

**The Truth about
Performance Based Pay for
HVAC Field Personnel**

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Why We Should Change

- Pay field personnel more monies today to work slower.
- Many workers won't go to training because training makes them more efficient, they work faster and make less money.
- Can't attract the 97% of field personnel in our community that do not work for us.
- Need to encourage students to enter a field where installers make \$40,000/yr and technicians make \$60,000/yr.
- Take the ceiling off of wages so great workers can increase their pay and poor workers make less or become more productive.

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Performance Pay Basics

Performance based pay is based on the principles of a standard, and when the standard is surpassed pay is increased, and when the standard is not met, pay decreases. The system requires discipline.

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1. Performance = accountability
 2. Accountability = measurements
 3. Measurements = management
 4. Management = leadership
 5. Leadership = direction and focus

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Performance Based Pay:

Salary, commission, piece-rate, or some other basis paid for a job based on a prescribed plan to fulfill an obligation or requirement.

U. S. Department of Labor

<http://www.dol.gov/esa/regs/compliance/whd/hrg.htm>



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Federal and State Labor Standards

(State requirements may vary)

$$\frac{\text{Total Compensation for the pay period}}{\text{Total hours worked in the pay period}} = \text{Average hourly rate of pay for the period}$$

- Total Compensation for the pay period divided by total hours worked in the pay period equals average hourly rate of pay for the period.
- Total Compensation includes all wages, bonuses, commissions, spiffs, etc. which are subject to payroll taxes.

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Federal and State Labor Standards

(State requirements may vary)

- *Total Compensation* for the pay period divided by total hours worked in the pay period equals average hourly rate of pay for the period.
- Total hours worked must be less than or equal to 40 hours. If hours are more than 40, then you must pay overtime.
- Hourly rate of pay must be equal to or greater than minimum wage.

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Example Compensations

Total Comp=\$1000
• 40 Hours Worked
• $\$1000/40=\$25/\text{hr}$
• \$25 is > min wage
• No overtime worked
• Total Comp of \$1000 is correct



Total Comp = \$1000
• 50 Hours Worked
• $\$1000/50 = \$20/\text{hr}$
• \$20 is > min wage
• 10 overtime hours Worked so must pay an additional 10hrs OT X 1/2 (\$20/hr) = \$100



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Managing Payroll

- Pay all performance-based personnel a minimum amount per week or performance based pay whichever is greater. Set up these co-workers in payroll with the minimum amount then bonus them the difference if they earn more through performance pay. Pay OT if appropriate.
- Do you use the average hourly pay or normal hourly pay for overtime pay allocation if a worker has worked OT for the period??

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Transition to Performance Pay

Transitioning to performance based pay from an hourly system of pay requires some leadership and planning to take place.

1. Determine repeatability within guidelines
2. Answer these questions:
 - A. Is task based pay good for the customer?
 - B. Is task based pay good for the co-worker?
 - C. Is task based pay good for the company?
3. For service - Are you going to use a 1 man, or 2 man crew?
4. Develop a "Perfect Service Call" procedure.
5. For install - Are you going to use a 1 man, or 2 man crew? Quality Guidelines.
6. Begin performance based pay with key installers/service first - run concurrent accounting - protect pay for 1-30 days
7. Review the hours (pay) for each service flat rate task and install job
8. Meet with installers, technicians & bookkeeping - train on paperwork
9. Meet with install/service weekly for the first month - and monthly for 6 months to review, critique, & adjust
10. Review and update the tasks when needed

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The Service Department

Before any Performance Based Pay can be developed, a measurement system must be in place to track travel time, unbillable and billable hours.



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Tip



Dispatch all technicians from their homes to increase billable time per day. Use fax machines, computers, or phones. Use phones to check in/out and de-brief.

- Use Computers to Dispatch
- Use Invoices to Measure
- Track Time In/Out & Travel
- Keep Time Cards?

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Invoicing in the Field

- Always issue invoices in the field on any and all repairs or visits. All invoices are billed to someone. You can have the technician track time arrived and time departed, equipment and repair information, parts used, warranty issued, total due from customer, etc. Issue numerical invoices.
- Don't let the technician wait until later to fill out the invoice. Information will be lost, sales revenue lost and no debriefing will occur.

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Tracking Field Time

- Install GPS on all field trucks to track location and movement of trucks.
- Track time dispatched, time arrived, time on the job, time completed, etc. You need to know travel time, repair billable time and un-billable time.
- Technicians check in and out with office when they change locations.

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Tip



Go to Flat Rate Pricing. You can make more \$, your technicians can bill more time, PBP easy to measure. Want 75% GM for service labor sales.

Regular Service

\$70 Service Call Includes:

- Travel
- 30 Minutes in home to diagnose & repair

Plus • \$70/hour after 1st 30 minutes + parts

Flat Rate Service

\$59.95 Diagnostic Charge Includes

- Travel
- Time in home to diagnose

Plus • Repair charge at \$120/FRH
Plus Parts Charges

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Performance Based Pay



Pay technicians on performance based pay using FRH's (Flat Rate Hours).

Normal Pay: (Regardless of billed time)

\$20/hr x 40 hrs/wk = \$800/wk/regular

Flat Rate Pay:

Increase Normal Hourly Wage 20-30%

EXAMPLES:

\$20.00 + 25% = \$25.00/FRH

\$25/FRH x 35 hrs billed =

\$875/wk/FRH

\$25/FRH x 40 hrs billed =

\$1000/wk/FRH

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Service Compensation



- Technician gets 1.0 FRH for a service call to cover travel and diagnosing the problem
- Technician also gets the time of any repair as given by the flat rate book. 60 min equals 1.0 FRH
- Multiple repairs accumulate FRH's
- After hour visits receive 2.0 FRH's for a service call and 1.5 times repair times in the flat rate book for the repair

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Compensation Strategy



- Technician earns \$1200 in week 1 through performance pay, even though his guaranteed pay is \$800 in week 1. His time card says 48 hours.
- Total Compensation, divided by \$1200 hours worked, 48, equals hourly rate for week of \$25/hr. 8 hours of overtime at one-half of \$25/hr is \$100. Total pay is: \$1200+\$100=\$1300 for week 1

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Call Backs

- **What is a call back?**
- **Why a call back bank?**
- **Who goes on a call back?**
- **What are the rewards?**
- **What are the penalties?**



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What is a Call Back?

A call back is defined as a second visit to a home or office for apparently the same problem as the previous visit. However, when the technician returns to the office with the invoice, THE technician BRINGS BACK NO MONEY. Invoices with money have Flat Rate Hour value of \$25/FRH, invoices with no money have Call Back Hour value = \$0.

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Why A Call Back Bank

- A Call Back Bank is like a savings account. Each owner puts one call back hour (CBH) into the bank for each week a technician works. Theoretically, each bank will accumulate, from the owner, 52 CBH's for working 52 weeks.
- A technician can gain or lose CBH's from his bank during the year.

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Who Goes on a Call Back?

- The technician who went on the first service call should go back for the apparent call back. A call back is not defined by the customer nor the office, but at a joint meeting between the technician and the customer at the unit. Only send another technician when the original technician is not available.

What are the Rewards?

- Technicians will be able to convert any hours in their Call Back Bank to Flat Rate Hours the first payday of December to clear their bank. Call Back hours throughout the year have a value of \$0, but Flat Rate Hours have a value of \$25.
- Technicians who go on call backs for other technicians gain call back hours.

What are the Penalties?

- Technicians who bring back invoices with no money, indicating a call back because the invoice cannot be billed to warranty, extended warranty or the customer, lose the value of the call in Call Back Hours which have a value of \$0.
- If someone else performs the call back for the technician, the technician loses the Call Back Hours.



Tip

Installation Department

You must have some idea of what you have estimated for the install or replacement; whether you are using one or two person crews; and how much you expect to pay.

Also, you must be able to compare time on task and time on time cards.

Use performance based pay per job, per crew of two. Do not discuss hours to do the job, only compensation earned when completed. Cover hourly and overtime pay and use a call back bank.

Examples for HVAC/Plumbing Change Outs

C/O 80% Furnace + A/C	=	\$360
C/O 90% Furnace + A/C	=	\$400
C/O 80% Furnace Only	=	\$225
C/O 90% Furnace Only	=	\$275
C/O Boiler	=	\$275
C/O A/C System	=	\$200
C/O A/C Condenser Only	=	\$150
C/O W/H, Humid, Air Cleaner	=	\$75
C/O Rooftop Unit + Curb	=	\$375
Add for Attic/Crawl Space	=	\$50
Fabricate, Insulate, Hang Duct	=	\$3/ft

Replacement Duct Systems

- 2-2.5 ton Duct Systems = \$650
- 3-3.5 ton Duct Systems = \$850
- 4-5.0 ton Duct Sytems = \$1100

New Construction

- Supply and Return Openings = \$3 ea
- Run B vent, flash, and Cap = \$35.00
- Hang Ductwork, supply and return = \$6/ft
- Supply Pipe, damper and boot = \$5 run
- Set Furnace with Plenum = \$65.00
- Set A/C on pad, level, check = \$65.00
- Refrigerant Line Set = \$30.00
- Registers and Grills = \$3 ea
- Start-Up = \$17 ea

Installer Compensation

- Two installers: A and B. A earning \$15 per hour and B earning \$10 per hour. Total for crew is \$25 per hour. A earns \$15/\$25 or 60% of monies and B earns \$10/\$25 or 40% of monies.
- Pay them per job, as estimated, and split as a per cent of compensation or
- Pay them as per a compensation chart
- Use call back bank

Implementation of PBP

- Determine timing of implementation.
- Plan for implementation—60 to 90 days
- Measurement for productivity
- Policies for PBP
- Introduce Concept of PBP
- Review task times and labor hours
- Run concurrent pay plans for 60-90 days
- Develop training for those who do not meet standards
- Set Final deadlines for PBP
- Weekly meetings with production/service team
- Preserve callback system
- Establish an employee review council to review PBP issues

Policies of PBP

- Guideline policy for the piece rate system
- Base labor rate to be paid
- Standards used to increase base pay
- Callback policies
- Develop a zero tolerance of honesty, integrity and customer service policy
- Develop new time ticket and OT calculation

Thanks For Coming!

Presented by
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