

Consolidators Are Restructuring The HVAC Industry

Contractor/Utility Associations Expand into Energy Services

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The HVAC industry of heating, ventilating, air conditioning and plumbing contractors is restructuring radically these days. Once taken for granted by utilities or viewed at best as trade allies, there is real potential that contractors may turn into competitors for markets traditionally served by monopolies.

OLD STRUCTURE

Over 45,000 HVAC contractors operate in the U.S. They conduct over \$40 billion annually in installation, service and maintenance of equipment in both new and existing homes and businesses.

Contractors are typically small operations, owned by a family, serving a limited local area, with little brand presence and modest marketing. Contractor strengths are primarily technical. Trust of contractors by consumers is low. Entry is relatively easy and deliberate. Exit is also easy and often not deliberate. Growth is severely limited by capital availability.

Utilities have taken contractors for granted. Mostly contractors are ignored. Some progressive utilities have formed associations with contractors for marketing and training. A few utilities have antagonized contractors by starting up or purchasing operations to compete in the residential and small commercial markets for energy services.

RESTRUCTURING IS HAPPENING FAST

In the last year, four national contracting companies have been formed. A fifth company was recently announced and is being underwritten by an electric utility. Usually established through independent public offerings, the new companies create a critical mass by merging with a few existing firms. Then, other contractors are acquired in a friendly manner. In less than a year, over 100 contractors have been merged or acquired accounting for over \$1 billion in annual sales.

The consolidators, as they are referred to in the HVAC industry, plan to create a national brand by acquiring quality contractors in major markets throughout the U.S. The deep pockets of the consolidators allow local contractors to sell at an attractive price. Furthermore, the owners often remain with the business.

The consolidators bring many benefits including standardized approaches to marketing and sales; group discounts from vendors; computerized systems for purchasing, inventory management, payroll, and billing; and employee benefits of group health, training, promotion opportunities and retirement plans.

INDEPENDENT CONTRACTORS

Not all contractors want to or will join a consolidator. Many contractors prefer their independence and some believe their employees are better off in smaller more family oriented organizations. Also some contractors believe that the high quality of their services would suffer as part of a larger consolidated organization and therefore not serve customers as well.

Independent contractors will probably remain in large numbers. This is the case in other industries, such as among Realtors, where many independent agencies still operate along with national brands of Re-Max and Century 21. But just as there are many independent banks, national and regional banks account for the large majority of the business.

Independent contractors will have an opportunity to provide more personalized service. They may also find it attractive to serve special customer niches in the market. They may further specialize in technologies such as those associated with indoor air quality, building controls, and clean rooms.

A few contractors are daring to envision themselves as total environmental managers. These contractors anticipate taking the concept of performance contracting to its next logical level. Thus property owners and managers would contract for heating, cooling, ventilation, lighting and other energy services to meet specified operating schedules, temperature conditions and other hour by hour standards of performance throughout the year. The contractor would take over responsibility for equipment operation, preventive maintenance, corrective maintenance and even replacement.

More than one large mechanical contractor in the country is providing total facility management. Through the service department, the contractor provides cleaning, security, grounds maintenance, and parking management. These services are in addition to providing operating and maintenance services to electrical and mechanical systems.

IMPLICATIONS FOR UTILITIES

Consolidators create a critical mass to offer new products and services. With more professional sales persons, the consolidators are in a strong position to offer products and services for indoor air quality, controls for intelligent buildings, analysis of utility bills, energy management, and even facility management.

Future options for consolidators include energy sales. Consolidators could serve as energy marketers, brokers, or aggregators. The prospectus of one consolidator recognizes this potential, while noting that utilities may represent a competitive threat by entering the energy service business. That consolidator includes on its board of directors a former utility executive to no doubt help define the business risks and opportunities.

National brand consolidators present opportunities to utilities that are seeking partnerships in the contracting industry. Similarly utilities with plans for a national brand may find consolidators offer valuable sales and delivery channels.

Independent contractors represent another opportunity for partnerships. Particularly for utilities that plan to retain a regional or local focus, independent contractors can represent a valuable resource. Since independent contractors are likely to remain in large numbers, a broad partnership between utilities and numerous contractors allows significant marketing advantages.

ABOUT THE AUTHOR

Larry B. Barrett is president of Barrett Consulting Associates, Inc., Colorado Springs, Colorado, and consults on planning, implementing, marketing and evaluating programs for energy efficiency. He consults with utilities, research institutes, government agencies, and energy management businesses.

Prior to establishing his consulting practice in 1989, Mr. Barrett served for more than 10 years as the manager of Energy Management Programs for the Potomac Electric Power Company. Experience with the utility and since has encompassed residential, commercial, and industrial programs for energy efficiency and marketing including energy service companies.

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