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COMPANY DEEP-DIVE

Former Manager at American Residential Services Believes Scaling Home Services Requires Strategic Negotiations and Supplier Relationships

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Summary

A client speaks with a former HVAC Operations Manager at American Residential Services about the challenges and advantages of scaling up a home services business. The expert emphasizes the importance of negotiating non-negotiables before signing a contract, particularly when it comes to processes and procedures. They also discuss the benefits of being a larger company, such as increased buying power and better fleet management. However, the expert notes that smaller companies can still thrive by understanding their place in the market and focusing on customer needs. The conversation also touches on the importance of building relationships with suppliers and distributors to ensure reliable supply chains. The expert suggests that a subscription model for maintenance agreements, combined with smart home technology and good record-keeping, can help HVAC businesses succeed.

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Client 00:00:00

Thank you for taking the time to speak with me today about ARS. To start off, could you please give us a quick overview of your background and experience in this space?

Expert 00:00:08

Yes. Throughout the HVAC business, family-owned business, as said by my background or my work ethic and understanding. And then that I did for a long-time sales, business-to-business sales and then home construction and then got into project management, general contractor, then ended up going to work for ARS, which I'm sure you heard of at the time was the nation's largest HVAC plumbing company as a Comfort Advisor.

I wasn't too familiar with growing up entrepreneurial family business with processes. I consider ARS the McDonald's of this industry where everything is a duplicatable process, whether it's Comfort Advisor where I came into operations, install service to admin and accounting. I first came in; they introduced me to the sales process. There's a lot of sales process, still this way, is obviously I can't process.

A few months into it, I got into it and it's like, okay, let me see why they invested so much money in the sales process, take you through the objections, close the doors at the average ticket options, those different things. And it worked. It was really a lightbulb moment in my career for me. I got into processes throughout the business and within about 18 months, they made me a General Manager.

And then I moved up from there into some multisite. Then I had the opportunity to become the COO of foundation repair waterproofing company, which is basically the same exact business model. It's a different business. Home services get the leads the same way, be the lead, make sure that we're managing the metrics around getting the right salesperson right in store crew, following through given options and manage it through the project through Google review and then do it over again.

I think what was very cool about that was the owner has a very high-level business guy called Patrick Bet-David, and he's a podcast now, and he was flat for three years in a row at $12 million, and he said, “The coaching’s not working, don't come back. I'll give you your money back. The only way you can come back is if you hire somebody to run your business”.

The guy had a couple of other businesses. He hired me and we went from $12 million to $32 million in two years. I had the autonomy to run the entire company, and it was very cool because I was able to write the processes and bring them in and put them on tablets and make sure that we had something that was scalable, and it was something that just was another thing in my career that really helped me understand the processes of that.

So left there, got back in the home services on the HVAC plumbing side, very exciting in regard to where I can see where the technology is going. They're all going to the three pillar services of maintaining the entire home, different sales cycle of foundation repair, waterproofing, much more exciting and then to tie in with the future of the smart home network, what that can do.

The problem with a lot of this is people are afraid to change, and I heard a lot what I told you how we've always done it. And for the people that want to get in front of the future of where this industry is going, there's a huge upside opportunity. I've been working around basically just trying to write my own processes and help implement that with some consulting and even working with some other private equity firms at this point.

Client 00:03:09

It would be good to get your thoughts on the current state of the home services market and then really just some of the key changes you've seen over the last couple of years, particularly with all the influx of capital and interest from private equity, just some of the key observations you've had from when you first started your career to now and then just where you see the market today.

Expert 00:03:25

I started at ARS and I came from the family business and then my own construction business. It's all been a learning curve for me. And you had the ARSs, you had one hour Service Experts, and they really own this business.

What they would do is they'd do the merger acquisition, and then they slowly rebranded to their label. It was almost like they were McDonald's or the Burger King and the Carl's Jr. or whatever, in like the big three players nationally and a little bit different model, but pretty much similar in that way. When I left ARS three years ago, they were the largest by far. They were just at $1.1 billion, just got acquired by GI Partners and the one mistake I recognizes is that about the year before I left ARS, and I would talk to teams about this is, they were $1.1 billion. I don't think the next company might have been at $500 million to $600 million.

However, that's how much the market has changed just in that period of time over the last 36 months. The mistake was that they didn't go to the different branches and talk about your part of this $1 billion company that no one's close to. Similar to what Apple does. If I go to the mall in Indianapolis, if someone that works at that Apple store, they could a college student, they associate themselves as being a part of a $1 trillion business, we're part of the Apple and that indoctrination of that.

It's just very smart how they built their business. ARS missed the boat on not doing that. They had everything under that umbrella but did not make people understand the vision of how it could help them be part of that big business. All of these people that've come in, you have Apex Service Partners, which has probably been less than five years. The Wrench Group, about six or so years and then some other medium-sized player.

They only do a legacy model. You don't know that they bought or acquired that business, and it's working extremely well. They have both overtaken in revenue. ARS has this big bureaucracy and went from being a huge business in Indianapolis to basically nonexistent. And those three businesses, ARS, Service Experts and One Hour have really been hurt in the way that this change has happened with the private equity and the new model. ARS's sustained better than the other two, but they still have lost big market share and are trying to adjust in that regard.

The new model is you acquire the company and you still think it's owned by the Jones family or whoever in that local community. You take advantage of the branding that they've built, what's made them successful, what's made them a desirable acquisition, and you continue to grow that, and then you have the individuals that are smart businesspeople from the private equity companies that can come in and add processes, marketing, kind of like the same example I talked about.

Acculevel was flat, family-owned business for 12 years in a row, that was his feeling. The private equity companies can come in and take that business and grow it exponentially with their experience and the duplicatable processes which they have. As long as they are careful and making sure that you make acquisitions aligned with where you are as a company and where you want to go. Sometimes there was an attractive acquisition, but it's not aligned with what you do best. That's the other part of it. Then you have the last thing of that where I think is the other issue, people are always getting caught up on where do you land, and they compare themselves to these billion companies.

Wrench Group, they acquire huge businesses $15 million, $100 million, $200 million. That's a tougher model. As a matter of fact, I don't like it. And there's a lot of obstacles with it. However, it's just a different model. Then you have Apex and most of them, that $12 million to $20 million is a real sweet spot, ARS as well. $15 million really is a great sweet spot. There are some variances on that. If they want to do instead of a greenfield concept, they might go on and do a $2 million that's like an hour away from one of their larger branches and be able to do some stuff off of that.

That might be one where they are going to rebrand to that local, not to the umbrella or the private equity like the Wrench Group, but they can still get that building trucks, employees and instead of doing a complete greenfield, they have some infrastructure, and then they can kind of market to that one that's an hour away and have about the satellite branch. There are some different things around that, but most of the people like the ARS and the Apex, they really like around that $15 million acquisition. That's really a perfect spot for them.

Client 00:07:48

And that is revenue or EBITDA?

Expert 00:07:50

That's topline revenue. That's where they'd like to acquire them at because they just see a lot of opportunity to really grow them to $25 million or $30 million business with a very corporate time at 24 months with what they've had in place. Even to kind of take a hit on EBITDA, the first 12 to 18 months to put that infrastructure in place to really grow and drive beyond that on a 36-month plan to where they're really optimizing those efficiencies because really, they built the blueprint is just putting that in place.

Then you have the next level, which there's some great businesses out there that are $300 million, $500 million businesses that have 25 to 50 businesses under them, which, by the way, I think that Apex will surpass $2 billion this year, and they're at about 170 branches. They're acquiring so fast it's sloppy, to be honest with you. Where it goes back to that making sure that you're not going wide, but you're driving deep within your wheelhouse, my opinion. Some other ones that are the Heartland Home Services, Southern Home Services.

I think there's a huge opportunity that people are overlooking. You don't need to be $1 billion, be a $100 million and resell them in other private equity in 36 months and do it again at $350 million, and that's where the real value is. It's pretty hard besides the fact that there's not a lot of private equity on to buy a $1.5 billion company. It really limits your pool. And then secondly, if you do two buyouts and you get to $350 million or $400 million, that company can look and see with their experience, how they can get five more points on the bottom line and what they can do to drive it to $600 million.

A lot of those companies are going and doing that $3 million to $10 million. I'm working with a couple of them now. One in particular that's just getting started, put the infrastructure in place. They've over 700 acquisitions, private equity, and this is their first entering to home services, extremely intelligent group. I just got them put together the org chart essentially for what that will look like in and are in the process of doing the first acquisitions, had the first $50 million ready as far as the first acquisitions. But their sweet spot is around $5 million.

What they can do with that under that same plan of the next 10 years, get to sales and then walk away from it at that medium range and let one of these bigger companies really take it and what they can do with it. That's kind of what you got the real big, the middle and then the smaller ones. There's a lot of people that are missing the opportunity. They're comparing themselves to the wrong companies and they asked me a lot of questions about the Wrenches, the Apexs, the ARSs and not the middle.

Client 00:10:30

What are some of the advantages or disadvantages of being a large player? What are some of the considerations we should be thinking about as we try to segment the market in terms of size and things like that?

Expert 00:10:40

Well, for one, just to kind of go to unpack at the opposite, they have every advantage over the mom-and-pop. Unless they have some type of spun that's come up that has an MBA and wants to.

I've seen a few of those, he's going to want to sell to private equity. That's what he's standing up for, teach your mom and dad how they are like, because with those is how do they build a family legacy.

There's only a couple of reasons these people sell. They want to have a family legacy in their communal team and some type of generational wealth or it's really one of those two. And then if they don't have somebody take over, they don't have a kid, anything like that, then they just want to buy out and retire. The worst scenario, which is some of these $80 million or $100 million, a lot of the situation with some of these bigger ones is a lot of those businesses I visited, been in. They have the family guy build it, the family legacy.

They are the big deal in that community but they don't have anybody to take it over. They sell it and yet they stay in place at the business. That's the worst thing you can do. And you ask them, and they just want to be in the chair because it's their ego but all they do is try to private the equity constantly. I've seen a lot of those businesses where they build them like that, and it's just an absolute nightmare.

Client 00:11:52

What do you mean by that? They stay in the chair, so they'll sell, but the PE firm that buys and will put their own management in?

Expert 00:11:59

They allow the President and CEO to stay in there of this $150 million business. There's a big player that they've built their whole model that way, and it is a nightmare. And then you have somebody that comes in from corporate and says, "Hey, we're going to go on ServiceTitan. We're going to go to their sales process". And they're like, "We're not doing that. We've never done that. That's not how we're doing it. I build a $150 million business; you can't tell me what to do".

That has to be negotiated. When you buy, I don't care if it's a $10 million, $5 million or $50 million, there has to be non-negotiables that have to come into that before they signed the contract. If you have that scenario, the guy is 60 years old, he built it from nothing over 20 years to $100 million. He's a big deal. And by the way, he should be recognized for that.

But if he sits in that chair and is not willing to take over the processes and the procedures, the accounting, the tracking, Power BI, ServiceTitan, that is a problem. And you can't put that back in the barn after you've already acquired it. They can have a decent business, they're not going to be able to compete in this arena. Especially because every business, and it doesn't matter if it's an ARS or a legacy type of model, they're all right now working on acquiring, getting roll-ups or adding electrical to their portfolios.

Some already have it, but it's a small percentage. If they were HVAC first, then plumbing, they're all going electrical. If they were plumbing first, eventually HVAC will become the top revenue of that. HVAC has always been the top revenue of the home services of these three pillar services. Then plumbing first. It gets acquired; they bring on HVAC. It takes a few years to build up that clientele. It will take over as far as the highest top line revenue and then therefore, in electrical. But in the future, you're going to see all private equity home service companies are going to have

HVAC, plumbing, electrical. It's going to be hard for mom-and-pop to compete in that.

When I'm talking to sales teams in companies, I kind of break it down in three parts to five. There's a third that it was a mom-and-pop customer, and they can thrive in that. There's such a big industry that mom-and-pop has to understand that's their place. Then you have a third that wants the best. They want one company to service everything in their house. They're willing to pay for service contracts, maintenance, peace of mind, everything.

Then you got a third that's kind of in between that you have to influence whether they can get cheaper from a mom-and-pop in local and all that stuff or why it's best to have that peace of mind, pay a little extra have a 10-plus, 15-year warranty, everything that goes along with that. And that's the part that can be influenced.

If you're really good and that the more data we have and more metrics we have to be able to run this call service on where that customer lands and kind of prequalify them as best you can, the better off you're going to be. The problem for the mom-and-pop is they're not going to really understand it. It's going to take very few of them. They're very entrepreneurial, they're great people, but they're not going to really understand the nuance of the business and where this is going.

This is like the trades business, blue collar, somebody turned into Wall Street and the people that are pulling the levers in the future, mom-and-pop is not going to understand that. You know what I mean. And to the other real advantage is that because you can take even in the legacy model, the thing that's so great about it is like ARS, you really don't have any input.

This is the process. This is how it's done, get on board. This is exactly the process. There's no real variant like McDonald's. Everyone goes to McDonald's University, and everyone knows this is how you run the fry machine, the soda machine, whatever, who manages the process the best.

The thing that's great about legacy model, you have 50 branches, they all became successful with different processes. Some have comfort advisors; some have no comfort advisors and somewhere in between as an example. The thing that's very important about that is to understand, they all grew to $50 million as an example and became extremely successful and very profitable, and they have not one business that looks alike.

It's because they took that process that they decided on, and they've managed it extremely well. But the thing that's important about that is that you can have five pillar things that are non-negotiable. We're all in the same CRM, call center, accounting HR, commission structure, basically, so we can manage labor materials fleet.

Beyond that, there's a lot of things that can be best practices that can be shared amongst those branches that can be collaborative to continue to drive, I don't care if it's 0.5 points to the bottom line, but we can continue to grow and learn from one another.

Whether it's regionally or nationally, the companies like the Apexs, the Wrenches, even ARSs, they didn't start at $1 billion companies. You have to have a very good CEO and COO that are constantly sharing the vision. Let's take the heart of the home services, even though they're in the Midwest, they have to constantly be sharing the vision with their suppliers, with the distributors, with the manufacturers. This is where we're going. This is what we did last year.

This is what we'll get next year. We're going to sell in October 2025. And they have to continue to build relationships to empower their buying power, especially when it comes to when we have supply chain issues and those types of things.

Instead of being reactionary, you have to have people that are C-suite executives that are very proactive in regard to constantly sharing the vision, developing partnerships. And by the way, it might be with a regional distributor. Gustave A. Larson could be a perfect partner for someone like a Heartland. They're a large distributor that fits right inside of their blueprint, they're not R.E. Michel as national, but it gives you front of building relationships and aligning yourself to make sure that you can get the best pricing and make sure that you have options if there is an issue of supply chain in regards to equipment and/or parts.

And what that also includes is having a second and third option has an issue with a particular model or part, you have another option available. But it's about constantly having those relationships and those conversations, “Do you want to partner with me, we go from $100 million to $300 million to $1 billion”. And as those things change, just like any relationship, those conversations change. And you give to them, and they give to you, and it's extremely important that you continue to work that. I think that people could do a better job of that.

Client 00:18:16

I think your biggest takeaway of being larger is just kind of the benefits you have from a supplier perspective, more or less your buying power compared to a regional player, is that correct assumption? That's kind of the biggest advantage?

Expert 00:18:27

For sure. That and fleet management with both the chip issue and different supply chain issues there as well. I've seen where the larger companies, the $1 billion dollar companies, they need a vehicle, they get a vehicle, the $300 million guy doesn't. And that's big. Because that's huge in regard to when I visit branches and consult with them, the first thing is what's keeping you from growing? The answer is always I need more tech.

What are you doing about that? And they're always working from behind. They're spending very little bit of their time on recruiting. It's a backwards model, and it's one of the biggest misses in the industry. However, they have to be able to have vehicles for those techs.

I've seen a lot of times where they have two or three techs, they don't have vehicles. And then they're fighting with a fleet management company on getting that vehicle when they can go down to the Chevy dealership, a mile from their office, and there's the vehicle they need, but they can't get it. The downside of it is you're in this contract with a fleet management company. And you're an entrepreneur, you sold to a private equity firm. And normally, you're a maverick. You go get what you need, you do it, you figure it out and you go, that's a great mentality you have.

Then you get a contract with this guy, and you're stuck. One thing I've seen that's worked well has been negotiated is that there's some of the fleets have allowed them to find a vehicle and source it for them, get it, and then they'll buy it from the business. And so that's one of the things that you want to make sure you negotiate in one of these fleet contracts is that in that case, if they are willing to allow you to do that and it has to be certain parameters that fall within their portfolio as well.

Like if they forge model, you're not buying a Zuzu. Something that they don't want to have anything to do with their fleet. But you want to make sure, just like the contracts and the negotiations I was talking about earlier with distributors, manufacturers are with fleet, you want to make sure that there's some type of reassurance on your side that if there is an issue, because we can't control supply chain issues.

What we can do is we can negotiate, hey, if we're going to move forward with you, we have to have some type of assurance that if we're in a situation, I cannot lose $5 million of top line revenue because I need two trucks for two service techs. If I can source these vehicles, we have to have some type of thing in place. Where we'll get the vehicle and then you buy it, and we'll start making our payments and whatever. Because there's been a lot of those where they're sitting for six or eight months, and it's killing their business.

Client 00:20:53

Are certain geographies generally viewed as more desirable? Which are some of the considerations there when looking at a particular geography?

Expert 00:21:00

Indianapolis is supposed to be considered one of the meccas of HVAC, more HVAC companies per capita because it had very hot summers and very cold winters. And so much of this industry is driven by weather and demand and urgency with regard to that. The thing that I'm kind of trying to put together in the processes in the presentation is I want to get away from weather being the driver.

We want to make sure that overall home maintenance is the driver and what that looks like in the peace of mind. And to me, actually, the recession of the pandemic is the perfect environment to do that. But in regard to geography, what to me is more important is because everything seasonal is less maybe you get into San Diego or whatever.

But for the most part, it is regulations are a huge part of it. I'll give you an example, in the last business I was in at Acculevel Foundation Repair. We moved into the city of Chicago. For us to put a 10-foot downspout extension, we had to get a permit, and we had to stop and have an inspector come and look at it before we put the dirt over a downspout extension.

You get outside the city of Chicago there were no regulations at all. And what that can do for your business, it's something you really want to make sure that you're trying to regulate. There's parts of Illinois, where you don't even have to have an HVAC license to open an HVAC business. Then you get into Kentucky and every technician has to be licensed. If you're a service technician, you have to be licensed. Like in Indianapolis, you can have one license over the entire company or one plumbing license over the entire company. And where in Kentucky, a service that could do a tuneup has to have a license. And then there's different levels of that license because they have to have at least a franchise license.

Client 00:22:38

Do you view that as a positive or a negative for a geography that every tech would need a license?

Expert 00:22:42

Yes, and then you get into California, you have to have seismic bracing, you have to have blower door testing, you have to have dust blower testing. And I mean, like any time you get government regulations involved, it's an issue.

By the way, California, I mean these companies I can probably get 10 jobs. I'm talking high management positions, regional manager, I mean it's just to be able to get good people sustainable and then keep your labor because the other part of that is when you're in those type of environments, as competitive as the trades are and the recruiting is, it gets your labor cost is one of your biggest drivers as far as being profitable.

There are plumbers making $50 an hour. It really gets your complete model out of VAC. To me that is one of the biggest factors in regard to geography is what type of compliance and regulations are they going to put on your business. That's why Florida is so friendly. Texas is a great place. Indiana, parts of Illinois, Ohio is awesome.

But then you get into Lowville, and it's much more regulated now. They're not California, they're not Chicago, however you are a regional private equity and you're doing five states in the Midwest, you're going to touch and get involved in Kentucky more than likely.

The thing that I'm okay with in that regard is, if I have to compete, and they have to have the same rules as me, I'm going to win. And that's what I kind of talked about with my team is where do they fit in that vision and where we're going. But as far as my first choice, that's not where I'm breaking into this is somewhere where I have high compliance and very much regulated because that is going to kill your EBITDA, and it's going to kill the opportunity to recruit. And then lastly, with that, these people come up two years, 1.5 years to get an apprentice license. Five years, they get a master's journeyman, HKC license.

Now they're holding the hammer and they can really like, "Hey, we're leaving you. We're going to go over do our own thing." You basically paid to bring them up, teach them, give them the license to hold over your head and they had the power. It's a real union type model government. The unions are stronger there.

The government has the trades at a disadvantage in those places. Now in regard to whether, I would think that the economy will be more of a factor that seems kind of weird because the model going forward is everybody has the understanding that I have to have maintenance on my HVAC equipment. If I buy a car, if I don't change your oil, I'm not going to have a warranty of my car. Pretty much everyone in America in a demographic that's middle class or upper-middle class, whatever in lower-middle class, they understand that they have to change their filter and have maintenance on them.

In a landlord situation to a homeowner, which is what we prefer. However, that hook of them knowing that they have to have maintenance is the hook that will get you in the house to make sure that you're their plumbing provider, that you're their electrical provider.

It's around a club membership maintenance agreement of some sort, but they know they have to have maintenance on the HVAC side. To be like almost a loss leader of, hey, just make sure that we're the company on record and then make sure that we have scripts and training around the fact, and Ms. X over here, do you have any drains in this house that are a little bit slow.

We're going to give you a free electrical panel inspection. You ask them about other services in-house that you can look to make sure everything is working okay, as part of their maintenance agreement and send them a reminder. There's a lot of technology coming with smart home technology that's really going to help be able to be their first on record.

And then it goes around the peace of mind that you are to keep their records for their warranties, make sure like, hey, Linux comes back on this. This part is not covered. We will make sure that we keep all the records. It's done by a certified technician. We have everything on digital file for you. You don't have to keep it. We're doing it for $16 a month. If the subscription model comes off their credit card out of their checking account forever. And that's just where everyone is going with it. Who's going to be the one that's going to be able to have the best process and manage it for the best?

Client 00:26:37

Does it all start with the replacement? Or does it all start with the installation and then you sell the repair services? You mentioned the repair services are kind of a loss leader. Is that generally how most people view it?

Expert 00:26:48

Yes. I think there are different ways of doing it. And there are certain people that have completely different ideas on this. My opinion is that if I want to make sure the repair is not a loss leader I need the maintenance program.

It's like you have a club membership, $169 a year, $200, $199 a year or whatever. Mrs. X, this is a peace of mind that we're going to make sure that we're coming out twice a year to maintain your equipment, give you readings, let you know exactly where it's at, what's happening. And by the way, when you're doing that, you're not giving a free filter, you're selling them a filter.

And if they don’t, they buy one from Home Depot and have it. They'll put it in for them or whatever, tell them they've to change it. You can give note on there, like, hey, you haven't changed your filter since last year, whatever. You really want to work with them in regard to really educate them on how important this is of the maintenance of it.

And then when you're doing that, you make sure that there are a lot of different measurements in regard to the life span of that equipment. Whether it's the average reading on the motors, whether it's oil leaking around the motors, if there's any kind of pitting or rusting on a heat exchanger, anything like that. But it's all very documented, very real, measurable readings and/or findings that you can share with the homeowner.

And that's where the replacement side comes in. And the $900 repair, which is still very profitable to that company. That's also where the maintenance brings you into a very profitable side on a repair because right now, as it is, they don't have means to whatever the reason is not going to change equipment. They're moving in six months, but they are going to change a condensing fan motor.

What that does is it sets the scenario for a couple of different things is there's life expectancy to that equipment still is 10 years old in most places, if you get into like a Florida, it might be eight years old. You make good margins on that condensing fan repair, and you want to make sure that you continue to stay in that house to be able to do that repair because next time you go out and do that maintenance, oh, hey, now there's oil leaking out of your blower motor.

You just spend $1,000 on your condensing fan motor in the summer. Now we're in the winter doing preventive maintenance and now your blower motor. It's the variable speed blower motor, it's $1,950. That's $3,000 in six months that we're spending here on this equipment, that you can do energy cost analysis on it. And everything comes down to a process.

And they can't argue with what's happening as they see this deteriorate. And so essentially, you could say, hey, you want to put the $1950 into this, say what we'll do. Yes, we can get you a new system for $12,000, we can get a 10-year payment under warranty full year parts of labor for 10 years, $149 sound ridiculous.

And we'll give you that $1,000 back that you just spent six months ago. So that $12,000 is $11,000 and we'll do it for $150 a month, it will be under warranty the entire time that you're paying at $150 a month. And you already know that, that $1,000 is within your margin of a 10% discount that you can offer that's built into your sales process.

And for them, I just saved $1950 on a blower motor. What else is going to go wrong if this thing is now nine years old, they're going to let me have my $1,000 back from six months ago. And that's where that loss leader, that breakeven, whatever on the maintenance, a lot of times, it's just a loss, is that how you can give to that process and take them down that road that I'm talking about.

And the thing that's so great about recession, bad economy, real estate markets, it's not great, its soft, high interest rates, people are staying in their homes longer. They see what's going on with inflation. If something that's going up ahead of inflation is utility costs. Utility bills are above the inflation rate.

When you can look at parts of replacement, put it under warranty, what it is an energy analysis on what is going to save you. You can actually show them with their own utility bills that $150 a month for next 10 years, they'll probably save them more than that or that mean this is not smoke and mirrors. This is not a dog and pony show.

There are people that are going to do this the best. The companies that are going to put the investment in to making these processes the best, work with their technicians, the technicians of the future, they need to be good communicators. They have to be great salespeople. But right now, we're putting people in trucks. They got a hoodie on. They didn't share, they don't look great. You wouldn’t want them in your house.

And you're going in and trying to have a conversation of this is what's going on with your motor Mrs. X. The company to do this really well has uniforms, they're sharp, their trucks look sharp. They're professional. They have a very duplicatable system and processes, and they're going to win in this new model going forward where we're maintaining the entire home.

Client 00:31:35

Think that someone who does quite a bit with home warranty where they're kind of already paying for that service so they're getting someone out kind of routinely. What is your view like home firms that do a lot of work through home warranty is having a bit of an advantage?

Expert 00:31:46

I've never of all the companies worked for with, not once ever used a home warranty. I mean, basically, in their call scripts, if they say I do have a home warranty, we won't even go on the call. And whether it's Wrench Group, whether it's ARS, I've worked in several Apex branches, talk to, whatever to none of them. Now some of them have warranties in regard to they will buy like their labor warranty.

Say you do a 10-year warranty. They will go from these outside firms, and they'll buy, spend maybe $1,000 because some of the parts on these new equipment are extremely expensive, especially again to like a compressor or something that happens.

They will buy a warranty with an outside insurance company, and they'll still be the company that repairs it, they'll turn it in, and then the insurance company will pay them the labor portion. It just really protects his coverage, and it's just baked into the price of the system. I've never worked with a home warranty model. We've done bids for people, and they turn it into their home warranty. And what happens is most of the time, it's prorated in accordance with the age of the equipment.

They're usually disappointed when they get back what we quote and then what the company is willing to pay. One other thing I just want to finish, not to get sidetracked.

We keep talking about add-on replacement of the HVAC equipment is the thing that nobody is doing well, when you going to have HVAC sales technician, you make sure you get the model into your number off of the indoor unit, whether it's furnace air handler, the outside unit, condensing unit, whether it's air condition, or a heat pump, you get off the electrical panel, you get it off the water heater.

You look to see if they have a cleanout and if they're plumbing. And the other issues that might be identifiable. You make sure that, that is put into a database, ServiceTitan, whatever you're using. And then you make sure that if it's said, for instance, a Zinsco, a Pushmatic, a Frederick 100-amp panel, you already have your electrical department know, that's going to be a change out.

Now since educating that customer on those breakers aren't available, 100-amp panels, the direction we're going with electricity with EVs, electrical is going to be a huge pillar in regard to the growth and the timing of hook back to the other home services. But we already know that we want to make sure that now we're sending out seasoned electrician that's very knowledgeable on Zinsco panels 100-amp, the issues with them, and they're going out to do that home safety inspection here in a few weeks. It's free.

For instance, if they call you out because there's a GFCI that's down, that electrician that goes in there, they get all the information off the panel. They get all the information of the water heater, the HVAC equipment. Is there a clean out any other issues that we see that could be identifiable. That database, nobody has doing that consistently and well.

It's not just focused on the AOR, we know that this neighborhood had clay pipes because of the age of the pipes. We want to make sure we're going to do the plumbing inspection. Well, in this neighborhood, we're going to put a camera down every time and make sure we're putting down a camera inspection because we know the age of this neighborhood is just knowing your business.

And if they have clay, every time we go in there, it's going to cost a little more to send out a plumbing repair sales guy. But we're putting a camera down in every one of those inspections, whereas if it's an eight-year-old house on the slab that's got PVC, maybe not.

Now we're looking to add with them. We're going to send maybe somebody that's newer out of school, and we're talking to them about sell him surge protectors, home panel search protectors, in-line surge protectors, a smart home Wi-Fi thermostat with a smart home device that can regulate leak detectors and those kind of things.

There's always something that we can sell, but we have to make sure that we are building that database, having people in the office that are very good about the expectations, your urgency around this is the age of the house, this is what they have, this is the brand they have, who's the best person that we have available that can speak to that type of customer with that product knowledge, and we put that person in their place.

We have to think other than replacement, sure that's normally going to be the highest ticket. But the thing that's important is making sure we get some type of a hook, and that's where the smart home did, and thermostats come in. And then where we can go from there is we can basically monitor every device in their house.

They can see the water gallon, they can see the pump goes, they can see it go on and off. They can see the blower motor and they can look on their phone. We've got them used to looking at their thermostat, oh, I'd like looking at my thermostat. I can see my thermostat on my phone. It looks just like my thermostat on the wall, I know how to use it. We don't have to really have real high-tech people.

Now we can get them to where they're looking at seeing the blower motor, well, shoot, this is how much the blower motor is using, track on their phone, how much energy it's using. It's supposed to be using 12-amps, it's using 15-amps. And its stuff they can't argue with.

My house sends me an alert, for example, your pool motor quit working. If you don't shut it off with your phone, we can put an in-line shutoff from my phone or it's going to burn out your entire pool filter system. The value of that for the amount of money it's unbelievable.

Client 00:36:45

Okay. Well, thank you again for taking the time to speak with us today. This was very helpful. Enjoy the rest of your day.