

Creating A Service Plan

To Execute Yearly



Step by Step to Building a Service Department Growth Plan

Understanding Service?

The service department is one of, if not the most critical segment of business for a residential HVAC contracting company to operate well.

- **It is not large enough to drive the business profits, but it is large enough to drain away profits if it is not operated well.**
- **Service can also be a very profitable segment that drives lead generation in your company in a way that reduces the business needs to spend money on marketing.**
- **Service & maintenance together also create most of the customer “Moments of Truth” where people experience your service quality – Both the good and the bad, which creates the reputation in the market about your company and its’ brand.**
- **Your service department is the engine that brings new customers into the business. It is also the engine that will keep customers if your service after the sale is good, or lose them if, well, you know, the service is not so good.**

Sadly, the vast majority of companies in the HVAC industry **either loses money or do not make money** in their service organizations. The service segment is a drain on resources, cash flow, and often times a real sore spot for the company personnel. Some very capable and bright industry leaders have even called the service department a necessary evil. Something you have to have because it is expected as part of the value proposition!

Even worse there are literally thousands of businesses that have **NO IDEA** of how their service department is performing or why! **The lack of financial controls and structure hide the poor performance of the service segment**, and the replacement division success can often cover up those service sins well enough a company can go a long time before it does anything about the service performance. This happens time and again due to the larger gross profit dollars in the replacement segment offsetting the service department costs, and even though the service department costs are higher than replacement, the company can survive and even make money.

In these situations, some companies can and do make profits, some make very little or no many, and some lose money. In no cases where the service department is performing poorly can the company make a net operating profit of 15-20% pre-tax. To make that kind of profit, the service department must be performing well at its functions by producing new customers, leads, controlled expenses and some reasonable level of operating profits.

The service department is the **FOUNDATION** of how we build a long term successful and highly profitable replacement business. It is how we create loyalty among our customer, and service is how we can grow and prosper through lead creation for replacement, sales process (limited or full-out), and simply generating maintenance agreements and referrals because we are good at the service of our customer base.

As you know, a plan creates a direction. In this case, a service department plan is what we are interested in developing to create financial controls, financial measurements, sales growth, customer growth & loyalty employee growth and productivity, and yes, an increase in operating profits in our service department!

Here are a few issues:

Do you have a service department plan?

Do you make 15-20% operating profit in Service?

If the answers are no to either of these questions, then it is wise to begin developing a service department plan. There is a format for the plan, but really what matters is:

1. The plan matches what the business needs are in service department.
2. The owner and employees have a common, unified direction of what needs to happen in service.
3. That the owner and employees are dedicating resources to the service plan direction.
4. The service business is operated consistently with the direction, meaning daily operations, whatever they are, take their cues from the plans direction, and the goals established from service (and the company).
5. The plan is communicated with all company personnel involved with the service operation.

Any business needs to have a clear idea of what direction it needs to take to develop that business.

It matters not whether you are a single-man operation, or you have 100 trucks out on the road. In both of these scenarios the very same issues apply, which is to have the resources of the service department focused on the direction the company wants, and to satisfy your customers beyond their expectations.

If the answers to the questions above are no, then you need to develop the service department plan, and you need to establish a framework for what changes you are going to make to improve the operating profit of the service department.

*The remainder of the article will help define the planning process **AND** Provide templates for you to use to make changes in service operations.*

A quote from W. Clement Stone ... he said,

“ A man never knows how high up is until he loses the limits he places on himself”.

Interpretation: Until you recognize there are other ways of doing things and accept the need to change, your own limits are keeping you right where you are!

Building a Service Department Plan – The Elements

A service department plan is similar to any standard company plan, except it focuses solely on the needs and development of the service segment of business.

The basic steps of building a plan for service are:

1. Develop a Vision, mission, and operating philosophy for service department.
2. Conduct a Service Needs Analysis – Often called a situation analysis.
 - a. Analysis of Financial aspects of service.
 - b. Analysis of Service Marketing.
 - c. Analysis of Service Operations/Production.
 - d. Analysis of Service Human Resources/Organization.
3. Develop a set of prioritized goals and strategies for service department.
4. Develop a Sales and Marketing Approach around the goals of the company.
5. Determine the Financial Performance of the sales & marketing plan.
6. Decide the Operations and Production aspects of how you can support 3 & 4.
7. Figure out the Human Resource side – Staffing and personnel to meet the goals.
 - What is the company doing now in Service in all 4 areas of the business segment?
Marketing, Financial performance, production & operations performance and organization?
 - What are my goals – and in what order of priority do the line-up?
How much money do I want to make? Growth? Where to grow?
 - How do I sell and market these products and services?
New IAQ products, or grow more replacement? Grow Demand Service? Service Agreements?
 - What is the financial side of the plan?
 - Do I have enough resources to grow? Do I need to hire? Do I need to change marketing?
 - Can the Company operations support the plan?
Enough Trucks? Inventory on the trucks? New Tools? Supplier reliability?
 - Can my organization, my people do the work and meet the plan?
Do I have enough employees? Doing the right work? Pay Plans? Training?

These 7 Steps are the Elements of the Service Plan

What follows are some supporting templates that can help you work through the needs analysis and the development of your prioritized goals based on what you find in your analysis!

Basic Elements of (Service) Company Business Plan

Step 1 -The Vision, Mission, Operating Philosophies of a Service Department

What is your service department vision?

What is your service department mission?

What are your Key Operating Philosophies for your service department?

A vision should describe what the service business is going to look like in 3-5 years. What you want it to become. What is the dream of your service operation?

The mission is the purpose of the service department. Why does it exist?

The key operating philosophies are the everyday Must DO practices you will use to meet your vision? These operating philosophies must be in line with the mission and vision, and also if you have your company core values defined; they should be in line with the values as well.

Consider the questions on the needs analysis that apply to this section of your service plan.

Step 2 -The Service Department Needs Analysis (Situation Analysis)

- SWOT Method – Strengths, Weaknesses, Opportunities, Threats

Completion of the Needs Analysis questionnaire leads you to define what the strengths of the service department are, the weaknesses, which highlights all the opportunities there are for improvement, and of course, there are always threats which can ruin the best laid plans.

Once you have your questionnaire completed, this tells us where we are currently.

We must then establish certain goals.

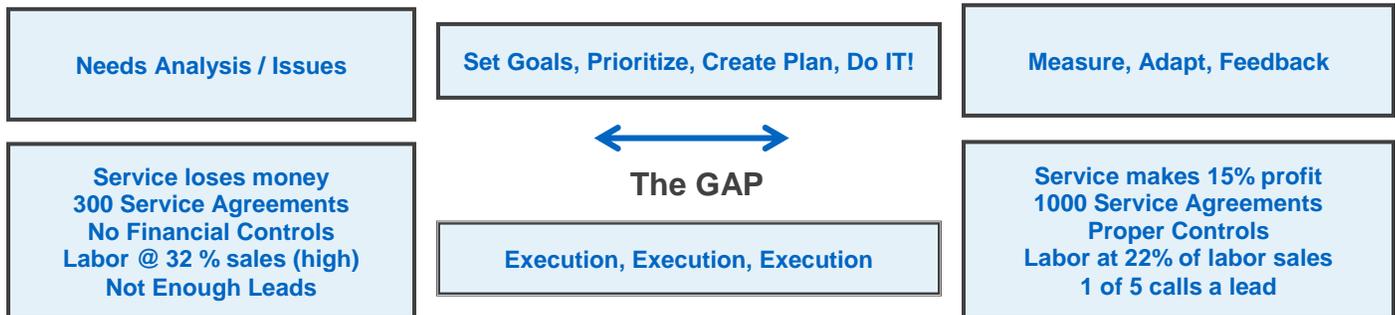
- Fancy Term - GAP ANALYSIS – Means where am I, where do I go – How?

Having an honest appraisal of where we are in service, our goals, gives us a gap! This leads us to what we have to do to accomplish the goals. We call that a GAP. It represents what must change!

How big is that canyon anyway? Is this a small gap, or the Grand Canyon? It is an important question to be sure, because we have to begin the action items that will allow us to cross over that GAP, and it always helps to have done thorough needs assessment to know how much work we have in front of us.

We must identify what issues cause the gap. Leadership? Poor Direction? No accountability? Poor Measurements? Whatever these issues are, they must be identified. Once the issues are identified, you can prioritize, what is really important, and what can be done with the resources available. This prioritizing is difficult, yet it leads us to our primary focused initiatives for our plan.

The graphic illustrates the process of a needs analysis.



What follows is a detailed service department needs analysis. Use it to identify what you need to do to improve your service department.

After you complete the analysis and have your gap, you simply have to make a list of your priorities from that list to create the Must Do's, Need to Do's, and nice to Do's.

Demand Service & Maintenance General

	Yes	No
Does the service & maintenance department have a plan?		
Does the service & maintenance department have a vision?		
Does the service & maintenance department have well defined goals?		

Demand Service & Maintenance Financial Performance

	Yes	No
Are demand service and maintenance departmentalized separately on profit and loss statement?		
Does the service department make at least 15% operating profit each year?		
Do you receive timely and accurate financial statements, and FORECASTS of service performance?		
Is there a budget for the service department?		
Are there defined service department financial goals?		
Is your collection policy Payment at Time of Completion?		
Is the combined service and maintenance revenue greater than 25% but less than 30% of the total company revenues?		
Is the maintenance department direct cost of labor 34% or less unburdened (40% burdened with direct cost benefits)?		
Is the maintenance department part & materials cost as a percent to sales of 6% or less?		
Are commissions less than 4% of total maintenance revenues?		
Is the maintenance department gross margin between 45-50% of maintenance revenues?		
Maintenance labor only sales to parts sales of two dollars labor to one-dollar parts?		

A maintenance only vehicle generates a minimum of \$ 65,000 per vehicle in revenues per year?		
The company maintenance technicians (production only) are at a 3 to 1 ratio over the inside support team for maintenance?		
Do maintenance technicians offer service agreements on all tune-up calls? Do service technicians offer service agreements on all service calls?		
Is the renewal rate on service agreements at 90% or better?		
Is there 1 replacement/accessory lead generated for every five maintenance calls run on average per year?		
Is the service department direct cost of labor unburdened 22% or less of service labor sales (27% Burdened)?		
Is the service department materials cost as a percent to sales of 13% or less?		
Is the service department gross margin between 60-65% of demand service revenues?		
Is the labor only gross margin 65% of labor only service sales?		
Is the service parts gross margin at a minimum of 50% of service parts sales?		
Are service labor only sales divided by total service sales equal to 55% or greater?		
Does a service only vehicle generates a minimum of \$ 125,000 in parts & labor sales revenues per year?		
The company service technicians (production only) are at a 3 to 1 ratio over the inside support team for maintenance?		
Does the company pull funds from service agreement reserve as work is performed on a service agreement so service labor is not billed for this work?		
Does the company pull funds from warranty reserve account to cover expenses on warranty service calls?		
Does the company have a system in place to monitor customer satisfaction on all service and maintenance calls?		

Demand Service & Maintenance Marketing Performance

	Yes	No
Does the service department have a well-defined marketing plan?		
Does the company employ a service-based strategy to acquire and retain customers through tune-ups, service agreements, and demand service?		
Does the service department have defined goals established for sales, leads, SA's, gross margins, new customers, satisfaction, and productivity?		
Is there a marketing strategy to create over 1000 Service Agreements (not precision tune-ups) for each 1 million in revenues (replacement install, demand service, maintenance, IAQ revenues)?		
Is there a marketing strategy to create new demand service customers to meet goal?		
Is there a marketing strategy to create IAQ leads and sales from demand service?		
Does the company use Flat Rate pricing?		
Is there a lead forecast for demand service and maintenance to meet revenues, based on a closure rate, an average sale price for an invoice, on a weekly and monthly basis?		
On any new demand service customer generated sales lead, is the closure rate at 75% or above?		
On any maintenance generated sales lead, is the closure rate at 90% or above?		
Does the service department offer extended hours of operation?		
Does the service department have an incentive plan tied to compensation for sales of accessories, service agreements, equipment, and other products and services?		
Does the service department conduct service technician debriefings after each service call?		
Does the service department conduct "Happy Call" follow-up satisfaction checks with homeowners after service calls?		
Does the service department track it leads and know its lead mix, and cost per lead?		
Does the company have an image policy it adheres too?		
Does the company train its service personnel on customer relations and service?		
Does the service department have its personnel sell equipment?		

Demand Service & Maintenance Operations Performance

	Yes	No
Are you tracking the service department, and technician productivity?		
Do you track callbacks individually and for the service department with some form of a call-back log?		
Do you employ a labor control system to track labor for the department and by technician?		
Does the company have written dispatching policies to dispatch by skill, geography, need?		
Do you have a vehicle replenishment system in place?		
Do you have an inventory control system in place?		
Do you have a purchase order system and policies in place?		
Do you have a seasonally adjustable -inventory system for parts ordering & stocking?		
Does the service department physically count its inventory on a monthly basis?		
Is your inventory accountable to the technician?		
Is your bookkeeping and inventory function automated through software & wireless web?		

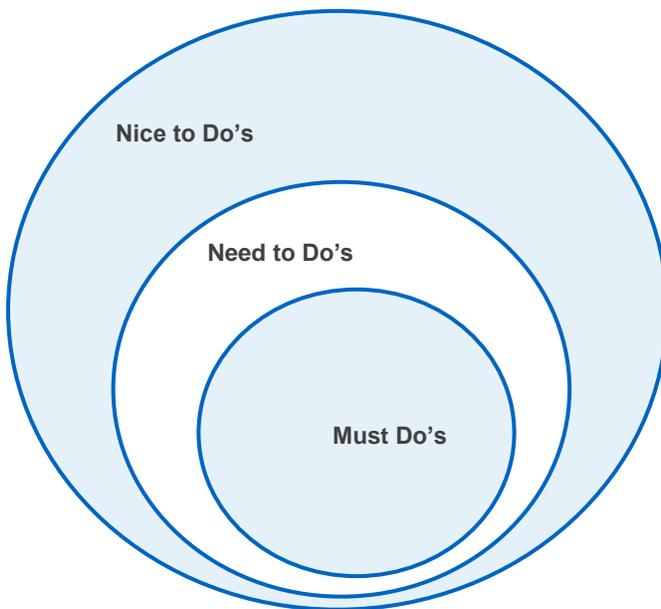
Demand Service & Maintenance Organization & Human Resources Performance

	Yes	No
Do you have a labor-staffing plan to meet the demand for service & maintenance?		
Does the company utilize a pay for performance system for service?		
Does the company have success in recruiting, and hiring new service personnel?		
Do you pre-employment test all applicants?		
Do you have an employee handbook, role descriptions, employee reviews, and pay plans?		
Do you have a defined training plan for the service department and by individual?		
Do you have a service technician procedures manual?		
Do you have a service meeting format and meeting schedule?		
Do you have a regular performance evaluation with your service personnel?		
Do the service personnel know how they are eligible for raises and bonuses?		

Step 3 – The Service Department List of Priorities (From Situation Analysis)

After completion of the service department needs analysis questionnaire leads you to define what the strengths of the service department are, and you may have a very short list of areas of need, improvement opportunities, or you may have a very long list.

In either case, we care about getting these into a management format. We call these the must do's, need to do's, and nice to do's. We strive to keep our must do's to 3-5 goals. Here is an example list.



Must Do's:

1. **Departmentalize the P&L to break out service labor and service parts**
2. **Reduce labor expense to 22% of sales from 31% of service sales.**
3. **Get 1000 service agreements per million up from 500 per million today.**
4. **Convert service department to performance based pay.**
5. **Improve service department productivity from 65% to 85%.**

Some of our Must Do's will take into account actions that need accomplished in our Need To Do's area, and so forth. A good example is we can increase the net operating profit of our service business by accomplishing these things:

1. Reduce labor % of sales in service to 22% (without benefits burden).
2. Improve productivity of service to 85 % (producing revenues 6.8 hrs. of revenue production for every 8 hours worked) – Even a revenue and gross margin dollar amount per service technician man-day (example \$ 1,000 revenue per man-day - \$600 GP per man-day).
3. Increasing accessory sales.
4. Going to a performance based pay system tying each technician to revenue and margin performance, plus accessory leads and/or sales.

So the key aspect of any needs analysis is **NOT to focus on ALL** the things that may need changed or improved, but instead to pick the 3-5 things that **MATTER the MOST**.

Then, write the action plans, so you can sit down and figure out what has to occur in order for the changes to take place. [Much of what you may need to support changes will be inside the web-learning content.](#)

Steps 4 –7 The Service Department Action Plans Take Shape

From the earlier needs analysis we have decided on the 5 must do's. In our company, we probably have 99 things that need changed, but we can't possibly do all 99 and still generate revenues, satisfy customers, and conduct daily operations without messing up!

So, we chose the 5 "Must Do's."

Each one of these 5 falls into one of the functional areas of business, Finance, Marketing, Operations or Human Resources. So each will have an action plan that we will write to accomplish the goal.

We categorize these so we can look at our existing efforts in service, take marketing for example, and be sure we understand what we are doing to market our service department as we are writing the action steps for change.

The example action plans for each of the 5 must do's follow.

Don't make the mistake of trying to do too much at once and over-extending your company or yourself. Pick the most important areas and fix them first, then move on and do it all over again!

Priority Goal #1: Install Financial Structure – A departmentalized profit and loss statement which defines service (Service labor and service parts both) by January 31st, (YEAR).

Action Steps	Accountable	Timeline	Resources Required
1. Define the chart of accounts that meet the company goals – Service Labor Sales, Service Parts Sales, & maintenance.	Owner & Book keeper	Dec 1	None
2. Chart of accounts for cost of sales for each revenue account are: Direct labor, materials, equipment, Labor Benefits, permits, sales commissions, warranty reserve, sales salaries, extended warranties, subcontracts, buy downs & financing.	Owner & Book keeper	Dec 1	None
3. Adapt time sheet, and materials list, adapt service ticket, to reflect the departmental areas – code the time sheet so as to make it exactly what the departments on the profit & loss statement are.	Owner & Book keeper	Dec 7	New Company forms \$ 1,000
4. Set up the chart of accounts in the software. Chart of accounts will follow the ledger codes.	Owner & Book keeper	Dec 15	
5. After P&L structure is set-up, train all personnel – a company meeting MUST be held – answer all questions – allow them to understand what departmentalization is, and why they need to complete their time tickets correctly.	ALL Personnel	Dec 20	

6. Managers to collect all time tickets and service invoices for first month and review them in detail; to be sure accuracy and times are being properly completed. This allows for immediate feedback and retraining to occur (individually) as needed.	Owner & Dept. Managers	January	
7. Bookkeeping function to begin entering in the data at the beginning of a new month accounting cycle.	Owner & Book keeper	January	

Obstacles:

Book Keeper not doing job properly, field personnel resisting changes, not filling time cards out properly, poor writing, not turning in paperwork timely, not filling in parts and labor separately on service invoices.

Contingency Plans:

New Book Keeper, Tie Field personnel reviews and raises to paperwork, Fire someone as an example – Service manager or install manager, tie manager bonuses to proper completion.

Priority Goal #2: Reduce labor expense to 22% of sales from 31% of service sales.

Action Steps	Accountable	Timeline	Resources Required
1. Install immediately a daily labor tracking system for each technician and in total for the service department. The labor tracking will track the amount of sales each day and the labor costs of each technician, then divide the costs by the sales daily, and weekly.	Service Manager	Nov	Labor Control Spread sheet
2. The labor tracking and control system will go in place for 90 days before any training or discussions occur with any technicians.	Service Manager		
3. At 90 days, with data in hand, hold a service department meeting to introduce the labor tracking system to the department, and conduct training on what tracking is for and why. The labor tracking system will also track the technician opportunities for sales of service agreements, renewals for agreements, replacement lead opportunities, warranty callbacks, warranty calls, and 1 st time completion of a service call to instill accountability for what management is reviewing.	Service Team	Jan	Feedback Sheet for Technicians to show how they are doing
4. Install new compensation system for incentives. \$ 20.00 bonus for selling service agreement, \$ 50.00 for replacement lead, 1% commission on a replacement lead that sells.	Service Manager & Owner	Jan 1 – Mar 1	Pay Plans, Training Plans, Tests
5. Install service manager pay plan tying his compensation and bonuses to the service department performance, of which one KPI (Key performance Indicator) will be labor to service sales at 22%.	Owner	Jan 1	Pay Plan for Service Manager

Obstacles:

Technician's disapproval. Company resolves to make changes (some will not have the stomach for holding firm when technicians complain and threaten to leave)!

Contingency Plans:

New Pay Plan – Performance based pay, planning for loss of several technicians who will whine about accountability.

Priority Goal #3: Get 1000 service agreements per million up from 500 per million today.

Action Steps	Accountable	Timeline	Resources Required
1. Design the training plan for selling more service agreements for the technicians	Service Manager	Nov 1	Training plan
2. Design the tracking system for the sale of service agreements through service	Service Manager	Nov 1	Goal Boards, and Technician Opportunity Report
3. Adapt all the forms to make it simpler to sell service agreements.	Service Manager	Nov 1	Service Invoice, Precision Tune-up Form, and Service Agreement all work together - \$ 3,000
4. Design the after the sale follow-up process for selling service agreements and debriefing with consumers and the technicians.	Service Manager	Nov 1	Debrief form, Happy Call form
5. Design the technician reward and pay plans for selling and renewing service agreements.	Service Manager	Nov 1	Pay Plans for technician and service manager
6. Design and implement the renewal process and pay plan for service technicians (maintenance technicians) for service agreements.	Service Manager	Nov 1	Pay Plans for technician and service manager
7. Implement the training and tracking plans.	Service Manager	Jan 1	
8. Begin weekly meeting to review and discuss the technician opportunity report. Use daily debriefing with dispatcher, and if necessary, daily debriefing by technician with service manager or owner to TRAIN the technician regarding skills on presenting service agreements.	Owner & Service Manager & Dispatcher	Jan 1	

Obstacles:

Too many service agreements stressing technicians, technicians not looking to perform service agreements.

Contingency Plans:

Hire maintenance technician as new class of employee, need to explain the need to perform maintenance to keep leads coming and work week filled.

Priority Goal #4: Convert service department to performance based pay.

Action Steps	Accountable	Timeline	Resources Required
1. Introduce topic to service department – ask them for feedback on how to best accomplish the change.	Service Manager and Owner	Oct 1	None
2. Introduce the basics of the pay plan, the skills tests and the Training plan that goes with the necessary skills for the pay plan	Service Manager	Nov 1	Pay Plan & Tests & Training Plan
3. Test the Technicians Dec 1 for skills and create dispatching sheet for skills for Jan 1 implementation.	Service Manager	Dec 1	
4. Run pay plans currently for 90 days paying the technicians the better of the two pay plans for this 90-day period.	Owner & Service Manager	Jan 1 – March 1	Accounting to run concurrent payrolls and time tickets.
5. Weekly for 1 st 40 days, meet with service team and debrief as to the task times, the pay plans, the training and ask how it can be improved. Make the improvements suggested if they are common sense.	Service Team	Jan 1 – March 1	
6. Continue weekly training sessions with technicians on: Customer Service Sales Skills Technical Training Service Agreement Sales Inventory Replenishment Financial Updates Pay Plans	Service Team	Weekly	

Obstacles:

Fear of pay plan changes, Fear of Cut in Pay, Fear of losing jobs by Technicians, Loss of technicians due to fears.

Contingency Plans:

Concurrent pay plans, Communication weekly and constant feedback.

Priority Goal #5: Improve service department productivity from 65% to 85%.

Action Steps	Accountable	Timeline	Resources Required
1. Begin weekly measurements of production for each technician for sales, and for gross profits. Use the nomograph to explain service department performance and why it is unacceptable at 65% - we lose lots of money!	Service Manager	Jan 1	EXCEL Tracking Report
2. Determine skills of each technician and create a skills spreadsheet to train dispatching function on how to dispatch proper technician to the type of work.	Dispatcher & service Manager	Jan 1	EXCE: Skill levels
3. Implement testing for skills and aptitudes for all technicians to improve skills, reduce callbacks.		Nov 1	Various Tests – NATE, Other
4. Institute a training plan for each individual technician.	Service Manager	Dec 1	Meetings with individual technicians
5. Implement new pay for performance plan, which rewards 1 st time call completion, customer satisfaction, and productivity.	Owner/Service Manager	March 1	Pay Plan defined
6. Implement new inventory stocking and replenishment system on service vehicles for daily inventory changes, to keep trucks properly stocked and improve 1 st time call completion rate to 90%.	Service Manager & Dispatcher	Jan 1	Inventory sheets and service invoices that match system
7. Eliminate selling time on calls for technicians, and turn all sales opportunities into leads for sales, and focus on capturing more productivity in service.	Owner & Service Manager	May 1	Lead Coordination Process

Obstacles:

Technicians not wanting pay for performance, Technicians not wanting to give up sales opportunities for fear of loss of income, technicians whining about measuring them.

Contingency Plans:

New Pay plan runs concurrent with old pay plan for 90 days. New technicians to replace those that leave!

Developing Your Plan – How to Involve Your Employees

So many business owners want to do it all themselves. They are control oriented, or once again they do not know how to share information, or are afraid of what that might mean.

What share information with my technicians? Tell my employees how the company is performing? It is a privately held company and it's none of their business what I make? They won't understand it? They don't know anything about running a business?

Are these possible excuses?

We are talking about involving your personnel, and YES it will take more work for you because your personnel will have questions you will have to answer, but the rewards of answering those questions are far greater than the trouble it takes to answer them.

Here's why:

- Answering the questions means the employees cared enough to ask a question
- The employees having questions means you are communicating with them
- The employees will want to know what the battle plan is so they can help execute it
- Most employees come to work wanting to do the right thing, but often do the wrong things because they didn't get properly trained on what the right thing was – see above!
- Employees actually know their jobs better than you do on average, so they can contribute ideas that help the company become more efficient, more stable, and more profitable and more customers focused. That is if you listen. Not all of the employee ideas are going to be good, but it is the process of how you listen and involve them they will appreciate.
- Getting them involved creates accountability for the execution – they designed it- no man can resist his/her own ideas – So they get behind it much easier than you throwing it in front and saying charge!
- Be honest – do YOU like being TOLD what to do versus being ASKED what can be done?

There are additional reasons for involving employees. Things like teamwork, learning one another's strengths and weaknesses, developing your talent through training and so on, but the reality is still the same; you have to want to do this!

Leaders need to take the risk and start involving their personnel!

It starts by explaining the need to involve them, and then it becomes a work in progress where you as the owner or manager will begin to learn what works best and how to better listen and engage with your team.

Measure the Results and Provide Feedback

If you want people to focus on improving something, it must be measured and properly fed back to them. This is a **LEADERSHIP ROLE!**

*We have all heard the saying
What gets measured gets done!*

You must set the goals in your service plan and break them down into monthly, weekly, and daily goals.

Follow the example chart below:



Why is this Critical to Your Success?

- Planning forces you to make decisions about your business, and making good, well thought out decisions are what good businesses do better than bad businesses.
- Planning involves everyone that has a stake in the company success, allowing them to share ideas, and buy into the plans ideas.
- It focuses the resources of the company on the key goals better than any other mechanism.
- Planning **MAKES** you **ASK** the questions, the good ones, and the bad ones and gets you thinking about not only what to change, but how to change it!
- Planning is a form of training, for all employees, including the owner.
- **Proper planning for service will absolutely MAKE YOU MORE MONEY!**