

FROM THE FIELD

How online commerce has changed our business

BY DAN FOLEY CONTRIBUTING WRITER

Back in May, I looked at a new project. It was a complete heating system renovation in a 1920s vintage row house in D.C. The job included a condensing gas boiler, indirect DHW tank and radiant on four levels, along with several cast iron radiators. A two-zone AC system was also an option. The project would have been a nice fit for my company, but we were not hired for the job. I had presented a proposal and, after several revisions, I never heard back from the client. The summer heat and its accompanying busy pace came along, and I quickly forgot the project.

Fast forward to January. I received a phone call from the client, who asked me if I could come take a look at the job. She explained that she could not afford my proposal, so she purchased the materials online and hired a contractor to install the system. She requested my help because of problems with the contractor, performance issues and a one-month gas bill that exceeded \$600.

I stopped by and surveyed the job. During a visual inspection, I observed multiple problems, but I did not dig into the system with tools and meters to determine a primary cause. I gathered enough information to determine that I would not be a good fit to resolve the problem.

On the drive back to the shop, I reflected on this set of circumstances. In the end, this client will most likely spend more than my original contract to make this system operate properly. As much of the piping is buried behind walls or in concrete, it was impossible for me to see if the problems could even be fixed at all without major demolition of finished surfaces. I had a bad feeling. It was not sour grapes over losing the job, as I had long since moved on and have plenty of work. Rather, I was thinking about our industry and the change in distribution channels over the 25 years I've been in the trade and over the last 10 years in particular.

The Internet has changed the way we do business. I thought of all the things I've purchased online, including goods and services for my business: computers, office supplies, printers, software, communications equipment and even office furniture. These purchases were made online mostly for speed and convenience. I don't recall shopping or price checking for these items.

One major exception to our purchases has been direct equipment and materials that are used on our projects. Boilers, pumps, tubing, PVF, controls, HVAC equipment, etc., all have been purchased through traditional supply houses with three (or four) step distribution (manufacturer to rep/wholesaler to contractor). I could not think of any major direct material purchase we have made online. The closest that came to mind were pipe markers and placards that I order from an online source and traditional distributors that have online order forms, such as Grainger's.

But what about the new paradigm online distributors that sell the direct materials we typically purchase

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through local wholesalers to anyone with a credit card. Is this a good thing or a bad thing for our trade? Has it affected your business?

I spoke to my primary hydronics rep, and he indicated that the biggest issue to date was not lost sales, but product support of materials purchased elsewhere, primarily equipment such as boilers, for which the source could be quickly ascertained through a serial number search.

How about manufacturers reading this column? How do you feel about product support, technical assistance and warranty claims on equipment not installed by licensed professionals? In doing a quick online check, I found just about every model of equipment we promote available online.

I'm not sure my company has been affected enough for me to have a strong opinion. I'm on the sidelines just taking it all in. I've heard opinions that run the gamut from, "This will be the end of our trade as we know it," to "This is the 21st century marketplace. Get with it or get left behind." My observation is that the reality lies somewhere between these two extremes.

To step away from my insulated view, I tapped two industry friends on opposite coasts for their views. I called Paul Pollets, owner of Advanced Radiant Technology in Seattle. Paul and I connected more than 15 years ago at an industry function and have remained the closest of friends ever since. What I like most about Paul is that he tells it like it is.

Paul told the story of a recent project for a technology millionaire. The client initially wanted to supply all of the materials. This is where my impatience would have made me walk, but Paul's experience and wisdom won out. He turned what appeared to be a bad deal into a win-win situation. Paul allowed the owner to supply a few select materials but insisted on supplying key components, such as the Viessmann boiler and the radiant materials. Paul also had the client sign a waiver in a revised contract proposal outlining the conditions of the owner-supplied

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materials that covered issues such as warranty, incomplete orders, wrong materials, delivery dates, etc.

Paul also made sure that his overhead and profit were covered, even on the materials supplied by the owner. As Paul put it, “My rent, insurance, truck costs and gas did not go down because the owner supplied some components.” In the end, the client was happy, Paul was happy, and the client got a professionally installed job. Paul even got additional work through change-orders when the client saw his impressive work. This is one way to turn a negative into a positive.

Next I called my friend Rob Brown of Northeast Radiant Technology (NRT) in Gardiner, Maine. Many know Rob as NRT Rob from his presence on several websites and message boards. He started his company

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approximately 10 years ago, primarily as a radiant design company. He was an early adopter of online commerce, with a website presence generating the majority of his business from the start.

Rob’s company has evolved over the years, from primarily a design company to a design firm that also provides mechanical packages to support its designs. Rob’s customers are both DIYers and professional contractors. Roughly one third of his business is local, with the balance originating online.

NRT supplies radiant materials and components as well as pre-fabricated control panels that include the near boiler piping, pumps, valves and controls — wired, labeled and tested. Rob draws the line at supplying boilers and other combustion equipment. He stands by his belief that this equipment should be provided locally by licensed, certified contractors with the proper training and combustion analysis equipment.

Rob emphasized that his Internet sales were in support of his detailed designs and came about through client demand. His customers were unable to find these products locally, so Rob filled a niche. He supports all of the products he sells, including technical support and warranty processing.

Where do local wholesalers fit into this new market? Here is where they can add value: product support and product availability. If a wholesaler does not have the product on the shelf when I need it, the wholesaler has not added value. If all they can do is drop ship an item from a manufacturer, it becomes a paper transaction. At what point does it become easier and less expensive to order online? If you have reduced the equation to website forms and widgets, with no added value, the Internet

suppliers will beat you on price. Then it becomes a race to the bottom to see who can provide the lowest price. But if you have a part or component available when I need it, price becomes a secondary concern.

I cringe when I hear a rep talk about inventory turns and cost of keeping parts in stock. I recognize that it costs money to keep inventory. But you can’t sell something that you don’t have, and it’s unfortunate when the bean counters dictate how you run your business, to the extent that products are not on your shelf when they are needed. You need a big-picture perspective to make sound decisions.

One of my primary suppliers recently lost \$200,000 of my radiant business because they couldn’t keep two bags of half-inch brass fittings on the shelf. Their inventory system sent the product back because it didn’t “turn” enough. After fighting this inventory system for a year, I was forced to make a change or risk losing my sanity. That loss of my business doesn’t even count the additional sales in pumps, fittings, PVF and other components that were purchased along with the radiant materials. They lost \$200,000+ in exchange for about \$50 in brass fittings — brilliant. My point is that if you provide local support and availability, other concerns are secondary.

All of these products are worthless without a skilled practitioner to properly specify the right components and install them professionally. Sure, there are skilled DIYers who can do nice work but, in my experience, this is the exception rather than the rule. You cannot sell the experience of a skilled professional online. I can buy paints, brushes, palettes and canvas at Michael’s, but it doesn’t mean I can paint like Picasso. A skilled contractor is an artist who creates with a RIDGID 300 and schedule 40 black steel. A basement wall is his canvas. Nothing can replace the years of experience a professional brings to the table.

This is where we contractors come up short. This is where I failed my D.C. client. We must get better at conveying the value of our skills and knowledge to our clients. We must be prepared to explain why we charge \$530 to change out a 007 when the client can quickly see that they can buy the part online for \$81. Be able to quickly respond to this reasonable question or lose this customer or, worse, be branded a crook.

I don’t know that there is a right or wrong answer to the issue of changing market channels. I imagine the free market will sort out who is right. I will explore how my company keeps busy at pricing that is higher than my competitors in a future column.

Meanwhile, I would love to hear how you are dealing with changes in the marketplace, Internet suppliers and DIY competition. If you’re a manufacturer, I would be curious how you control brand equity and product reputation when you lose control of product distribution. If you’re an Internet wholesaler, I would like to know more about your business model. I encourage you to contact me by phone or at the email address listed below. I always appreciate hearing your feedback. ●

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