

THRIVING DESPITE THE COMING HVAC **SLOWDOWN**

HINT: MORE DIGITAL ISN'T THE ANSWER

A white paper for contractors from Tracy Paul, Principal

CORNERSTONE ADVERTISING & MARKETING

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TELL ME QUICK!

We're heading into a tough stretch for contractors like you. The sales boom that led to healthy growth over the past several years is drying up. You're going to have to work harder to find and sell to customers.

Injecting more money into your digital marketing may seem like an obvious solution, but costs for digital are soaring and returns are diminishing. There are better ways to spend your money that will boost sales and long-term relationships.

That's no half-baked theory from some self-styled expert. We work every day with businesses like yours all over the country. They'll tell you what we describe here works because it's exactly what they've been doing.

IS YOUR HVAC BUSINESS **READY** FOR **TOUGH TIMES?**

TO THRIVE, GET BACK TO THE BASICS

Every HVAC contractor in the county looks up to Don Miller. For years, a half-dozen of them have joined the self-described old-timer for a monthly breakfast at the coffee shop. They may be competitors, but Don's presence keeps the conversation friendly and focused on helping each other solve problems.

Bobby Thomas loves data and always shares interesting statistics. This month, he offered numbers suggesting the market for home HVAC is fading quickly. The group grumbled about slower sales and shrinking margins for a few minutes before Don piped up.

"I've seen this before," he told them. "It feels like 2007 all over again, right before everyone realized we were in a deep recession. New housing came to a stop and money got so tight the replacement market dried up for a while. Put some guys out of business. We didn't grow as much, but we did manage to keep growing because we didn't lose sight of the basics. And if you all want to survive what's ahead, you need to keep that same focus."

TOUGH TIMES ARE AHEAD

If your numbers have been slipping, you're not alone. The Air-Conditioning, Heating, and Refrigeration Institute (AHRI) tracks U.S. HVAC manufacturing shipments, and they're way down. Year-to-date gas furnace shipments in October 2023 were 24.2 percent lower than previous-year numbers, and oil furnace shipments were off by a whopping 27.4 percent. Combined shipments of air conditioners and heat pumps were down 14.4 percent from last year's numbers. Compounding all this is optimism on the part of contractors. While the companies we've worked with have seen revenues increase by 5 to 10 percent during 2023 -- which is no small success -- most contractors based their budgets and staffing on expected gains of 20 percent or more. It's hard to blame them given the robust growth they've seen in recent years.

However, that growth has been misleading. The impacts of the Covid pandemic and the extra money Washington pumped into the economy disrupted the normal replacement cycle. Many of the sales contractors would have expected to make in 2023 and 2024 already took place in 2021 and 2022. Nobody complained about getting that revenue earlier, but that means it's no longer coming.

In fact, thanks to inflation and other economic pressures, fewer homeowners are currently in the market for your products and services. You've probably seen an uptick in those "let's see if we can get another year or two out of it" repairs instead of expected replacements. Plus, bigger independents and solid franchise models fueled by private equity investments keep your competition well-funded.

NEW TERRITORY FOR MANY

If you've been in business for a couple decades, like Don Miller, you remember how difficult (and even desperate) things became during the late 2000s. Many of today's successful contractors have never faced the kind of market that's ahead.

So how will they react when the number of calls and appointments starts to plummet along with their average ticket amount? Nobody wants to downsize, so it's a safe bet they're going to divert more of their shrinking revenue into marketing. For most, that's going to involve a much bigger investment than they realize.

Why do we say that? HVAC dealers may not have been early adopters of digital strategies, but over the past decade, most have jumped in with both feet. For many, the quest for leads has become their primary purpose -- and what could be easier than letting search engines and other digital tools do the hard work for them?

As a result, we've watched contractors shift a bigger share of their marketing spend in everything from pay-per-click (PPC) and search engine optimization (SEO) strategies to newer tools like over-the-top (OTT) streaming opportunities. Many are stepping up social media spending, too.

MORE MONEY, LESS VALUE

Think about basic economics. When demand grows faster than the available supply, costs increase, and that's exactly what home services contractors have been seeing with digital marketing. As your competitors sink bigger shares of their budgets into digital, the cost of PPC, OTT, and other channels has been soaring. That means dealers have to pump even more money into their digital strategies even as they watch the return on that investment fall or remain flat.

Diminishing returns are happening across the industry. Given those basic economics, we're confident that negative trend is only going to deepen in the foreseeable future. So you can continue to throw good money after bad ... or you could shift to the approach our clients have consistently used to achieve higher growth and profitability than their competition.

DON'T MAKE THIS MISTAKE

How have our clients continued to deliver impressive performance despite such a volatile economy? It's all about going back to basics and investing in the three pillars of home services success:

1. **Marketing**
2. **Customer Service**
3. **What Happens at the Kitchen Table**

Hey, we understand. You've got a lot on your mind, and that makes simple solutions appealing. Digital marketing is like a vending machine: you drop in your money, push a button, and out pop the leads. While that machine has kept you satisfied for years, you may not have noticed the prices climbing as what comes out has been shrinking.

Successful, effective, consistent marketing isn't easy. That's why our clients have turned to us to handle it for them. We've spent decades helping contractors stand out and capture a growing share of their markets. Along the way, we've learned what works again and again. It isn't because we're brilliant. It's because we've been paying attention, testing the most promising strategies, and scrutinizing all the numbers. That's how we help clients spend wisely instead of freely.



THE CLOVERLEAF MARKETING MYTH

You land a big sale in a nice neighborhood, and your customer couldn't be happier. Their neighbors should be primed to call you for their needs, right? So you saturate the immediate area by sending postcards to 250 homes. Keep in mind yours is a need-based business. It may be a decade before those neighbors have a need ... and will they still remember your name?

You're better off investing the time and money in targeting a larger audience with repeat messages than taking a more expensive, far more limited effort with a smaller audience. And instead of a mass mailing, put door hangers on the dozen closest homes. They're more likely to know the owner, so the referral will be far more effective.

IT'S TIME TO RESET YOUR MARKETING

If the primary goal of your marketing efforts is lead generation, you're doing things wrong. Yes, you need a steady flow of leads to keep your team busy. But contractors who achieve consistent success focus instead on building a process that develops relationships with customers.

Of course, you need to start by turning leads and prospects into customers. Using digital marketing channels is definitely one approach that can drive those leads. Optimizing your Google Business Profile, using SEO and Local Services Ads, and making sure you have a strong presence on digital lead aggregators like Angi, Thumbtack, and Porch -- along with standbys like Yelp and BBB -- all those things can all be helpful.

But too many contractors assume digital does it all. It doesn't, and it can't. Our client experiences consistently document and reinforce the fact the most effective approach requires a broad mix of marketing channels, each addressing specific needs. Depending upon the market, the competition, and the contractors' specific objectives, that mix might include:

- ▶ Business development-focused websites and online tools
- ▶ Social media (regular appearances in feeds)
- ▶ Web videos (informational, not promotional)
- ▶ Content marketing (everything from blogs to PR to demos)
- ▶ Individual direct mail (for hyperlocal efforts)
- ▶ Cooperative direct mail (provides inexpensive branding)
- ▶ Newspaper (older folks with money still subscribe)
- ▶ Outdoor Advertising (why do you think that lawyer buys so much?)
- ▶ Television (local, cable, OTT) and radio



BRANDING MATTERS, TOO

Many contractors shy away from branding efforts because they don't see a clear connection to leads. But a branding-focused presence using channels such as TV (including local, cable, streaming, and more), radio, print advertising, and billboards is also important for a simple reason: name recognition for people desperately seeking a solution to a problem.

When a prospect types "furnace repair near me" into Google, they're far more likely to click on your name if they recognize it. When their heater won't work on a frigid day, they're not going to take the time to perform extensive research into a half-dozen contractors whose names pop up on their phone's screen. They'll contact the name they know best ... or the name that's earned the best average Google reviews. Yes, online reviews matter a lot. (Just make sure you do your homework and study market research so you make the most efficient buys.)

YOUR MOST POWERFUL MARKETING TOOL

The most effective tool at your disposal is one you probably haven't even considered. It's relationships.

For decades, that's how successful home services contractors sustained their business, no matter what the economy dealt them. They delivered intensely personal service to a group of homeowners who knew them well. When a homeowner had a problem, they fixed it in the most economical way, strengthening that customer's trust with every contact. And when they told the homeowner it was finally time to replace that aging furnace, the homeowner didn't second-guess them or shop around, because they trusted the contractor to do the right thing.

The combination of digital marketing and the boom years led many contractors to focus on building volume instead of doing the hard work of developing relationships.

EMBRACE BENEFICIAL ELECTRIFICATION

Some contractors don't want anything to do with the concept of beneficial electrification because they don't agree with the concept or the politics behind it. Doesn't matter. If you want to continue to operate a viable business for the foreseeable future, you need to accept the fact that it isn't going away. The politicians, the utility companies, and the news media all love the concept. You may think of it as hype, but ignoring it will cost you money.

It's going to drive what happens in the replacement market going forward, so you'd better make sure your techs have the knowledge to upgrade customer equipment. One-day installs are largely going to disappear ... plan and price accordingly.

Here's the good news: the government and utility providers are offering huge incentives for installing high-efficiency heat pumps and the like. That means you can offer HVAC (and plumbing) customers your best products for the cost of less-efficient equipment. They'll appreciate being more comfortable and paying lower bills. And, if stepping up to a heat pump or heat pump water heater means a homeowner needs a new power panel or upgraded wiring, there's incentive money to make that happen.



WHY IT DOESN'T PAY TO FOCUS ON YOUNGER HOMEOWNERS

Far too many HVAC dealers base much of their marketing on a flawed assumption: they believe their most promising customers are the younger ones. As the millennials and Gen Z slowly move from rentals to home ownership, they offer a tremendous growth opportunity for your business, right? They're the folks who grew up with digital, so you can count on them to respond to your digital marketing efforts, right?

HOW DO YOU DO IT?

Building relationships in a home services business takes two components. First, you have to have a team that understands the importance of building relationships and the role they play in making it happen. Second, you need to have a consistent process in place that makes it easier for your team to do what the homeowner needs and wants.

Remember when we mentioned the three pillars of home services success: marketing, customer service, and the kitchen table? The last two are where the magic really happens. Start with customer service. The place trust begins is the moment your customer service rep answers the phone. Homeowners don't call businesses like yours for fun. They call because something isn't working ... or because they're worried it's about to stop working. When their call is answered with an upbeat, smiling voice expressing genuine concern for their need, you're more than halfway there.

(By the way, truly skilled CSRs are ever-more-difficult to find, so if you encounter someone who demonstrates natural sales skills at another business you frequent, think about encouraging them to make a career change. It's easier to teach HVAC knowledge than sales instinct.)

Next comes the kitchen table. Your tech (hired for attitude, taught the skills) has pinpointed the problem. After explaining what's wrong, they sit down to explain the options in ways the homeowner understands. The tech happily answers questions and addresses any concerns the homeowner raises. The approach builds confidence in the tech and your business, so the homeowner agrees to proceed.

Well, no. Our team has worked with home services contractors across North America for many years, and time and time again, the evidence says the most profitable business comes from homeowners who are 45 and older. Don't believe me? If your data includes customers' ages, run a comparison and you'll be stunned.

When you think about it, that shouldn't be a surprise. First, your older customers nearly always have more money to spend than newer homeowners. Second, older homeowners are less likely to see DIY as a sound approach when it comes to key systems like HVAC, electrical, and plumbing. And finally, older folks are experienced enough to be risk-averse. They've lived

through the hassles of AC compressor failures and frozen blower motors, so they'd much rather replace things before they have a chance to break.

In addition, you're in a need-based business. People don't buy replacement heat pumps for fun. If it's a subzero day and your furnace has died, you need someone to fix or replace it immediately. Given all those factors, you want to focus your marketing spend in ways that will make you available to homeowners who need your help and are able to pay for it. That doesn't mean you should ignore the under-45 crowd. But if you make that your primary (or sole) emphasis, you're going to miss out on the bulk of the available business.

It doesn't end there. If the homeowner isn't already a member of your maintenance program, the tech enrolls them, perhaps with a special new-member discount offered only on service calls and equipment purchases. Ideally, you'll have a referral program in place so the homeowner has a good reason to tell friends and neighbors how happy they are with your team's service. And while you're at it, the tech can put door hangers on the dozen closest homes.

MOVE FROM TRANSACTION TO RELATIONSHIPS

Most new business for home services businesses is transactional. When the homeowner places their first call, they're simply looking for a one-time solution to their problem or need. Shifting those customers from a short-term transactional mindset to a long-term relational attitude is your team's role -- a big part of it is overcoming the transactional customer's inherent fear that they're paying too much. Explaining the superior value your recommendation will deliver is the key.

If you want a good sense of your team's relationship-building skills, two numbers can help. The first is how many leads your customer service team turn into home visits, and the second is the average order your field team picks up at the kitchen table. Your marketing must be consistent with everything both teams need to have a positive dialogue with homeowners.



Even a small increase in your team's skill at having those conversations can generate significant revenue gains. The chart below from one of our clients shows that moving the booking rate from just 65 to 70 percent for service calls and 55 to 65 percent for equipment led to a 16 percent increase in revenue. Hitting those targets and slightly increasing the average revenue per job achieved a whopping 28 percent increase. Same customers, same team. What made the difference? Helping them get just a little better at what they naturally do.

	Marketing	CSR/Dispatch/Operations				Kitchen Table	Revenue	
	Opportunities	Booking Rate	Booked Calls	Completed Job Rate	Completed Jobs	Average Rev/Job	Total Revenue	
Service Equipment	1254	65%	815	95%	774	\$564	\$436,731	
	345	55%	190	75%	142	\$12,874	\$1,832,131	
							\$2,635,571	Increase
Service Equipment	1254	70%	878	95%	834	\$564	\$470,325	\$33,595
	345	65%	224	75%	168	\$12,874	\$2,165,246	\$333,115
							\$2,635,571	\$366,709
Service Equipment	1254	70%	878	95%	834	\$764	\$637,107	\$200,377
	345	65%	224	75%	168	\$13,500	\$2,270,531	\$438,400
							\$2,907,638	\$638,777

To say it another way, if you're thinking about investing another \$10,000 to grow your business, putting the money into staff training will generate more and longer-lasting revenue than simply trying to generate a few more leads.

OLD-FASHIONED DOESN'T MEAN OBSOLETE

People like shiny new things. Something new must be better than what we've been using all these years, right? No wonder home services contractors walk away from proven techniques like TV advertising and coupon mailers in favor of the latest and greatest.

If you've abandoned those "old-fashioned" channels in favor of everything digital, consider taking a fresh look at them. First, our experience with our clients proves they are amazingly effective when handled well with the right message for the environment. Second, when fewer of your competitors are using those channels, your message will stand out that much more. And when your efforts carry that consistent branding component, you'll be better positioned when homeowners do that "near me" online search.

NEED SOME HELP?

It's okay if you do. It's hard enough to run a business, let alone find time to concentrate on finding the best ways to grow. We can share stories and hard data to help you envision what similar growth could mean for you.

The Cornerstone team does one thing ... and we do it well: market home HVAC, plumbing, and electrical services to consumers. We have decades of experience helping companies like yours fine-tune their structure and operations while making their marketing efforts much more effective. We'd welcome the chance to have a brief conversation with you.

WHAT CAN OUR MARKETING TEAM DO FOR YOUR BUSINESS?

Everything, actually. The Cornerstone outsource marketing team handles all the traditional and digital marketing and promotional services you need, from SEO to direct mail to truck design, all delivered through one account manager who treats your business as though it's theirs. Even better, we have a lot of practice with all of them. We know what works and what doesn't. We'll provide all this and more:

ACCOUNT SERVICES

- ▶ Strategy
- ▶ Research
- ▶ Planning
- ▶ List Acquisition
- ▶ Direct Mail Purchasing
- ▶ Budgeting
- ▶ Analytics
- ▶ Resource Management & Execution

BRANDING & MARKETING MATERIALS

- ▶ Logos
- ▶ Brand Style Guides
- ▶ Business Cards
- ▶ Brochures
- ▶ Sales Collateral
- ▶ Forms
- ▶ Vehicle Wraps
- ▶ Banners
- ▶ Packaging
- ▶ Posters & Illustrations

DIGITAL PROMOTION

- ▶ PPC Advertising/Google LSA
- ▶ Website Design & Hosting
- ▶ SEO
- ▶ Blogs
- ▶ Email & Text Marketing
- ▶ Social Media Content & Advertising
- ▶ Online Reputation Management
- ▶ Online Directories
- ▶ Online Publications

TRADITIONAL ADVERTISING

- ▶ TV
- ▶ OTT
- ▶ Cable
- ▶ Radio
- ▶ Direct Mail
- ▶ Magazines
- ▶ Newspaper
- ▶ Billboards
- ▶ Printed Directories
- ▶ Video
- ▶ Media Planning & Buying

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ABOUT THE AUTHOR

Tracy Paul is principal owner and founder of Cornerstone Advertising Inc., where he has helped HVAC and plumbing contractors of all sizes grow and become market-dominant companies in cities throughout North America for more than 25 years. Cornerstone is a full-service marketing firm that includes both traditional and digital advertising for the home service industry and gives contractors access to a complete marketing department for less than it costs to hire a full-time marketing director, using proven strategies delivered through an account manager who treats their business like it was their own.

Learn more at:

www.cornerstonead.com