A CYGNUS PUBLICATION

# YARD & GARDEN

THE POWER EQUIPMENT DEALER'S SOURCE FOR MANAGEMENT, MARKETING, AND MERCHANDISING

# Dealer Survival Guide

volume 1

A supplement to Yard & Garden magazine

## Business Planning and Financial Management

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## Noël Brown, editor

Survival. For many independent servicing dealers, that's what it has come down to ... survival. This Guide addresses the most basic — and yet most sophisticated

— elements to running a successful business: business planning and financial management. They are basic, because everything else is built on the foundation you set for your business. If you've got a good business plan and a detailed budget — that's your solid foundation on which to build a solid, successful business.

They are sophisticated, however, because of the degree of knowledge needed to execute comprehensive business plans and budgets.

That's where we come in. In no way can we be your only resource to provide the "how-tos" on these topics, but we try very hard to be a valuable one. Here we have put together a collection of articles to help you lay the right foundation and build the kind of business you want ... NEED to survive.

Let's master survival today, so you can get to the profit, growth, success and, ultimately, the business owner satisfaction of tomorrow.

## Daniel G. Newman, publisher

Welcome to the first of three volumes of the *Yard & Garden* Dealer Survival Guide. We have always provided editorial aimed at making dealers more successful. Most recently we have been providing

information intended to help you survive in the marketplace today. The Guide is a compendium of what we consider the best and most useful information of the last several years. The Guide is intended to be a convenient reference for operating your business.

Producing and mailing over 20,000 copies of the Guide is an expensive proposition and would not be possible without the sponsorship of Grasshopper, Stihl and Ariens. These companies are committed to dealers and are committed to your survival. They have demonstrated this in a most convincing way: with money. They have invested in your future by providing this Guide for your use. Perhaps you can find a similar way to show your appreciation. We hope you find the Dealer Survival Guide useful.

# Why Your Company Should Have an Annual Business Plan

By Charles J. Bodenstab

The main purpose of writing a business plan is to raise additional capital, right? Or if not, to develop a master strategy for running your company over the next few years. Conventional wisdom would support either of these conclusions, but in my experience as a company owner — and as the preparer of an annual business plan — both are off the mark.

When I acquired Battery and Tire Warehouse, Inc. about six years ago, I instinctively started to develop a business plan. That was reaction to my 30 years in the Fortune 500 world, where the annual ritual was a given. Its purpose was simple: The plan was how we communicated our business strategy up the corporate line. Besides, it was mandatory.

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I must confess that it is only now, after developing plans for my company over the past five years, that I understand what the process does for a small to midsize business. I've come to the conclusion that its value may be greater for a smaller company than for a large corporation. Let me describe why.

## The planning process

There is a lot to be said for the mental process of putting together a formal plan and committing it to writing. Many of us who run small companies tend to do our problem-solving on the fly. Writing out a strategy requires tremendous discipline, and sloppy logic is much more obvious when you see it in black and white. In fact, one could almost argue that once you've written the draft of your business plan, you could simply toss it into the wastebasket — you've already gained 90% of the benefit the process has to offer.

## The plan as a management tool

A business plan is a guide that illustrates where you are, where you are going, and how you are going to get there. The operative word is guide.

As the year progresses, developments will require deviating from the plan. I can almost guarantee that the decisions you make will be better, though, because they're in the context of the original plan. And you're more likely to question any major deviations, which makes it more likely that they will not simply be reactions to a short-range event.

***A few years' worth of business plans can earn a small company a tremendous amount of respectability.***

## The plan and internal communications

The planning process forces communications to occur in both directions: you communicate your vision and concept of the company, and in return get feedback from your key employees. Small businesses in particular need this dialogue.

I've found that if you solicit ideas from key employees and involve them in the planning process, they will develop a sense of ownership that is invaluable in any company. Of course, you can also accomplish this face-to-face, but having the goal of a written plan pulls it all together and ensures that the give-and-take happens.

## The plan and the outside world

## One Company's Time

The time it takes to prepare a plan is obviously very dependent on a variety of factors, such as the size and complexity of your organization, the availability of data, and so on. Here is an approximation of what it takes Battery and Tire Warehouse, Inc. — a company of 50 people and $12 million in sales — to prepare its plan.

***Owner's Time***
- Discussion with staff: 8 hours
- Developing graphs and tables: 10 hours
- Writing and rewriting: 10 hours

***Staff Time (four key people)***
- Discussions (total hours): 16 hours
- Writing drafts (total hours): 8 hours

***Accounting Time***
- Preparation: 16 hours

There are few things that will get you greater credibility outside your company than having a reasonably well-put-together business plan. I acquired Battery and Tire Warehouse through a leveraged buyout that left me with a net worth of zero and about $2 million in debt. It was therefore very important for me to be able to present a solid image to my creditors. In fact, since key creditors, such as vendors and banks, rarely see a decently developed plan from smaller companies, they are impressed when one comes along. Some company owners — I'm not one of them — are hesitant to disclose all their numbers to people other than their major creditors. You can prepare two versions and easily delete sensitive numbers from one.

***One could argue that once you've written the draft of your business plan, you could simply toss it into the wastebasket — you've already gained 90% of the benefit the process has to offer.***

Having a plan satisfies a deep need in most of us who own smaller companies: the need to be taken seriously. It is hard to take a business seriously when there is nothing down in writing about the business's structure, its future directions, or its position in the marketplace. A few years' worth of business plans can earn a small company a tremendous amount of respectability.

There are plenty of books, pamphlets and seminars that are how-to guides to building a business plan. I admit that I've only scanned some of them. At the least they suggest a structure, such as requiring a mission statement, a list of strengths and weaknesses and a statement of critical issues.

But there is no magic formula, and your plan will not be wrong because it fails to follow some special format. It's your story to tell, after all, and you should include whatever feels right to you. And the fact is, you'll probably make changes from year to year as you gain experience. The main point is to cover those items that are significant to your own business and industry, whatever the how-to books may say.

One of the hardest parts of creating a plan is letting go of the first one you do. Frankly, it takes about three years of annual plans to begin feeling really good about the finished product, so don't expect to work wonders with your first one. I mentioned this to a fellow entrepreneur not so long ago, who is still grateful. Perfectionist that he is, he said he would still be laboring over the 10th draft of his plan had I not suggested that he wrap it up and get the thing printed. Now he agrees that fine-tuning wasn't the answer. The key was to get the initial plan published and distributed. It is only then that the invaluable feedback process gets started.

### What's in a plan?

Your business plan should be tailored to your company. Battery and Tire Warehouse, Inc.'s annual business plan, which is spiral-bound, runs about 20 typed pages. While you'll want to develop your own format, a look at our table of contents will give you an idea of the scope of our plan and the level of detail we provide (see sidebar on page 4).

The first section reviews the previous year, with a comprehensive discussion of the financial results and a detailed explanation of deviations from the year before and from the plan.

The second section is the actual business plan for the coming year. It is loaded with hard data, tables, graphs, and a discussion of our rationale for strategies and projections.

The final section is a general description of the company that explains our basic structure. Its sole purpose is to orient the reader; contents do not change significantly from year to year.

Charles J. Bodenstab is chief executive officer of Battery and Tire Warehouse, Inc., in St. Paul, Minnesota. Previously, he held executive positions with United States Steel, General Cable, Kearney-National and Gould.

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*Originally printed in Yard & Garden September/October 1998 issue.*

# How to Write a Business Plan

## *Tips on the best approach to developing a document to guide your business*

By Noël Brown

Let's get down to the business of writing a business plan. There are a myriad of resources to help you with the process — each of them containing basically the same information with slightly different styles and formats.

### Make the first plan your own

The book "How to Write a Business Plan," by Mike McKeever, offers two routes: the comprehensive plan and the "quick plan," which can be completed in one day. This comes in handy if you choose to write a preliminary plan for yourself, as recommended by several experts.

"The first business plan you write should be for nobody but yourself," says Norm Bodsky in his book, "Due Diligence." "You just need to answer four questions as honestly as you can: 1) what is the concept? 2) how will you market it? 3) how much do you think it will cost to produce and deliver what you're selling? and 4) what do you expect will happen when you start making sales?"

***"The first business plan you write should be for nobody but yourself."***
— Norm Bodsky

Bodsky says the main idea of this first plan is to spell out as clearly as possible how you think the business is going to work, and to test your assumptions before you try to raise money or present this plan to anyone else. This will help you keep mistakes and unrealistic expectations to a minimum.

Remember that any plan you eventually end up with is never really "final." Business conditions are constantly changing, and new opportunities are always presenting themselves. Know that you can and should review and improve your plan to maximize its effectiveness as a guide for your business.

"Writing a plan allows you to see how changing parts of the plan increase profits or accomplish goals," says McKeever in "How to Write a Business Plan." "You can tinker with individual parts of your business with no cash outlay."

That said, you will eventually want to write a full-blown plan. While we can't provide a comprehensive description (there are whole books on the subject!), here are some steps that will help you through the process.

### The introduction

According to "The Instant Business Plan: Twelve Quick and Easy Steps to a Successful Business," by Gustav Berle, Ph.D. and Paul Kirschner, the introduction contains three elements: the cover letter, the cover sheet and the table of contents.

If presenting to a banker, the letter should include the highlights of your introduction. The introduction should touch on the most important points of the plan, giving the reader an idea of what they are about to get into. Though it should be brief, this section is very important because you are molding the reader's impression of your business.

This summary is also included at the beginning of the plan. "The first page of your plan should state your objectives as simply as possible," says David H. Bangs, Jr. in "The Business Planning Guide." "If the plan is for your sole use, the statement can be brief. However, if the plan is also to be used as a financing proposal, the statement becomes more complex."

If you are preparing the plan for a banker, Berle and Kirschner suggest including in the summary a description of your business, the amount of your loan request, your payback plan and what security you offer for your loan.

The cover sheet simply says something to the effect of "1999 Business Plan for Joe's Power Equipment" in block letters or headline format. If presenting it to a banker, include another sentence below, saying "Prepared especially for (lender's name and name of institution)."

One of the most important factors of your business

*Writing a Business Plan*

Step 1: The Introduction
Step 2: Business identification, business purpose, description of business
Step 3: Market Research, competition, location
Step 4: Management
Step 5: Marketing strategy
Step 6: Financial information
Step 7: Supporting documents

plan is to make it easy to use, so the table of contents is another important page. It will be referred to throughout the life of the plan. Organize it well, displaying every section of the plan with the corresponding page number. You will have sub-entries on the table of contents as well in certain sections that contain several key pages, such as your financial section. Be sure to list every document you are including in the plan.

## Business identification, purpose, description

Depending on what resource you use, this section is broken down differently. Berle and Kirschner, for example, break down business identification, purpose and description into three of their 12 steps. Others combine them.

Let's start with identification. In addition to your name and tagline, you should also include all the identifiers of your business: your address, your phone and fax numbers, tax number, names of principals and more. Include the legal definition of your business and if you are incorporated.

Now that you've identified the dealership on a surface level, the business purpose and description will require a deeper, more thorough representation of your business.

In this section, Bangs says you will want to explain three points:

- What your business is
- How you run it
- Why you think your business will succeed

"Deciding what your business is — and what it will be in five years — is the most important single decision you have to make," says Bangs. His book offers seven questions helping you pare the information down, touching on the business' form, status, profitability, hours of operation and seasonality.

McKeever says you should develop a problem statement — describe the problem customers have, and how you solve it. He says that this part may take a little time and a few drafts before you're happy with the statement. "The important thing is not how long it takes to do this, but that you end up with a realistic, well-thought-out business description," says McKeever.

## Market research and competition

This section of the plan is very important because this is where you prove the population around you needs your service, and that the market can support your dealership. If presenting the plan to a banker, this section of the plan is weighted heavily in the decision. Most bankers aren't very familiar with the unique needs and services offered by a power equipment dealership. Here is your chance to draw a picture for them of how effective your business can be in the marketplace.

Berle and Kirschner say, "The more meaningful figures that you have at your disposal, the easier it will be to prepare a business plan that will work for you — and open the doors to potential loan demands."

A significant part of this section should talk about your customer. Discuss not only the demographic makeup of the typical customer (and prospect), but also their buying tendencies. There are several surveys out there from marketing research firms that have already done national (and sometimes regional) research for you.

Research does not have to be expensive. There are several ways to get this information. First, start with your own built-in focus group: your current customer base. Second, check with trade journals. For instance, *Yard & Garden* magazine has done several articles on the issue. Also look at end-user magazines (A good example: *Organic Gardening* magazine regularly conducts a survey

**_Sample Demographic Segmentation Criteria_**

- age
- gender
- race and ethnic group
- hobbies
- lifestyle
- reading, listening and viewing patterns (newspapers, magazines, TV, radio)
- education
- social class
- occupation
- income level
- family life cycle

*From "The Business Planning Guide," by David H. Bangs, Jr.*

of its readers). The library and the Internet are two other excellent resources. And don't forget your vendors. Many manufacturers conduct their own product and customer research that would lend itself well to your business plan.

Make sure this section demonstrates one important point: "You want to be able to identify your best (most profitable) prospects and understand them well enough to be able to satisfy their perceived needs," says Bangs.

Although this section falls toward the middle of the business plan, the research you conduct should happen before you start writing, since the research may well affect your business direction.

When discussing the competition, be sure to include specifics — names and locations of your primary competitors. And, after demonstrating your understanding about their customer attraction, make sure you also emphasize how your business is different and/or better at attracting customers. How will you gain market share?

## Management

Make sure you maximize one of your biggest assets: you. "The person or persons who run the business will determine, more than any other factor, whether the enterprise has a chance to succeed or is doomed to crash with the first ill wind," says Berle and Kirschner.

In this section, name each principal and discuss related business experience. It is, in fact, a good idea to attach a resume for each principal. Next, discuss the job descriptions, salaries and benefits. Also mention here what external management assistance you call on (marketing or business consultants, accountants, etc.).

Next, discuss your personnel. "The fiscal officer who might examine your business plan is especially interested in your commitments to hired personnel and its long-range implications on your cash flow," says Berle and Kirschner.

This is also a good place to mention (and attach to the business plan) if you have a written employee policy.

## Marketing Strategy

Now that you've proven your potential for growth and talked about your customers and prospects, you must show how you will market your products and services. "Marketing is the strategic plan to put you in touch with the customer in order to satisfy their needs, wants or desires," says Berle and Kirschner.

"Figure out how to promote your company using all the tools available to you, including public relations and advertising," says Bangs.

## Financial information

*Originally printed in Yard & Garden September/October 1998 issue.*

"The heart of the operation is in the accounting system," says Bangs, "Control is essential. If you don't control your business, it will control you."

"This is the make-or-break section," says Berle and Kirschner. "It is the one a potential lender will understand best and will examine most closely for completeness, accuracy and realism."

Since we discuss in detail how to develop a budget later in this issue of the Dealer Survival Guide, we recommend you use those stories as reference to completing this section of the business plan. According to Berle and Kirschner, the financial section should include the following information:

- Capital requirements
- Depreciable assets
- Pro forma balance sheet
- Break-even analysis
- Projected income statement
- Cash flow projection and analysis

## Supporting documents

The back-end of your business plan should include the supporting documents you discussed throughout the body of the plan. Put them in the same order as referenced in the plan, and clearly label them. You've got the ingredients of a winning plan.

# To Plan or Not to Plan: That is the Question

by Curtis Lawson

*Curtis Lawson and his brother, Mark, own Lawson's Outdoor Equipment in New Market, Maryland. Their second store is located in Woodbine, Maryland.*

The year was 1988. My brother (and partner) Mark and I were attending a manufacturer's business school in South Bend, Indiana.

We just sat down at the first seminar of the day when the guest speaker told everyone in the room to pull out a small piece of paper and write where they wanted to be 10 years from now. We were to fold the piece of paper up, stick it in a safe place and do one of the two things: forget about it or frequently refer to it to see if we were heading in the right direction. It was the longest 90-minute seminar I ever sat through, but not because it was boring. I just wanted to see what my brother had written on his piece of paper. I had written, "grow enough to support two locations."

Expenses, forecast, shipments, inventory, budgets, etc. All are needed information to operate your business on a day-to-day basis. But what works best for us is to use the business plan as a tool to focus on where we've been, where we are and where we're heading.

## Where we've been

There is definite truth to "hindsight is 20/20." This is where I thank God daily that our dad is able and willing to be there every day. And, in some instances, his "been there, done that, moved on" style has been of great help. He cautions us that what worked five, 10 or even 20 years ago won't hold a candle to the future way of doing business. All of this is important to factor in when developing a business plan.

## Where we are

Now this is where changing or "tweaking" our plan comes into play. The fact that our plan is long-range means we may need to adjust now to make sure we stay on course. We have found it best to go ahead and make the needed adjustments, i.e. forecast, budgets, shipments, inventory, etc. Don't just "wait and see." Remember, we are not weather forecasters. We are business planners.

## Where we're heading

At this point I would like to ask all dealers who don't have a business plan to get out a little piece of paper and write on it where you want to be in 10 years. This is the start of your plan. For us, it's making sure the business is positioned strong in our marketplace and is financially sound for the fourth generation of Lawsons.

***A bad plan can be perfected. A good plan can be built upon. But having no plan can be disastrous.***

In conclusion, my advice is to have a plan. A bad plan can be perfected. A good plan can be built upon. But having no plan can be disastrous. After all, just go and try to get a line of credit without a sound business plan. Chances are, without a plan you are going to make some crisis-oriented decisions. This is known as reactive, instead of being prepared and making proactive decisions. Don't be afraid to say "that's not in the plan."

By the way, in March 1998, my brothers and I opened our second location. And as for that little piece of paper that my brother Mark folded up, he had scribbled two words on it: "two stores." YG

*Originally printed in Yard & Garden September/October 1998 issue.*

# Budgeting: An Important Management Tool

By Noël Brown

The word budget means different things to different people. For some dealers, it is the "magic number" in their head which represents the amount of sales to reach in order to break even this year. Others take a more comprehensive approach, documenting expenses and revenue (from history) and projecting (based on market knowledge and conditions) where they would like to be financially at the end of the year. The amount of detail contained in that document varies from dealer to dealer.

***"Budgeting is telling your money where to go instead of wondering where it went."***

C.B. Hoover, professor of economics and business (quoted from "Small Store Survival")

According to the book "Small Store Survival," written for independent retailers by Illinois Retail Merchants Association and Arthur Andersen, 51% of retailers surveyed don't have a budget for their business. Only 34% prepare an annual budget, and even fewer use budget management reports to monitor their business success throughout the year.

The same book also states that the No. 1 method retailers use to identify cost-reduction ideas is trade publications (67%). In this Survival Guide issue, the *Yard & Garden* team will go beyond cost-cutting ideas and discuss methods of identifying and controlling expenses and revenue, helping you achieve the bottom line you need. We will help you develop a business budget and discuss how you can use this budget as a tool to grow your business — and your profit.

## How much time is this going to take?

Budgets come in all shapes and sizes. Thinking about a comprehensive budget can be an overwhelming proposition. Many small business owners get bogged down in the details, and decide they won't have the time or the knowledge to do it right, so why do it at all.

But that doesn't have to be the case. "Your time is scarce. But you also want to keep your business profitable and solvent. The key question is how much budgeting to do — to identify and make efficient use of those particular techniques that can improve profit, cash flow and financial condition," says John A. Tracy in his book, "Budgeting a La Carte: Essential Tools for Harried Business Managers."

Tracy contends that small business owners don't have to put all the budgeting pieces together into a system. Rather, he recommends thinking of budgeting "as a toolbox — one stocked with a wide variety of tools." What you keep in your toolbox depends only on what you need to get the job done. "In fact," says Tracy, "using just one or two budgeting tools may have a high payoff for the small business, even if it does not have a budget system."

## Making the most of — and getting the most from — your budget

Dealers have many reasons to put together a formal budget. It is an excellent tool for business planning. It will make achieving the goals you have for your business more manageable. It will provide you with powerful bargaining power with your banker. But, according to Tracy, "The dominant and overriding purpose of budgeting is to protect and improve financial performance and position."

In his book, Tracy defines financial performance to mean "both the profit earned by the business and cash flow of the business." He refers to financial position as "the efficient use of capital by the business (found on the asset side of its balance sheet) and liquidity and solvency of the business, which means its ability to meet the obligations found on the other side of its balance sheet."

It is important to think of your budget as a "living" document. By careful planning, it will help you anticipate and prepare for changes in your business. But it can also be adjusted to accommodate the changes you couldn't anticipate (for instance, how weather can either inspire or kill sales in a particular season). Think of your budget as a yardstick for business growth.

Also, remember that your budgeting tools should not just reflect the history of the business, but more importantly, forecast the future (one year) for your business. History is important to use as a gauge for future performance, but there are many other factors to include when determining your projections. Think about cost increases, industry trends, changing customer buying habits — anything that will affect the sales, productivity and profitability of your business.

The idea of designing a budget can be daunting. But don't despair — there are many resources that can help. One of the best places to turn is to your computer. It is often the case that your current business system already has budgeting capabilities. Check with your system vendor. If not, there are financial packages available designed specifically for the outdoor power equipment dealer. Be sure to choose one that allows you to customize the information needed to manage your business.

***As you grow, you may want to consider departmentalized budgeting for more efficient management of your dealership.***

## Start with the basics

A budget can include as much or as little detail as you need to manage your business and determine profit. The exact design is completely up to you, and you will probably "tweak" the design over time until you come up with the perfect design for your business. However, as a starting point, we can discuss certain elements every budget should contain to give you an accurate picture of the performance of your business.

Consider also that it may best serve your business to do "departmentalized budgeting." This is where you create a separate budget for each profit center. For instance, you may have one for the sales department, one for the service department and one for the parts department. Or you may want separate budgets for consumer sales and commercial sales. For simplicity's sake, we will combine them in one budget for our example. But as you grow, you may want to consider departmentalized budgeting for more efficient management of your dealership.

When making a budget, the best place to start is with last year's income statement. This will give you a reasonable benchmark to help determine what your projections will be in your budget.

## What to include in the budget

Every budget should include projections for each category in the income statement. The basic categories are: revenue, the cost of goods sold, expenses and taxes to determine net income. The sample budget on page 13 provides an example of how each department could play out.

## Set a reasonable goal for the new year

The first question to ask yourself is: How much do you want to grow in sales next year? What will be a reasonable increase? Once you have a percentage of sales growth, you will look at each line item of expenses and determine what you can do to reach your goal at the bottom line.

## Revenue

Revenue is, of course, sales. Think about how you can increase sales. Can you broaden your product line? (Remember to reflect that additional cost in your inventory expense). Can you target a new customer market? (Remember to reflect additional costs in marketing expenses).

## Cost of goods sold

The next section is the "cost of goods sold." It should include such items as the cost of inventory, shipping,

## How the budget adds up

** For a detailed example, see the sample budget on page 13.*

| | *Projections* |
|---|---|
| ***Step 1*** | |
| Sales | $935,000 |
| Cost of goods sold | - $579,800 |
| Gross profit | = $355,200 |
| ***Step 2*** | |
| Gross Profit | $355,800 |
| Total expenses | - $279,350 |
| Income before taxes | = $75,850 |
| ***Step 3*** | |
| Income before taxes | $75,850 |
| Taxes | - $25,789 |
| Net income | = $50,061 |

freight and assembly. Are product costs going up? Will shipping costs increase? Conversely, will increased inventory purchases give you volume discounts or breaks on freight?

After determining these two figures, subtract cost of goods sold from revenue. The amount left over is listed as "gross profit" or "profit contribution."

### Expenses

The "expenses" section can be categorized into departments. Common departments include sales (or direct) expenses and operating (or indirect) expenses.

Sales, or direct expenses, include any costs related directly to the sale of product, including sales people's salaries, commissions, benefits, advertising and marketing, to name a few. When budgeting for next year, consider these questions: Are we hiring more sales staff? Are we increasing our marketing budget? Will we be instituting a new incentive program for sales people?

Operating (or indirect) expenses are your rent or mortgage, property tax, utilities, and property and utility insurance. Many of these expenses don't vary much, and are easy to anticipate (for example, the mortgage or rent). Operating expenses also include general administration costs, such as: consulting costs (by your accounting firm, lawyer, etc.), computer supplies, depreciation and amortization, licenses, office supplies and telephone. Operating costs also include certain personnel expenses, such as salaries and benefits for non-sales staff, payroll taxes, group life and health insurance, workers comp insurance and employee benefit plans.

To develop your budget, think about what costs will increase in your operating expenses. Are you starting a health insurance program this year? Is it time to buy a new software package for your computer?

Operating expenses is also a good place to look for potential savings in the new year. Will the delivery truck be paid off this year? Would switching to a new long distance carrier shrink your phone bill? Will hooking your fax capabilities up to your computer eliminate the need for a separate fax machine?

### Net income

Subtract each of these items from your "gross profit." The amount remaining is your "income before taxes." Finally, subtract your income taxes and the final amount is your projected "net income." Is it in line with your projected goal for the new year? If not, work your way back up through each line item and determine where you can either lower expenses or raise revenue to bring it in line with your goal.

***"Using just one or two budgeting tools may have a high payoff for the small business, even if it does not have a budget system."***

Finally, divide the numbers out monthly, January through December. While some businesses can simply divide by 12, it is important for dealers to figure in the seasonality of the business. Be sure to reflect the busy months in spring and fall, as well as those lean winter months.

This document will serve as the starting point for all other management reports you'll use throughout the year. To find out more about the types of reports you may want to use, see "Put your budget to work", page 14. YG

*Originally printed in Yard & Garden February 1998 issue.*

# Sample Annual Budget

| | Current year projection | % of sales | Actual last year | % of sales |
|---|---|---|---|---|
| **Revenue** Sales | $935,000 | | $850,000 | |
| **Cost of Goods Sold** | | | | |
| Beginning inventory | $200,000 | | $180,000 | |
| New inventory purchases | 515,000 | | 463,500 | |
| Assembly | 30,000 | | 27,000 | |
| Freight | 9,000 | | 8,000 | |
| Floor planning | 10,800 | | 9,600 | |
| Less ending inventory | (185,000) | | (166,500) | |
| Total cost of goods sold | $579,800 | | $521,600 | |
| **Gross Profit** | $355,200 | 38% | $328,400 | 38.6% |
| **Sales Expenses** | | | | |
| Salaries | 29,000 | | 26,100 | |
| Sales commissions | 5,000 | | 4,500 | |
| Benefits | 3,000 | | 2,700 | |
| Advertising/marketing | 26,000 | | 23,400 | |
| **Total Sales Expense** | $63,000 | 6.7% | $56,700 | 6.7% |
| **Operating Expenses: Personnel** | | | | |
| Salaries | 60,000 | | 54,000 | |
| Benefits | 5,500 | | 4,950 | |
| Payroll taxes | 4,100 | | 3,600 | |
| Group life and health insurance | 7,200 | | 6,480 | |
| Workers' comp. insurance | 2,000 | | 1,800 | |
| **Total Personnel Expense** | $78,800 | 8.4% | $70,830 | 8.3% |
| **Operating Expenses: Building & Property** | | | | |
| Rent/mortgage | 55,000 | | 55,000 | |
| Property tax | 7,500 | | 7,500 | |
| Repairs and maintenance | 5,000 | | 4,500 | |
| Utilities | 6,000 | | 5,700 | |
| Property and liability insurance | 7,800 | | 7,500 | |
| **Total Building & Property Expense** | $81,300 | 8.7% | $80,200 | 9.4% |
| **Operating Expenses: Administration** | | | | |
| Consulting (CPA & legal) | 2,300 | | 2,070 | |
| Automobiles (incl. maintenance and fuel) | 22,300 | | 20,700 | |
| Bank charges and interest | 2,000 | | 1,800 | |
| Computer and supplies | 8,000 | | 7,200 | |
| Depreciation and amortization | 8,000 | | 7,200 | |
| Credit card charges and acquisition fees | 7,750 | | 6,975 | |
| Licenses | | | | |
| Office supplies | 2,400 | | 2,160 | |
| Telephone | 3,500 | | 3,150 | |
| **Total Administration Expense** | $56,250 | 6% | $51,255 | 6% |
| **Total Expenses** | $279,350 | 29.9% | $258,985 | 30.5% |
| **Income (Before Taxes)** | $75,850 | 8.1% | $69,415 | 8.2% |
| **Income Taxes** | $25,789 | | $23,601 | |
| **Net Income (Net Profit)** | $50,061 | 5.3% | $45,814 | 5.4% |

# Put Your Budget to Work

## *Use management reports to make your budget work for you*

By Noël Brown

By keeping good financial records, you can call upon that information on a regular basis to determine exactly where your dealership stands in relationship to your goals. You can plan ahead for the slow months.

You can determine instantly which products are selling and which aren't. You can anticipate inventory problems. You can tell which employees are pulling their weight and which aren't. And you can know virtually at a glance if you can afford mid-year investments, such as buying a new vehicle. You will know at any given time exactly how much money is coming in (and where it should go) and how much is going out (and why).

There are many "reports" managers use to analyze the state of the business, and make decisions that will lower costs or increase productivity — and ultimately — profit.

This is just a starting point for discussion. You know your business better than anyone. You can best judge which reports will give you the most useful information to judge your business. Think about what you would like to know.

For instance, perhaps a report comparing the sales of certain brands by salesperson would help you determine if you are maximizing the selling potential of each employee. Many accounting and inventory packages will allow you to organize the information this way. And once the report design is set up, you can pull the report again and again by just inputting the period of time you want to review (for example, you can ask for results for the month of January, or for the first quarter of the year). The design and frequency of the reports are completely up to you.

### Tips for using the reports

Tracy brings up an important point in his book, "Budgeting a la Carte," "Decision making lays down a plan of action for accomplishing objectives. Actually achieving the objectives requires management control." This is an important point: Financial reports do not solve problems, they only help identify them. The actions you take after you've reviewed your reports is key.

You already have a management technique, or style. Now it is just a question of incorporating these new reports into your routine. You are already the visionary of the business; you see where you want to be and figure out how to get there. You are already the trouble-shooter, the problem-solver. You address problems as they arise and act on them. Budget reports can help you in your management efforts. There are several ways to use these reports to glean the information you need to most effectively manage the business.

### Comparative reports

Managers often use comparative reports, comparing actual performance against the same period last year. Though this is an effective method for pointing out trends, beware that you don't use this method instead of setting goals and objectives. Tracy says, "Managers should get in the forward planning mode, which is one main reason for budgeting."

### Management by exception

Many managers use the control reporting method called "management by exception." Since managers have limited time to analyze reports, they focus mainly on deviations and variances from the plan or budget. The results that stand out are the issues that require follow-up attention. This report contains an extra column showing the percent change, in the positive or negative, of actual numbers vs. budget for each line item. A quick review of that column will tell you which areas need attention.

### Ad hoc reports

Sometimes questions arise that require an ad hoc (special case) control report to see what is going on more clearly (like the brand comparison report mentioned earlier). These reports are triggered by specific problems that have arisen, which are needed in addition to the regular control reports. These reports, because they can contain any of the specific information a manager needs at that moment, can be very useful in decision-making.

### Profit control reports

In most reports, managers focus on profit margins and what affects them. You can pull a document called a "profit control report," showing changes in profit margins among product categories and product lines. This will allow you to determine if special sales or incentives are required to jump-start sales in the slower moving lines or equipment. It will also help you determine which equipment provides the most return for your money when it is time to order.

Of course, your sources go beyond the financial reports we are discussing here. You gauge your performance on customer satisfaction (and complaints), repeat business, employee morale, the rate of production and more. But keep in mind that these reports can be an effective tool to manage your dealership now and prepare it for growth in the future.

*Originally printed in Yard & Garden February 1998 issue.*

## Making budget adjustments that will do the most good

***Situation***

While performing a quarterly review of your budget, you see that your bottom line is not quite up to par. If business continues at this rate, you will not make your goals for growth this year.

***Prognosis***

You have three options. One, you can adjust your goal to reflect the less-than-optimistic result you see in these early reports. Two, you make a plan to increase sales. Or three, you review your expenses and find ways to reduce or eliminate costs in the business.

***Analysis***

Save option one as a last resort. There are still actions you can take to make your goal. While option two, to increase sales, may seem like the best solution, it will require extra effort to achieve the same result as option three, cutting costs, would allow. For example, you talk with your sales team and discuss the need to increase sales. Then you organize an unadvertised sale. Or you may choose to offer "bundling" options to customers, combining higher-profit-margin accessories together with certain wholegoods at a price customers just can't refuse. There are many possibilities to increase sales.

But the truth is, every new dollar in sales you bring in is not worth as much to you as every dollar you cut in expenses. Why? Because for every dollar of expense reduction, the full dollar is added to your bottom line. However, for every dollar of sales, only the profit from that dollar is added to your bottom line. Let's assume you make a 25% profit margin. You would have to make an extra $4 of sales to make $1 of profit. Here is an example:

***Cost decreases***

| | *Before* | *After* | *Change* |
|---|---|---|---|
| **Revenue** | **$100** | **$100** | **no change** |
| **Expenses** | **$ 75** | **$ 74** | **$1 cost savings** |
| **Profit** | **$ 25** | **$ 26** | **$1 extra profit** |

***Sales increases***

| | *Before* | *After* | *Change* |
|---|---|---|---|
| **Revenue** | **$100** | **$104** | **$4 increase in sales** |
| **Expenses** | **$ 75** | **$ 78** | **still 75% of sales (no change)** |
| **Profit** | **$ 25** | **$ 26** | **$1 extra profit** |

***Solution***

Start by reviewing costs to determine where you can cut back. The reward per dollar saved here is higher than the same amount brought in through extra sales. Then decide if an increase in sales will also help your effort.

# You, Your Banker and Your Budget

## *The criteria a banker uses to approve — or decline — loans*

By Noël Brown

Most businesses, at one time or another, can't grow to the next level without help from their commercial bank. "Obtaining and generating adequate capital is essential to start, acquire or expand a retail business," according to the authors of "Small Store Survival," by the Illinois Retail Merchants Association and Arthur Andersen.

Experts say to make sure you have what you need to qualify for a bank loan before you need the money. "Insuring that your business qualifies for a bank loan, necessary or not — helps protect against unforeseen financial setbacks. A business that remains qualified for a bank loan is more likely to prosper," says Bryan E. Milling in the book "How to Get a Loan."

***"A business that remains qualified for a bank loan is more likely to prosper."***

Remember that your banker can turn out to be an important partner in your business. Most bankers have an extensive background in both financial and business matters. This is why successful business managers do not wait until they need money to develop a relationship with their banker. Truth is, many bankers become formal or informal "consultants" for businesses, serving as a sounding board for new ideas about growth, and offering business advice for businesses encountering problems.

That relationship will serve you well when it is time to ask for money. But, there are, of course, many criteria bankers use to determine if a business is loan-worthy. Here is a review of some of those criteria to help you be ready when that time comes.

### How your banker decides

In addition to the loan application, your company's balance sheet heads up a host of materials that may be required by your bank to determine if you are a good risk for a loan. Other documents will probably include an income statement, historical and pro forma (future projections) statements, a cash flow statement and a personal financial statement (if you, as business owner, are required to provide a personal guarantee).

While reviewing your materials, Milling says your banker's decision comes from three primary considerations: liquidity, financial strength and profitability. Consider each of these as you prepare your documents for the bank.

Liquidity is your company's ability to meet its obligations as they come due. This is a big consideration for bankers, since problems can arise in businesses without adequate levels of liquidity. Your liquidity level also tells the banker how well you will be able to absorb unforeseen financial setbacks. One way the banker determines this is by figuring out your "current ratio" (found by dividing your current liabilities by your current assets). Milling says an adequate current ratio is 2.0 or above. In other words, a company with $2 in assets for every $1 in liabilities would be a good risk.

Financial strength comes from the owner's equity in the business. "The debt-to-equity ratio evaluates a firm's financial strength," says Milling. Bankers derive this ratio by dividing the business's total debt into its total equity. The lower the ratio, the higher the financial strength.

Your company must also demonstrate a history of profitable operations. This one is a bit stickier, because, according to Milling, no example of what makes an adequate level of profits exists. So they measure and evaluate the company's profit margins, and examine changes in profit from one year to the next.

### It's not all about money

There are several "non-financial criteria" also considered when you apply for a business loan. Payment history is

## An attractive alternative: The SBA Loan

If you are having trouble obtaining a traditional business loan from your bank, you may qualify for an SBA loan. "SBA loans can help a struggling enterprise gain the financing necessary to fulfill its promise and become a profitable business venture," says Brian E. Milling in his book, "How to Get a Loan."

The Small Business Administration (SBA) is an independent federal agency whose sole mission is to offer programs to benefit independent small businesses. One type of loan they offer is a bank loan partially guaranteed by the SBA.

There are several kinds of "partially guaranteed loans" offered by the SBA, but the most common are loans where 90% of the balance is guaranteed. The bank would retain the risk for the other 10%. The SBA can guarantee bank loans (90% of them, that is) up to a maximum of $750,000.

### *Benefits abound with the SBA loan*

According to Milling, there are several advantages to obtaining an SBA loan over a traditional bank loan:

• Attractive repayment terms. While most commercial bank loans don't extend past four or five years, SBA loans extend five to seven years, and can extend to 10 years or longer.

• Repayment schedule doesn't change. Most banks often make the loan come due every year, so they can review the "credit worthiness" of the business annually, and will sometimes change the repayment schedule. The SBA loan has a fixed amortization schedule, and doesn't make schedule changes (assuming the business operates successfully).

• Larger loans. "An SBA loan also can help a business obtain a larger loan than a bank can offer on conventional terms," says Milling. He gives the example of how a business that qualifies for a $100,000 conventional bank loan may qualify for a $200,000 loan supported by the SBA.

• Possible deferment. If you encounter unanticipated problems in the business during a given period, the SBA will often allow the business to defer principal repayments for several months.

• More money later. If the business is growing by leaps and bounds, it may turn out that you need more money during the life of your loan in order to fund the growth. Sometimes the SBA will release part of its collateral liens to help your business obtain the funds necessary. They will leave the original amortization schedule intact, or even extend the repayment schedule, giving you the ability to gain more funds.

• Banks benefit. Not only does it help them extend loans to local businesses that they otherwise might have to decline, but it allows them to begin relationships with businesses who will someday be large, profitable enterprises.

one example. "You want to show a history of managing your bank loans properly," says Milling. He adds that handling a bank's loan properly requires more than the eventual repayment of a loan. Bankers put a lot of import on whether payments were made on time. When a company is a "slow payer" or erratic payer, it is still on record even after the debt is paid.

Bankers also check a company's payment record with its suppliers. While it may not seem relevant, Milling says bankers view prompt trade payment habits as a sign of good management.

Your management ability is also a consideration — one of the most important, according to Milling. While this may seem a subjective consideration, bankers look for certain traits in business managers: good communication skills, understanding of their own strengths and weaknesses, as well as those of their employees and a sound knowledge of their business, their industry and the environment affecting their company. "Good managers also exhibit good character," says Milling.

*Originally printed in Yard & Garden February 1998 issue.*

# A Relationship You Can Bank On

*The personal banker for Scott Brady of Brady Outdoor Equipment shares relationship-building tips for dealers and their bankers.*

By Noël Brown

The bankers you do business with are very much like the customers you do business with. If you want to build a long-term, profitable relationship with them, you've got to nurture and develop the relationship beyond business transactions.

"A lot of people only come in to make deposits," says Russell Lay, vice president of the NewSouth Bank in Elizabeth City, North Carolina. "Others don't visit us until they need money. But it always helps a business to develop a relationship. The better we know you and the way you do business, the better we can help you."

Lay, who is the personal banker for Scott and Debbie Brady (of Brady Outdoor Equipment in Elizabeth City and Moyock, North Carolina), offers advice on how to develop a loyal, trusting relationship you can bank on when it counts.

## 1. Don't just talk numbers, just talk.

Your personal banker appreciates regular communication with you. "It can be tough for us to visit all of our business customers on a regular basis," says Lay. "But I get a lot out of visits with them. I appreciate when customers come in just to talk. I learn more about their personalities, their needs, their plans and the way they do business. I can be a better banker to customers I see more than once a year."

## 2. Keep good records, and share them.

Most banks require certain documents on a regular basis: financial statements, tax returns, etc. While the bank may only request them on an infrequent basis, Lay suggests keeping your records up to date. Be able to share them — and talk about them in between times as well. Not only does it show what a good business manager you are, your decision-making skills are bound to improve with this new, more frequent attention to the financial reports on your business.

## 3. Be honest with the good and the bad.

"Bankers understand that you're human," Lay says. "Be upfront with them and discuss problems right away." He explains some businesses try to paint a rosy picture to their banker when they are having problems, and don't confess the truth until it becomes a real issue. "We won't be able to help you if you are not honest with us," says Lay. Often, the banker helps to find a solution that the customer hadn't thought of.

***Personal bankers are not specialists in the power equipment industry. Lay suggests cutting out articles in the trade magazines and sending them to your banker. Provide him with information on emerging trends in the industry.***

## 4. Your banker is a sounding board.

Like you in your industry, your banker is an expert. Once you develop your relationship with this person, it will be easier to call him for advice or just an opinion on some important decision or plan you are considering for the business. This person is a wealth of knowledge; you should tap into it.

## 5. Keep your promises.

Three little words say it all.

## 6. Give your banker an education.

Personal bankers who handle business accounts are not specialists in the power equipment industry. Their customers can include everyone from you to the beauty salon down the street and the pet shop on the other side of town. Again, just like your customers, they turn to you for that expertise. This is an opportunity for you.

"We need help understanding the specialized needs of your industry," says Lay. He finds it very helpful when his customers help him become familiar with the industry. Every piece of information helps him make better decisions about the services he offers your business.

## How to choose a banker

NewSouth Bank Vice President Russell Lay offers some advice on how to choose a bank that will best suit the needs of you and your business. "Like any business, banks have personalities. Choose one that is compatible with yours."

- Interview the potential banker.
- Don't be intimidated. "Some banks make customers feel like the bank is doing them a favor by loaning them money," says Lay. "But remember that banks need your business. You are the customer. Only choose a bank that treats you with the respect you deserve as its customer."
- Make sure the banker is accessible.
- Choose one who has an interest in your business.
- Verify the stability of the bank and the branch. "You don't want to have to keep telling your story over and over," says Lay. "It's OK to ask how long your personal banker has been at that branch, and if they expect to stay there."
- Make sure the bank offers the services your business needs now — as well as the ones you may need in the future.

Lay suggests cutting out articles in the trade magazines and sending them to your banker. Provide him with information on emerging trends in the industry. Point out the unique financial needs of a power equipment dealership. The more you educate your banker, the better he can take care of you.

### 7. If you're not happy, talk about it, don't just leave.

Wouldn't you just love it if those occasional customers who never come back to your dealership told you what they weren't happy with and offered you the chance to correct the situation and secure future sales? Most dissatisfied customers just walk away. You don't know why, and you don't get any better because you don't have that important feedback.

Bankers feel the same way. They've invested in a relationship with you, their customer. They want to work with you. They want to keep your business. And they want to provide you with the best possible service. So, you've got to tell them when your needs have changed, or when you feel you haven't gotten the service or understanding you need to do business.

"This is a two-way relationship," says Lay. "Remember that loans and terms are negotiable. We can't help you if you don't let us know what you need."

A long-standing relationship with a bank serves you and your business well in the long run.

*Originally printed in Yard & Garden June 1999 issue.*

# Getting Past Survival Into Profit and Growth

## *Consultant Jim Yount tells dealers how to take the driver's seat and increase profit in the dealership*

By Jim Yount

In round numbers, one million new businesses are started each year. Within five years, about 800,000 will have failed. And approximately 80% of the remainder will fail during the next five years. These statistics belong to owners of independent businesses like you.

Surviving the first five years does not guarantee that you have made the cut. I continue to meet owners who started their businesses 15, 20, even 25 years ago and still operate in survival mode. Regardless of how many hard and long hours worked, they have not progressed beyond the survival stage.

### Which business is more like yours?

Each year, I have the pleasure of meeting and consulting with businesses across America. Let me introduce you to three retailers in different states spanning 800 miles.

- They specialize in engine-powered equipment.
- Their showrooms represent major brands.
- They operate a technical service department.
- Each has an annual sales volume near $1.5 million.
- Each has been in business more than 20 years.

Business X: The owner's annual personal income from the business is about $20,000. The business is barely in survival mode and they are behind on their bills and losing money.

Business Y: The owner's annual personal income from the business is less than $23,000. They are also behind on their bills with a pretax net profit between 1% and 2%.

Business Z: The owner's annual personal income from the business is near $200,000. They are highly profitable and expanding. His purpose for calling us for consultation was to ask help in planning a new store and measuring the return on his investment. His pretax net profit was more than 10%.

### Why are businesses X and Y so unprofitable? Why is business Z highly profitable?

It's not the size of their markets; businesses X and Z are in small towns. Business Y is in a large city.

All three owners are very good at managing the operational side of business. They understand the customer and can serve their outdoor power equipment needs. They are extremely knowledgeable regarding the industry. They can ask the correct questions to qualify the customer's needs, recommend specific equipment; teach the buyer how to safely operate the equipment and provide technical service.

So what is the key difference between these businesses? Contrary to business philosophy, the performance differences are from internal causes, not external.

The major reason for the vast difference between their pretax net profit is the owner of business Z has business management skills.

***If business owners expect to earn a respectable pretax net profit, they must manage their businesses to that purpose. It's a daily activity.***

### Knowing where you stand

If business owners expect to earn a respectable pretax net profit, they must manage their businesses to that purpose. It's a daily activity, as in managing the efficiency of service technicians. It is using business management skills coupled with good business principles.

Whether your accounting system is the best computer with the latest software or you maintain your business records by hand, you need to know certain numbers on a timely basis — don't wait until the end of the month, or worse, the end of the year to know profitability. Daily reports of sales and profit let you know if you are on track, so you can react and adjust the next day, not next month or next year. Here are reports you should use:

- Daily: net sales total dollars of equipment, parts accessories and service labor
- Daily: gross profit margin from net sales

## A plan for profit

Here are some ABCs of profit principles and business math. The following is a simple representation of the variables in managing a business for profit.

A common belief among owners is, "I have little control of what generates profit in my business. There are too many outside influences." The truth is, we have considerable control over profit potential. Let me share some thoughts regarding the ABCs of profit potential, using the $1 million example shown above. I call it the One Percent Principle.

***A) Net Sales.*** Owners have the final say when establishing selling prices of equipment, parts, accessories and technical service labor. Raising the selling prices of product and service labor by 1% will add $10,000 to the pretax net profit — which would be a 20% increase in profit dollars ... provided operating cost does not change.

***B) Cost of Goods.*** Make better buying decisions with suppliers. Take advantage of quantity discounts, interest-free extended floor plan terms and cash discounts when possible. Save 1% on the purchase cost of goods and your savings will add another $7,000 to the pretax net profit.

***C) Gross Profit Dollars.*** If you are successful in adding 1% to the selling price, annual net sales will become $1,010,000. By saving 1% on the purchase price of goods, your cost of goods becomes $693,000. Gross profit dollars becomes $317,000, which is a gain of $17,000 or 5.67%.

***D) Business Operating Expenses.*** Reducing business operating expenses by 1% will save another $2,500.

***E) Pretax Net Profit.*** The resulting effect of our efforts of a 1% change in each area as described has now produced a pretax net profit of $69,500. This represents a 39% increase in profits.

Will this 1% effort produce a positive result for every business? The answer is yes. You will see positive results with only 3/4 of 1%. I have seen the pretax net profit improved by as much as five times. Regardless of your results it's worth the effort because much will be learned. After all, increased profit is increased profit, whatever the amount.

### *Getting profit focused*

Using this One Percent Principle requires that your business be managed with a data system that provides accurate information on a daily or, at a minimum, weekly basis. Profit-centered business decisions are made by using better information with urgency and caution. You must know the production numbers in your business, what they mean and how to use them.

If you are not the hands-on management type, start by investing 30 minutes each day in knowing the numbers, what they mean and how to use them to make better decisions. I guarantee that at the end of 12 months, you'll graduate from survival to profit and growth.

- Weekly (or at least monthly): cost of operating the business (wages, rent, etc.)
- Monthly: income statement, profit or loss

Assuming your accounting system provides you with correct numbers on a timely basis, the next step to improving your pretax net profit is to understand what each set of numbers means.

When we understand their meaning we can develop business management skills for making better profit decisions. This is called taking control of business. Yes, we have considerable control if we will accept the responsibility of managing our margin of profit.

### Empowered to make better decisions

Having the correct numbers available, you'll know:

- When you can raise your profit margins and by how much
- What price to charge for specific equipment
- What to charge for specific parts and accessories
- How much labor rate to charge per hour
- What you should be paying employees and what benefits your company can afford.

When you're looking for additional profits by raising your prices, please realize the power in improving profits by nickels, dimes and quarters. Sometimes you can add a few dollars when you're making small adjustments. Making selling price adjustments requires you to remain competitive but receive a fair-market value for your product and service. You'll discover at the end of 12 months a positive impact on your pretax net profit.

It is our "margin of profit" that allows us to provide exceptional service and pay exceptional wages. After paying all the bills, if the pretax net profit is not exceptionally good, we can't achieve personal income goals.

Most outdoor power equipment retailers we work with want the same thing from their business — an exceptional personal income so they and their families can live an exceptional, but not necessarily ostentatious, lifestyle. As business owners, our dreams and standard of living are governed by profit margin.

After starting or buying a business, owners can quickly find themselves engulfed by day-to-day operational activities. Little time is left for tending to financial issues, including profit production. Without exception, no business will produce a profit unless it is managed with profit-oriented business principles.

See the sidebar at left, "A Plan for Profit" for a specific formula to increase your profits. Your efforts are sure to pay off on the bottom line.

Jim Yount Success Dynamics is a consulting and training company understanding the needs of power equipment retailers, distributors and manufacturers since 1970. For more information, call (903) 796-3094.

*Originally printed in Yard & Garden June 1999 issue.*

# Dealership Profitability

## *Doing what it takes to get the most profit from the business*

By Noël Brown

Maximizing dealership profitability is one of the most important elements to success — and is also one of the most elusive processes to pin down. We asked dealers, distributors, manufacturers and consultants what dealers can do to maximize their profitability. It is interesting how few could articulate the things dealers should be doing, or tell us the formula they use to determine when profit begins.

"If there's money left over after paying the bills at the end of the month, that's my profit," jokes one dealer. Good point — however, there is a little more to it than what cash is left after the bills are paid.

For a detailed account of how to determine profit margins in the business, we suggest referring to the article "Budgeting: An Important Management Tool,"on page 10 . For a quicker reference, we borrowed a formula from the Stens Corp. Small Business Conference Workbook (See "Return on Investment Worksheet," page 23).

It's important to know what your break-even point is, but also important is how to grow that bottom line. "I think dealers focus too much on the break-even point," says Dan Weingartz of Weingartz in Utica, Michigan. "That's not where the growth of the business is."

### Keeping your price

Weingartz continues, "It is price integrity. You know what you can legitimately make on a product. Stick to your guns. Say, 'This is what my service is worth.'"

"We've got to concentrate on quality, the facility, the services we offer," says Dudley Williamson of Quality Power Equipment in Columbia, Mississippi. "I don't want to be known as the cheapest place in town."

While this might seem like the credo for any power equipment dealership, it is surprising how many dealers will slash their own prices to make a sale — and they are doing more damage than they realize.

"Rampant price cutting is turning product and service brands back into commodity businesses," according to the article, "Discounting is no bargain," by Robert Shulman and Richard Miniter in the December 7, 1998 edition of the *Wall Street Journal*. Shulman and Miniter continue, saying, "Industries that rely on discounts train consumers to think of their products as commodities."

The article mentions many reasons businesses resort to discounts, including meeting quarterly numbers, trying to build loyalty and matching competitor prices. The authors conclude, though, that "brand loyalty is based on the idea that a product or service is uniquely better and different, not cheaper. Discounting thus erases the key difference with the competitor's products and services."

Shulman and Miniter provide several examples of businesses that ended up losing out by discounting their products, all with the same result: Discounting may help in the short run, but it never helps in the long run.

### Identifying 'high-involvement customers'

According to the article, only 15% to 35% of consumers consider price the chief criterion for selecting a product, stating results from a study by the Copernicus consulting firm.

"Each type of product has its share of 'high-involvement' buyers, who care about quality and brand, and 'low-involvement' buyers, who care mostly about price," says Shulman and Miniter. They state that high-involvement buyers outnumber the other customer by two to one in every product category. "Businesses that focus on the needs of high-involvement buyers can charge higher prices (and earn higher margins) than their rivals."

The article concludes, "When you discount, you're telling high-involvement buyers that they're wrong to care so much about your brand or service."

Another angle to this concept is how some dealers work with commercial customers. They will get the price they need on the wheeled goods, then cut prices on the handheld items "as a favor because they are such a good customer." While this sounds like an investment in customer loyalty, it may not be necessary.

"If these customers are happy with your product and service, they won't shop around for the unit you just discounted $20. There is no reason to do that," says Weingartz. "It's like handing out $20 bills. You can't afford that."

## Return on investment worksheet

| | |
|---|---|
| Enter sales dollars` | ___________ |
| Subtract cost of goods dollars from sales dollars | – ___________ |
| Equals profit dollars | = ___________ |
| Enter sales dollars | ___________ |
| Divide profit dollars by sales dollars | – ___________ |
| Equals profit margin % | = ___________ |
| Enter total year cost of goods | ___________ |
| Divide cost of goods by year-end inventory | – ___________ |
| Equals inventory turn rate | = ___________ |
| Enter turn rate | ___________ |
| Multiply profit margin by turn rate | x ___________ |
| Equals return on investment (ROI) | = ___________ |

Worksheet taken from Stens Corp.
Small Business Conference Workbook

### Selling with confidence

Hand-in-hand with holding steady with your price is being able to "sell it." In other words, you have to believe in your price and present it as the great value that it is. "Have confidence in your price," says Weingartz. "Don't even give people the, 'Well, if you find a better price somewhere else ...' option. This is the price and this is what you're going to get for it. It's a fair price. Present it that way."

Selling the value of your price should come through loud and clear in your merchandising techniques. "We made a top-10 list with points about why you should buy from us," says Lee Miller of Miller's Lawn & Garden in Lock Haven, Pennsylvania. "That list is everywhere: on price tags, literature, quote sheets, invoices."

Miller emphasizes the importance of using quote sheets vs. a blank piece of paper. "The quote sheet reminds us of all the little things we might forget when quoting a price."

Computer-generated price tags reinforce confidence in your price and discourage negotiating. "We found haggling dropped by 75% when we began printing our price tags," says Weingartz. "If we have a sale, we print out new tags. It works best for keeping your price."

Williamson found another way to make customers feel like they are getting a special deal — without reducing his price. He learned at a dealer meeting of another dealer who offered three prices, along with three levels of service, which he called a "VIP" program.

On each tag, there are three prices listed. The most expensive is called the "VIP price," which offers a 10% discount on parts, immediate turnaround or a free loaner. The next price level is the "preferred price." Customers who pay this are offered a 5% discount on price and a seven-day turnaround. The third price (the regular retail price) is called the "promo price," which includes no special add-on services.

The result was not what Williamson expected — but he was pleasantly surprised with the outcome. "I expected to sell product at the VIP level," says Williamson. "Well, not too many customers go for the added services. But because of the way it is listed, customers thought the 'promo' price was a sale price, and they were happy to pay it. It put an end to haggling, and I got my margin."

### What the right suppliers can do for you

Granted, suppliers can be a huge help to dealers by offering the right margins. In addition, however, just as dealers offer many extra services to their customers, the right suppliers are the ones who provide value-added services to make doing business easier for you.

One area more suppliers are showing support in is business training. "I like distributors who are concerned about us making a profit," says Williamson. "I look for schools that help us run our dealerships. We are not trained in business management. It's a lot of guessing."

Another area where suppliers vary has to do with product. Not just what product they provide, but how much they provide, and when.

"We look for support from our suppliers, someone who can help take some of the burden off of us in holding all the inventory," says Don Kruse of Chagrin Pet & Garden & Power Equipment, Inc. in Chagrin Falls, Ohio. "Some of them are very good at this. They offer great programs, volume discounts, next day parts. They are using the Internet to serve us better."

## Maximize profit-helpers

There are certain product categories that boast higher profit margins than others — parts and accessories are a perfect example. Though they offer high margins, they also tend to be low-ticket items that require a lot of handling, which eat up much of your profit.

More companies now are offering ways to boost sales while reducing the amount of employee time needed to make the sale. Some manufacturers now offer attractive wall displays that allow you to showcase parts and accessories on the floor, rather than behind the counter.

"When we brought them out front, our parts and accessories sales increased 20%," says Randy Pinkston of Pinkston Lawn Mower in Midland, North Carolina. "We put ours at the counter, and there is a lot more impulse buying. Customers help themselves, and the sales staff is feed up to spend more time selling the bigger items."

"We sold more belts and blades last season than ever — and this was during a drought," says Lee Miller of Miller's Lawn & Garden in Lock Haven, Pennsylvania. "I originally didn't think it was a good idea. But parts packaging is more customer-friendly now. It's been great. It gives our people more time to visit with customers."

Kruse talks about the trend toward a "Just-in-time" inventory. "We have one supplier who replenishes our equipment automatically as we sell it. That really helps us. We can't afford to have product just sitting here."

One of the best ways to boost profits is by cutting expenses. Williamson found a good way to do that is by consolidating his product offerings to two lines. "This is a good idea for several reasons," says Williamson. "We save a lot of administrative time and cost by only dealing with two suppliers. We have better knowledge about our products, because there aren't as many to know about. And customers will be less confused by their choices, and know that we really support these brands."

### Become an inventory management expert

"There are three ways a small business can increase profits:
1) increase sales,
2) reduce cost or
3) increase prices." This statement comes from the Inventory Management section of the Stens Small Business Conference Workbook, offered to dealers who attend their small business conferences held regionally throughout the country. It goes on to say that "Cost reductions increase profits dollar for dollar. This is an important consideration for small firms looking for savings." See the illustration at right of why reducing costs is a better alternative than increasing sales. You would have to make $4 of sales to get the same profit as decreasing costs by only $1.

Stens offers a few other points to consider to help increase profits through improved inventory management:

- Remember that price of product is only one element of cost. Transportation, receiving, handling, recording and storage are clearly identifiable costs which need to be added to price.

- Remember also the less obvious costs: quality problems, service problems, obsolescence and other related factors.

- Consider five factors when evaluating your inventory control system:

  - size of inventory
  - mix of inventory
  - record accuracy
  - inflation
  - inventory turnover

Suppliers can be a wealth of information. Ask them to help you find tools to increase your profit. Your success is in their best interests too.

## The cost of cutting prices

| If you cut prices by | You must increase sales by |
|---|---|
| 2% | 8.7% |
| 5% | 25% |
| 10% | 66.78% |
| 20% | 400% |

| When you increase prices | You get the same profit on |
|---|---|
| 2% | 92.6% of volume |
| 5% | 83.3% of volume |
| 10% | 71.4% of volume |
| 20% | 55.5% of volume |

**Figuring gross profit at 30 percent,**

| a price cut of | requires more dollar volume by | and merchandise handling of |
|---|---|---|
| 5% | 14% | 20% more |
| 8% | 25% | 36% more |
| 10% | 35% | 50% more |
| 20% | 140% | 200% more |

| Example: | List price | Discounted Price (10%) |
|---|---|---|
| | $ 100 | $ 90 |
| Cost of product: | $ 70 | $ 70 |
| Profit margin: | $ 30 | $ 20 |

**To make $300 in margin at the list price, you need to sell 10 units. To make the same margin at the discounted price, you would have to sell 15 units.**

*Taken from Cygnus Publishing internal manual for sales associates*

# Generating Profits Through the Service Department

## *Can the service department be the key to future profitability?*

By Bill Bohmer

Any outdoor power equipment dealer worth his/her salt knows what it feels like to leave "money on the table." What do you think when you win a bid against the biggest price cutter in your area? Or, how do you react when your most price-conscious landscape contractor accepts your first price to trade? Oh yes, you know about leaving money on the table ... or do you?

It might surprise you, but most outdoor power equipment dealers leave much more money on the table in their service operations than in any other area of their businesses. Yes, that "dark hole" in your operating statement — that "necessary evil" — might just hold the key to sound operating profit today and survival in the future.

We certainly are not the first industry to deal with service profitability, efficiency, and customer service satisfaction issues. Automotive and heavy equipment dealers have faced these areas of concern and made great strides in the past 10 years. Outdoor power equipment dealers can accomplish similar results. It is a matter of defining your potential and becoming committed to instituting a team approach to reaching that potential.

***Try to set your retail labor rate at 3.5 times your billable technicians' average hourly wage rate.***

### Attacking the problem

Dealers have traditionally tried to improve service operations by arbitrarily raising their retail labor rate. While your labor rate is an important component of the service profitability equation, it is certainly not the "cure all" we have tried to make it through the years. Try to set your retail labor rate at 3.5 times your billable technicians' average hourly wage rate (including overtime component). If you do, you should have enough margin to operate a profitable service enterprise.

Other dealers have added service capacity or expanded service focus. Adding a good billable service technician to your staff can create as many margin dollars (labor and parts) as by adding a competent power equipment wholegoods salesman. We must consider adding capacity to our service operations as a marketing opportunity. Adding billable technicians, expanding hours, servicing other kinds of products (e.g. RVs, light trucks, electrical component parts), and instituting full-time road service have been successful strategies. In addition, servicing mass merchant units might be useful in increasing service capacity and helping address our problems with seasonality. In any instance, it is an important part of a long-term strategy of increased service department contribution to dealership operations.

### Service recovery

Service billable hours are inventory. The problem is that you cannot see, touch, feel or smell them. Billable hours are every bit as valuable as parts in a bin or mowers on the equipment lot. Our challenge to recovering as many of our billable hours as possible is not unlike that faced by physicians, attorneys, or CPAs. There is no doubt that billable hours are one of the dealership's most important assets.

One of the unique aspects of labor hour inventory is that it has already been paid for. Wages and benefits are paid, the lights are on, the tools are ready to be used. It stands to reason that increasing sales through improved recovery will translate directly into bottom line profits.

Our research shows that for 80% of power equipment dealers, making a concerted effort to improve service recovery will make a greater economic impact on the dealership than any other single management decision. There is more improvement potential in a shorter period of time with little or no additional investment.

The key frustration to improving recovery is that no one individual can make it happen. You can be convinced that you must carefully monitor and utilize your labor inventory, but if your service personnel do not also understand the

| | |
|---|---|
| **Total hours paid to technicians** | ____ |
| **x Retail labor rate** | ____ |
| **= Total labor pool** | ____ |
| **x Target recovery** | 70% |
| **= Target sales** | ____ |
| **– Actual sales** | ____ |
| **= Profit opportunity** | ____ |

concept and take active steps to work toward your recovery goals, your plan is doomed to failure. It takes a team effort to make a recovery improvement program work. If you enlist and receive active support from your service department employees, dramatic recovery and service department profit gains can be realized in a matter of a few weeks.

## What is my potential?

Certainly it is important to see how much potential gain you have compared to realistic industry norms. The calculation is a simple comparison of your service sales to your total labor pool. For this purpose, labor sales should only be counted for retail customers, warranty, or adding value to dealership inventory. Do not include dealer expense items like building and vehicle maintenance, general lot work, cleaning shop, etc.

Compare your sales to a realistic recovery percentage (e.g. 70%). Do you have a significant upside potential? Many outdoor power equipment dealers would like to live on their service department upside potential. If you have large potential, remember that figure! It is not "pie in the sky." You can bring those dollars into your operation with a commitment to a team approach and some persistence.

## Institute service incentive

The concept is simple. The dealership has a large number of dollars to gain from improved recovery; we need a team effort to make it happen; if it does happen we are willing to share some of the gain with our service people. Make your incentive a group incentive. A group incentive eliminates the claim of scheduling bias. It also will foster a feeling of teamwork where individual incentives tend to create a "loner" atmosphere. Also, you, the dealer, will only pay incentives if the level of the entire service operation reaches the established recovery goal.

Your incentive needs to be meaningful. Make the amount given to technicians and management enough to attract their attention, but the total of incentive payout should never be greater than 33% of your profit gain from increased recovery.

Be sure to report your recovery progress to your service personnel on a regular (usually monthly) basis. It allows them to see how they are doing and make the changes necessary to correct any shortfall.

## Internal labor sales

It may have occurred to you at this point that there is a potential "hole" in a Recovery/Incentive System. What about the way we bill our internal labor?

Formalize the relationship between the sales and service departments. Service should not have a blank check to work on dealership inventory. Approved labor sold to the sales department should not be discounted.

New equipment set up should be accomplished using an internally generated flat rate. The rates should be a valid compromise between sales department and service department input. This approach will allow the salesman to quote an exact setup figure at point of sale and allow the setup technician a realistic amount of time to set up and pre-deliver a unit.

The service department should treat the sales department as one of its biggest, most important customers. Estimates should be given on used and rental inventory. Then, work should be done within those estimates. The combination of using an internally generated flat rate to set up new goods and using estimates to control reconditioning service will assure there is no "funny money" in the recovery calculations.

## Results

Most dealers who have implemented service recovery/incentive programs as described have realized immediate and sizable gains. The gains are measurable, and the habits that result from a committed team effort are enduring.

Bohmer & Associates, Inc. is a consulting firm specializing in service department procedures, accountability and incentive systems. For more information, call (800) 923-7347.

*Originally printed in Yard & Garden January 1999 issue.*

# Profit in the Shop

## *Dealers talk about what tools they use to get the most out of service.*

By Noël Brown

Providing repair and maintenance service on power equipment ... This is what many say is the power equipment dealer's competitive edge in the marketplace. Service is the area that many say will be the main thrust of every servicing dealer's business in the future. After all, as some say, anyone can sell a piece of power equipment. But not just anyone can fix it.

Yet, many dealers today refer to the service area as a "necessary evil." For some, reaping profit from the service department is a mystery. "We knew there were profits being left on the table with repair jobs," says Jamey Gibson of Capital Tractor in Greenwich, New York. So how do you make sure you get every penny of profit from this important department of your business?

### Discovering profit potential

Gibson decided to invest in bringing a consultant in to help him zero in on the areas he was losing money and help him find solutions. He called Bill Bohmer of Bohmer & Associates. "The first thing he convinced me of was that we have to treat technician hours like inventory," says Gibson. "It's no different than having a tractor worth x amount of dollars. Our labor pool is worth x amount of dollars, too."

#### Tips to increase profit in the service area

- **Charge for diagnostic time.** "We charge a $20 fee for estimates, then apply it to the repair," says Hamilton. "That way we recover the tech's time. Customers will squawk sometimes, but we just ask them, if it's not worth $20, then why are you bringing it in at all? We don't lose many."
- **Recoup costs.** Put a flat EPA charge on every ticket. "We get $2 from every job and apply it to the cost of all the rags, cleaning supplies, oil disposal, etc. so we recover costs we used to have to take on ourselves," says Hamilton.
- **Get on-line.** Rather than waiting weeks for warranty reimbursement when you send claims via snail-mail, computer savvy dealers are getting paid much sooner. "We submit our warranty claims on-line, and often get credit the next day," says Gibson.

Clegg Hamilton of Monroe Chain Saw in Monroe, North Carolina also turned to a consultant to help him tap into his service profits. He called upon Jim Yount of Success Dynamics, who told him much the same thing: Time is inventory. The first thing Yount changed in Hamilton's business was to have technicians clock in and out of every job. Right away, they saw improvements.

"One of our techs said, 'Wow, I thought I only took 45 minutes to fix this trimmer carburetor. But I clocked out at an hour and a half.' We knew then that we were going to start seeing profits we didn't even realize we were missing," says Hamilton.

Likewise, Gibson saw immediate profit by developing a better flat rating system. "If we can't flat rate them, we don't give customers a concrete estimate," says Gibson.

The flat rate system produced several profitable benefits. "Having a flat rate guide made everyone accountable for what they do," says Gibson. "If it's a 10-hour job, everyone knows it. It helped us be very honest and upfront with customers." The flat rate guide reduced customers balking at repair estimates. "The service manager pulls out a pamphlet of flat rates and shows them. It's right there in black and white. There's no debate."

When Gibson implemented this flat rate system, his team went through the tedious task of developing a list of flat rates on their own. "We sat down and looked at all the products we sold. The service manager, the mechanics and I all came to agreements on how long it took for various repairs and set up. We went over our historical records to help figure it out." A lot of work went into making sure the times were realistic. "You've got to make sure you get paid for what you do," says Gibson.

Gibson had to do that because a general flat rate guide didn't exist at the time. The Ohio-Michigan Equipment Dealers Association, however, has developed one and has just announced its availability for dealers looking to adopt a similar system.

### Dangling the carrot

For both Gibson and Hamilton, incentive programs for technicians have also created a boon to shop efficiency.

## Creating solutions in shifts

There are some dealers around the country who have figured out how to extract the most efficiency and profit from their service departments some time ago.

Case in point: Harry Olson of Waterloo Implement in Waterloo, Iowa. He's been on the cutting edge of service for well over a decade. Olson saw opportunity in his community to provide more service. The business was there — but his facility didn't have the space to house more technicians during the day. Since expanding the current facility would be costly, Olson found another alternative: employing a second shift.

His reasoning was solid. According to Olson, more hours don't add very much to the top line, versus "brick and mortar growth," so most of the additional income goes to the bottom line.

So he began keeping the dealership open during what he calls "customer hours."

**Customer Hours**
**Monday — Friday**
7:30 a.m. to midnight
**Saturday**
7:30 a.m. to 5 p.m.
**Sunday**
9 a.m. to 4 p.m.

**Service shifts**
**1st shift:** 7:30 a.m. to 4:30 p.m.
**2nd shift:** 4 p.m. to midnight

### *Overcoming obstacles*

One of the main obstacles would be, of course, finding the trained mechanics who would want to work nights, and finding a manager to run things. But Olson says, "Right from the start, we had more volunteers to move to second shift than we had spots available. We were surprised in the number of employees who preferred later hours. It was not necessary to use financial incentives."

Staffing didn't turn out to be too much of a challenge. And, if you think about it, there aren't too many other obstacles. You're paying basically the same facility costs; the night shift uses the same space and tools as the day shift; equipment turnaround will be much quicker, so additional storage space is not that big a concern. That said, the main goal is to make sure you have enough service work to recoup the investment in additional people and start making a profit from the second shift.

### *A wise investment*

Olson says service business tripled by adding the second shift. There were other benefits to "customer hours:"

- 25% of total business comes during the expanded hours
- 10-15% annual sales growth
- improved business profits
- expanded customer base
- created a competitive edge

*Harry Olsen made a presentation about his service department in the class, "Parts and Service Marketing" at John Deere's Parts Expo in Nashville, Tennessee, last December. This information was taken from his presentation.*

Using Bohmer's system, Gibson developed a formula to determine the break-even point and profit goals for the service department. "We set our goal at billing 74% of hours worked (billable hours)," says Gibson. "If the technicians maintain that as a team for the quarter, they each get one week's extra pay." Each technician gets monthly updates on their efficiency, so they know where they stand and what they have to do to get the bonus. The results are obvious. "We ended last year at 76%, and that includes normal downtime, such as vacations and sick days. We were happy, and the mechanics love it, because they get rewarded for their hard work."

Hamilton uses a slightly different system, but achieves the same profitable result. He provides his team with weekly reports on their efficiency. His technicians get an incremental hourly raise for anything over 55%, then another at 60% and so on. "I would say we've seen at least a 20% increase in profit since we started the program," says Hamilton. "It's phenomenal."

"The car business strives for 100% absorption, where parts and service support the sales end of the business," says Gibson. "That's what we need to do to become better."

Gibson is happy about their progress. "Our shop is very profitable. You can put your hands on it now. We know it's real profit."

To reach Bill Bohmer, call Bohmer & Associates, (800) 923-7347. To reach Jim Yount, call Success Dynamics, (903) 796-3094.

*Originally printed in Yard & Garden March 2000 issue.*

# Developing a High-Profit Niche

By Al Eden

*Al Eden owns Eden's Ltd., a power equipment dealership in Anamosa, Iowa*

Being a small (primarily tractor and zero turn) dealer for 24 years in a town of about 4,000, 25 miles from a metro area, we studied options for growth. We took a hard look at wholegoods growth. Without major expansion costs, floor space and advertising, it seemed limited. We already had a very good parts business, and have shipped parts UPS for years. We decided it takes about $250 worth of wholegoods sales to equal the profit margin in $100 of parts sales. Parts appeared to be our best opportunity. To position ourselves we decided to:

- Develop a parts source for any equipment in the area, particularly any lines not well-supported. Network with distributors, dealers, the aftermarket, obsolete inventory dealers, the outdoor power equipment salvage yard and liquidators.

- Continue to sell ONLY OEM parts in any line we are franchised. Stock deep in these, and special order anything else. Focus on growing riding parts (more dollars per order). Identify common parts between brands.

- Obtain micro-fiche for as many lines as possible.

- Become THE place people could call or come to for parts and help. If we don't have them we will get them, and if desired, UPS them. People don't generally price shop for parts they can't walk in and buy locally. They want to get them with the least hassle. Promote our 800 number.

- NEVER send people elsewhere. That's where they will go FIRST next time. If they come to us for Sears parts, they are tired of the hassle and delay at Sears, not the cost. Most times we can be faster and much more helpful than Sears. We are now their first choice. Help them!

- Continue to be open evenings. (When you are open 9 a.m. to 5 p.m., you cater to the unemployed).

- Incorporate into our advertising and Yellow Pages ads "We UPS parts" (Yellow pages to 50 miles — 0.8% of gross sales).

- Price parts to maintain ADEQUATE margins, plus charge shipping and handling for special order parts in lines we are not franchised. Explain up front, minimum order pass through charges, etc. People understand.

- Accept questions and phone calls from "Do It Yourselfers," because we usually sell or UPS parts to them. When we are three weeks behind in the shop, these are parts we would never sell otherwise. Sell service manuals. Fax parts diagrams. It also cements customer relationships.

- Sell engines and shortblocks from our distributors only at Manufacturers' Suggested List Price or promo prices. No liquidator engines.

- Do any warranty work, including "Box" stores. Don't solicit it, however. (margins and labor)

- Network with all of the sales reps that call on us. They often help us find parts sources and tell other dealers that we can usually get them locally hard to get parts at 10% off our list. Remember these people are eyes and ears to the industry, they see what is and isn't working in other stores. Pick their brains.

In our case, parts sales have increased 61% in the last three years. Parts margins have increased 3.8% to their current level of 43%. Parts are now 42% of total sales representing an increase of 5%. This percentage would be larger but our strategic parts plan has increased wholegoods sales as well.

Our customer base has expanded to include people 70 to 80 miles away, including phone customers that now drive to us for wholegoods. This is one way to retain small-town overhead and draw Metro business. Wholegoods are ONLY sold set-up and running onsite or demo. We mean it when we say, "How may I help you," in our friendly small-town way.

*Originally printed in Yard & Garden June 1999 issue.*

# The Pros and Cons of Diversifying the Business

## *These days, it's tougher than ever to distinguish yourself ... Is taking on another product category the way to go?*

By Noël Brown

"In our business, you've just got to be diversified today," says Bill Palm, owner of Honda of Marquette in Marquette, Michigan. "You've got to have something for every season. These winters are just too long to not be making money." Palm shares an opinion with many dealers today ... in order to succeed and grow in today's competition, power equipment dealers need to find product categories that supplement the seasonality of their businesses and optimize their resources.

Making a decision as to whether to diversify your business takes very careful consideration and includes many factors. Here, dealers who have been there provide advice on the best approach to this decision.

### Determine your needs

Before you decide you want to diversify the business and take on non-related lines, you have to decide what needs you are trying to fill. Maybe it is just a case of supplementing sales during the off season. Perhaps the need is to create enough repair work to keep (and adequately compensate) the best mechanics. It could be a question of getting the biggest ROI per square foot of your business.

Beyond the obvious "I want to make more money" scenario, it is important to sit down and determine exactly what business needs you want to address with this possible solution. Once you address the areas of your business that need attention, think first about the possible solutions that can come without investing time and effort in diversifying.

For instance, if the primary objective is to create more work for the mechanics, can that be achieved through better marketing of your services and special winter tune-up specials? Chances are, you've already tried the more conventional solutions, but it is important to review your efforts and make sure you are not trying to build a cast for a wound that only needs a Band-Aid.

Another important factor to consider when choosing a profit alternative is if it aligns with the basic tenets of your business. You don't want to choose something that will compromise your points of distinction as a power equipment dealer. For instance, when asked what your strongest selling point is, you'd probably say something to the effect of, "service after the sale," or "product expertise." Be sure to consider only those alternatives where you can maintain your strengths. For instance, taking on snowmobiles would allow you to continue to showcase both your expertise and service after the sale. However, opening an ice cream counter would do neither.

### Will your customers accept it?

The demographic complexion, customer needs and buying habits of your community are constantly changing. Do you see a need not being filled by another business? Many dealerships profit simply by identifying new buying trends and being the best at filling the niche.

Use your current customers as a place to start identifying unfulfilled needs. Ask customers at the time of purchase about their buying habits. "Is there anything we could provide here that would make your shopping experience more complete?" Also ask where they will be going after leaving your store. Often, you will see trends that offer you a new opportunity. For instance, if many customers headed to the local nursery for gardening seed and supplies after visiting you, that may be the clincher in deciding to carry those materials yourself.

When gathering information, however, don't just stop with your current customers. Keep your eyes and ears open when you are out shopping as well, or at Chamber of Commerce functions, or at the Little League game, or while you are out golfing. The best ideas often come from unlikely places. "You've always got to keep your eyes open for something new to sell," says Richard Keyes of Dixie Auto Parts in Athens, Alabama. "Especially look for things the competition doesn't sell. That's your opportunity to fill a need they don't."

### Get input — and commitment — from the whole team

Another excellent resource when determining how to diversify your business is your employees. They are there on the

## What other dealers carry

It isn't just a question of "To carry go-karts, or not to carry go-karts?" for dealers anymore. Some are getting creative, filling niches they see a need for in their communities. Here a few profit alternatives that we've seen or heard about in dealerships:

- Hardware
- Nursery goods
- Cellular phones
- Sewing machines
- Appliances
- ATVs
- Snowmobiles
- Swimming pools & supplies
- Spas
- Wood & gas stoves
- Patio furniture
- Grills
- Storage buildings
- Boats
- Watercraft
- Motorcycles
- Hunting supplies
- Christmas supplies
- Fishing supplies
- Toys
- Trailers
- U-Haul trucks & trailers
- Clothing
- Office supplies
- Computer equipment
- Sports equipment
- Pet supplies
- Lumber/building supplies

"front lines," dealing with customers and hearing their "shopping wishes." Employees also know what they work on and with all day, and what would be a natural extension of their daily duties — and what would be a complete disruption.

Most employees also come to your business with experience from other workplaces. For instance, a mechanic might mention to you that at his last job, he did a lot of work on construction generators during the winter — a market you hadn't considered. Be sure to get their input when deciding how to best diversify the business.

Then — and this may be most important of all — once the choice is made, get your entire team to buy into the new concept. Unless your employees take ownership of diversifying the business, the new undertaking will have little chance of success. "When you decide to take any line on, the decision has to involve everyone in the dealership," says Brent Baer of Arva Lawn & Garden Equipment, Ltd. in Arva, Ontario. "It's going to flop unless you get support from everyone there."

### Anticipate the problems

"It can be mass confusion," laughs Palm, when talking about the drawbacks of carrying different product categories. "Everyone's got their set of mailings, flyers and finance programs. It's a lot to keep straight."

Administratively, taking on a new product category can bring new challenges. Beyond the different finance requirements and schedules, there are added parts inventories, storage issues and support materials.

There is also the issue of training. Employees will need to learn the features, benefits, techniques and uses of a new line. "Though we don't have separate salespeople for the different equipment categories, we do have someone who 'specializes' in the bigger motorcycles, since they have such different features," says Palm. "But we keep our people in a constant state of training, so they can be knowledgeable about any product the customer might have questions about."

Mechanics will need training on the repair, maintenance and setup of the new line — and possibly require separate certification. These are all important issues to factor in when making a decision to take on a new line.

There are also employee "preferences" to consider. One good example is snowmobile repair. According to Baer, some power equipment mechanics don't like working on snowmobiles. "A tractor is on wheels and you push it around fairly easily," says Baer. "But a snowmobile is dead weight. That work is a lot more physical. Some mechanics don't like it."

The financial requirements can also be very different from your power equipment lines. "When we took on the snowmobile line, it took much more capital to get set up than the power equipment lines," says Baer. "We needed a much bigger line of credit." Be sure you know all the new requirements of taking on a new line, and have the resources to support it.

### Give it a chance

Once you've done all your homework and decided to take on a new line, be sure to give it every chance to succeed. Often, dealers decide to "give it a few months," then pull the plug before customers really get to know the dealer even offered the new product line. Dealers say that, in most cases, it can take as long as two seasons before you can really decide if a new product line will take off. It takes one season just for customers to realize you carry the new line.

Included in your investment and plan for the new line should be a marketing budget. You've got to get the word out about the new service you offer. And don't just assume the same advertising venues you use for your power equipment messages will do for the new line. Often, customers for the new product category can be better reached by other media. "We keep all our advertising separate," says Baer. "The only place they are together is on our business cards."

More dealers are finding new product categories a viable profit alternative. "If you're going to be in this business, you need to think of new ways to stay successful," says Keyes. "You need to stay profitable year-round." YG

*Originally printed in Yard & Garden April/May 1999 issue.*

# Growing Through Acquisition

## *One dealer relates his experience of buying other dealerships to grow his own.*

By Noël Brown

We asked Dave Moynihan, owner of The Mower Works in Clarksville, Maryland, to tell us about the process of buying another dealership. Through this interview, he provides advice that can help both dealers looking to buy another operation, as well as those looking to sell.

*Y&G: What was going on with your business that made you decide to buy another one?*

***Moynihan:*** Our physical location was far too small and new development was imminent on the property. Being faced with the need to expand at a considerable expense, it made perfect sense to approach other businesses in similar situations. The purchases of those businesses allowed for an instant increase in customer base and revenue, in turn affording the opportunity for our new facility.

*Y&G: What did you do to prepare your business for the acquisition?*

***Moynihan:*** There were several issues to address to be ready for the added business. We had to be sure our business systems could accommodate growth today and in the future. I implemented an effective computer system with the ability to grow as the company grows.

Adequate facilities planning was necessary. Customer perception is essential, and after acquiring an additional customer base the infrastructure must be in place to support the increased volume of business. I found "divisionalizing" parts, sales and service was essential to a profitable high volume.

I sought out legal and financial advice from those familiar with the industry, and tempered that with my vision of what would work.

Early delegation of responsibilities to key employees proved essential. I had to "let go" of seemingly important factors and delegate to perfectly capable people. In doing that I could focus on "results" as opposed to "methods."

Prepare employees for change: identify needs, provide positive reinforcement and assure them continued employment.

Diversifying while maintaining focus was key. Repairing and selling parts for a broader range of power equipment, for example, such as generators, marine outboards, pleasure watercraft and air compressors among others, offered an opportunity to do this easily.

Finally, I found I had to adjust my buying practices to reflect the larger customer base, tempering my apprehension and exploring new avenues of profit. There are many potential profit centers that dealers may not have considered.

*Y&G: How did you find the right party/dealership to work with on this?*

***Moynihan:*** It is my belief that many dealerships today are in a "crossroads" position. They have a significant customer base, goodwill, and a positive reputation. However, physical facilities, finances, the shrinking pool of quality employees, and the need for a significant investment to remain competitive, i.e. computer system and increased inventory, force them to evaluate their future in this business. This is the predominant dealership makeup today, so you need not look far to find compatible businesses.

***"Many dealerships today are in a 'crossroads' position. ... The need for a significant investment to remain competitive force them to evaluate their future in this business."***

*Y&G: What criteria does a buyer consider in a power equipment dealership before deciding to buy?*

***Moynihan:*** First, evaluate why you are buying. The immediate increase in your customer base and business volume affords immediate growth. Limiting local competition is another positive aspect. If one of your reasons for buying is that you are contemplating a second store location, the combining of resources into one facility may be far more cost effective than dealing with the typical problems associated with multiple locations.

There are basically three types of businesses for sale. A non-viable business would have a potential asset buyout that would increase inventory but offer little else. This type of business is not necessarily a good investment. At the other end of the spectrum, the acquisition of a large volume, well-established, high-profit dealership with a significant corporate structure would likely involve property, significant assets, goodwill and extensive industry experience. In this case, a buyer must be well-financed, comfortable with delegation and the corporate structure, and in possession of a significant ability to manage at the top level.

The third type of business is the viable "crossroads" dealer I just described in the last question. This is probably the best type of business to buy.

Look for similarities in the potential business with your existing operation. How will they blend? What is the owner's philosophy regarding personnel and inventory? What type of profit structure is in place? Is it sales, service, or a combination of both? Compare key points of operation with the operation of your own business.

Factor in the potential business's reputation. What is the community's perception of that business? Is there name recognition and longevity? Is the present owner willing to market the sale as a merger to protect the customers' comfort level?

Think about the ease of transition for the customer. Will you have the ability to forward the business phone number to your existing number? By doing this, you can retain 80% to 90% of the selling business's customer base. Verbal interaction and proper explanation of your "merger" is key to retaining customers and establishing a continued comfort level.

Think about the product mix. What products/services does the potential business sell? How does it compare with your existing product line? Weigh compatibility and potential business. Plan for integration to keep your variety of customers satisfied.

Take into consideration the legal and financial viability of the potential business. Are they involved in any pending litigation, or do they have judgments against them? Look at financial obligations for existing inventory. An appropriately structured buyout agreement is essential in eliminating future troubles.

Finally, weigh the value of the existing employees subsequent to the buyout. The best ambassadors for your "merger" are the employees. You will maintain your customer comfort level.

*Y&G: Having gone through the process, what are the five most important things to remember when looking to buy a business?*

***Moynihan:*** 1) Community perception of the existing business. It must be established and positive otherwise the value will be significantly limited.

2) Weigh the burden of additional overhead to support the customer base. Can the current facility support additional customers? Are you prepared for the increased service business?

***"Expect six months discussing concept, six months before implementation, and three months for transition. Yes, 15 months."***

3) Real value of equipment and inventory as compared to perceived value, and an acceptable plan between owners to finance. It is often unlikely to acquire commercial financing.

4) Legal and financial considerations: pending litigation, judgments, obligations to finance companies for exiting inventory, etc.

5) Plan for implementing transition. Peak season is not desirable for obvious reasons. An attempt to take on too much will result in mediocre results. Expect six months discussing concept, six months before implementation, and three months for transition. Yes, 15 months.

You must remain flexible. Be creative. Decisions that may be ultimately profitable may not be achieved in haste. Keep in mind that tangible results my not be readily apparent.

Sticking to the shared vision and philosophy will increase your business volume significantly.

*Y&G: What are the five most important things to remember when looking to sell a business?*

***Moynihan:*** Consider many of the same elements we just talked about when buying, but from the other side.

1) What benefit will the proposed buyer receive? Consider financial aspects and community perception.

2) What is your current appeal? Conduct a financial study, looking at your asset base and your facility lease or real estate value. What segment of the population is your key target?

3) Be aware of the prospective buyer's need for owner financing. Due to prevalence of a limited asset base in this industry, you must be prepared for a suitable payment plan between parties.

4) Flexibility. Assuming your motivation to sell falls in the "crossroads" dealer range establishes a significant "gray area" in the perception of value between current owner and buyer.

Two examples are good will and inventory valuation. First is good will. It is difficult to place a cost on the value of the customer base. If the business being acquired were to close, the buyer would acquire some of the existing customer base simply by default.

With inventory valuation, there are factors such as overhead and the integration of stock and services that must be explored to the satisfaction of both buyer and seller. A buyer is looking at the viability of the sale, and the seller needs more appeal than the simple liquidation of his business.

5) Continuation of employment for staff. This is difficult. It is not necessarily reasonable to expect the potential buyer to enter into a contractual relationship with your employees. However, if you truly have a viable business, their continued employment is essential to maintaining continuity in the transition phase.

In all of these instances, excellent rapport with the prospective buyer is essential to success.

*Y&G: Was there anything you would have done differently?*

***Moynihan:*** I would place more focus on a financial contingency plan for events beyond human control. In 1999, the worst drought in 100 years struck our region after I acquired and was paying for the acquisition of two other companies. This placed a severe financial strain on cash flow. An understanding with our vendors allowed us to survive a difficult period and clearly illustrates the importance of a trust relationship with vendors/lenders.

***"As independent dealers, we wish to maintain a viable position in the industry. We must look to the future without the debilitating fear of change."***

*Y&G: What are your future plans?*

***Moynihan:*** I would like to refine existing operations into a streamlined package and explore the franchising of service operations fashioned after many other successful industries. Opening additional stores in independent hardware stores with a similar arrangement is also another possibility.

*Y&G: What do you see in the future for the power equipment dealer?*

***Moynihan:*** There are significant positive future opportunities for the independent power equipment retailer/servicer in my assessment. Significant strides must be made to change the customer perception of the repair industry. Mid-level dealers will continue to close/merge and there will be a gap between large-scale professional operations and what we currently know as hometown service centers.

As with our industry, many other industries have evolved in a similar, sometimes painful, fashion. These industries have faced similar challenges without being swallowed up by the industry giants. Nearly every other industry in the service business has companies with national recognition. Coming advancements in power equipment will facilitate the support of nationally recognized names in this industry.

As independent dealers, we wish to maintain a viable position in the industry. We must look to the future without the debilitating fear of change.

*Originally printed in Yard & Garden January 2000 issue.*

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