



4 common myths of maintenance agreements



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Maintenance agreement history

The origins of modern maintenance agreements start in the 1980s. Ron Smith, a service provider and modern member of the Contracting Business Hall of Fame, wanted a unique differentiator that would keep technicians in customers homes on a more regular basis.

His solution? The “Precision Tune-Up” (PTU). The PTU delivered value to the homeowner by extending the life of their equipment while helping to train less experienced maintenance techs to become service technicians.

More importantly, PTUs drove appointments for sales teams, giving them more opportunities to drive replacement sales. This value proposition became the cornerstone for many early HVAC franchise organizations and affinity groups.

There are an estimated **20 million** maintenance agreements in the US.*

*Emerson internal research 2017



Precision Tune-Up (PTU)

Performed by newly hired junior techs, the precision tune-up was a training aid that allowed new hires to become full-fledged service technicians.

Maintenance agreement

After earning trust inside the home, the next step was to upgrade the customer to an agreement with two Precision Tune-Ups a year.

The common tactic here was:

1. Identify an issue with the system during the PTU
2. Quote a price for the repair to the homeowner
3. Introduce the maintenance agreement with its benefits and discounts

The benefits were designed to make the agreement essentially free after discounts were applied, but still worked to put teams back inside the home twice a year.

Generate replacement opportunities

By scheduling annual check-ins, on-site technicians or sales members have more opportunities to secure a system replacement purchase. If they can't sell them, then they could keep them on the maintenance agreement to try again in the future.



Why maintenance agreements have lasted so long

Maintenance agreements have stuck around for two reasons:

- 1. They're easy to sell.** Today, most agreements are sold using that same discount model. By using the savings to cover the cost of the agreement for a year, homeowners get added protection at what feels like no additional cost.
- 2. They appear to solve a real problem.** Property owners are intimidated by HVAC and want to feel like they have some control over managing their comfort and getting the most life out of the system.

The majority of progressive consumers fall into one of two categories:

- Those that currently have a maintenance agreement with an HVAC provider.
- Those that are familiar with maintenance agreements, but choose not to enroll in one, instead sticking to a la carte tune-ups and services.

The challenge with maintenance agreements is two-fold:

- 1.** When HVAC technicians are performing their job effectively, it could be preventing them from selling in larger ticket services.
- 2.** All systems will eventually break down, even under a maintenance agreement, fundamentally erasing the value of the proposition.



<10%

Selling a bill of goods

Less than **10%** of HVAC systems under a maintenance agreement are being fully or properly serviced.*

4 common myths of maintenance agreements

01

Drive customer loyalty

⚠ **The Challenge**

The benefits of a maintenance agreement don't always pay off to a customer, which could leave them disappointed and not renewing after the first year.

02

Required to keep manufacturer's warranty

⚠ **The Challenge**

The top OEMs do not require a maintenance agreement or proof of proper care to honor a warranty, and the first 5 years after a proper install generate few revenue opportunities.

03

Increase business value

⚠ **The Challenge**

True business value would also be based on the services provided, the average age of equipment and retention rate.

04

Keep techs busy in the shoulder season

⚠ **The Challenge**

Agreements certainly keep techs busy, but busy doesn't always equal profitability. Non-converting agreements take technician capacity that could be focused on customers more likely to need a new system investment.

1. Drive customer loyalty

The myth: There's one reason a contractor wants a customer to stay in a maintenance agreement: to sell in the equipment replacement. That's the downstream value the agreement is intended to deliver, but it's just not happening like it used to.

In measuring loyalty, a clear indicator of the likelihood of earning a customer's replacement business is simply renewal rates, or the opposite, churn/cancellation rates. The next thing to focus on is average age of equipment under contract. If the average equipment age is 8 years and older, focus on driving loyalty until the replacement.

To measure the value of that loyalty, the most important number is the conversion rate of those maintenance agreements to replacements. Businesses that thrive are the ones that get these metrics working in concert.

Why customers cancel:

- Not delivering the value to the home. Less than 10% of systems under a maintenance agreement are being properly serviced per the manufacturer's specification.
- Maintenance calls turn into sales calls and customers know when they're being sold.

*"We get a lot of complaints from consumers who buy service contracts and find that technicians discover something to repair on every service visit—at extra cost."**

- The customer loses trust when the system breaks down under a maintenance agreement

*Checkbook.org Consumer Advocate



"More than **50%** of an HVAC contractor's customers will spend less than \$500 over their lifetime. Among maintenance customers, that percentage is far less."

Mike Layton, Stochastic Marketing

2. Required to keep the manufacturer's warranty

The myth: Many contractors use maintenance agreements to increase their close rate on new equipment installations and earn loyalty after the sale. However, more maintenance agreements are cancelled at their first renewal than any other time, which indicates that customers just don't feel the value.

Frequently, less than scrupulous team members will try and save the agreement by explaining that cancelling the agreement invalidates the unit's 10-year warranty. That's just not true.

None of big 5 equipment OEMs require a customer to be in a maintenance agreement to keep their warranties in effect. What they do require is regular or periodic maintenance with some form of evidence. For instance, customers with 5 to 9-year-old systems are told that they need a maintenance agreement if they want to warranty. Most contractors will avoid selling agreements during the first four years after a system's installation as there is low probability of generating significant revenue from that customer.

An estimated 1 out of 5 homes in the US have a maintenance agreement. That means the other 4 out of 5 could be going with formalized proactive maintenance.*

*Emerson internal research and surveys conducted, 2017 – 2019



3. Increase business value

The myth: When starting out, contractors dream of the financial freedom their business will increasingly afford them. And for many, the exit is the culmination of the blood, sweat and tears that went into the effort. Bringing in a 3rd party to put a price tag on your business is quite the learning experience. There is often a number already in mind, such as 2-3X revenue, that gets shattered when the figures come in.

Inaccurate advice about revenue multiples gets compounded with bad advice about the number of maintenance agreements driving additional multiples in valuation.

The part that confuses most contractors is the myth that potential acquirers will pay a premium for a contractor with a lot of maintenance agreements. More and more, we are seeing that this is not the case.

“Lately, we’ve seen that lots of maintenance agreements won’t overcome the impact of low EBITDA (absolute dollars and percent of sales) when selling a business.”

Mike Layton, Stochastic Marketing



4. Keep the techs busy in the non-peak seasons

The myth: Non-peak (shoulder) seasons can be a challenging time of year. Demand is down and companies are looking to start scheduling maintenance visits until it picks back up again. These visits can be productive and keep techs employed, but only if those visits are addressing real problems.

That's why the industry needs more than standard maintenance agreements to stay busy and profitable throughout the year.

A new trend is the Smart Business using Smart Home technology. These Smart Businesses sell Smart Maintenance Agreements powered by low cost, internet-connected sensors called Fault Detection and Diagnostics (FDD). Smart Maintenance systems will alert providers of issues that typically wouldn't show up until the system is stressed with high heat or frigid cold. Following that, Smart Agreements are built around an on-demand service model where maintenance visits are triggered when the system notifies the service provider and homeowner.

During the shoulder season, it's important to be smart about where people and resources go. With Smart Maintenance Agreements and Smart Home Technology, technicians only work in homes that need the attention, which will surely drive up the average ticket per truck roll and company growth.



\$246
Billion

Tee it up as Smart Maintenance takes advantage of major trends in some way, but the big opportunity here is that “The Smart Homes Market was valued at USD 64.60 billion in 2019 and is expected to reach **USD 246.42 billion** by 2025.”

—Market share by 2025

The future of customer loyalty

“That’s what we really do as an industry. We keep people comfortable and we save them money.”

Ron Smith, “HVAC Spells Wealth”

To maximize efficiency, some contractors believe the future of maintenance agreements is moving to a single visit agreement with all the perks of its two-visit counterpart. While that may address the cost side of the agreement, companies must consider the full impact. This cuts customer touchpoints in half and leaves an older system vulnerable for the other 11 months of the year. Breaking down while under a maintenance agreement is the worst possible scenario. It breaks trust with the homeowner and lowers the close rate.

These progressive contractors are heading in the right direction with one addition—(FDD) technology. The Smart Maintenance Agreement uses FDD technology bundled with your standard services to let the customer decide how many visits they want. Some will only want visits when the system needs cleaning or repair, while others want both visits and technology and are willing to pay a premium for this peace of mind. The business gets the benefit of reducing the cost structure of the agreement, ensuring every truck roll generates revenue and guarantees the customer will never be surprised opening the door to an uncomfortable home.

Smart Maintenance

-  Increases value of my business
-  Customer loyalty
-  Keeps techs busy
-  Makes me money

You check all the boxes for the business while still being the hero of the home that is sure to get the replacement when the time is right.

Instead of remaining a loss leader, that maintenance agreement is driving net profit like it should.

Conclusion

You must adapt how you deliver value to keep your customers delighted.

The maintenance agreement of the '80s doesn't deliver the value it once did, and the primary driver was the loss of value for the homeowner. No one wants to pay for someone to come into their home and sell them things that they didn't ask for.

As with all things, adaptation is critical to survival. And in a world that gives us more control of and insight into the world around us, you must adapt to these new expectations from your customers. By delivering a Smart Maintenance experience that gives your customer both control and insight, you deliver more value, earn trust, and get back to the original intent of the maintenance agreement. It's not about manufacturer's warranties, keeping the techs busy or increasing the value of your business. It's about loyalty. The rest will take care of itself.

To learn more about Sensi Predict, remote diagnostics, and how to bring data science into your organization download **[Is Your Business Ready for Sensi Predict?](#)**



