

2.3.2 HVAC Contractor Market

While several large HVAC contractors operate within the home improvement market, the majority of firms in the industry are small businesses that are family-owned or sole proprietorships. Small firms are typically owner-operated, with fewer than five employees and less than \$1 million in revenue per year. Like smaller remodelers, these firms may have difficulty in financing a transition from their core model into a home performance contractor-based model. Medium-sized firms typically have between 10 and 30 technicians in addition to support staff. These firms account for the second largest segment of the market, and represent the largest potential opportunity for expansion into the wider home performance contractor model. These medium-sized firms' assets, capital, and customer base can help to smooth the transition. Typically, large firms are marketers, such as retailers or large chains of HVAC contractors. These large firms could significantly impact the home improvement market should they collectively decide to expand their service offerings to include home energy upgrades.

HVAC contractors offer installation, replacement, and maintenance of HVAC units in existing homes and installation of new units in new construction. The Service Roundtable reports a high failure rate for HVAC contractors: 20 percent of HVAC contractors across the industry eventually fail, and 70 percent of new HVAC businesses fail in their first year of operation.¹⁶ Some of these failures can be attributed to the overall economic environment—i.e., the shrinking of the home improvement market in the wake of the U.S. economic downturn. Other factors include a lack of business skills and/or planning that prevents HVAC contractors from developing a large enough base of customers to remain in business.

The HVAC contractor market is seasonal and regional in nature, with some extremely hot or cold regions experiencing longer “high” seasons and holding a much larger share of the market than more temperate climates. The national average HVAC repair and replacement season is approximately seven months per year, which has a profound impact on how these firms manage their business and generate revenues.

Key Insights

HVAC Insights		
	Observations	Impact on Potential Expansion into Residential Energy Efficiency Market
Market	<ul style="list-style-type: none"> Most businesses in the HVAC contractor market are small, earning less than \$1 million in revenue per year. The HVAC industry is seasonal and regional in nature. Approximately 20 percent of HVAC contractors fail across the industry every year, with 70 percent of new HVAC businesses failing in their first year of operation. 	<ul style="list-style-type: none"> Smaller HVAC contractors with annual revenue below \$1 million typically would not consider expanding into home energy upgrade services. Medium-sized contractors with an already established HVAC business are prime candidates for an expansion into the residential energy efficiency market. They have the assets already in place to expand and a solid body of established service contracts in hand to drive sales.

¹⁶ First Research. *Industry: Plumbing & HVAC Contractors*. (2011). <http://www.firstresearch.com/Industry-Research/Plumbing-and-HVAC-Contractors.html>.