

## Should HVAC contractors use a group purchasing program?



Minimizing costs is critical to any HVAC business model, and supplier discounts help keep costs low when purchasing the parts and supplies that your business needs. But how do HVAC contractors secure the best discounts for their business?

### Executive Summary

The HVAC contracting business can be lucrative, expected to total [\\$368 billion by 2030](#). But it is also very competitive with over 105,000 HVAC companies in the U.S.

With so much competition, HVAC contractors need any edge they can get, and getting substantial supplier discounts on essential parts, supplies, and equipment can make a big difference on a balance sheet. The two most common ways to get those discounts are by undertaking individual negotiations with each supplier or by becoming a part of a group purchasing program (GPP). Read on to learn more about these two options.

### The basics of group purchasing programs

By definition, a GPP is a program where many buyers of the same or similar products band together as a group to negotiate better pricing from suppliers using their combined purchasing power. By leveraging this power, participants can often obtain deeper discounts collectively than individually.

GPPs originated with healthcare Group Purchasing Organizations (GPOs) in the early 1900s. Since that time, the concept has expanded to other vertical industries, such as software-based GPPs, which have recently emerged as powerful, productive entities.

Additionally, many GPPs offer services and tools, including digital purchasing platforms, that are less formal than GPOs, but they have advantages in speed and reach a wider audience. GPP's are also not as limited as a classic GPO and may include more companies or different types of companies in one buying group.

### Supplier discounts and your bottom line

The HVAC contracting business can be profitable year-round, but it requires skilled financial management to accomplish, primarily due to [HVAC Contractors' profit margins](#) being volatile, largely due to high labor costs.

Because of this, most contractors' gross profit margins on equipment and supplies are approximately 45% higher than they are for labor, making up a large portion of your overall profit margins. Add in supplier discounts and that number can increase even more, making supplier discounts critical to an HVAC contractor's bottom line.

### The disadvantages of negotiating with suppliers individually

Negotiating these discounts can be accomplished without the help of a third party; however, there are several challenges to consider. Negotiating with suppliers by yourself is very time-consuming. Each negotiation is a one-off and requires contacting the supplier and building a strong case. There will likely be a lengthy dialogue consisting of a series of offers and counter-offers before hopefully settling on a number that you and your supplier can live with.

Additionally, you will have to periodically redo this process as contracts expire and circumstances change. Since we all know that time is money, this process makes it debatable whether or not any discounts you obtain are truly cost-effective when compared to the time and money required.

You can imagine what a time drain that is if you have to repeat this process with each supplier, especially if you have a long list of suppliers you purchase from. If you have multiple suppliers, you could spend weeks or even months of your time in negotiations.

**Negotiating discounts with suppliers is #1 way to enhance your bottom line**

**17.7%** of builds reported a net profit margin of 10 to 15% in 2023. For more than half, the net profit margin is under 10%.

**The category with the highest profit margin?**  
EQUIPMENT & SUPPLIES  
**45% higher** than labor

Save time & money with a group purchasing program that puts your bottom line first with Raiven!

**SUPPLIER DISCOUNTS**

Individual negotiations	VS	Group purchasing programs
⊗ Can be time consuming		✓ Save you time (a third-party handles negotiations)
⊗ Require building a strong case with each supplier		✓ Gain leverage by buying a wide range of products in high volumes
⊗ Have to be negotiated again when contracts expire		✓ Are a priority for suppliers due to volume
⊗ Aren't a priority for suppliers		✓ Have purchasing patterns suppliers can forecast

It is also very difficult to compete with other businesses involved with GPP's, as their combined purchasing power can be very persuasive. Businesses negotiating together have built-in advantages that

are often difficult to overcome. For starters, suppliers have limited time as well and would rather negotiate with an entire group than an individual contractor.

### **Group purchasing advantages**

GPPs have built-in leverage over suppliers due to them buying a wider range of products in higher volumes. This encourages suppliers to be more lenient in the negotiation process as GPP's can promise them a larger steadier source of revenue than an individual business.

### **Group purchasing power vs. supplier margins**

Like all businesses, suppliers are protective of their profit margins, and discounts hurt these margins. However, since groups buy more, these discounts can be offered due to groups buying in larger volumes.

As a general rule, suppliers typically do not mind smaller margins if they make it up in revenue. They are more willing to offer the best discounts to those wielding the most purchasing power.

### **Groups more easily demand supplier attention**

Suppliers have limited time as well, so negotiating with each contractor may not be something they want to do. A GPP can more easily get a supplier's attention because it can promise a lot of revenue through only one negotiation process.

GPPs also help suppliers manage their supply chains and forecast needed inventory levels. A GPP's buying history is more predictable due to the larger pool of purchasing data at their disposal. Based on that history, suppliers can forecast sales more comfortably and offer larger discounts.

### **Group purchasing helps leverage your precious time**

When you are running a business, there are never enough hours in a day. Time spent negotiating with suppliers might be better used elsewhere.

Chasing discounts from multiple suppliers is time-consuming, and the more suppliers you have, the more time it takes. Even if one has the time to undertake this process, given the advantages of GPPs, your discounts are still likely to be lower and, therefore, may not be worth the effort.

### **Raiven's group purchasing power saves you time and money**

While there are many GPP's out there, Raiven is one of the few solely focused on contractors and facility managers; thereby, offering some of the best services and discounts for contractors. By partnering with Raiven, you not only get better discounts on the parts and supplies that contractors buy the most, but you also get to save time you would have spent negotiating with each of your suppliers thanks to their numerous partnerships with industry-leading distributors and manufacturers. Our [Raiven contractor platform](#) is the HVAC contractor's go-to source for group purchasing power, and it provides automated procurement, the best discounts anywhere on supplies and equipment, as well as supply chain management tools to optimize your business' purchasing and procurement processes. [Contact us](#) today for more information or a demo.