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How My Company Built a Profitable Service Division

By Jeff Leone

In the fall of 2006, I was attending a Nexstar® Super meeting, where I listened to economist Brian Beaulieu encourage members to get out of the residential new construction market and concentrate on the service sector because new construction was on a downward spiral. This was the third time that Brian had spoken at a meeting and the third time his economic forecasting turned out to be right on the money. After hearing his presentation, I decided to concentrate on replacements and service, rather than new construction and retrofit. Within my hvacr business, home service was always put to the back burner along with maintenance contracts, so this was a big change.

Whether you're starting a new service division or you want to make the one you have more profitable, the core strategies are basically the same. I'm going to share my start-up strategy with you, and you can take pieces that you think will work for you.

The first thing our company did was put together a business plan and budget for dropping the new construction department and starting up a service and replacement department. We included strategies for covering lost revenue from the new construction, and when the business plan and budget were complete, we started putting the plan in action. Here is a list of the things we did:

Marketing

- Started with direct mail to our existing customers.
- Changed all our phone-directory ads to be more service-orientated.
- Started a radio and television promotion campaign.
- Sent direct mail to 10,000 non-customers every quarter.

Hiring and Training

- Hired a residential service manager.
- Interviewed multiple candidates for the residential service manager's position.
- Hired a residential service manager who could focus on building the department to be more sales driven than technical.
- Sent the manager to two weeks of training.
- Hired two residential services technicians.
- Sent the two techs to Nexstar Service System™ training
- Provided in-house training once a week on the service system.
- Provided technical training once a month.
- Met once a week to coach and track
- Rode along with the techs and manager.

Administrative Support and Sales

- Designed and printed maintenance contracts.
- Assured clear communication of services and accuracy in service.
- Re-trained the residential sales department.
- Put all focus on replacement and retrofits.
- Sent sales to one week of sales boot camp focusing on retail sales.
- Held weekly sales meetings.

Management and Strategic Planning

- Determined our selling price.
- Split the company in to different profit centers.
- Changed our selling price for each department based on overhead, labor cost and the efficiency of each department.
- Switched from time and material to up front pricing.
- Purchased flat-rate software.

Financials

- Set the books up with our selling price and most common task we use.
- Rolled out the books after training.
- Purchased software for dispatching, coaching and financial tracking.
- Purchased proper software for business management.
- Kept up on entering the numbers and knowing what they mean.
- Made sure to have an accurate financial statement by the 12th of every month.

Challenges

I would be remiss not to admit that there are challenges with starting a service department, such as all new overhead and not enough service calls to cover it. No one said it would be easy! You have to view it as an investment in the future of your business; and in today's economy, it's probably the best investment you can make.

It's not easy to find techs that have good technical expertise and sales skills, but they're out there. Be patient in your search and realize that you may have to hire for attitude and sales aptitude and then provide training to fine-tune the technical side.

When it comes to marketing, you need to weed out what works and what doesn't. The only way to do this is to track it. Be diligent about tracking how customers come to you and then document it, and build on it.

A big challenge is keeping a steady call count year round. You have to make it a company-wide priority. So, talk about it, track it, and give out rewards when it happens.

If you already have a service department, you've got one up on me. I had to build mine from a new customer base, and we've only been in business seven years. The bottom line here is if I can do it, you can do it.

Maintenance contracts are critical to growth and profitability, but they're not an easy sell because they require customers to make long-term commitments. Therefore, the more you can educate them on the value, the better. Give them facts and stats on hvacr service and the benefit of having a service partner that knows you and your home. Then give them the best customer service available in the industry.

Results

In 2006, our first year with the service department, we did about \$1.3 million in service and replacement work. The second year, we increased sales to \$2.2 million with an overall gross profit of 60%. This year, we are on

track to do \$2.5 million with an overall gross profit of 60%. Our gross revenue per truck is \$416,000, and gross revenue per employee is \$250,000.

One of the keys to a profitable service department is having a system in place for renewing maintenance contracts and committing to increasing them every year. We have a goal of 1,000 new contracts per year for the next four years. This will ensure that we will keep our techs busy year-round and increase the revenue within our replacement department.

I don't know where my business would be today had I not taken the words of Brian Beaulieu to heart and made a bold move to start a service division. It took time, financial investment, and a commitment to making it profitable. I knew I needed to focus on building my service division, rather than working in it, and I encourage you to do the same. You can build a profitable service division, but you have to take time to get a clear vision of what you want it to be, and then step back, hire the right people, and allow yourself time to make it happen.

Jeff Leone is president of Air Temp Mechanical Services in Hartford, Connecticut www.ctairtemp.com. He is a member of Nexstar, a business development and best practices organization that provides business training, systems and support to independent home service providers in the plumbing, electrical and hvac trades. Find them at www.nexstarnetwork.com.