



## PRIVATE EQUITY PERFORMANCE IMPROVEMENT

# Trading Up: PE Firms Have Been Investing Heavily in Trade Services, Now the Question Is How To Grow Them

Private Equity (PE) firms have been very aggressive recently in trade companies, with over 890 PE deals completed in these “ho-hum” sectors since 2021. HVAC has been particularly a hot space with over 620 deals.

This hunger for trade companies was featured by Te-Ping Chen, a front-page Wall Street Journal author, in October.<sup>1</sup> In the article, Chen wrote, “PE firms across the country have been scooping up home services like HVAC as well as plumbing and electrical companies [Trades]. They hope to profit by running larger, more profitable operations.”

Now that PE firms are more invested in the Trades, they face the challenge of professionalizing these businesses and accelerating EBITDA growth. In this space, larger does not necessarily mean more profitable. In fact, if PEs get it wrong, larger can be a disadvantage.

A&M's experience shows that there are key topics PE firms need to get right both in professionalizing the business and accelerating EBITDA growth that are critical to the Trades but that often don't get addressed. This article outlines the key themes to get right to ensure profitability as Trade businesses get larger.



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<sup>1</sup> [America's Newest Class of Millionaires: Plumbers and HVAC Entrepreneurs – WSJ](#)



## Professionalize to Build Scale Profitably



### People

HVAC businesses and most other Trades are labor-intensive businesses with a distributed workforce. As such, professionalization should start with people.



### Top Technicians

The Trade's technician golden rule is as follows — “As the best techs do, so does the rest of the employee base.”

Technicians are the core of Trade businesses as they build customer relationships, are responsible for service quality, can be the best salesforce and are difficult to replace due to the required skill level. Retaining and building the best technicians should be a priority to creating a professional, scalable foundation. Most importantly, top technicians leaving the business can become the toughest competitors.

Retention programs for top technicians often include elements just as important as compensation, such as:

- 1) Paid drive time to first dispatch location;
- 2) A ‘minimum’ hour guarantee;
- 3) Vehicle type; and
- 4) Allocation of specific work types or job routes.



### Leadership Stability

Trade businesses are most often built and owned by entrepreneurs, and PE firms tend to retain the previous owner after the acquisition to prevent the loss of native knowledge, maintain customer relationships and retain the loyalty of key technicians.

However, previous owners tend to become less invested in EBITDA growth after the acquisition and can actually block change. Because of this, a relatively quick transition is typically preferred.

Success during this transition period depends on solidifying leadership during the early post-acquisition stages. Often, an interim leader is required to run the business while executing the early leadership roadmap moves.

Managing both top technicians and leadership stability drives EBITDA growth and builds the foundation for professionalization, but it's just the first of the three keys PE firms should be focused on when growing Trade businesses.

## Operating Model

Successful PE firms pay particularly close attention to the Trade business' operating model as they build the platform with more acquisitions.



### Profit Drivers

Effective operating models start with the elements of the business that drive profitability. Trade businesses can appear to be simple, but many get it wrong. Others are profitable when small but lose EBITDA on a percentage basis when they grow.

Some common pitfalls faced by PEs that have made acquisitions in the Trades include:

- Many Trade businesses do not have a robust process of managing the service hours to billing to collections.
- In some cases, management teams implement a standard inventory mix for all branch needs rather than having individual branches that excel in customer segmentation and drive on-time delivery of the highest likely products.
- When labor shortages have been an issue, management teams have often required recruiting only be run by their branches rather than augmenting recruiting, onboarding and training with regional resources.
- Centralized and offshored call centers have led to customer dissatisfaction, resulting in a significant loss of volume.

Recent HVAC project results suggest that PE firms need focus on a few key items when preparing Trades operating models for growth:

- Set standard GM targets across branches by install versus repair;
- Build a process to assign the right techs to jobs to optimize upsell; and
- Evolve the call center to also become a sales center.



### Corporate

When PE firms roll up trade companies and scale their operations, a layer — or sometimes more — of middle management is frequently added to oversee branches, centralize services and act as a go-between for executives to the frontline without a focus on building a lean operating model. These added costs often have the opposite effect, adding costs, keeping executives further from the frontline and alienating customers with slower issue resolutions, with size becoming a disadvantage. The priority for corporates to build a lean structure should be consolidating operating and financial datasets to ensure the business operates based on metrics. This requires a clear vision for the IT stack and reporting simplicity.



### Branches

Each acquisition comes with its own branch-level operating models, which include dispatching, procedures and customer interactions. Some platform companies keep the original operating models rather than transitioning to a new common operating model, but this increasing complexity can quickly become a significant operational issue as the business grows. A more successful method is to transition branch-level operating procedures to the common core standard operating procedure as soon as practical post-acquisition.

Profitable HVAC roll-up platforms keep a relentless focus on profit drivers, develop the leanest and most effective overhead support structures and bring on add-ons to their branch operating models that support growth and drive profitability.





## EBITDA Ownership

EBITDA ownership can become unclear and hence less managed as Trade businesses grow. Below are a few examples of common pitfalls:



### Frontline Focus

An entrepreneur with three branches can easily directly manage the profitability of each branch and service. However, a business with 40 or 400 branches often loses visibility to each branch and the service ownership mentality. Branch managers should utilize the corporate's operating model while maintaining the local actions needed to build their own branch's EBITDA.



### Standard Network Pricing by Service Line with Local Input

Pricing often becomes centralized with less consideration for local competitive pricing, discount and promotion dynamics. This can lead to pricing becoming more static across the seasons and failing to account for new competitive local discounting or pricing. A strong balance of corporate pricing models with local input is best to ensure strong pricing.









### Robust Playbook and Execution Discipline

Successful Trade businesses have both strong playbooks and execution discipline. Many businesses have neither or they are insufficient to support EBITDA growth. A "playbook" is a set of standard operating procedures that the technicians and frontline supervisors follow while "execution" is when the technicians and frontline supervisors consistently follow the procedures exactly. It's much easier to add onto the portfolio company's platform successfully if the platform has the right playbook foundation, but it's a long runway to EBITDA growth if the portfolio company doesn't execute well. A telltale sign of these issues is the business's variation in operating factors of processes and people. Though it is simple to analyze, it is difficult to fix.

## Accelerate growth through AI applications for HVAC Businesses

Trades are starting to adopt AI for both the back-office functions and the main commercial and operational areas to resolve the typical pain points, and trend The Wall Street Journal highlighted in a recent article.<sup>1</sup> While AI and large language models (LLMs) have a multitude of uses, here is a select set of AI applications for HVAC, covering both commercial and operations.

Typical HVAC Pain Points	AI Application	Potential Tools
 Price optimization and dynamic seasonal pricing	AI-driven analytics and automation can detect pricing inconsistencies, prevent revenue leakage and enable real-time dynamic pricing decisions.	Microsoft Power BI + Azure Machine Learning Tableau + Einstein AI (Salesforce)
	LLM-based analysis of sales trends, competitor pricing and workforce data can optimize seasonal pricing, ad spend and demand planning.	Gemini, Perplexity, Claude, Grok 2
 Customer service call analysis	AI has the ability to process call transcripts, categorize issues and quantify impacts to enable systematic resolution of customer service challenges.	ChatGPT, Gemini, Perplexity, Claude, Grok 2
 Margin management visibility by service and branch	LLM-driven analysis of cost data and market trends can be used to identify unprofitable services or locations and dynamically adjust pricing protocols for margin improvement.	
 Tech productivity and utilization	AI-driven analytics provide real-time visibility into technician performance, enabling supervisors to optimize productivity and enforce operational discipline.	Splunk, Asana Work Graph
 Route optimization and job scheduling	AI-driven scheduling systems optimize job assignments based on geography, priority and technician skills, minimizing travel time and enhancing efficiency.	ServiceMax, OptimoRoute
 Cash cycle, job completion, invoicing and collections by job	AI automates data entry, intelligent invoicing and predictive collections to accelerate the order-to-cash process and improve accuracy.	HighRadius, Bill.com

Though AI and LLM-based tools can provide many benefits, Trade businesses should adopt them with cautious optimism using a 'crawl, walk, run' roadmap.

<sup>1</sup> Now Wanted in Silicon Valley: Ho-Hum Businesses With Thin Profit Margins - WSJ

## The Path Forward: How PEs Can Scale Trade Businesses

PE firms have been scooping up Trade businesses with the investment thesis to grow them larger and more profitable. However, a larger platform size does not necessarily drive profitability percentage. Now that PE firms are more invested in the Trades, their challenge has been knowing how specifically to **professionalize** the businesses and then how to **accelerate** EBITDA growth.

Three key topics that should be addressed, especially in Trades, to **professionalize** the business are: people, operating models and clear EBITDA ownership.

AI is providing Trade businesses with a new and significant opportunity to **accelerate** EBITDA growth by addressing long-time commercial and operational pain points that are difficult to address without AI. Early adoption of a 'crawl, walk, run' roadmap will serve businesses well when integrating new technologies into these traditionally 'ho-hum' industries.

## How A&M is Helping Clients Apply This Guide

Implementing these takeaways greatly increases the odds for success and program sustainability. PE firms have a significant amount of investment in the business service sector and especially in the Trades, with over 50 percent of Alvarez & Marsal's top PE clients housing service and Trade businesses in their portfolios. As such, A&M's Private Equity Business Services group has deep, hands-on experience supporting PE firms with Trade businesses both pre- and post-acquisition.

Utilizing third-party support to guide the transition of change programs greatly increases the Trade business's value, adoption and sustainability while reducing the time to impact EBITDA and any risk or disruption to the ongoing business.

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