports your company goals for club memberships; that could be a lower price and higher volume of agreements, or a higher price to limit consumption.

The fundamentals are listed above, and they MUST be executed well. You should craft your company service agreement club solutions in these fundamental areas and present the approach to the employees.

Here are some additional marketing thoughts for service agreements.

#### 1. Technician Sales Support Materials

What source of sales presentation materials do you arm your service technicians with to allow them to speak less and sell more?

## 2. Technician-Friendly Flat Rate System Tied to A Club Strategy

What system of service pricing do you use? Are you allowing your demand service processes to complement and work for your company and the technician to sell more service agreements?

## 3. Technician Made Easy Marketing Approach

The technician needs to be properly organized with service agreements that are easy to use and with service invoices that work with flat rate.

#### 4. Technician Training Manuals

The technician needs to practice the

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# Reducing biofilms in building water

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not grow within the biofilm in potable water lines, the presence of a thick biofilm increases the chances of Legionella survival and growth. The diversity of environmental niches in a thick biofilm may lead to the entrainment of larger organisms, such as protozoa, which may act as a host for Legionella, leading to growth and replication within the biofilm. Thus, cell clusters which detach from a thick biofilm could harbor Legionella. If these cell clusters are aerosolized or aspirated, human infection could occur.

It's important to note that older water infrastructure can be more vulnerable to contamination through leaks and breaks, according to PMI's Legionella document. A leak or break increases the possibility of OPPPs, like Legionella. entering the infrastructure, becoming

entrained in biofilms, and then being released into the water supply.

In addition, high water age has possible implications for OPPPs, including Legionella, which are more likely to grow when water lies stagnant in pipes leading to the tap. Recent research by Dr. Marc Edwards indicates potential consequences to public health with the increasing number of buildings being built or retrofitted with new types of plumbing systems that keep water in pipes longer. His research also showed that the significant disinfectant loss in buildings with stagnant water needs to be studied further.

## The Case for Antimicrobials

Bacteria like Legionella that survive inside biofilm in a water system can be challenging to eradicate. Many established treatment methods, such as chemical and ultraviolet light disinfection, can kill Legionella; however, there can be challenges with achieving the necessary widespread distribution within a water piping system to fully destroy the bacteria and biofilms that harbor them. In addition, some disinfectants, like monochloramine and copper-silver ionization, can be successful in controlling Legionella, but do not remove biofilm in a plumbing system, according to Sidari.

The Center for Biofilm Engineering at Montana State University is currently working on developing a repeatable laboratory model to assess the efficacy of antimicrobials against Legionella. This model will help determine the necessary chemistries, concentrations and contact times to control biofilm containing Legionella.

Better detection and eradication tools and methods must be developed to minimize the opportunity for Legionella to grow and spread within building water systems. Laboratory models, such as the one being created at Montana State, will offer manufacturers and regulators a way to compare products and treatment regimens for better Legionella control.

To view PMI's "Just the Facts: Legionella and Water Supply Systems," visit the PMI website at https://www.safeplumbing.org/health-safety/legionella-and-water-supply-systems.

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## Service agreements - the lifeblood

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system. That means a training manual that supports the ideas in # 1, # 2, and # 3 above. Humidifiers/Air Cleaners

- a. IAQ Solutions (See: the IAQ Model on <u>EGIA.org</u>) – exampleduct cleaning
- b. IAQ Diagnostic Tools and Questions
- c. Air Duct Modifications
- d. New Replacement Lead Opportunity and Questions

#### **External Marketing Ideas**

- Website Pages descriptions and live chat function
- Website Video a brand promise as to why Service Agreements make good financial sense
- U-Tube Videos Do it Yourself Guide with you as a Back up
- Social Media Facebook and Instagram
- Twitter Live and regular tweets tied to Social Media Outlets on Maintenance
  - Consumer Demo Video on an iPad
  - Direct Mail Postcards, Flyers
  - PTU Door Hangers
- Coupons for Precision Tune-ups on your invoice

- Free PTU's for Friends and Family
- Call Center- Outbound PTU Marketing Set Tune-Ups
- A FREE Service Agreement Tune-up at your Discretion

And let's not forget our own lifetime repair guarantee if you maintain a club membership on that individual repair, a definite marketing opportunity internally and externally.

#### **Financial Success:**

Financially, service agreements are one of the most dynamic and healthy ways to improve your profitability and cash flow in the shoulder seasons. We can, for example, sell units and accessories to our club members in targeted, over-10-years-old agreements with promotions.

A few financial key performance measures to keep in mind:

- 1. Each service agreement should produce no less than \$650 in recurring revenues from now on as an average excludes agreement price. Just new sales.
- 2. The minimum target for service agreements is 1000 per \$1 million in replacement, service, maintenance and IAQ revenues. The best target is 1500 agreements per million. These are pay

(up front) agreements.

- 3. 85% or better renewal rate
- 4. \$80,000 revenue per maintenance truck minimum pure maintenance. Far more when sales are included.
- 5. Maintain labor as a percent of maintenance sales at 34% or less (non-burdened)
- 6. Overall gross margin percentage between 45-50% including ALL parts/labor sales
- 7. Service & maintenance together as a % of total company sales should be between 25-30%
- 8. A replacement sales or accessory lead on 1 of every 5 maintenance calls
- 9. Lead closure rate of 75% or greater on the maintenance generated leads, with a gross margin of between 42-45% on those sales closed from the maintenance leads
- 10. Materials & parts at 6-8% of maintenance sales

In a brief summary such as this, the financial metrics can be hard to detail, but certainly these are high level KPI's that we know are very attainable and yield the best results for replacements, accessory sales, and IAQ opportunities including cross-marketing other verticals.

In the end, the Service Agreement is our best approach to marketing, creating better retention, more replacement leads, and an opportunity to sell and make money in shoulder seasons. Adopt them into your DNA, make it cultural, and begin focusing on the club agreement process. Your company will be more valuable to you – and to a buyer, if you ever decide to sell.

The road to prosperity is paved with service agreements. For a free training package full of powerful resources that will help you begin the journey, including industry research and a how-to document on establishing your service agreement program, visit www.EGIA.org/cbs-serviceagreements.

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