

“Contractors Must Cut the Price of PM Agreements to Remain Competitive”

A Mythbuster Bulletin

by the Building Advisor™

Energy Mythbuster Bulletins shed truth on commonly held misconceptions within the Commercial Real Estate Industry with supporting facts, data, and insightful energy information.

The previous Energy Mythbuster Bulletin discussed energy savings and capital investment. Contrary to popular belief, owners do not need to purchase expensive capital equipment in order to reduce utility bills. By making simple adjustments to existing operational systems, HVAC professionals can deliver immediate savings on energy costs.

Another common fallacy cuts to the heart of our understanding of basic business principles: in these challenging economic times many contractors feel compelled to cut their preventative maintenance contract prices in order to remain competitive. In reality, contractors can protect their pricing and profit margins by adding differentiated value to their current offering with proven energy waste reduction services.

What Makes You Different?

In the current economic climate, there's no question that HVAC contractors need to differentiate their service offerings to remain competitive in offering Preventive Maintenance Agreements (PMAs). In the recent past, contractors attempted to differentiate their companies' offerings in a number of ways. They leveraged their reputations that had taken years to build, counting on relationships and word of mouth to get new customers. Most contractors also invested in training, tools and equipment to ensure they put the right personnel with the right tools at the right site. And of course, there were those that competed on price or bought a lot of lunches.

But in today's hyper-competitive market, yesterday's model for service differentiation has been blown up by the commercial real estate industry. When rental rates drop and vacancy rates increase, the bean counters take over. Most, if not all decisions are numbers driven. Reputation, relationships, and shiny trucks are nice, but if they want to keep their jobs your customers have to cut costs. The new reality is you either cut your price and your margin, or you find a new way to differentiate your offering. Rather than competing on price, a better approach for most

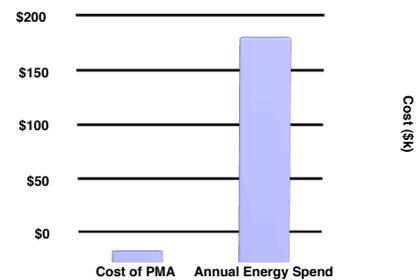
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companies is to identify what the customer values, and give them more of that. And what your customer wants right now is lower costs. Creating an Energy Service Agreement (ESA) by adding energy waste identification and measurable utility bill reduction to a customer's PMA is your best option for delivering more of what customers want.

Focus on the Big Number

While it's true that cutting your price will help your customer reduce their costs, that's just giving them a little of what they want, directly out of your profit. Rather than focusing on the little number (the cost of the PMA), focus on the big number – their energy spend.

In a typical commercial office building HVAC and lighting comprise 75% of the total utility bill. As a contractor you can directly impact a significant portion of that total. A focus on energy can have a much larger impact on your customers' bottom line (remember, this is what they value) than a focus on the cost of the PMA. Take, for example, a typical 100,000 sf office building. The cost of the PMA might be \$10,000, while the annual energy spend in the building could easily be \$2 per square foot, or \$200,000. Clearly the annual energy spend is the big number.



Adding energy waste identification and utility bill reduction to a customer's PMA is the way to provide the most value to your customer. Even if you increase the cost of your services to account for the additional work performed, the added value created through the utility bill savings more than compensates for the pricing increase. Here's a simple example:

Option A		Option B	
Cost of PMA	\$10,000	Annual Energy Spend	\$200,000
10% Price Reduction	(\$1,000)	10% Energy Waste Reduction	(\$20,000)
Net Savings to Customer	\$1,000	Cost of Additional Services	\$5,000
		Net Savings to Customer	\$15,000
Revenue Impact to You	(\$1,000)	Revenue Impact to You	+\$5,000

It's a simple value proposition to your customer: add energy savings to equipment protection. Maintenance alone can't compete with something that generates measurable utility bill savings that more than pays for the entire cost of the services provided.

A Go-To-Market Strategy

The key to taking this approach to market is to reframe the service offering, expanding the scope of work performed to also include services that identify and eliminate energy waste, in effect converting a standard PMA to an Energy Service Agreement (ESA).

Let's back up for a real-world example of perceived need by the customer to reduce the cost of the PMA. A customer may call and say, "I need you to reduce the price of your maintenance agreement by 10%, or I have to take it out to bid." What the customer is really saying is, "I am under pressure to reduce my operating costs." Making this distinction opens the door for a contractor to start a conversation about energy savings. By demonstrating that most buildings can save 10% of the annual energy spend by identifying and implementing low- and no-cost operational adjustments, you can provide your customer an option which is likely to deliver significantly more value than saving 10% on its PMA.

Delivering energy savings should become a core part of your service offering. Acquiring tools and training to deliver accurate and reliable information that leads to proven savings allows contractors to not only avoid competing on price, it allows you to potentially raise your prices and increase profit by delivering the broader scope of work and the more valuable service of an ESA.

PMAs vs. ESAs

Customers have differing views on PMAs. On the one hand, they ensure the long-term care of the equipment. Preventing problems before they happen not only gives owners and managers peace of mind, but also may save money in the long run. However, in tough times PMAs are increasingly seen by owners and managers as an unnecessary cost that could be cut, at least in the short term, with seemingly little impact.

In a tough economy, an ESA is invaluable compared to a PMA, because it *generates*, rather than *consumes* free cash flow by providing significant annual savings through utility cost reduction.

What is an ESA?

An Energy Service Agreement (ESA) contains all of the items in a Preventative Maintenance Agreement (PMA), with the following additions:

- It commits to working with the customer to identify HVAC-based energy waste
- With appropriate technology, energy savings are no longer an unsubstantiated, hollow claim
- Focuses first on low- and no-cost solutions to eliminating waste
- Uncovers savings opportunities with longer term ROI
- Includes ongoing, continuous measurement and verification of energy savings

Energy savings pay for the cost of the ESA each year.

Adding Energy Services

HVAC contractors can easily add energy services to current offerings by acquiring technology such as BuildingAdvice™, an energy services delivery platform from AirAdvice. BuildingAdvice is a bundled solution that uses web-based software and wireless monitoring equipment to deliver automated energy benchmarking, assessment and audit, and verification reports that

evaluate the building's performance, make recommendations and cost analysis on adjustments and investments to reduce energy waste, and verify savings actually delivered.

What Makes You Different – Take 2

If building owners are unable to distinguish a difference in the level of service provided by you and your competitor, it inevitably leaves price as the sole differentiator. No wonder the myth about reducing pricing to remain competitive is so prevalent.

ESAs ensure your customers will see a meaningful, measurable difference between the services you offer, and those of your competitors. This reframes the discussion away from the cost of the PMA, and toward what the customer's real issue is: reducing operating costs while increasing NOI and asset value.

Retaining current contracts and securing new customers has never been more relevant for an increasingly crowded HVAC market, and success depends on a business' ability to offer the highest value for its services. Expanding the scope and measurable benefits of PMAs allows HVAC contractors to earn more for additional value, instead of competing on price. Energy services are an investment that generates measurable return for both the contractor and the customer.

Visit the [AirAdvice Energy Services Resource Library](#) for more information.

Please visit www.airadvice.com/buildingadvice to learn about BuildingAdvice, the industry proven energy services delivery platform which includes web-based software and wireless diagnostic equipment that provides energy waste analysis, monitoring, reporting, and verification as well as a team of management, sales, and engineering personnel who act as an extension of an HVAC contractor's team to drive incremental revenue and profit.