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Pipe Dreams

One CEO reinvented his company in the face of a crashing market.

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Faced with a crashing market, and inspired by lessons from his courses at [Harvard's Owner/President Management Program](#), [Tom Warner](#) invented a way to turn his plumbers into businesspeople -- and they turned his company around

[Ron Inscoe](#)'s yellow van trundles along the leafy streets of suburban [Bethesda](#), Md., and pulls up at [Cornelia Hyatt](#)'s house at 5 o'clock on a Friday afternoon in late April. Inscoe, [Hyatt](#)'s heating and cooling mechanic, is here for the springtime inspection. Half an hour later he packs up his tools and pronounces Hyatt's air-conditioning system fit for action. That's good news -- summer in the [Washington, D.C.](#), area is a time of laming heat and humidity. Still, Inscoe lingers for another 30 minutes, patiently answering Hyatt's questions about her humidifier and the "funny sounds" her furnace makes. Inscoe is unfailingly polite, giving no impression that he's pressed for time, although it's late in the day and he has another job before he heads home. She is, after all, "his" customer.

Inscoe is a heating, ventilation, and air-conditioning technician -- an HVAC guy, in trade lingo. But he's also an "area technical director" (ATD) for his employer, [Warner Corp.](#) Instead of making service calls all over [Maryland](#)'s huge [Montgomery County](#), seldom seeing the same customer twice, he now focuses strictly on Bethesda zip codes 20814 and 20817.

"Ron told me to call him if I have any problems, because this is his territory," Hyatt says. "I think it's a great idea. I have somebody to relate to -- not just some corporation."

The ATD program is the brainchild of company president Tom Warner, who credits it with revitalizing his 260-person business. He has about 80 such directors now, with many more to come. They are plumbers, electricians, and HVAC technicians -- the company's operational triad. Each has his own zip code or two, covering roughly 10,000 households.

In essence, Warner has given each of them a business to manage -- within Warner Corp. Under the corporate umbrella, they enjoy the benefits of self-employment without the hassles or the overhead. The idea is to field a corps of technically superb, friendly, and ambitious mechanics who operate like small-town tradesmen despite the big-city reality. Warner prepares the ATDs with training in the fundamentals -- sales and marketing, budgeting, negotiating, cost estimating, and customer service. Then he cuts them loose to build business in their assigned locations.

By turning his technicians into businesspeople who make decisions and think responsibly about profits and losses, Warner has engendered in them a new sense of

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pride and ownership. "In the [Washington](#) area," he says, "there's a social stigma to working with your hands. This program is a real ego booster. Running their own businesses, these guys really feel good about themselves."

The upside is more than improvement in self-esteem. Before Ron Inscoe, a 34-year-old with a high school education, joined the Warner team, the most he'd earned in a year was \$60,000. But last year, as he began to develop his area, he made \$103,000. This year he's on track for \$126,000. And when Inscoe does well, so does Tom Warner.

A central feature of Warner's ATD program is a generous incentive system that ensures that Inscoe and others like him will go the extra mile to please customers. "If someone needs an appointment at 6 a.m. before work, no problem," he says. "I even give out my pager number to my customers. One of them, a surgeon, paged me at 11 o'clock one night. His basement was flooded -- there was a bad valve on his boiler. I hopped into my truck and drove over."

Before starting his ATD duties, Inscoe spent several two-hour sessions with [Bill Harrison](#), a consultant Warner had enlisted to help redesign his company. In part, the training dealt with "bedside manner," as Inscoe puts it -- how to be professional and responsive with customers. "Then when I started here, I generated customers by going through old job tickets," he says. "I called anybody who needed refrigerant last year and asked if I could make sure the unit was safe. I think of their safety first and their comfort second. If it's a question of dollars, I give as many options as I can, from a Band-Aid to a replacement. I never nail a customer down to one option."

That mix of initiative and thoughtfulness is one key to Inscoe's success. He works hard, too. "The guys who gravitate to the ATD program want to make more money, with more effort," he explains. "If you want a 9-to-5 job, it's not for you. Last year I averaged 63 hours a week. I've got two kids and twins on the way, and life's expensive. It's not *The Donna Reed Show* anymore."

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The ATD system is considered revolutionary in Warner's business. His is one of the most oldfangled of industries, the mundane world of stopped-up sinks and balky furnaces. Warner might be the first who's ventured to professionalize his workforce in this laggard industry.

Chief executives who give autonomy to highly educated employees no longer excite curiosity, but it is still exceptional to empower blue-collar folks. Warner, however, didn't have much choice. With brutal market shifts buffeting his business, he felt the need to move boldly.

Founded in the 1940s, Warner Corp. is the largest plumbing contractor in the Washington area. It's also the second-largest HVAC operation. For decades the nonunion, family-owned business thrived as Washington's premier contractor for big plumbing projects -- office high-rises and apartment buildings. In 1988, a boom year, sales neared \$20 million in plumbing repairs and new construction. Some 85% of that work was commercial.

In late 1989, however, just as Tom Warner gained control of 100% of the company's equity, Washington's red-hot commercial real estate industry began to flicker, a victim of overbuilding and tax-law changes. Facing cash-flow crises, many property managers hired handymen to handle plumbing work in-house. "Everything ground to a halt. I had all these great technicians but little work," says Warner, a fourth-generation plumber who succeeded his father as president.

Warner knew the company was in jeopardy. He had studied at [Harvard's Graduate School of Business](#) Administration, in the Owner/President Management Program. His professors there preached the primacy of the well-guarded niche. "I realized we didn't have a niche anymore," Warner says. "We were doing a little bit of remodeling and building renovation. We worked for some property managers and a small number of homeowners. We weren't focused, and without focus we weren't going to be really good at anything."

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Warner saw that his only option was to engineer a massive shift to the previously shunned residential sector. It wouldn't be easy. The area's yellow pages listed hundreds of plumbing and HVAC companies, mostly mom-and-pop operations. Though Warner Corp. is huge, few homeowners had considered its services, so strong was its commercial image.

But Warner knew that the switch could prove lucrative. Commercial-property managers demand discounted labor rates, and many of them supply their own parts, canceling the contractor's opportunity for margin-fattening markups. And commercial accounts receivable often run to 90 or 120 days. Residential work is more profitable. There is no discount on labor, contractors sell parts at a substantial markup, and customers usually pay immediately. But individual jobs are small. So, to keep revenues up, there's an ongoing need for promotion and advertising.

Still, Tom Warner liked his chances. With 18 branch offices in and around Washington and a fleet of some 200 vans, the company was nicely positioned for residential work. Warner's memorable Superplumber TV ads, which first aired in 1990, were establishing the company as the salvation of troubled household plumbing. Sporting a bizarre getup -- red tights, a red cape, and a big yellow *W* on his chest -- Warner has carved out an entertaining, congenial, and trademarked identity for himself. Last January, when he launched an electrical division, Warner filmed new ads, this time with an "Electric Man" alter ego. His ensemble: a silver bodysuit and a homemade helmet with cardboard lightning bolts sticking out of it.

Ads alone, though, don't capture customers. Warner needed to mobilize his mechanics as a sales force -- as emissaries promoting the company and selling furnaces, heat pumps, water purifiers, and service contracts.

But many of them balked. "It's an ego thing. Guys told me, 'We're plumbers, not salespeople,'" recalls [Gary Sherrill](#), a 20-year Warner veteran who manages the branch in [Arlington](#), Va. "That's not just here, it's industrywide. They were uncomfortable selling, especially about talking figures."

Warner's residential base started to grow, but not enough to compensate for the lost commercial work. In the company's fiscal year 1992, which ended in April of that year, revenues totaled \$16.3 million, way shy of 1988 levels. Profits were a dismal 4.3%. To make the market switch successful, Warner began to see, he'd need help.

That summer Warner heard consultant Bill Harrison address a convention. His speech about total quality management (TQM) impressed Warner, who hired Harrison to introduce TQM to the troops. Harrison held advanced degrees in both management and behavioral sciences, and his consulting forte was the building industry. Given the stakes, his \$100 hourly rate seemed reasonable.

For starters, Harrison brought the 18 branch managers together for seven two-hour sessions spread over 14 weeks. "These blue-collar guys don't mince words," Harrison says. "There's very direct communication, no games. They tell you exactly what they're thinking." Along with TQM, he focused on management skills -- effective hiring, accounting, and dealing with diverse personalities. The branch chiefs, mostly

master technicians, were good at technical problems and job estimates but had never been schooled as managers, though they typically had 10 to 20 people under them.

Tom Warner's commitment to the program was complete. He attended every class. And between sessions he visited the branches, where he paid particular attention to the wall charts Harrison had provided for tracking the changing ratio of residential to commercial work. Warner wanted to push the residential side to constitute at least 60% of business. And to keep tabs on trends, he required that each day's sales results be transmitted by computer to him in downtown Washington.

Next Harrison turned his sights on the administrative "inside" managers at each branch. They kept the satellite offices functioning, handling the nitty-gritty of invoices, inventory, phones, and computer work. Their five classes emphasized building corporate conformity.

With its branches geographically dispersed and communication spotty, the organization had a maverick, seat-of-the-pants feel. Each manager ran his branch like a fiefdom. "It was obvious that customers wanted consistency from Warner," Harrison says. "They want to know what to expect -- like going to [McDonald's](#). Part of my role has been to develop 'the Warner way' of doing things."

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The branch chiefs and the inside managers were doing well in their TQM studies, but Warner was still anxious about stagnant sales. As he cast about for a way to stimulate residential sales, he recalled how one of his plumbers had started, by himself, to cover [Reston](#), Va., then an emerging suburb of Washington, in 1968.

"Then I moved to Reston. I'd bring materials he needed to my house every other day, and he'd pick them up," Warner says. "He worked independently for six or seven years. He solved all his complaints and did his own estimates, and if a job was more than he could handle, he'd call for help. Eventually, he was so successful, we put a branch office there.

"When we started in [Baltimore](#)," Warner adds, "I had a mechanic there who never came to our office. He Fed-Exed his work tickets and purchase-order receipts to us twice a week, and it worked fine. If those guys could work independently, why couldn't everybody?"

That October Warner decided to introduce that system on a broad scale. His Harvard experience had taught him to think creatively about solutions. He knew that when he gave employees autonomy he'd relinquish a great deal of control, but he thought the risk was worth it. Thus was born the ATD program.

Warner wasn't sure how to launch it. He knew he wanted experienced Warner plumbers and HVAC technicians, masters, and journeymen who had worked effectively and independently for at least five years. He assembled a dozen mechanics -- willing volunteers and others who were encouraged to volunteer -- and turned them over to Harrison for training. "At first nobody understood what I was talking about," Warner says.

For that pilot group, Harrison crafted a six-session curriculum focused on practical skills -- how to manage time, stock the van, and handle customer complaints. He permeated the curriculum with advice to the mechanics on marketing in their assigned zip codes. "We weren't trying to make them master salespeople but to make them understand that they played a big role in the sales process," Harrison says. "We wanted them to use some ingenuity to build their own businesses."

"Most HVAC technicians and plumbers have a secret desire to start businesses," Warner says. "Usually, they quit and try to take customers with them. I wanted to give my workers a terrific opportunity to make more money here than they could make out on their own -- without a big financial risk."

In Warner's vision, the ATDs would penetrate the residential market by developing the daylight hours out of their territories. Within their zip codes, they could generate referrals, keep customers for years, and develop personal relationships. They'd schedule their own work and do their own estimates. They'd handle their own equipment, craft their own advertising campaigns, do their own sales work, and collect their own receivables.

The company would provide training, trucks, tools, phones, pagers, dispatchers, and an all-night answering service. It would perform such chores as payroll and taxes. Tom Warner, in his Superplumber costume, would shoulder an advertising budget of \$1.2 million a year. And eventually, he'd feature ATDs in TV commercials of their own.

Hearing all that, Harrison was astounded. "Most people at Tom's level don't want to give any autonomy to their employees -- not in the trades, anyway," he says. "His approach was unique."

Harrison himself had no small part in the drive to get the 18 branch managers on board. They were no-nonsense guys, hardened by long exposure to sewer clean-outs, blown boilers, and the odious hunks of slime they'd snaked out of drains. "Our challenge with the branch managers," Harrison says, "was to make it clear that they were going to be coaches more than bosses, leaders more than managers. Their chief mission would be to develop their people -- to give advice and guidance. We were taking them out of the plumbing business and putting them into the people business."

As the magnitude of the change dawned on the managers, some felt threatened. The mechanics, soon-to-be ATDs, it seemed, were taking on most of their duties. Were they being booted out? Warner assuaged their fears. He was, in fact, making all the branch managers vice-presidents. And in addition to their usual salaries of \$1,000 to \$1,400 a week, they'd each be eligible for a bonus of 20% of the pretax profits generated by their respective branches. In a good branch, that could be \$60,000 a year or more.

The key, increasing billable hours, was achievable because Warner had switched from time-based charges to a flat-rate system, also called job quoting. Drawing on years of experience, the company calculated the average time required to complete the most common jobs and set its charges accordingly. Flat rates now allowed for "bonus time," and mechanics who worked faster than average would benefit from their own efficiency.

In 1992 [Paul Mattes](#), an HVAC technician in the [Gaithersburg](#), Md., branch, made \$52,000 -- on the high side of average. Last year, his first as an ATD, he made \$67,000. This year his goal is \$90,000. It's bonus time that makes a jump of that size feasible.

"We're allotted two and a half hours to change a condenser-fan motor, for instance," he explains. "In 23 years I've changed thousands of motors. If I do one in an hour, I still get paid for the allotted time. Then I move straight to my next job. At the end of the day I might have done six jobs in eight hours. But since we now get paid by the job, not by the time it takes to do it, I might get paid for 16 hours. Instead of making \$160 that day, I'd make \$320. We also get 30 minutes of paid travel time between jobs. In these tight zip codes, though, the next job might be just down the street. In

fact, I schedule my appointments based on location. I used to drive 75 miles a day. Now it's about 30.

"That's how you make more in less time," he adds. "About 30% of my income is from bonus time. Under the old system, there was no incentive to work quicker. You got your \$20 an hour or so whether you changed the motor in one hour or four. We're more productive, and the company is more profitable."

Even with all his bonus time, Mattes reports that he has "more time to deal with each problem. I have time to repair. Before, when I ran all over the county, I was more concerned with time and getting to the next job. Now I'm not rushing, and the more time I can take, the more things I can find. Not that I'm looking for them, but I want to do an honest job." Before he became an ATD, his average "ticket" -- representing roughly an hour's work -- was \$177. Now it's \$390.

Indeed, Mattes's equipment sales run 30% higher than they did in his pre-ATD days, and his sales of service contracts are up by 20%. "It's my business," he says. "If I want to prosper, then I'm going to be aggressive."

Mind you, the program didn't unfold without setbacks. Only 14 of the 18 managers made the leap to the new regime. The others still thought of themselves as head plumbers, not coaches. They retired, quit, or were demoted. And 8 of the first 12 ATDs decided the program wasn't for them. They wanted to remain ordinary mechanics. That was OK -- Warner still needed them for commercial jobs.

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To introduce the ATD campaign, Warner mailed out flyers on each new director to every address in each director's zip codes -- well over 100,000 pieces in all. Each flyer featured a color photo of the zip code's ATD and described his experience. There was a general number to call, day or night (1-800-4-HOT-WATER), along with the number of the director's own line.

The quickest way to build a clientele is to sell a \$100 Homeguard service contract. It requires the mechanic to be in the house at least twice a year for routine inspections. So the flyers included a 10%-off coupon for Warner's service contract.

[Andy Kondas](#), an HVAC mechanic in the [Fairfax](#), Va., branch, was among the first ATD volunteers. A self-described workaholic, Kondas likes the compactness of his new territory. But the program's best feature, he says, is that he has his own customers. "Why should there be five different people in a customer's home on five different occasions? Nobody knows what's been done, and the customers never get to know you."

[Mary Jane Sherman](#), one of Kondas's customers, likes the arrangement, too. Warner's Superplumber spots enticed her to call, and now she's a convert. "It's like having a family doctor," she says. "He knows my house and all the quirks of its system."

As he made his rounds one day last April, Kondas was careful to leave "door hangers" at the adjacent houses -- standard procedure for ATDs. Yellow and red, like the Warner trucks, the hangers feature \$10-off coupons and the ATD's business card. The big-type message: "Your Warner neighborhood representative has been helping a neighbor. May we help you?"

It's one of the techniques Kondas has used to build a base of more than 1,000 customers. He also places ads in church bulletins and newsletters for condo associations and civic groups. Most branches budget about \$5,000 for the little ads, which pay big dividends.

Many mechanics hesitated before joining the program. One reason was the two-year noncompete contracts Warner required. "It's a commitment," says [Chris Jones](#), who runs the Gaithersburg branch. "Some people don't want to wear someone else's name for the rest of their lives." But the success of people like Kondas, Mattes, and Inscoe has encouraged others to enlist. Now, every time a dozen or so are ready, Harrison runs them through the training course. The company now has some 80 ATDs, with many zip codes still vacant. Warner expects eventually to have about 200 in the Washington area and 100 more in nearby Baltimore.

Word has spread, and top mechanics clamor to join Warner's organization. "Many days I see competitors' trucks outside while their plumbers are in here trying to get a job," says [Jay Shew](#), vice-president of the plumbing branch in [Kensington](#), Md. "Of 25 that apply, I might hire one."

Last spring, for the first time, Warner ordered his new vice-presidents to submit annual business plans, with hard-nosed revenue projections. He has expected everyone to be as creative as necessary to attain targets. And already good ideas have bubbled up from below.

One branch chief, in a major departure from industry tradition, had decided to stay open until 8 p.m. and still charge customers regular, not overtime, rates. The feature proved so popular that Warner expanded it to all 18 branches. And now they're open on Saturdays, too.

"I was not real enthused, but we stuck with it," says [Jim Parker](#), who runs the plumbing branch in Reston. "By last October 46% of my homeowner jobs were being serviced in these evening hours and on Saturdays. People hate taking off from work to wait around for the plumber. It's been a big weapon for us in gaining market share."

"Two or three years ago," Warner says, "I had to think of everything, and people just waited for me. Now our people come up with their own ideas, and I'm cheering more than leading."

He's got plenty to cheer about. In his fiscal year 1993, which ended on April 30 of that year, the company registered revenues of \$15.6 million, with after-tax earnings of \$544,000 -- a margin of roughly 3.5%. In fiscal 1994, as the ATD program got under way, revenues jumped to \$20.3 million, with net income at \$1.3 million -- a margin of about 8.3%.

Sitting in his headquarters office in Washington, Warner flips through the projections submitted by his branch chiefs. "If they are right, and I think these numbers are real, we'll do just over \$31 million this year, with a profit of \$4.8 million. I used to worry and sweat and stay up nights trying to figure out how to make things work," he says. "Now it's coming to me on a silver platter. For the first time in my life, I don't have to worry about making the phones ring."

"This thing is really taking off now. I just wish I'd done it sooner."

BY THE NUMBERS

Fiscal year (ending April 30) '88 '89 '90 '91 '92 '93 '94 '95*

Sales (in millions) \$19.8 \$15.8 \$15.5 \$14.6 \$16.3 \$15.6 \$20.3 \$31.0

Margin 0% -4% -3.9% 1.4% 4.3% 3.5% 8.3% 15.5%

Percentage of residential work 15% 30% 35% 35% 40% 50% 60% 70%

Percentage of commercial work 85% 70% 65% 65% 60% 50% 40% 30%

*estimate