

Best Practices for Entering and Succeeding in the Residential HVAC Service and Replacement Market

Company Background

Welsch Heat & Cool, founded in 1895, has evolved from selling and installing pot-bellied stoves to becoming a leader in the HVAC industry. Starting with architectural sheet metal work in the 1920s, the company expanded into air conditioning systems for residential markets in the 1950s. In the 1980s, as new residential construction slowed, Welsch strategically pivoted to focus on the service and replacement market, which now forms a core part of its business model.

Best Practices for Entering the Service/Replacement Market

1. Evaluate Market Entry Feasibility

- **Conduct Market Research:** Start by obtaining bids for furnace and AC replacements in your region to understand the pricing landscape. This helps determine whether entering the market is financially viable for your business.
- **Build a Skilled Labor Force:** Ensure you have a highly skilled workforce to meet service and replacement demands. Partnering with unions, like Welsch's collaboration with LU36, can provide access to strong training programs and a skilled labor pool.
- **Union Collaboration:** Consider working with local unions to maintain competitive wage structures while offering superior benefits. This can help in competing effectively with non-union contractors.

2. Leverage Union Support

- **Union Agreements:** Utilize special agreements with unions to maintain competitive pricing. Welsch has successfully implemented a split scale service rate, enabling them to keep costs low while providing higher wages and benefits to their employees.
 - **Promotion through Union Platforms:** Take advantage of union-supported promotional tools, such as LU36's SMARTStLouis.com, which not only promotes work in the residential market but also offers customer incentives like a \$25 rebate for service work.
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The Welsch Business Model: The Circle of Life

1. Integrated Service Strategy

- **New Construction as a Gateway:** Use new construction projects as a way to build long-term relationships with customers. Even if these projects break even, they serve as a form of advertising.
- **Ongoing Customer Engagement:** After installation, offer additional services like humidifiers and maintenance contracts. These engagements increase customer loyalty and pave the way for future replacement business.
- **Long-Term Customer Retention:** By maintaining a strong service relationship, Welsch ensures that customers return for replacements, keeping the business cycle continuous.

2. The Power of Word of Mouth

- **Customer Satisfaction as Marketing:** Focus on delivering exceptional service. Satisfied customers are likely to recommend your services to family, friends, and neighbors, reducing the need for extensive advertising and keeping your business growing organically.
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Marketing and Technology Strategies

1. Branding and Advertising

- **Consistent Branding:** Use a mix of billboards, radio, and TV spots to keep your company name visible. Avoid frequent discount promotions; instead, emphasize quality service that drives repeat business.
- **Customer-Centric Approach:** Prioritize customer satisfaction over upselling. Technicians should focus on treating customers right and doing the job well, which naturally leads to repeat business.

2. Leveraging Technology

- **Adopt Modern Software:** Equip your service department with the latest software tools. Transitioning from paper to digital tablets for technicians can streamline processes and improve efficiency, enabling faster billing and better customer service.
 - **Stay Updated on Field Technology:** Keep up with advancements like programmable thermostats and upcoming refrigerant changes. Educating customers on these technologies builds trust and long-term relationships.
 - **Service Technicians as Key Salespeople:** Service technicians should focus on educating customers about their options rather than meeting sales quotas. Their role as the first point of contact is crucial for building trust and securing repeat business.
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Identifying and Developing Technicians

- **Pre-Hiring Focus:** Candidates are interviewed to ensure they are committed to a career in HVAC and possess strong customer interaction skills.
 - **Apprentice Program:** New hires undergo hands-on training, working closely with senior technicians to develop both technical and customer service skills.
 - **Comprehensive Development:** Technicians are trained to meet the technical demands of residential clients while providing professional, customer-focused service.
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Distributor Relationships and Procurement

- **Preferred Distributors:** Welsch partners with Lennox, Bryant, and Samsung, each offering specialized strengths for different applications.
 - **Mini-Split Focus:** Samsung is the preferred brand for mini-split systems due to its superior performance in the market.
 - **Support and Warranties:** Distributors provide essential equipment, parts, and rebates, along with standard and extended warranties to ensure customer satisfaction.
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Pricing Structure and Market Trends

1. **Strategic Pricing**
 - **Determine Margins Carefully:** Set your pricing based on thorough market research, considering overhead costs, equipment, and material pricing. Regularly review competitors' bids to ensure your pricing remains competitive.
 - **Flexibility in Economic Fluctuations:** Adapt to market changes, such as shifts in demand for repairs versus replacements due to economic factors. This approach has helped Welsch maintain steady business even during economic downturns.
 2. **Future Trends and Preparedness**
 - **Anticipate Market Shifts:** Stay informed about industry changes, such as refrigerant transitions. Welsch plans to maintain a steady course while keeping an eye on the market, ready to adapt when necessary.
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Key Factors Driving Success

1. Diversification

- **Expand Beyond New Construction:** Welsch diversified by moving into the replacement market and offering additional services like architectural sheet metal work. This broad approach helps mitigate risk and opens multiple revenue streams.

2. Learn from Industry Peers

- **Visit Other Contractors:** Before fully committing to the service market, visit other service contractors to understand their operations. This insight can guide your approach and help you prepare for the unique demands of residential service work.
 - **Understand Overhead Requirements:** Recognize the difference in overhead needs between commercial and residential work. Residential service requires a larger support staff, which should be factored into your business plan.
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Conclusion

Entering and succeeding in the residential HVAC service and replacement market requires a strategic approach, from building a skilled labor force to leveraging technology and focusing on customer satisfaction. By following the best practices outlined in this document, inspired by Welsch Heat & Cool's century-long experience, you can build a sustainable and successful HVAC business.