



White Paper
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Benchmarking for Commercial HVAC Contractors

There are many ways to gauge success and high performance in corporate America. Financial statistics come to mind...quick ratio, Debt/Equity ratio, operating profit %, etc.. These numbers are easily determined with a good income statement and balance sheet. They give insight into the financial health of a company, but they are only fleeting glimpses of overall, long term health. They tell you how the company has done in the past and is presently doing, but not how it will do in the future.

As a consultant that is focused on the commercial hvac industry I am charged with taking a look at a company and trying to determine the overall health and areas for improvement. I also am involved in a lot of acquisition work and constantly need to quickly evaluate companies based on limited information. As stated above, the financial statistics are certainly useful, but they don't give the whole picture. More ammunition is needed.

I decided that the best place to start would be to take a look at the best contractors in America and see if I can uncover any common threads. But where to start? With an industry as big and fragmented as ours, how do I determine which companies are the best? In my twenty-plus years in this industry as both an owner of a large commercial contractor and employee of a larger public contractor, I have seen and come to know many companies across the country. In fact my last job for a very large publicly traded industry giant was to lead their effort in growing their commercial service division through acquisition. I evaluated over 100 companies across America and brought several on board. Through this effort, I felt I had a good idea of what it took to be successful in our industry, but I had to be sure. So in an effort to validate my knowledge, I decided to do some research on the best companies in the country. But how do I know which companies in America are the best ones? Who am I to judge? Well, it is already figured out for me...*every year*. *Contracting Business Magazine*, arguably our industry's leading trade journal, annually names one company as the Commercial Contractor of the Year. The awards committee evaluates a large number of companies and looks at many aspects of the company to determine the winner. These award winners were an excellent place to start with my benchmarking study.

The Business Insight Assessment (BIA):

Based on my experience in evaluating hvac companies, and with the help of some industry "gurus", I created a comprehensive survey, which I call the Business Insight Assessment (BIA), that examined 14



different attributes of a business. These attributes include (in no particular order): Financial, Client Diversification, Community Connection, Culture, HR, Innovation, Leadership, Marketing, Product Line Diversity, Productivity, Safety, Sales, Strategic Planning, and Training. Granted, each of these business attributes could comprise a complete multipage survey on their own, but I needed a high level approach that looked at overall common trends. Once settled on these particular attributes, it was time to dive in deeper with some specific questions that got to the heart of the matter. I spent a lot of time thinking about specific questions in each of these areas and went through a lot of revisions before I settled on the final questions. These questions needed to be straightforward and unambiguous. They mostly needed to be “yes” or “no” questions or numerical ones so that averaging could be done to determine some benchmarks. Probably most importantly, they needed to be simple and easily answered. They were designed so that the owner, president, or leader of a company could, within an hour or so, complete the BIA without having to pass it off to others to fill out. If an owner, president, or leader of a hvac company can NOT answer the questions in the BIA on his own (or with minimal help from others in his company), then I believe he/she does not have a very good handle on what is happening in the company and should reevaluate what they are spending their time doing.

The BIA also tries to uncover common trends of leading companies that are not dependent on size of the company...for example, Leadership. A successful company needs great leadership regardless of size. The top contractors surveyed (the last 25 Contractor of the Year Award winners, as determined by *Contracting Business Magazine*) ranged in size considerably...from approximately \$5 million in sales to nearly \$300 million in sales and everything in between. This benchmarking group was a great cross section of industry players in size, geography covered, and markets pursued. Not surprisingly, as the data was tabulated into a master scoring matrix, the common trends were very apparent, again, regardless of size.

These benchmarking companies have stood the test of time (with the exception of perhaps two) and have remained successful even in the toughest of times. The average length of time these companies have been in business is 48 years with the range being from 25 to 73 years. That is a long time to be in business in any industry let alone the commercial hvac business. It would seem that as each of these contractors have emerged from a recession, they have come out stronger...another testament to their success.

The Trends:

There are many common threads apparent in these benchmarking companies...too many to go into detail in this paper, but I will hit a few highlights. For more insight into the specifics, or to see how your company compares to these industry icons, go to my website (www.mechinsight.com) for more details on how to take the Business Insight Assessment yourself and be compared to the benchmarks. Alternatively, you can sign up for my newsletter which will go into more detail on various attributes from time to time, utilizing the data from this surveyed benchmark group. Ok, enough advertising.



Here are a few of the interesting trends:

- **Billed in Excess:** The Top Contractors in America do an excellent job of “staying ahead of the billing curve” in that they bill ahead of their costs coming in. The benchmarking group bills an average of 40% of their monthly revenue ahead of incoming costs. This is an excellent way to produce excellent cash flow trends.
- **Collections:** The Top Contractors do an outstanding job of collecting money due to them. On average, these outstanding contractors have only 10.9% of their total A/R aged over 90 days. A percentage such as this is very good considering the economic headwinds we are all facing. This achievement is a testament to their excellent efforts in the credit/collections arena as well as a testament to the quality of their client base.
- **Product Line Diversity:** The more the better. The Benchmarking Group had an average of nearly 11 different service offerings for their clients. The more services you can sell your clients, the more they need you... and the less likely they will be to turn to a competitor.
- **Specialized Sales Efforts:** 91% of the Benchmarking Group had a specialized sales force, meaning that they had separate project sales personnel and contract sales personnel. Nearly 100% of these companies have significant maintenance contract bases. The best and fastest way to get there is to focus with specialized sales.
- **Focusing “On” the business instead of “In” the business:** The leaders of the Top Contractors in the country spend a significant amount of time focused on strategically improving their business and don’t get wrapped up in the details of day to day issues. In fact, on average, the leaders of the Benchmarking Group spent more than 30% of their time working “on” their business.

Some Surprises:

- **Factory Training:** The Top Contractors sent nearly 1/4 of their technicians each year to receive “factory” training. This number was a surprise to me considering the cost of this training. In retrospect, however, it is great to see so much effort and expense being put into training. As I was a huge advocate of technician training, someone once asked me, “What if you spend all that money on training a tech and then they leave?” I answered by asking them a question I had heard asked before regarding training, “What if you don’t spend all that money on training and they stay?” Which is worse? I leave you to decide.
- **Marketing:** 55% of the Benchmarking Group have a professional PR firm on retainer to produce and distribute press releases. This number was surprising to me... it shows the level of marketing sophistication of our industry has increased significantly in the last 25 years. We are no longer the purely “face to face” sales effort business we used to be.
- **Technology usage:** 91% of the Top Contractors surveyed indicated they were on the “leading edge” or even “bleeding edge” of technology. The use of technology whether it is in the field or in the office is now a requirement of business. Those that don’t embrace it will be left behind.



- **Web site:** In light of the Technology usage statistics mentioned above, it is surprising that only 45% of the top contractors have a website that is updated a minimum of every 60 days. Statistics have shown that only websites that are updated frequently are the most effective. This relatively low percentage would indicate that perhaps the visibility and usage of websites is not as important today in our industry as it is in others. My guess would be that this number will go up over time.

The trends and surprises from the benchmarking Business Insight Assessment listed above are just a few of the insightful nuggets of information that came from this study. The best way to get the most out of this study is to participate in the BIA yourself.

The purpose of this white paper was to give the reader a glimpse into the reasoning behind and the methodology used in creating some performance benchmarks in the commercial hvac industry. If you would like to take the BIA yourself, be compared to the benchmarking group, or work with me on a plan to improve the Performance Attributes of your company, please visit my website (www.mechinsight.com) or email me at alan@mechinsight.com.