

# HVAC DISTRIBUTOR ENGAGEMENT: MERCURY THERMOSTAT COMPLIANCE

*By Ryan L. Kiscaden*

## The Challenge: not All HVAC Wholesalers Are Created Equal When It Comes to Mercury Thermostat Recycling

Thermostat Recycling Corporation (TRC), founded in 1998, is the national stewardship program for mercury thermostats. It is financially supported by 30 manufacturers who historically branded and sold mercury thermostats in the United States. Since its inception, TRC has built a network of more than 3,600 collection locations and has recovered more than 1.9 million thermostats (over 9 tons of mercury). In 2014, 80% of the recovered thermostats came from collection points at HVAC wholesale distributor branch locations.

To understand how the TRC works, it is necessary to understand the HVAC equipment distribution channel. Manufacturers rarely, if ever, sell HVAC equipment including thermostats, directly to HVAC contractors or others that install and repair heating and cooling systems. Rather manufacturers rely on wholesale distributors to sell their products through two step distribution. TRC's program reverses this system. HVAC technicians remove mercury thermostats from service and return them to distributors participating in the TRC program.



The distributors then return the thermostats to TRC using the recycling containers provided by the program. As upwards of 90% of thermostats are sold through wholesale distributors, it is understandable the critical importance of distributors to the program's success. However, not all distributors are alike. There is significant diversity among HVAC distributors and it is important to recognize the unique attributes of the program's most successful collection partners.

TRC has identified four common attributes of distributors operating the most productive collection sites.

1. The distributor primarily sells to contractors and technicians servicing and repairing residential and light commercial HVAC equipment.
2. The distributor has a high frequency of over the counter transactions, meaning there is significant foot traffic at the collection location.
3. The TRC program is visible at the collection location.
4. Staff at the branch are trained on the program and are held accountable for the program's implementation and success. This includes training counter and sales staff to promote the program and assigning staff to monitor the container and arrange for transport when necessary.

## ATTRIBUTE #1: RESIDENTIAL / LIGHT COMMERCIAL SERVICE AND REPAIR MARKET

The first attribute of success is market specialization. Most HVAC wholesalers identify their core business as plumbing, bathroom/kitchen fixtures, HVAC, or refrigeration sales. Some focus entirely on one market segment while others attempt to sell to all four. In terms of volume, the most successful thermostat collectors are HVAC distributors that primarily sell to contractors specializing in residential and light HVAC equipment repair and replacement or as a recent HARDI commissioned study classified them; either “owner-operators or professional dealers.” (Diest and Marks, 2015) Wholesalers who sell to contractors involved in the service and repair (commercial or residential industries) can reasonably determine the volume of mercury thermostats that are recovered.

The reason is simple. Mercury thermostats most likely remain in older buildings (no major manufacturer has sold a mercury thermostat in the US since 2008) with HVAC equipment needing repair. Mercury thermostats being replaced today were primarily installed in the mid to late 1990’s. Additionally, mercury thermostats are typically not replaced due to failure. Mechanical thermostats have a functional life of upwards of 35 years. Rather, HVAC system replacement typically leads to the installation of a new thermostat or a customer seeks to upgrade to an electronic programmable or smart thermostat. As such, contractors specializing in residential and light HVAC equipment repair replace most systems that include mercury thermostats.

## ATTRIBUTE #2: HIGH PERCENTAGE OF COUNTER SALES

The second attribute of successful distributor collection site engagement is high volume of foot traffic at the location. Most sales are either over-the-counter (e.g. in the store) or delivered business. The split between the two varies due to regional market variation, the wholesaler’s selection of products, and the degree the distributor relies on delivery as a market differentiator. In the HARDI study, “Myth’s and Misperceptions”, it was reported that the distributor employee resource allocation for customer facing employees is 39% with the remaining percentages split between operations and support at 34% and 26% respectively. (Diest and Marks, 2015) Without a high volume of counter sales, TRC reverse distribution model doesn’t work as effectively. This is why the frequency of foot traffic is so vital to the success of TRC’s program.

The reason distributors with counter sales perform better than distributors that rely on delivery boils down to convenience and awareness. Walk in customers are more likely to see the program and be reminded of its availability. On the other hand, distributors who have higher delivery sales than customer pick-ups have few avenues to display the program and are unlikely to talk about thermostat recycling to customers during a delivery.

## ATTRIBUTE #3: VISIBILITY AT THE BRANCH

Awareness drives participation. And awareness comes from visibility. Many times the contractor will start the day at the HVAC wholesaler purchasing their supplies necessary for the day’s work. They are less inclined to have pre-purchased inventory due to helping ease the accounting for pricing of the job, available capacity of space in their shop or van, or because of the costs of carrying unused inventory is high. Moreover, these contractors may be in the branch multiple time a day, every day as some jobs required additional unforeseen material. Visibility of the program stimulates awareness and acts as a constant reminder of the need to recycle mercury thermostats and the availability of the program at the location.



Additionally, most contractors want to minimize their time at distributors and seek to minimize transaction times. This limits opportunities to promote the program during interactions with their customers. Only 3% of customers come to the HVAC counters with an open ended question. (Diest and Marks, 2015) Most cases, they are looking for solutions to specific job related problems and not unsolicited and irrelevant advice. Because of this, TRC developed branded merchandise displays for its recycling containers. The colorful branding catches attention and raises the bin off the ground for easier access. The largest five HVAC wholesalers using the TRC display (Johnstone Supply, R.E. Michel, CC Dickson, Gustave Larson, and USACD) collectively have seen a 25% increase in pounds of mercury recovered and a 45% increase in frequency of TRC bin returns compared to the same period a year ago. The brand power of TRC is limited to how effectively the contractor retains the programs availability. The recognition of TRC can be enhanced alongside the brand strength of supportive, like-minded HVAC distributors by using these displays.

## ATTRIBUTE #4: ENGAGING EMPLOYEES

It is essential the program is integrated into the branch location operations, a single staff person is assigned responsibility for the program at the location and other staff are aware able to provide guidance to their customers on the program's availability at the location.

Many wholesale distributors give their branch managers significant autonomy over the operation of the branch location. Programs like TRC aren't formally integrated into the distributor's operations and often times the TRC program is considered discretionary even where it is required by law. As such, it's typical for TRC to find there is no one in charge of the program which affects both the continuity of collections and the timeliness of bin returns. To maximize collections there must be a commitment to the program from the top down. TRC's program is financially beneficial to branch operations. Employees understand that complying with the program is important because the fines for non-compliance will come out of **THEIR** bottom line. It needs to be stressed that a recycling bin is only \$25 while fines for not having a recycling bin can escalate up to \$25,000. Not only does non-compliance effect their bottom line, but compliance can affect the HVAC distributor's top line as well. Having employees understand that the program will create a competitive advantage and can be marketed to improve branch sales, particularly in their controls category helps to engage employees.

## CONCLUSION

Not all HVAC distributors are created alike. State law requires all HVAC distributors to participate but doesn't mean that they engage to collect these devices with the same vigor. When you dissect the successful HVAC distributor attributes, you discover that collection effectiveness is increased when these attributes align. To improve outcomes, one must look for attributes 1 and 2 and then engage those distributors to ensure visibility and accountability. It is important to distinguish between distributors with high thermostat return potential and distributors with low thermostat return potential. Distributors differ across specializations and methods of issuing goods, and ultimately those HVAC wholesalers who closely reflect these attributes are going to have success collecting thermostats. This business is about defending share and not creating demand. Anything that doesn't enhance the ability to retain customers is viewed as a non-necessity.

TRC operates as a non-profit which means that resource allocation is a reality. Targeting those HVAC distributors that demonstrate the first two attributes is productive for scarce resources. The focus of the program is both on distributors that have large amounts of share and also those whom TRC can reasonable influence. Because of this, TRC continues to look at ways to drive the returns to the collection site by directly engaging the HVAC distributors with the potential for the highest

return and not every HVAC distributor. The last two attributes of success; program visibility and employee engagement remain influential to collections but if a distributor does not deal in HVAC equipment replacement / repair or has a high frequency of counter traffic, it is unlikely they will encounter mercury thermostats. Therefore, they are not an efficient allocation of TRC's time and resources. TRC keeps this in mind as it continues innovating for maximization of mercury thermostat collections.

As our collection strategy evolves, it remains increasingly important to pursue the generator of the waste. Residential and light commercial HVAC service and repair contractors are still the most important actor to engage as they are the ones largely producing mercury thermostat waste. Regardless of how alike the wholesalers are, these attributes of HVAC wholesaler engagement are futile without the HVAC contractor's participation. The HVAC distributor is not the problem but the HVAC contractor's continued participation is.

---

#### **SOURCES CITED**

Diest, Steve and Marks Michael. *Myths and Misperceptions; How Markets Are Really Made in HVACR*. HARDI Foundation. February 3<sup>rd</sup>, 2015.