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YARD & GARDEN

The business management Survival Guide for today's full-service outdoor power equipment dealer

# Dealer Survival Guide

volume 9

A supplement to Yard & Garden magazine

## Why do dealers fail? And how can they succeed?

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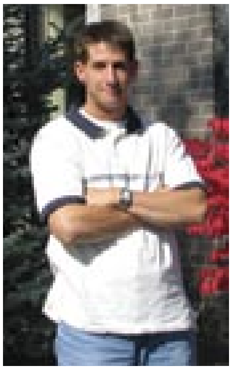
## Gregg Wartgow, editor

The first *Yard & Garden Dealer Survival Guide* was printed nearly four years ago. At that time, the staff of *Yard & Garden* felt the dealer network was at a critical juncture. The market was changing rapidly. News of continued manufacturer consolidation seemed like a daily occurrence. Technology was becoming more important to daily business activity. The list of brands being sold by the "new-age" big box stores was growing. It was getting harder and harder for many dealers to remain profitable — perhaps even competitive.



The *Dealer Survival Guide* was designed to arm dealers with pertinent business management knowledge to help them emerge from this time of uncertainty. Still, due to the forces of a mature industry, dealer attrition began to accelerate. As a matter of fact, *Yard & Garden* circulation data suggests that the dealer network was reduced by more than 1,000 during the 2000-2002 time frame. Many of these dealerships were of the mom-and-pop variety. But some bigger, more "superstar-ish" dealers did not go unscathed, either.

The dealer network seems to have stabilized for the time being. However, it may be arriving at an even more critical juncture today than it did in 2000. Part of the prevailing message in *Survival Guide* has been that dealers can rise above their big box competitors by focusing on service. It's not that simple anymore.

Home Depot and Lowe's, two of the top three U.S. retailers of outdoor power equipment, are now outsourcing the majority of their service work to what we refer to as national service organizations: Altaquip and A&E Factory Service via National Electronics Warranty Corp. (NEW). This evolution in mass merchant service has the potential to impact many smaller dealers who've been reliant upon box stores for service work.

It also has the potential to impact medium-size to larger dealers who have never considered servicing the box stores. For those we refer to as Tier II and Tier III dealers, whose overall revenue streams are more reliant on equipment sales than parts and service, the advent of the national service organizations poses a new challenge in the marketplace.

After-sale service is not such a clear point of differentiation for dealers any longer. For example, Lowe's is offering the "Lowe's Service Advantage." For a look at what this entails, check out the article on page 12. Many dealers located in markets that have been infiltrated by Home Depot and Lowe's will have to really bolster the professionalism of their operations and start selling themselves as professional full-service power equipment retailers.

That said, we've been thinking about the name of this magazine: *Survival Guide*. For power equipment dealers, is it still about survival? For some, I'm sure it is. But for many, it's about simply getting better. It's about making that transition from "dealer" to "professional full-service power equipment retailer." It's about finding ways to fine-tune operations and enhance profitability. It's about becoming better marketers to expand a customer base. It's about becoming better managers so their businesses, which evolved out of survival mode a long time ago, do not slip into a mode of decline sooner than they want them to.

Maybe the *Survival Guide*, like many dealers, has also evolved out of survival mode. Maybe *Survival Guide* is more about raising the bar of professionalism in dealerships — or should I say, professional full-service power equipment retail stores.

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# Why do dealers fail?

## *Lack of management and departmentalized accounting; poor profit margins and inventory control; inadequate marketing, merchandising and customer service; constrictive store hours; poorly trained staff; not making the most of technology; fear of change*

There are a host of factors that can lead to the demise of small businesses in most any industry — including this one. Here manufacturers, distributors, dealers and consultants offer their opinions on why outdoor power equipment dealers fail. These remarks originally appeared in *Yard & Garden's* September and November 2001 issues.

### Daily and long-term management

DISTRIBUTOR: Most dealer principals are either a mechanic or salesperson by trade, which can lead to a lack of well-rounded business management skills. Those who come up as mechanics often do a tremendous job of running the service and parts sides of the business, but can struggle with marketing and sales. Conversely, those who were salespeople can often succeed well in growing sales volume, but can have a hard time running an efficient shop. This polarization of skills can lead to the downfall of a business as a struggling department drains the resources of a successful one.

**Dealers need to have accountability for their departments that accurately reflects the true revenue and expenses for each of those profit centers.**

The **lack of departmentalized accounting** has long been a problem in our industry. An outdoor power equipment dealer has at least three potential profit centers (wholegoods, parts, service), and each of those should be accounted for in their accounting systems. Dealers need to have accountability for their departments that accurately reflects the true revenue and expenses for each of those profit centers. This way, they can see where the problems are and take action.

DISTRIBUTOR: Many dealers lack a solid business plan and/or budget. Dealers face a business cycle of four to six months of great business, three to four months of marginal business and two to four months of losing their shorts. Dealers need to calculate the marginal and losing months into their margin when times are good. Variables that can be changed and will cause the largest impact include payroll, shop labor rate and profit margins on goods sold. The two most effective items, and the ones with the most impact, are profit margin and payroll.

The dealer's cost on product, or services, is the cost of doing business in the poor months plus the costs involved in the good months. To do this, **you must have a 12-month plan**, and you have to update that plan continuously. A business plan is like a map. Without it, you might make it where you want to go, but it might take you longer or, perhaps, you may run out of gas first.

It's important to **account for all of the shop costs** in the dealership. What are your billable hours? What is your shop efficiency? Where is your break-even? Does your compensation package motivate your technicians to do more with lower returns?

CONSULTANT: If you are an established business (15-plus years), what is your reputation — as your customer perceives it? Is there an image that needs upgrading? Have you kept pace with your competition? Are you doing business the same way you have always done it? Do you need to redefine your business?

Established businesses have a track record that can be analyzed. **Pay attention to details and don't become complacent.** Pick an area of the business, like margin control, product turns or your inventory software, and analyze it. If you had your wish, how would you change it? Then create a plan that makes it happen. If you are a relatively new business, you have the opportunity to create the reputation you want. Have you defined what you want to be in the marketplace and how to get there?

**Know your competition.** What brands/models do your competitors sell? What prices do they charge? What services do they offer? Who are their customers? How do they advertise? When are they open? Then, take a look at how you stack up.

Take a close look at your **daily operations**. Are you handwriting purchase orders, checks, parts or service orders? If so, stop. Get the software you need now. You can't grow without technology working for you.

Do you have proper inventory levels and product mix to take care of your customers? Nothing is more disappointing than having a customer ready to buy and you don't have the item or model they want in stock. What do you do to make the sale, anyway? Is it free delivery to their door, a free first service, up-sell to another unit and make it worth their while? Have a plan and know what to do.

**Without (a business plan), you might make it where you want to go, but it might take you longer or, perhaps, you may run out of gas first.**

Do you have adequate capital to sustain your business during slow times? Get with your banker or trusted financial advisor. Have a plan for cash when you need it; even when you don't need it. The day will come when an opportunity presents itself and you wish you had the means to take it.

Do you know your profit centers, understand pricing strategies and know which products are price-sensitive? Do you know how to package products and services that remove the price focus and, rather, present a value statement? Knowing where you make money gives you the opportunity to package your products and services to increase the dollar amount of each sale and turn more products. Customers are willing to spend more when the value they perceive will save them time and effort.

DEALER: **Dealerships need strong leadership** in this highly changing, competitive environment. I'm curious about how dealership principals use their time. It seems that many work "in" their businesses. But building a successful business requires a different skill.

For example, I feel the title of this story should be "Why do dealers succeed?", not "Why do dealers fail?" The difference in planning not to fail vs. planning to succeed is my focus. When I focus on not failing, I look at the past and the problems we had, then the blame. But when focusing on succeeding, I look more to the future and required planning for it, and devote more time and energy to finding solutions. I ask myself, "What are 10 things we're doing right?"

**Managing cash flow** is high on my priority list. We have six months to make money, three to break even and three to lose. You have to balance inventory, cost of operation, purchasing and your line of credit. You need sufficient capital to work with.

**Organization skills** are often hard to come by in this business. How efficient is each area of your business: service, parts, sales? Does each area have the necessary tools to ensure the most efficient operation possible?

MANUFACTURER: Many dealers do not plan for the proper capitalization of the business to begin with. In some cases, this is based on a sale of the business with inherent weakness. In others, it is the slow deterioration of the business capital.

Some dealers are quick to expand, and end up **suffering from over-expansion**. Sometimes this is just bad luck, but sometimes it can be attributed to poor planning. Many times, a dealer wants to have a second location to either take out a competitor or control a market. However, the added cost and the loss of management control make these expansions very difficult. The only way I see expansion being successful is if the new manager of the second location has some great incentives for his store's success, and the drive to achieve that success. Otherwise, the owner has to be very strong and patient in order to groom the new manager.

DEALER: I suspect that the biggest reason dealers, and businesses in general, fail is that they don't have a **business plan which includes a sales/expense budget**. It doesn't have to be fancy — just how much you're going to sell this year (parts, equipment and labor) and how much it is going to cost you (payroll, utilities, etc.).

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This budget should be broken down into monthly figures. With this plan it becomes easy to keep track of what is going on, and allows you to take action in a timely manner should sales slow or expenses get out of hand. It also should tell you at the beginning of your fiscal year if you are going to make or lose money. A well-run business should make at least 3% to 4% of sales as pre-tax profit.

The business plan should include more items such as strategies, mission statements, long- and short-term goals and objectives, etc. But the meat of the plan should be the numbers. If you don't know where you are going, how are you going to get there?

## Do you have adequate capital to sustain your business during slow times? Have a plan for cash when you need it.

SOFTWARE PROVIDER: Successful dealers **know the real details of the business**. Successful dealers know how much they have in inventory, their profits and most profitable lines, their fastest-moving parts, etc. A successful, detail-oriented dealer handles all the "unpleasantries" of his business: financial reports, sales reports, technician productivity reports, etc. For many dealers, these tasks aren't very appealing. But they are crucial, enabling a dealer to better predict and plan for the future.

DISTRIBUTOR: The primary factor that leads to any business failure is simple: lack of control. This can be caused by several factors. **Cash control can be elusive**. Without a system to cost every incoming and outgoing invoice, a dealer will not be able to keep a handle on the current picture of the health of his/her business. The result of this is that cash can run out when it is needed most.

DISTRIBUTOR: Many dealerships **lack a good business plan and succession plan**. Many dealers that fail have no idea where they want their business to be. They try to be everything to everybody, and plan their business day-to-day. Then, when an opportunity arises to expand their business or gain customers, they aren't able to take a hold of it because they didn't visualize it ahead of time.

The worst-case scenarios for planning is when there is little or no thought put into succession planning. This is a sure-fire way to put your business on the way out. If there is no plan as to the ownership and management of the business upon the owner's retirement or death, it becomes very difficult to survive a time that would be turbulent; even with a good plan.

### No "margin" for error

DISTRIBUTOR: The greatest problem in dealerships today is the inability for dealers to obtain a fair profit margin for their products. Dealers often make the mistake of discounting the price rather than selling their business and services, and in turn, the profit margins are compromised.

Dealers shouldn't be afraid of their price. Instead, they should be proud of the value they offer at a reasonable price. This includes having equipment tagged with printed price tags, and having the proper attitude instilled in salespeople that discounting is not part of the process.

DISTRIBUTOR: A big mistake I see dealers make is not selling the value of their dealerships — not charging top dollar for products, services or expertise. Chances are, your customers come to you with an expectation that you will not be the cheapest in town. Don't disappoint them. Charge them a lot and service the daylights out of them. Exceed their expectations.

The customer who wants the cheapest price, lack of product expertise and no service will not be at your place; they will be at the box store. Show customers your shop and your investment in parts and technicians. Have a handout that talks about your dealership, and the value customers will get when purchasing from you. It could include some of the following: service turnaround times, staff experience levels, pick-up and delivery capability, satisfaction guarantees, etc. Don't assume your customers know anything about you and your dealership. Make sure they know by marketing what makes your dealership special.

MANUFACTURER: Competition is fierce. However, it is more important for dealers to over-service their customers than under-charge for the value they provide.

DEALER: Margins are too low. A big part of a dealer's strategy should be to increase margins. Don't give the stuff away. It's no secret that the number of dealers in the United States is declining. The big boxes are not our competition in wholegoods. We can't compete with them, and it is not a price issue — it's a store traffic issue. A Home Depot will get more people in their store on a single Saturday than the typical power equipment dealer will get in six months. Dealers should compete with each other on service and brands, not price. Any idiot can give the stuff away. If my strategy is to be the cheapest because that is all I can offer, I won't be in business very long. Or, at the very least, I am severely limiting my profit potential.

**A well-run business should make at least 3% to 4% of sales as pre-tax profit.**

Studies have told us that 85% of a power equipment dealer's business comes from customers within a five-mile radius. The only way to attract business out of that area is to offer a cheap price, which also means you now have to charge the cheap price to people within your business radius. Consequently, your entire profit structure is eroded. It just doesn't make sense to give the stuff away. We don't have to.

A dealer should set a goal to maximize profits, not to just sell and become the biggest dealer; which only makes the distributor and manufacturer rich. Plan your work and work your plan. Set goals and work to increase profits, not to just win plaques. Dealers should be in business to make money, not sell lawn mowers. That is a subtle distinction that some dealers don't understand.

## Inventory control, carrying too many lines

MANUFACTURER: Maintaining product lines on an emotional basis, or out of fear that another dealer will pick up the line, can be a punishing mistake. These lines can, in fact, be a profit drain as opposed to a profit contribution. When a dealer subsidizes his profits from one product to sustain another product, it is a slow, painful path to business failure. Successful dealers carefully analyze their product lines and eliminate those that are not contributing to the overall growth and success of their company.

MANUFACTURER: Dealers who carry every brand under the sun will eventually suffer heat stroke before too long as they try to keep all of the warranty, parts, wholegoods, accessories and sales programs straight. Less can be more for dealers when the focus is on fewer, broader, premium brands.

Don't play it both ways. Dealers must begin to exercise "ruthless exclusion" when deciding which brands they will ultimately carry in the long term. The dealers who carry only premium brands that are not sold at the big boxes, in catalogs or on the Internet may be more likely to achieve the differentiation necessary to win in today's marketplace.

MANUFACTURER: Some dealers are spread too thin — too many lines and not enough focus. Complexity breeds cost. As a manufacturer, we have the same problem. Focus on the business you make money on — eliminate the rest.

DISTRIBUTOR: Inventory control is often a battle in dealerships. As retailers, many independent dealers feel the need to carry multiple power equipment lines to fit the requests of their customers, rather than selling them on a brand. This will equate to duplication in inventory, sales efforts, service training, parts training, and all the knowledge that is required.

The opposite of this is that retailers may not have all the different types of items required to keep cash flow longer into the season as equipment sales cycle up and down. These can include grass seed, fertilizer, spreaders, watering hose and attachments, and other items geared toward either consumers or landscape professionals. This can also create a "destination point" for customers to head to in order to meet their needs.

DISTRIBUTOR: Under-capitalization is another big issue. Many dealerships deal with cash flow issues all year round. This can be the result of carrying too many lines for their size, poor inventory control, lack of credit lines, or a combination of these things. Regardless of the

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cause of the problem, the lack of working capital results in high floorplan interest expenses, and the inability to seize opportunities when they present themselves. It also can put dealers in a very defensive "shell" as cash flow becomes more important than business growth and profitability. It becomes a weekly fight of trying to survive the cash pinch until the next week, and is also a fight that is rarely won.

MANUFACTURER: It's not just the new equipment that is many times out of control. I can't count the numerous dealers I've visited who hang onto old equipment and used equipment too long. That entire inventory should be viewed as "cash" — so move it.

## Marketing, merchandising, customer service

MANUFACTURER: Many dealers fail to promote themselves aggressively enough. "Everybody knows me and we don't need to advertise." Wrong! Failure results when dealers think they can save their way to profitability. You must be willing to invest in your employees and business, and that includes advertising.

Be consistent. You cannot run one double-truck ad a season and expect things to happen. **Use a combination of smaller, call-to-action ads in a variety of media** — direct mail, newspaper ads or old-fashioned, personal customer contact by phone during slow periods of the day. Let people know what products you have, offer service specials, improve inventory turns (and reduce floorplan expense) with in-store specials on aging inventory. And keep your showroom looking clean and interesting by moving product around.

**Value every square foot of floor space.** It may not be possible to add space or get a larger parking lot. But you can definitely pay attention to the details with a fresh coat of paint, by dusting off equipment, updating point-of-point purchase materials with "easy-to-do business today" retail financing information, greeting customers promptly and creating a positive shopping experience (freshly brewed coffee, soothing background music, informational video area).

DISTRIBUTOR: Waiting for the service customer to come to the dealership is a mistake. When things are slow, **go see someone that you can make a customer.** Invite the customers to your dealership with a reason to buy or a reason to get service. Service specials in the off-season will attract new customers and increase cash flow in slower months. Use your existing customer mailing list for advertising service specials. Call them on the phone in the slower months with service specials. Make it easy for them to say "yes" by offering a repeat or preferred customer discount. Reward them for being a repeat customer by calling them before they need their mower in the spring.

**A successful, detail-oriented dealer handles all the "unpleasantries" of his business: financial reports, sales reports, technician productivity reports, etc.**

When customers don't come to you, go to them. For example: Get in your truck and go see all of your surrounding municipalities. They buy on an annual budget, and if they don't buy, they don't get the money down the road. Show them new products and tell them what you have to offer. Don't assume that they will come see you when they need something. Don't assume that they even know who you are.

It's a good idea to **update the look of the dealership inside and outside.** Today's shopper wants to shop in a well-lit, clean, comfortable environment. In-store merchandising is critical. Make sure products are priced clearly with computer-generated tags, not hand-written tags. Hand-written tags invite customers to shop price due to their flexible, non-permanent nature.

CONSULTANT: **Location, accessibility and parking** are key factors. You need to know your location's potential. Are the neighborhood statistics in favor of growth? If so, can your facility meet the market needs and expand if necessary? Know where your market growth is and the type of customer you know you can service better than your competition. Just because you have always been there is not enough of a reason. Your location is good only if the demographics reveal that continuing at that location is good for growth. The dynamics of a market change constantly, and you must be where the market is.

You need to create a pleasant shopping experience for today's consumers. Do you know what your customer wants and expects? Do you know what to do about it? Ask yourself, "Who is my customer?" and "How far will they travel?" and "Why will they come here to shop?" Describe who your customers are, and list five reasons why they would want to shop at your store. Then list five reasons why they wouldn't want to.

**Dealers shouldn't be afraid of their price. Instead, they should be proud of the value they offer at a reasonable price.**

What do your customers see when they drive by (street view) and when they come inside? Is the facility modern, clean and attractive? Does your sign out front have an unlit letter? Is your showroom free of clutter?

DEALER: It's important to **find the right customers**. Not everyone is a prospect. First suspect, then prospect. Then make customers. And after that, decide if you want to make them repeat customers. I am still working on getting the right customers who use serviceable equipment and know the value of our business. We do not want to earn customers by discounting equipment. Margins keep shrinking as it is. Having the right customers for your business is very important. So keep looking for niches.

Location and shopping environment must also be evaluated. Ideally, you want an area with a large territory to work with. I've seen distributors putting the same product lines on top of each other, and in turn, dealers killing each other to survive. Two big questions dealers have to ask themselves are, "Who am I partnering up with?" and "How much energy must I exert to maintain a business relationship with those suppliers?"

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### *Top-10 deadly mistakes for small business*

1 Getting wedded to an idea and sticking with it too long. Play with many ideas and see which ones bring money and success.
2. No marketing plan. A plan is what attracts people to you. There may be as many as 25 ways to market your business at no or low cost. A good marketing plan, when implemented effectively and consistently, will eliminate the need for cold calls.
3. Not knowing your customers. Changes in your customers' preferences and your competitors' products/services can leave you in the dust. Get to know your customers well, what they want now and will likely want in the future, what their buying patterns are, and how you can be a resource for them even if you don't have the right products or services for them now.
4. Ignoring your cash position. The world doesn't respond to even superior products in the time frame you think they should. You'll need plenty of cash to sustain yourself in the meantime.
5. Ignoring employees. Motivating, coaching and managing your staff is probably one of your toughest challenges. Without your patience, persistence and people skills, your problems can multiply quickly.
6. Confusing likelihood with reality. The successful entrepreneur lives in a world of likelihood, but spends money in the world of reality.
7. No sales plan. Without a sales plan, there's no serious way to gauge the financial growth and progress of your business. You need a realistic map for where the sales will come from, how they will come and from whom.
8. Being a lone ranger. You might be the key to everything but you cannot do everything and grow at the same time. Even modest success can overwhelm you unless you hire the right staff and delegate responsibility.
9. No mastermind. Get an advisory board or a mentor. The board can be family members you trust, or friends. Ask them to be your board, and review your business plans and results with them.
10. Giving up. Some of the most successful entrepreneurs failed several times before excelling. So, if you're failing, fail. Learn and try again, but do not not give up. Yet, do not suffer, either.

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DISTRIBUTOR: Does your dealership have an unprofessional atmosphere? Today's consumer wants to enjoy the shopping experience. Facilities do not need to be huge, but they do need to reassure the customer that he is dealing with a legitimate and respectable organization. Keeping the store **clean, well-lit and organized** is the first part of having a professional facility. Also, the same standards should apply to the entire facility; from the showroom to the shop to the restrooms.

MANUFACTURER: **Treat customers as you would like to be treated.** Greet people as soon as they come in the door. Listen to their needs and wants. Show them around like you are the expert. Be knowledgeable about your products and stay current with advances. And be aware of what is going on around you regarding your competition (get the facts, don't react to rumors). Know your strengths (don't knock the other guy) and consistently deliver what you promise. Don't be overwhelmed by the mass merchant or another dealer. Capitalize on successes, minimize failures, and know who you are and what you are able to provide.

**Maintaining product lines on an emotional basis, or out of fear that another dealer will pick up the line, can be a punishing mistake.**

MANUFACTURER: Some dealers fail due to a lack of adaptation. Business and consumer purchase behavior is changing at the "speed of the Internet." Today's consumer wants it fast and simple. If the shopping experience at retail is anything less, bye-bye. Well-lit merchandise displays combined with friendly, knowledgeable sales personnel have become the standard shopping experience expectation.

**Dealers often lack differentiation.** There is no real difference if the only difference is price. Servicing dealers cannot win a price war with the big boxes and shouldn't even try. A value proposition driven by superior service and premium brands can prevail.

Capturing new customers is infinitely more complicated and expensive than keeping the ones you already have. Treating your existing customers like gold should be standard operating procedure in the quest to increase sales turnover. Conversely, not communicating with existing customers is a recipe for lost customers, especially today when there are so many retail choices.

## Constrictive store hours

DISTRIBUTOR: Restrictive store hours can hurt the dealer. Most dealerships struggle with the hours they know they should be open vs. the hours they feel they can effectively staff. This often leads to hours of operation that are very constrictive to the customer.

Commercial customers often want you to be open early, while residential customers require evenings and weekends. Unfortunately, the marketplace today dictates that businesses should be open at the whim of the customer. Dealers' resistance to follow this mandate can cause some dissatisfaction, and may ultimately chase customers to one of the big box competitors.

MANUFACTURER: Hours of operation seems petty basic, but if your focus is on the professional landscape contractor, are you open when he needs you? Perhaps it is 6 a.m. to 6 p.m., Monday through Friday. How can you staff it? How can you not staff it? The worst thing that can happen is to not be available when the customer needs you.

## Properly trained staff

DISTRIBUTOR: Lack of employee development can be detrimental to some dealers. Many employees at dealerships are poorly trained, poorly compensated or both. The employees of any business are the front line to the customer, so they should be treated as an extremely valued asset, as opposed to a necessary evil.

Spending time to train all employees on the overall goals of the company and how those goals specifically relate to that employee can go a long way in creating a better atmosphere for the customer, and more efficiency for the dealer.

DEALER: Putting a group of people together to work toward the same goal is a real challenge. To run an effective dealership, you need a strong group of effective team members. Your employees truly are your biggest asset.

DISTRIBUTOR: Lack of high-quality, continuing business education programs is an issue in this business. The industry needs to bring more focused education programs specifically for power equipment dealers.

MANUFACTURER: Dealers that fail are often unwilling to invest in good people by providing year-round employment, paying competitive wages and maintaining a pleasant work environment. Employees create revenue, not cost. Establish compensation plans and goals that are clearly defined to provide incentives to produce and, at the same time, focus on quality of work or performance results.

**(Facilities) need to reassure the customer that he is dealing with a legitimate and respectable organization.**

SOFTWARE PROVIDER: Surround yourself with the best. Successful dealers employ the best and compensate them fairly. No matter what size their business is, successful dealers have go-to employees they can trust will take care of the job.

Owners need to prioritize their tasks, and delegate some of those tasks to other employees — so the owner can focus on the business end of things. Owners shouldn't try to do everything themselves. If they do, customer service suffers, processes deteriorate, schedules aren't met and details are lost.

DISTRIBUTOR: The method of paying mechanics and sales staff can have an adverse effect rather than the desired effect of selling/repairing more. An example is selling on straight commission. This could drive high-dollar items only, and yet the sales staff might not "have the time" to sell lower-cost units, which would leave them in stock — unsold. Mechanics could be spending time setting up or delivering new machines while unrepaired units remain in the shop. This may not be the best utilization of skilled technicians. What is the percentage of billable hours that a mechanic offers?

## Not making the most of technology

DISTRIBUTOR: Not taking advantage of technology to save time and increase productivity is a sin. E-mail is instant, accurate and cost-effective. It allows you to communicate with others on your time schedule. It saves you time and money. Start talking to your customers on e-mail. It is cheaper than mailers and print advertising.

Computerization of your dealership allows you to know where your dealership is financially on a day-to-day basis. This can help you map out your plans and measure the results. Computers allow you to order product more effectively.

If you don't already have one, get a Web site. Shoppers will see if you have what they are looking for on "their" time schedule. Get used to working with this tool, because it is here to stay. Imagine how nice it would be for your customer to place his order at 10 p.m., and you would deliver it to him by the time he got home from work the next night.

## General fear of change, adaptation

MANUFACTURER: Failure to change as the times or market conditions change can put a business down for the count. "Changing with the times" is easy to say, but it is difficult to move out of a comfort zone. Diversify, but try not to duplicate product categories. Look for contra-seasonal items that your existing customer base needs and wants.

DISTRIBUTOR: If you continue to do what you have always done, you will continue to get what you have always gotten. If it is not working, try something else. I would rather fail from trying something new than wait around for the proverbial bus to run me over. Have a plan, track your results, and modify your plan as needed to get the final results you have budgeted for.

SOFTWARE PROVIDER: Successful dealers stay in touch with industry trends by attending trade shows, seminars and schools. They keep abreast of manufacturer changes and customer needs, helping them stay in tune with their business. Dealers that continue to make the effort to learn can adapt to their environment to meet the changing marketplace. They are the dealers that will survive.

# Mass merchant service: an opportunity lost?

By Gregg Wartgow

Mass merchants have been selling outdoor power equipment for what seems to be forever. Rumor has it, Adam even bought his first mower from a box store when he needed to tackle the tough Buffel Grass that carpeted his front yard in the Garden of Eden. Now, by contracting with outside "national service organizations," two of the top three outdoor power retailers in the United States, who happen to be mass merchants, are trying their hands at service, too.

In its 1996 Industry White Paper entitled "Catalyst for Change," *Yard & Garden* identified three market opportunities for servicing dealers: high-end consumers, professionals and mass merchants (for service work). From a financial standpoint, the Paper said, it is less expensive for a mass merchant to outsource its service work than it is to create its own service department. Thus, there is an opportunity for outdoor power equipment dealers to partner with local mass merchants to serve as their service providers.

**Since partnering with NEW, Lowe's has begun promoting the Lowe's Service Advantage.**

The White Paper had also stated that market opportunity #3 (partnering with mass merchants) was a window of opportunity, at best. Due to quality variances between outdoor power equipment dealers, some mass merchants were already beginning to experiment with creating their own service departments back in 1996. "If the dealer population does not actively accept change and improve their level of professionalism," the Paper said, "they are at risk of losing this market opportunity."

In the cases of Home Depot and Lowe's, it appears as though this market opportunity, generally speaking, has indeed been lost. For several years after the publishing of "Catalyst for Change," Home Depot and Lowe's continued outsourcing service work to local dealers. Today, they're still outsourcing service, but not all of that work is being outsourced to dealers.

For a look at the partnership between Home Depot and Altaquip, take a look at the article on the following page. For a look at the partnership between Lowe's and National Electronics Warranty Corp. (NEW), keep reading. A more detailed profile of NEW also appears in the August/September 2004 issue of *Yard & Garden*.

## What's NEW with Lowe's?

Lowe's has formed an alliance with NEW, a privately held, independent, third-party administrator of extended service plans, buyer protection services and product support programs. With headquarters in Dulles, Virginia, NEW operates five (six by October) contact centers around the United States, and manages more than 25,000 pre-screened, pre-authorized service providers in the United States and abroad. Some of those service providers include dealers. But the majority are A&E Factory Service outlets (A&E Lawn and Garden LLC) — a network of mobile repair providers that is owned by Sears.

Since partnering with NEW, Lowe's has begun promoting the Lowe's Service Advantage. According to an announcement at www.lowes.com, the Lowe's Service Advantage offers, among other things, a maximum two-week turnaround on riding mowers or they'll pay to have the customer's lawn cut for him. Furthermore, onsite or pickup service (customer's home) is included for products over $800. Customers receive 100% parts and labor coverage.

*EDITOR'S NOTE: I called a Lowe's store down in North Carolina and talked with the outdoor power manager about this service program. He told me it automatically comes with the purchase of equipment. Manufacturer warranties are typically two years. Then, three- or four-year extended protection plans are available for additional purchase through NEW.*

If and when the customer has a problem with his equipment, he can call the Lowe's Service Advantage toll-free number, which is available 24/7. The customer can use this number to schedule service or check on service orders that are already underway. NEW acts as the call center, and then arranges for either on-site or pickup service, dispatching the service provider (dealer or A&E outlet) in that customer's area.

# Service in a big box

## *Growing Altaquip organization answers Home Depot's call for a top-priority, after-sale service solution.*

By Gregg Wartgow

A good service department has always been a dealer's most effective weapon in the marketplace. Promoting his "good" service department is one way a dealer can differentiate himself from the other dealers in town, and of course, the mass merchants. But what if the mass merchants also had a "good" service department?

A few years ago, Home Depot began to actively seek an after-sale service solution for many of its engine-powered products, including outdoor power equipment. About the same time, a service organization based in West Harrison, Indiana, was looking to establish itself and grow business. As the saying goes, it was a marriage made in heaven.

**"In those markets where we are providing support, we have an exclusive in the product categories we support, which includes outdoor power equipment."**

— Glen Bowler, Altaquip's general manager

Like many business ventures, things started on a rather small scale. But in a few short years, the partnership between Home Depot and Altaquip has grown into something rather large. From mid-2002 through 2003, Altaquip's network of repair shops grew from five to 19. What was primarily an East Coast phenomenon quickly became a national one, with Altaquip locations expanding all the way out to the Pacific. Today, there are 25 Altaquip facilities — 23 in the U.S., one in Canada, and one national support center in the U.S.

Mike King, Altaquip's director of operations, says, "We've partnered with Home Depot since Day 1. We've looked at the density of Home Depot locations, and have established facilities in those markets that make sense for us in terms of volume. We now provide complete, national market coverage for Home Depot." See "Altaquip locations" on page 15 for a rundown of Altaquip locations.

### The partnership's evolution

Altaquip opened its first shop in 1997. It all started with limited service of the Campbell Hausfeld product line (paint sprayers, air compressors, etc.). The repair of that line eventually evolved into other powered equipment, including lawn and garden.

King recalls, "We were doing enough volume with our Campbell Hausfeld repair network that we showed up on Home Depot's radar screen. At that time, we were looking to build a viable business. And Home Depot was looking to improve its after-sale service on a wide array of the products it sold. The timing was perfect."

Now working with Home Depot, Altaquip branched into the lawn and garden repair business in November 2001 when its first all-outdoor power equipment facility was opened in Fort Lauderdale, Florida. A couple months later a second outdoor power facility was opened in Newark, New Jersey. These two locations were tested in early 2002, and the results were very favorable. By mid-2002 Altaquip's other three locations (Dallas, Atlanta and Orlando) were retrofit into the lawn and garden model being tested in Fort Lauderdale and Newark. Then, from September 2002 through May 2003, nine more locations were opened. The total was up to 19 by the end of 2003. Now there's 24, along with a national support center in Forest Park, Ohio.

"Outdoor power equipment now represents a little over half of our overall business," says Glen Bowler, general manager of Altaquip. "The rest is closely related: generators, pressure washers, paint sprayers, etc. We're supporting more than 30 manufacturers across all the product categories we service. At this point, we are working exclusively with Home Depot, and have a contract that formalizes the arrangement. In those markets where we are providing support, we have an exclusive in the product categories we support, which includes outdoor power equipment."

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*continued from page 13*

Bowler adds that Altaquip does not take walk-in business or sell parts over the counter. They don't advertise, because the only business they want is Home Depot's. The Home Depot is Altaquip's front counter, so to speak.

## Does Depot still need dealers?

Now that the partnership with Altaquip has really taken off, the question is: What will happen to the independent service providers (dealers) that Home Depot has been working with?

"Home Depot has contracts with 5,300 independents nationwide," says Steve Lacy, product merchant – parts and service for Home Depot. "We will turn off our independents in the markets Altaquip now serves, unless it's a product line Altaquip cannot service. In terms of outdoor power equipment, Altaquip is set up to handle everything Home Depot carries except for John Deere. So we will continue to use our John Deere independents in the Altaquip markets. We will also continue to use our independents in the rural markets Altaquip is not set up in."

Lacy points out that Home Depot never intended to go the route of an Altaquip. Home Depot's initial strategy was to outsource service to local dealers. But in many instances, this wasn't working out. "For the most part, dealers want to take care of their own customers first, and I can't blame them," Lacy says. "But this doesn't work for Home Depot, because we need to make sure our customers are also taken care of quickly. Partnering with Altaquip in our major metro markets enables us to do that."

## Can a national service organization work?

The key to the Home Depot/Altaquip partnership working can be summed up in one word: specialization.

### *Who fixes this stuff?*

For each Altaquip facility, Mike King says, at least one technician is certified in all key areas: Briggs, Honda, Tecumseh, etc. Once a facility is set up, arrangements are made with distributors to come in and administer certification tests. On the topic of certification, King is personally a member of the Equipment and Engine Training Council (EETC) and is OPE-certified.

However, not everyone on a staff is certified. But according to King, that's not necessary. He explains, "Not every product we service is something I'd consider to be a 'significant' repair. Many times, a customer put bad gas in a mower or an incorrect mixture in a trimmer. These are simple enough problems that a somewhat mechanically oriented person can figure them out. That said, we don't feel it's necessary to make sure every one of our technicians is certified. Our non-certified techs work under the guidance of the techs that are certified. We try to match our employees' skills with the complexity of the repairs that come in."

Altaquip, just like any dealer in this industry, faces the daunting task of finding and keeping skilled employees. King says Altaquip looks to local trade schools and Internet-based recruitment services such as Monster.com to find good help. In some instances, area dealers who decided to close their doors have come to work for Altaquip. In other instances, techs have left area dealerships to come work for Altaquip. However, King is quick to point out that this is not something Altaquip actively pursues.

King says, "We do not go after our competitors' technicians. But they come to us quite a bit. It's a result of the relationship between a dealer and Home Depot being terminated. Plus, they like the idea of coming to work for a company that can offer good benefits."

Altaquip strives to excel in this area. A group health plan. Matching 401k. Holiday and vacation pay. An educational assistance program. And finally, Altaquip pays employees to attend factory schools and become certified.

Specialization drives efficiency ... efficiency drives customer satisfaction ... and customer satisfaction drives profitability.

A given Altaquip facility services between 30 and 50 Home Depot stores. Each store is within two hours of the Altaquip shop; 90% of the stores are within an hour. This is very important because each Altaquip delivery truck must be able to visit six to eight Home Depot stores in the same day. It's all about "cycle time."

Lacy explains, "Through consolidation of repairs, we are able to see a great amount of specialization. You don't have a tech working on a benchtop saw in the morning and a lawn tractor in the afternoon. The volume is so great in servicing 30 to 50 stores that the same tech does the same repairs over and over. He sees the same models. He sees the same failures. So it becomes easier to diagnose the problem and turn the repair around quickly. That's great for Home Depot because we can keep the product sold vs. taking a return."

The Altaquip truck visits each Home Depot store twice a week. This enables each piece of equipment to be returned to the customer within one week. For example, Altaquip may pick up a lawn tractor on Monday. The truck returns to the Altaquip facility on Monday night. The tractor is unloaded and placed directly into the workflow for the following morning. A large parts inventory at the Altaquip facility allows the tech to repair the tractor within a couple days. Once repaired and invoiced, the tractor is returned to Home Depot on Thursday when the Altaquip truck makes its second run of the week. The customer is then contacted by Home Depot.

*EDITORS' NOTE: As of late May, Altaquip's Mike King reported that roughly 90% of all outdoor power equipment repairs were being turned around within seven days.*

What about delivery charges? "We do need to recover our costs for operating the delivery truck," King points out. "It's built into our contract. Either Home Depot picks it up or the end customer does. Either way, Altaquip passes on those costs to someone else."

## Who pays the bill?

As for being compensated for the repair work, Altaquip naturally works with the OEMs for warrantied repairs. For non-warranty repairs, the shop labor rate at a given Altaquip facility is based on the going rate in that given market.

To determine if a non-warranty repair should even be completed, Altaquip communicates with the Home Depot store the unit came from. The store, in turn, then communicates with the end customer.

Lacy explains, "Home Depot has a pre-approval form the customer signs. The customer agrees to pay for any required non-warranty charges up to $60. For anything over $60, the customer must give the Home Depot the OK. Altaquip diagnoses the repair. If the repair will exceed $60, Altaquip contacts the Home Depot store. The Home Depot store then contacts the customer to discuss the additional charges."

As you can imagine, these scenarios could turn into a logistical nightmare for Home Depot, especially when using more than one repair shop. "Our stores in rural markets are typically outsourcing repair work to at least three dealers," Lacy points out. "It takes that many dealers to cover the different manufacturers we represent. This makes it hard for us to manage our inventory when we have product going out to so many places. In our metro markets, where everything but John Deere goes to the one Altaquip facility, the process is simplified greatly."

*Originally appeared in Yard & Garden's January 2004 issue.*

### *Altaquip locations*

| | | |
|---|---|---|
| Atlanta | Baltimore | Boston |
| Charlotte | Chattanooga | Chicago |
| Cincinnati | Dallas | Detroit |
| Ft. Lauderdale | Houston | Long Island |
| Los Angeles | New Haven | New Jersey |
| New Orleans | Orlando | Philadelphia |
| Phoenix | San Francisco | Seattle |
| Tampa | Toronto | Youngstown |

*National Support Center in Forest Park, OH*

# Turn your shop into a mega-profit center

By Jim Yount

There's a common belief among many outdoor power equipment retailers: A service department is a necessity because you have to service what you sell. But a service department can't turn a profit.

While that may be true for a new business, it can — and should — be a different story for a retail operation with a few seasons under its belt. In this article we will focus on the fundamental principle of measuring service department efficiency and how that will influence department income. As a note, while this article examines efficiency in a mature retailer's service department, we won't try to address all of the issues that can reduce department efficiency.

As we go through our consulting files, most of the dealers we've worked with have been in business for 10 or more years. They usually employ two full-time technicians. And their service departments tend to operate at about 40% efficiency. A 40% efficiency is equivalent to one technician billing 3.2 hours out of an 8-hour day. This is a break-even point — at best. Most shops will not earn a profit when efficiencies are less than 50%; that is, billing 4 hours to customers per 8-hour day per technician. For example, let's take a dealership where technicians are working an 8-hour day, or 40 hours a week. No allowances have been made for vacations or overtime pay. To evaluate last year's shop efficiency, your worksheet should look like this:

| | |
|---|---|
| Number of techs | 2 |
| Annual payroll hours per tech | 2,080 (40 hours a week x 52 weeks a year) |
| Total service dept. payroll hours | 4,160 (2,080 hrs. x 2 techs) |
| Actual hours billed to customers | 1,664 (4,160 x 40%, or 0.4) |
| Department hourly labor rate | $40 per hour |
| Total department labor income | $66,560 (1,664 hours x $40) |

In this example, shop efficiency is 40%. You determine efficiency by dividing the actual hours billed to customers (in this case it's 1,664) by total payroll hours (4,160 in this example).

Looking at it in a different way, this also means the company is performing at 60% "deficiency." It tells us that the company paid wages for 2,496 non-revenue hours — hours for which technicians were paid but were not billed to customers. We realize that it's common practice for technicians to have other duties at the business. However, we feel that technicians should spend their time working on customer equipment. When technicians can focus solely on the repair of customer equipment, the labor income potential is considerable.

**When technicians can focus solely on the repair of customer equipment, the labor income potential is considerable.**

Assuming both technicians in the example are working at the same efficiency, each technician is billing 3.2 hours of an 8-hour day. This is equal to 16 hours per week that's billed to the customer (3.2 x 5 days). Annual billed hours per technician would then be 832 (16 x 52 weeks). With a shop labor rate of $40 per hour, each technician's annual labor income earning is $33,280 (832 hours x $40 per hour).

Pay scales for technicians vary greatly throughout the country, from a low of $7 per hour to over $20 per hour. Using a median hourly wage of $12 per hour, each technician's wages in our example is $24,960 per year (2,080 hours x $12 per hour). Now let's include each technician's benefits. These include:

- FICA at 7.65%
- Worker's comp insurance
- Federal unemployment tax
- State unemployment tax
- Uniforms
- Health insurance
- Vacation

As a loose rule of thumb, benefits usually equal 20% of wages. In this example, benefits will cost an additional $4,992 per employee ($24,960 x 20%, or 0.2). Therefore, total payroll cost per technician is $29,952 — ($24,960 + $4,992).

Let's see how our shop is doing now.

| | |
|---|---|
| Labor income per tech | $33,280 ($66,560 / 2 techs) |
| Minus payroll cost per tech | $29,952 |
| Gross profit per tech | $3,328 |
| Gross profit for both techs | $6,656 |

Keep in mind that the above gross profit is being calculated "before" other department costs are applied. When you add up the cost of shop equipment such as air compressors and their installation, work benches, lifts, ramps, bench tools like grinders and hydraulic presses, plus special tools, it's easy for a shop this size to have an investment of

$25,000. If you divide this cost by a five-year replacement and maintenance allowance, there's an additional $5,000 in annual cost of operating the service department.

Going back to our example, the replacement and maintenance allowance of $5,000 is subtracted from our gross profit of $6,656. That leaves the dealership with $1,656 in remaining service department gross profit.

Service departments tend to occupy 30% of the total dealership. The service department is responsible for its share of the hard cost of operating the total business, including items such as rent, electricity, telephone, taxes and all other non-payroll expenses. The remaining $1,656 in gross profit is not very much to pay the service department's share of the total operating cost of the business. In fact, after you determine the department's share of applied hard costs, you can see how easy it is for a shop to operate at a loss.

## Efficiency must be at least 70%

Since our focus is how to turn your service department into a profit center by measuring and improving operating efficiency, I'll share some targets you can begin using today. The only condition is that you have experienced and qualified technicians.

On a daily basis, technicians should be held responsible for an acceptable billing efficiency. We suggest an efficiency of at least 70%. This means a technician should bill a minimum of 5.6 hours out of an 8-hour day. That's equal to 28 hours each week. With a shop labor rate of $45 per hour (instead of the $40 we've been using thus far), each technician will produce weekly labor income of $1,260. At the hourly shop labor rate of $40, the same tech, at the same efficiency rating, would produce only $1,120 of hourly labor income. You can see the difference a mere $5 an hour makes.

This is our way of suggesting that you consider raising your own shop labor rate. Too many times we have seen owners reluctant to raise their rates, keeping it the same year after year. If you have qualified, experienced technicians, and you do quality work the first time with no returns, your shop is worth more. Here's an important note: We are not suggesting an established labor rate of $45 per hour. We used this for illustrative purposes. We have customers with $55 and $60 per hour labor

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rates, with likely mid-year increases. Just look at the possibility of raising your rate to acceptable profitability levels for your business. And take a look at the sidebar below for *Yard & Garden* survey results regarding how much dealers charge per hour.

Now back to our example. At 70% efficiency, let's make allowances for one week of vacation and two weeks for holidays and sick time per technician. We now have a year with 49 work weeks per technician. Forty-nine weeks of earnings at $1,260 per week represents an annual labor income per technician of $61,740. Thus, two technicians would generate an annual labor income of $123,480. Compare that to the original 40% efficiency income at the $40 labor rate. We're talking about a difference of $56,920 ($123,480 - $66,560).

If your company has the power to pull enough jobs into your shop throughout the year to keep your technicians working, all things considered, these are realistic numbers. However, the shop must be managed. Service departments left to operate under the self-guidance of technicians will continue to perform at efficiencies of 40% or less. And we've seen efficiency as low as 15%, which is equivalent to billing only 1.2 hours a day.

One way to ensure that your technicians will perform week after week at 70% and above is to implement a simple incentive plan that's easy to understand and manage. There are many ways to do this. Jim Yount Success Dynamics has tried and tested plan that may work for you. Otherwise, talk with other dealers to find out how they incentify their technicians. You can also ask your suppliers what some of their other dealers are doing. Take the time to do a little research on this subject. It's an important step toward turning your service department into a mega-profit center.

## About The Author

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### *How much does your shop charge?*

| **Total annual sales under 500K** | |
|---|---|
| $30 - $35 | 13.3% of dealers |
| $36 - $40 | 12.5% of dealers |
| $41 - $45 | 32.5% of dealers |
| $46 - $50 | 19.2% of dealers |
| $51 - $55 | 10.8% of dealers |
| $56 - $60 | 7.5% of dealers |
| over $60 | 4.2% of dealers |

| **Total annual sales 500K - 750K** | |
|---|---|
| $30 - $35 | 0% of dealers |
| $36 - $40 | 7.5% of dealers |
| $41 - $45 | 20% of dealers |
| $46 - $50 | 22.5% of dealers |
| $51 - $55 | 25% of dealers |
| $56 - $60 | 17.5% of dealers |
| over $60 | 7.5% of dealers |

| **Total annual sales 750K - 1.5 mil** | |
|---|---|
| $30 - $35 | 4.4% of dealers |
| $36 - $40 | 6.7% of dealers |
| $41 - $45 | 13.3% of dealers |
| $46 - $50 | 37.8% of dealers |
| $51 - $55 | 22.2% of dealers |
| $56 - $60 | 13.3% of dealers |
| over $60 | 2.2% of dealers |

| **Total annual sales 1.5 - 3 million** | |
|---|---|
| $30 - $35 | 0% of dealers |
| $36 - $40 | 2.7% of dealers |
| $41 - $45 | 5.4% of dealers |
| $46 - $50 | 27% of dealers |
| $51 - $55 | 16.2% of dealers |
| $56 - $60 | 24.3% of dealers |
| over $60 | 24.3% of dealers |

| **Total annual sales over 3 million** | |
|---|---|
| $30 - $35 | 0% of dealers |
| $36 - $40 | 7.5% of dealers |
| $41 - $45 | 5% of dealers |
| $46 - $50 | 20% of dealers |
| $51 - $55 | 17.5% of dealers |
| $56 - $60 | 30% of dealers |
| over $60 | 20% of dealers |

*Figures based on a Yard & Garden dealer survey conducted in fall 2003.*

# Using service to sell your dealership

## *Now's the time to start promoting your in-store parts and certified service departments.*

By Jim Riley

Marketing service. It's not easy. First, you've been servicing equipment so long that it's almost second nature. It's very easy to take it for granted; to assume that all customers understand you offer in-store parts and service. But if you take it for granted, how can you expect customers to place a lot of value on your in-store parts and service?

It is high time indeed that servicing outdoor power equipment retailers lay exclusive claim to the territory that says: "In-store parts and certified service technicians." This article is designed to suggest a few basic ways to market those attributes.

**If you take (service) for granted, how can you expect customers to place a lot of value on your in-store parts and service?**

Of course, for years, service of any kind was exclusive to the outdoor power equipment retailer. But now that territory is being invaded, at least from a marketing standpoint, by Home Depot and Lowe's. Regardless of whether or not those giants can actually perform service and deliver on promises, you can be sure of two things:

1. They do know how to market goods and services
2. They have the resources to market anything!

### Show off your clean, professional service department

What can you do to compete with the big box stores? First, do some housecleaning. I would wager a week's pay that 80% to 90% (or more) of the outdoor power equipment retailer service departments look like something out of the 50s. Greasy. Dirty. Old equipment about. That may work for you. But to customers, old-era service departments look like "old-era, cluttered and junky service departments." It's an image that projects a low price-per-hour value, too.

One of the best service departments I've seen is located at Sussex Junction Equipment in Sussex Junction, Vermont. Operated by Gary and Jason Morse, the place is always clean and very organized. The department floor is painted once a year, and every customer of significance is given a tour of the department when he makes a purchase. The rate is $59 per hour, and that rate is clearly published at the counter, near the numerous technician certification and training certificates.

Mr. Morse tells me he's rarely been questioned about his hourly rate, and that the department stays very busy — and profitable. The idea of keeping the department clean and organized, and providing tours for customers, may be the best example of marketing service I've ever seen.

### Feature your service function at the point of sale

Again, we tend to take in-store parts and service for granted, so much so that many times customers are never told about that aspect of our business. That is very understandable. You are busy, and when customers visit your store the emphasis must be on selling new products. But customers cannot first hear about the importance of service/maintenance when they have a problem with their machine. They need to be educated at the point of sale; lifetime "cost" of machine, etc. If they first hear about the need for servicing their mower when it's broken down, they may wind up quite angry and seek out an alternative retail outlet.

Why not use in-store parts and service as a sales or closing tool? The best example of marketing service — and using that defining characteristic to help close sales — is performed by Ralph Helm, a third-generation outdoor power equipment retailer located outside of Chicago. Every other price tag in Ralph's (very busy and seemingly profitable) store has a sticker that reads: "Ask about the Ralph Helm Service Advantage."

What is Ralph's Service Advantage? It's simple — made up, in fact, of some things that many of you are already doing for customers but take for granted.

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When a customer buys from Ralph, he shows him or her how to properly use the equipment. Ralph services new equipment so that it is ready to run as soon as the customer gets it home. And, if the customer ever needs maintenance or repairs, equipment bought at Ralph's is serviced before the stuff bought elsewhere.

## Create lifetime service customers

Give a guy like me the opportunity to buy a service/maintenance package. I have yet to find a dealer that will take me up on creating the "Lifetime Customer" package. What I want to do is send you $200 on February 1, let you come and pick up all of my equipment, service it at your convenience, and return it in time so, when I'm ready to till or mow or trim or blow in early spring, my stuff all starts.

Seriously folks, there are a lot of us who don't know how to change the spark plug, and don't really care to learn. All we want is for our stuff to work when we finally get the time to use it. Imagine 100 customers like me, all sending you $200 in February (that's an extra $20,000 in cash flow), and you servicing our riding and push mowers, chain saws, etc. at your convenience. Without that program, I'm the same guy who bugs you on the busiest day of the year about a 15-cent part. And if you did have me on your Lifetime Program, you could always include a flyer of all the new products when you return my equipment in March.

## About The Author

*Jim Riley of Red Letter Communications Inc. has worked with Stihl Inc., as well as several Stihl distributors, for over 10 years. He specializes in translating national advertising campaigns into tools that distributors and dealers can utilize in their local advertising and marketing. Riley is also a member of the "Stihl Retail Readiness" team.*

# Branding your business

By Jim Riley

Wow. This sure isn't the same outdoor power equipment industry your father worked in. Who would have thought guys like you would have to worry about something like "branding"? It's like many marketing concepts. It's very easy to be so abstract with the concept that even after attending the seminars, reading the books and having a few meetings, nothing really happens to improve your business marketing.

Maybe the best way to describe what I mean by branding your business is to describe the goal, or net effect, of successful branding. Imagine a situation where, in a town of 50,000 people, 10,000 thought of you first and foremost whenever they thought about anything to do with outdoor power equipment and helpful service. In our small town, another 25,000 recognized your name and location, and were attracted to your store. The remainder of the people were vaguely aware of your company. That would be an excellent result of branding.

Such results are not easy to attain. You have to create a plan — and stick to it. My goal for this article is to leave you with something tangible. I'm going to suggest a way to get started, and then divide the rest of my information into three techniques or approaches. I hope you can use these steps to work toward successful branding of your business.

## How do you want people to think of you?

When getting started with your branding process, first identify how and what you want people to think when they think of your business. The first step in branding should be identifying how you want people to perceive your business. Make a list of attributes (reliable, great selection, world-class brands, personal service), then try to prioritize those attributes.

Secondly, list the features of your business that have potential in terms of being recognized by the public (location, staff members, physical features of the store). Make a list of assets and liabilities that need to be addressed. If you have a great location — but an old, dilapidated building — maybe the first step in branding is an uplift of your building and parking lot. For instance, a freshly painted parking lot with lights and signs can generate tremendous awareness of your business with existing and new customers.

Once the brand you want to create in the minds of consumers is clear, you can get into specific tactics or techniques. I have fleshed out three approaches below.

**1. Personification.** A simpler way of saying this is "put a face on it." You can brand your business by featuring the owners or key people involved in the business. Is this approach risky? Sure, but it can be very effective. People are attracted to other people. In other words, customers like doing business with people — especially people with strong personalities. This approach of personification can be especially effective with a family-owned business. If you have assumed the reins at a business run by your father, consider putting a graphic of the two of you in your ads. The same is true for a husband and wife team, father and daughter, whatever. Personification can work for partners, too.

Just make sure of a couple of things. First, invest in the graphics. Hire professionals to take quality photos and have graphic variations done that will look right in any medium. Then be consistent (signage, ads, stationary). Make sure you are visible in your business. If you feature a father-son team, for instance, make sure the father and son are around on Saturday mornings to greet customers. Finally, consider a tag line or advertising "handle" that exploits the branding position. For example, "Smith Brothers — where service starts before the sale!"

**2. Uniqueness.** Another approach to branding can be to exploit your overall approach to business. If you are unique, stay unique. Case in point: My agency was invited to review advertising to help a store that had grown from a classic country store to multiple locations competing with Lowe's and Home Depot. During our original visit with the owners, we were shown a circular they had used for years that advertised everything from chickens and lawn mowers to pig feed and pole buildings. During that visit they proudly described how they had redone the flyers, and how now they looked "just like Sears or Lowe's." It was a difficult situation for me, because I felt they had done the exact wrong thing. Instead of exploiting their points of difference, they were working (and spending more money) to look just like the competition.

There is nothing wrong with modernizing your materials, but don't throw the baby out with the bath water. If you have been a farm co-op or a contractor rental house or a pro-landscaper shop for 50 years, and you'd like to attract some upscale homeowners (remember, we have the highest expendable income in history), find ways to exploit your uniqueness. Create a homeowner entrance or counter. Hire a couple of young ladies to assist women shoppers. Start including a homeowners section in ads: "Since 1937 we've served farmers, building contractors and homeowners."

**3. Memorable advertising.** Memorable advertising is like peace: Everybody wants it, everybody talks about it, but only a few can produce it. Let's start with some real basics, and then divide the elements of any advertising into visual and audible.

## Visuals that can serve to brand

**Your store's facade.** Does anything unique exist, or can you create a unique element? If so, dress it up and include it in ads.

**Great signage** can be a powerful investment. Consider something unique like a pole sign or billboard on a side of the building that changes seasonally (try to get co-op credits from manufacturers). Include a visual of your sign in ads, on vehicles and in stationary.

**Create a mascot.** Maybe it's an animal or bird or symbol. Whatever the case may be, a mascot can provide you with a reoccurring visual "hook" for branding your business. With a mascot, you'll have a visual branding tool that can be used on hats, uniforms and at the point of sale. Wal-Mart did this with their Smiley Face, and has now extended the image to be rolling back prices. Their branding position is all-around low prices.

## Audible branding tools

**Jingle.** I like jingles, as long as they aren't done as "love songs." Give me a tuba and a kid singing about hot dogs and I'll remember it forever! If you go this route, hold out for something that is distinctive, fun and flexible. Then stick with it. The ideal jingle is one that someone can whistle.

**Audio signature.** In my mind, an audio signature may be as powerful as a jingle. What I am describing is a musical or audible "phrase," perhaps just two to five seconds in length, that is used as kind of an "audio logo" for your store. Every radio and television ad would end with the signature, which might incorporate your store name, advertising theme or "handle," or your location.

**Spokesperson(s).** This gets back to the idea of personification. But there is nothing wrong with including a spokesperson(s) in every ad you do — especially if yours is the only business that they do ads for. Your spokesperson doesn't have to be a beauty queen or someone who works at the TV or radio station. In my hometown, a sharp-looking, respected insurance man is the spokesperson for one of the local hospitals. Audition a few people, offer to pay them $250 a month, and shake hands for a long-term deal.

# The parts department

## *A separate profit center*

By Jim Yount

Most business owners I know are looking for additional streams of income. The tendency is to spend time looking outside the business. However, if you're looking for additional income, let me introduce you to the No. 1 growth principle: Look inside your business for additional sales and profit opportunity.

To begin the process of looking inside your business, develop a spreadsheet of last year's sales. Your spreadsheet should include your major product brands and/or group categories, including their contribution to sales and profit. Your worksheet looks like this:

| Brand | Net Sales | Cost of Goods | Gross Profit | Profit Margin |
|---|---|---|---|---|
| Equip. | $250,000 | $195,000 | $55,000 | 22% |
| Parts | $100,000 | $55,000 | $45,000 | 45% |
| Total | $350,000 | $250,000 | 4100,000 | 28.57% |

*Three-year growth: up 21.76%*

Let's analyze the spreadsheet with these three steps:

- Identify products that are making a growing contribution both in sales and profit.
- Determine which product, brand or group that's taking up space and offers no potential.
- Identify the products that clearly have potential.

After you are satisfied that the analysis is accurate, it's time to take additional steps to redirect your energy and activity.

- Stop spending time on product brands and/or groups that are taking up space and wasting your time. Don't try to resurrect the dead.
- Invest more time promoting product brands that are already making a good contribution to sales and profit. Become the recognized expert in your market.
- Invest more time on product groups that have known potential.

This brings me to the main topic I want to discuss. If you're searching for additional profits, you need to look no further than your parts department. Your parts department has excellent profit and growth potential, but it must be developed. We're not just speaking of parts sales for major engine manufacturers. We're also talking about parts, accessories and attachments for your branded equipment.

Here are the steps you will need to take if you want to uncover your hidden treasure.

### Step 1: Detailed tracking of part/accessory sales

Your accounting system must have the capability of tracking part and accessory sales by brand, line item and part number. Your accounting system must also provide a part and accessory sales summary at the end of the day by line item and part number. Review it regularly, checking for errors in cost and selling price. Any system that reports total parts sales by brand is not sufficient. You must be able to manage profitability line item by part number — no exception.

## Step 2: Prepare to raise your prices

Be prepared to change the retail selling price on most of the parts and accessories you sell. Here's why. The typical manufacturer's parts price list reflects a wholesale price equal to a 35% discount off of the manufacturer's suggested retail price (msrp). Most dealers agree that selling parts off a 35% discount is not enough.

When you consider the mix of accessories, the overall department gross profit margin may drop to a low of 28%. But I've never seen an outdoor power equipment dealer survive long-term on parts margins this low. We recommend that you focus on cost and adjust your retail prices based on your business plan profit projections.

**You must be able to manage profitability line item by part number.**

Allow me to use McDonald's Restaurants to make my point. From time to time I will eat a breakfast biscuit with bacon, egg and cheese. In a small town like Atlanta, Texas, where I live, I pay $1.89. When I travel to Dallas, Texas, the price could be as much as $2.69. It's exactly the same biscuit sandwich, so why does it cost 80 cents more? Because it costs more to do business in Dallas. Consider the cost of property and building, wages and benefits, and local taxes in Dallas. There is a huge cost difference between doing business in the Dallas market and the Atlanta, Texas, market.

After identifying the cost of doing business and developing your profit projections, you can change your retail pricing strategy and improve your bottom line. It's your business, it's your money and it's your call. Pricing strategy is a learned skill. Do not accept low profit margins as a way of life.

## Step 3: Keep inventory turns high

Maintain inventory levels congruous with sales demand and equitable turns. We've recently worked with dealers who turn their inventory more than 10 times. These dealers better manage inventory levels by returning parts that are not selling, and will not allow obsolete parts to stack up. Parts orders are shipped via prepaid freight. Change your inventory management strategy and change the bottom line. Remember, an old sage once said, "You can't do business with an empty wagon."

## Step 4: Promote parts and service

Promote and market your parts and service department. Track and report parts and accessories sold over-the-counter separately from those used to complete repairs in the service department. Every piece of equipment that's sold should have a sticker that says, "For parts and service come to (your company name)."

I have a friend who has sold about 40,000 pieces of equipment — and that's of one brand. His customer base is a gold mine for parts, accessories and service. Do you know how many total pieces of equipment you have sold into your market? Do you know your customers?

If you're searching for additional streams of income, check out your parts department. It has hidden sales and profit potential. Use a little bit of your marketing savvy. Immediately make the commitment to begin a direct mail effort to solicit the sale of parts, accessories and service from your customer list. It's inexpensive. Mailing only 20 direct mail pieces each week will deliver more than 1,000 impressions during the next 12 months. It's sure to increase your sales. Start the program this week and don't stop.

Looking back 22 years ago when I started Jim Yount Success Dynamics, a mentor told me, "When looking for customers, go to the people you know. And don't go across the state until you've gone across town."

## About The Author

*Jim Yount of Jim Yount Success Dynamics has been a long-time industry consultant. He is also a member of the Stihl Retail Readiness team. He can be reached at 903-796-3094, or via e-mail at jimyount@attglobal.net.*

# How much would you pay for a pizza?

By Jim Pancero

Being new to our community, my wife and I have been trying out all of the area restaurants and food delivery services to see what we like best. I called up this one local "non-national brand" pizzeria and placed our order for two pizzas to be delivered. I casually asked how much the bill would be and was told $42. I immediately responded by saying, "That's twice the price of what a pizza should cost!" When she restated the price, I asked to talk to the manager. A man comes on introducing himself as the owner. I asked him if $42 was the correct price for two pizzas. He said rather defensively, "That's our price." When I restated that was twice the price I've ever paid for a pizza, he responded with, "Well then, do you want me to cancel your order?" I said "sure" and called a national chain.

The more I thought back on that situation the more it bothered me. I kept thinking, "How can you possibly sell such a high-end product and not know how to defend and sell your price?" My response to the pizza owner, though surprised, was still a definite buying sign. After all, they had my order and all the delivery information. The only problem and final hurdle was the price. But the owner never communicated any value message to defend his price. I have wondered if my wife and I would have been more likely to take a risk and try their high-priced pizza if the owner would have responded with something like, "If you're concerned about our price, it's evident you have never tasted the difference between a real pizza compared to a chain pizza."

What do you sell? Why would anyone buy from you vs. the cheaper-priced big boxes? Your uniqueness is based on the fact that you do not sell cheap stuff. This should be a major part of your message. A strong portion of the market has realized that buying the cheapest at the big boxes was not good enough for what they wanted or needed. They do not want to be ripped off, but will gladly pay extra to receive additional perceived value.

There is a simple formula in value selling. The more of a differential in value the customer sees, the more of a differential in price they will be willing to pay. As a dealer of premium power equipment, how are you and your team asking questions to learn what a customer wants? Are you learning what their work requirements are and then recommending solutions to help? And of most importance, when you are challenged on your price you need to respond with, "Of course our price is higher, and for these reasons."

## Getting over the higher-priced hurdle

Here are some suggestions if you want to work on this "selling higher-priced items" issue with your team:

- Have a group meeting of all your floor people and review the price differences between what you sell and what's available at the local big box. After identifying the difference in price, build a list of the "extras" or "added-values" a buyer receives when buying from you. Be sure the added-value of your dealer services is part of the list; things like free delivery or use of a test area next to your facility.
- Build a list of the most common pricing objections you and your team receive. Then, taking one objection at a time, build a list of some of the best responses to defend and persuade your customer that buying a higher-priced item might actually be a lower total cost solution to their challenges.
- When you are working the showroom floor, listen to your sales team's selling efforts. Look for opportunities to congratulate your sales team members who are persuasive when talking about your higher prices, and also listen for team members who still might need some coaching help in this area.

## About The Author

*Jim Pancero is a sales and sales management consultant based in Cincinnati, Ohio, and Minneapolis, Minnesota, and is a member of the Stihl Retail Readiness dealer training team. You can reach him at either jpancero@pancero.com or through www.pancero.com. He recently published, together with Stihl, a new retail selling skills video training series specifically aimed at helping you and your team increase your persuasive customer service and competitive selling skills.*

# How are you reaching your younger customers?

By Jim Pancero

Remember when all the talk in retailing focused on how you needed to change to sell to the new Generation Xers entering the buying population? Well, those Generation Xers are now in their 30s, and are most likely a large percentage of your current customers.

Baby Boomers were born between 1946-64 and are now 40-60 years old. Generation Xers were born between 1965-75 and are now 30-40 years old. Those born after 1975 used to be referred to as Generation Y but are now called the Millennial Generation and are 9-29 years old. The first Millennials are just starting to enter the retail outdoor power equipment market. They have always lived in a world with ATM machines, computers and 24-hour non-stop news.

Most people only sell to one personality: their own! So if you, like me, are in your 50s, you would tend to design and focus all of your selling and marketing efforts based on the way you personally would want to buy — and be sold. But how effective would that sales approach be to one of your youngest customers?

Our perceptions and attitudes grow out of our own experiences. A "generation" is a collection of individuals about the same age who have a common framework of "shared experiences." Each generation is perceived as unique and wanting of a different buying experience. So what are you supposed to be doing as a retailer to satisfy all of the Boomers, Xers and Millennials coming into your store?

## Flexibility - Respect - Communication

There are three universal truths of selling that can help you develop loyal customers of all ages.

**Flexibility.** How flexible are you to the variety of buyers you have coming into your store? Improved flexibility is achieved by increasing the amount of questions you ask. The more questions you ask a customer, the more likely they are to tell you exactly how they want to buy — and be sold. Could you be pushing yourself and the rest of your sales team to ask more questions of your customers?

**Respect.** This is one of the major errors made by older retailers. How would you want to be helped if you were a 28-year-old Millennial new homeowner? Would you want to deal with a salesperson treating you with respect as a peer? Or do you want someone treating you like they were your parent? Do you give advice or do you provide suggestions? Too many independent retailers turn off their younger customers by talking down to them as a parent with a "If you had my experience you'd know to buy this model" type of selling approach.

How much respect do you show younger buyers? One idea is to make sure all of your employees believe anyone entering your store has the potential to be a paying customer. You increase your selling persuasiveness when you don't value judge or pre-qualify your customers as they enter. If they walked in (or contacted) your business, you need to sell them with all the respect and attention possible, making them feel appreciated and important. Are there ways you and your team could improve how important you make each of your customers feel?

**Communication.** Each generation tends to gravitate to a different communications approach. There are still Baby Boomers who do not even have an e-mail address. Almost all Millennials have been actively e-mailing since grade school. What are you doing to ensure you have the proper communications structures in place to satisfy all of your customers? Can someone e-mail you and your store? Do you have your own Web site? Do you have a monthly E-zine (online electronic newsletter) being sent to your existing customers? E-zines are very cheap to produce, easy to maintain, and are a "no mailing cost" way to reach your customers with new promotions, product usage tips and special sales. There is a generational rule of thumb: The younger your customers, the more they will expect (and even demand) to be communicated to electronically.

## How are you increasing your competitive advantage?

You can increase your competitive edge against the big boxes by making sure you offer stronger service from knowledgeable experts, have more ways to reach each of your customers in their own communications style, and treat all potential buyers with more respect and attention. What can you do to work with your entire team to increase your competitive edge with these younger buyers?

# Competing to win

## *Merchandising your facility exterior*

By Steve Parmentier, merchandising specialist for Stihl Inc.

It's not just about survival — you have to play to win! What are you doing to compete? What do you have to do to win? This is the first in a series of articles to address these questions, specifically in regard to store merchandising.

The outdoor power equipment industry has changed dramatically over the past 20 years. In addition to competition in the traditional dealer channel, you now have to compete with the mass merchants and home centers — big box stores like Lowe's, Home Depot and Sears.

These companies devote massive resources to creating visually appealing, customer-friendly facilities that are conveniently located, all to appeal to a wide range of customers. They design store layouts and floor plans to allow customers to easily navigate through the store. They invest in signage, merchandising and displays to expose the customers to as many products as possible along their path through the store. They provide convenient cash wraps or checkout counters to finalize the transactions and take one more shot at enticing customers into more impulse purchases.

In order to compete, you'll have to at least match what the competition is offering customers: a comfortable environment and attractive product displays that draw attention, and promote add-on and impulse sales.

But, in order to win, you'll also need to provide your customers with something they cannot get from the big box stores. There are three critical areas where you can hold the advantage:

- Provide high-quality, professional products that are not available in the box stores.
- Provide exceptional personalized customer service with a well-trained staff of professional, outdoor power equipment specialists.
- Provide convenient, professional repair service by skilled, factory-trained, professional technicians — on site and on time.

But you will quickly lose the benefit of the advantages listed above if you don't take the basic steps to meet the customers' expectations. Because the big box stores have invested their resources in the merchandising and facility areas, customers have come to expect certain things from the professional retail store environment.

### Are you meeting their expectations?

First, you will need to evaluate your target customers' expectations of your store and determine what you can do to meet and exceed those expectations. In this, there are three key areas to consider: the facility exterior, facility interior and parts/service. In this article, we'll focus on the facility exterior and its effect on your customers. The overall first impression of your store can determine whether people decide to come inside, or drive right by and proceed to the big box stores where they know what to expect.

Think about your store's location and exterior in terms of creating a positive first impression on potential customers. Your facility's exterior should reflect your professionalism and the quality of equipment you sell.

Is your store easy to find and convenient to access? Does your store have "curb appeal"? Is parking convenient and near the entrance?

Ideally, you want to make it simple for your customers


*Signage should be highly visible and readable like the service department entrance at Stark Street Lawn & Garden in Portland, Oregon.*

to find you with highly visible, readable, up-to-date signage. Take advantage of signage kits from equipment manufacturers to convey the professionalism of your business.

The entrance should be easy to identify. If multiple entrances are used for the showroom, service or parts, directional signage should be highly visible and readable. Your store should be clean and neat inside and out.

Take an honest assessment. Try to see your facility as a customer would. Compare yourself to the competition. And remember that the big box stores are investing heavily in first impressions to bring customers into the store — because it works.

*Does your store have curb appeal like Twin City Outdoor Equipment in West Monroe, Louisiana?*

# Sponsorships

## *Combat the giants who want to take your customers with this low-cost, high-impact marketing technique.*

By Bob Janet

The giants, Lowe's and Home Depot, are at it again. Now they are going after your service business by contracting with after-sale service agents, taking away yet another of your competitive advantages. You cannot stop them, but you can thwart the giants from eroding your customer base and reducing your profits by doing what they cannot do. You can build relationships with your customers and prospects.

There are many low-cost, high-impact sales and marketing, relationship-building techniques I used in the mid-80s as the owner/operator of an electronics retail store. That's when Sears realized they could not increase their electronic and appliance sales more than a percent or two by attracting customers away from the other big box retailers, so they decided to attack me. OK … all of the small independent retailers. But I took it personally, and you better, too.

At the same time another giant, Montgomery Ward, came to my town. They came right into my store and said to me, "We are going to open a store in this town and would like to purchase your building and property." I told them I was not interested in selling and they had the unmitigated gall to say, "If you do not sell out to us we will purchase another property and put you out of business." I escorted them out of the building and started to prepare for the fight of my life; a fight for our survival. We did survive, and even prospered, like many of you are doing right now. And although it was years later, Montgomery Ward was the one who went out of business, because we took actions to continually giant-proof our business.

### Become a part of your community

The first thing we realized was that we could not out-advertise them. But we could out-market them by establishing and building strong relationships with our customers and the community. One of the most profitable and low-cost techniques I used to combat the giants was sponsorships.

A friend of mine suggested that I add sponsorships of organizations and events throughout our town to keep my name at the top of the customer's mind when a buying decision was to be made. Now, I was never one for sponsorships. I just could not understand how having a sign at the local little league ball field, our name on the front of a kid's uniform, or our company logo posted at a golf hole during a tournament would transfer into sales. I already belonged to social organizations and was not reaping large amounts of sales from my participation. I was looking for low cost, high yield in the form of instant sales and profits, not a name recognition-building process. I believe in aggressive marketing. Every advertising and marketing dollar must increase the bottom line immediately, in my opinion.

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## Making sponsorships work for you

Then one day I was trapped into sponsoring a little league baseball team. You know how it goes. A very good customer, one good for $20,000 a year in net profits, asked me to put up $350 to sponsor a team. I couldn't say no, but I was bound and determined to find a way to gain instant sales and profits. So I developed "The Bob Janet Aggressive Sponsorship Program."

Realizing every organization had kids selling raffle tickets for prizes, I had a thousand raffle tickets printed, at no cost. I convinced the printer to supply the tickets in exchange for his name appearing on the front of the ticket in very small print. Printed on the back of the tickets was a coupon for a discount at one of my stores. For each ticket the player sold for $1, the team kept the $1. Plus, the discount helped the kids sell the tickets by adding extra value. The team earned $1,000. And I not only received public recognition for my overwhelming support of youth baseball, but I also gained instant sales and added over 500 new names to my mailing list from the ticket stubs.

The sponsorship of the little league team worked so well that I added sponsorships to my marketing plan. But I still needed a way to market directly to my target micro market: the customers within approximately 10-20 miles of my brick and mortar business, where 70% of my sales came from. I concentrated on discovering which organizations my target customers belonged to, not on where they went and might see my name, such as signs at ball parks and on park benches.

Then one day my son Brian brought home a notice from the elementary school asking for donations to fund the purchase of yellow rain jackets for the adult and children crossing guards. I immediately contacted the school and offered to sponsor a fund-raiser because the parents of the children attending the school were within my micro market.

I sponsored a drawing for a wheelbarrow of cheer. Not the detergent — alcohol. Again I got the tickets printed for free, and a friend of mine in the beer business donated the beer and alcohol. I printed the back of the tickets with a 2-for-1 offer at my video rental store, plus a free membership. (In those days every video store charged $40 for a membership.) The school got their raincoats, plus another $1,000 for their treasury, and I got an immediate increase in video customers and video rental income.

Then I hit the mother lode. A member of the high school wrestling team came into my office asking for a donation to help send the team to wrestling camp. It only took two weeks and a bit of organization until I had every athletic team and club selling tickets with my discount offers on the back. That was actually less time than it often took me to create a newspaper ad. I made a competition out of it with prizes for the top sellers and a party for the winning team or club. I received public recognition for helping the students raise much-needed funds, not to mention helping them gain a real world business education. Plus, the program led to lots of instant sales and profits for me.

Sponsorships are a win, win, win. The organization you are sponsoring wins. The customers win by gaining a good feeling of helping organizations they care about, and with real dollar savings at your store. And you win with increased sales and profits. So become aggressive and dare to be different and creative with your sponsorships.

## About The Author

*For more information on using sponsorships, becoming aggressive and daring to be different to increase your sales and profits, contact Bob Janet at 704-882-6100 or via e-mail at Bob@BobJanet.com. Janet combines 37-plus years as owner/operator of professional, retail, manufacturing and service businesses with his unique teaching and storytelling ability to motivate, educate and inspire business professionals of all levels and all industries for increased sales and profits through consulting and training, keynote speaking and his book, "Join The Profit Club." Visit www.BobJanet.com for more.*

# Boost profits with four simple steps

By John Strelecky

One of the most common mistakes companies make when trying to boost their profits is to try and get new customers. This behavior is typically a reflection of their history. When they were new, they probably had just a few customers — if any at all. To survive they had to get more. Getting new customers made sense.

For companies that are out of survival mode, and are instead trying to boost their profitability, acquiring new customers is not the best strategy. Studies by Cap Gemini and Gartner Group have shown that, depending on the industry, it costs three to seven times more money to acquire a new customer than to get an existing customer to make a new purchase. The best profit-boosting opportunities lie in optimizing the relationships you have with your existing customers. Here are four simple steps to do just that.

## Find and strengthen your pillars

Do you know which five of your customers contribute the most to your bottom line each year? Can you name them off the top of your head? Can all the employees in your dealership name them? If not, that is a problem that should be addressed quickly.

Depending on the size of the organization, a loss of any of the top five customers can range from serious to catastrophic. These clients are the pillars supporting your company. Think of your business as a structure sitting in the middle of shark-infested waters. Five pillars are arranged in a circle and your business balances on top of them. What happens if one or two of those pillars shrink. What happens if one of them goes away completely?

Part of the key to optimizing profits is securing your pillars. If you look at the amount of time your organization spends on customer service and break it down by customer, would you find that your "pillars" are the five customers who get the most service?

Most likely they do not. "Problem" customers usually command the most attention, followed closely by efforts to get new customers. Change that. Focus a proportionate amount of attention on customers based on how critical they are to your business. Take the resources being applied to the problem customers and focus them on the pillars. Task those people with making your relationship with the pillars so strong that they will never crumble. Challenge your employees to find ways to help the pillars be successful. Be a pillar to your pillars.

## Inventory your offerings

Starting with your pillar customers, take an inventory of all the products and services that you currently provide. Rank them in order of profitability. When all the offerings have been identified, categorize them from one to five. Ones should be the 20% of the offerings that are most profitable. Twos will be the next 20%, on down to five, which will be those products and services that are in the bottom 20% in terms of profitability.

Now comes the interesting part. Create a grid with clients across the top and offerings down the left side. Arrange the clients in order of how much they impact your bottom line. The most impactful client should be the first one, and the least impactful client should be the last. For the offerings, which are on the left side of the grid, keep them in order of most profitable to least profitable. When you have finished creating the grid, put check marks on the products and services you provide for each client. This is your profitability map.

## Attack the gaps

Look at your pillars. How are you doing in terms of providing your full suite of offerings to them? Any boxes without checks represent an opportunity for you to solidify your relationship. Start with the offerings that are ranked one and not being used by your pillars, and focus on getting those blanks filled in.

Now look at the rest of your map. Where are the check marks? Where are the gaps? Every gap represents an opportunity to boost your profits. Start with the more profitable clients, and try to fill in all the ones and twos. Educate those customers about the additional products and services you offer. Find out what needs they have and identify ways you can fill them. These efforts will not only strengthen your relationship, but it will also make them more profitable clients for you.

## Learn from your "lovers"

As you are implementing step 3, take another look at your graph. Find the five customers who use the greatest percentage of your products and services. These are the customers who just love what you do. They represent a tremendous learning opportunity.

There is some reason these customers love you so

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much. If you can find out those reasons, you can apply that knowledge to the way you interact with the rest of your customers. Perhaps a particular salesperson has figured out something that is really working. Maybe the customer service contact is particularly good. Whatever the reason is, you need to know.

Interview those "lovers" and learn from them. If they say it is because of a particular person in your company, interview that person and find out what they do that is working so well. Within those interviews lies profit-boosting information. Gather it and apply it to the way you interact with your other customers.

Again, start with the pillars and then work your way across the customer list. Most organizations acquire customers by filling a single particular need. The key to boosting profits is not to go out and get more of those customers. Find and strengthen your pillars so that your organization is well-supported, inventory your offerings, fill the gaps, and learn from your "lovers." Those four steps are the way to boost your profits.

## About the Author

*John Strelecky is the author of "The Why Are You Here Cafe" and a nationally recognized speaker on the topic of "Creating the perfect company." A graduate of Northwestern University's MBA program, he has served as a business strategist for numerous Fortune 500 companies, and has co-founded the Business Philosophy practice at Morningstar Consulting Group LLC. He can be reached through his Web site at www.whycafe.com or by calling 407-342-4181.*

## *Fatal flaws — strategic solutions*

Experts say the failure rate of small businesses ranges from 10-18%. A significant percentage of entrepreneurial ventures will die a premature death because they have failed to implement necessary life-saving strategies to succeed.

### Failure to work from a plan

Whether your business is a germ of an idea or well into its growth cycle, it is suicidal to not have a plan. We're not talking about the formal business plan you need to secure funding from a bank. What is necessary, however, is some written plan that identifies the current stage of your business, where you expect it to go growth-wise within the coming year, and how you intend to get there. It needs to be realistic and specific so you can benchmark your performance along the way and make necessary alternative plans. All business planning should also have a contingency plan. What will you do if the economy declines? What if your best customer goes bankrupt? What if there's drought? Ask the tough questions as they relate to your business, and be prepared with realistic answers of how to shift your strategies if the need arises.

### Failure to understand and effectively use the concept of marketing

Planning includes specifics from a marketing perspective. Unfortunately, most small businesses throw money at unproductive marketing tactics rather than developing a strategy that is aligned with their company's core values.

On the reverse side of this issue is the fact that all too often small businesses fail to allocate adequate funding to provide the marketing efforts necessary to fuel profits. Both issues must be carefully addressed in order to maximize marketing efforts. How much should be spent on marketing? On average, businesses spend 2-4% of gross revenues on advertising- and marketing-related ventures.

### Failure to deal with the people factor

This flaw requires a leadership strategy in which the owner must understand that it's not the leader's role to take a hands-on approach in running the company. Rather, the owner must trust the people he's hired to perform in their respective roles. If you don't give employees the freedom to perform, you run the risk of losing them.

### Failure to communicate

Leaders must be powerful communicators. They don't have to be charismatic. They do have to be compelling in their ability to help others capture their passion for the company's vision and purpose, and to embrace the cultural values that drive the company's success. Listening becomes critical.

### Failure to adapt with the times

Change is fluid. Therefore, future planning is critical. You need an attitude that embraces change, along with a willingness to invest resources that will enable you to shift the way you do business.

*Bette Price is an author, speaker and president of The Price Group, a leadership development firm.*


—Dave Wood, owner, Smitty's Lawn & Garden, Kansas City

# "I went from 6 brands to 1. Then my sales rose 30%. I'm no math whiz, but I'd say that's pretty interesting."

"When I became STIHL-exclusive, I expected to reduce my parts inventory, maximize my showroom space and streamline my transaction time. And I did. What I wasn't expecting was for hundreds of new customers to start showing up looking for STIHL products. But sure enough, there they were. Maybe it's because STIHL has an industry-leading reputation. Or because STIHL is one OPE brand they can't find at the warehouse stores. Or maybe people just like when a dealer stands behind what he sells. Whatever the case, you don't have to be a genius at math to see it's working. Although, I have been getting lots of practice lately adding up profits." 1 800 GO STIHL • www.stihlusa.com

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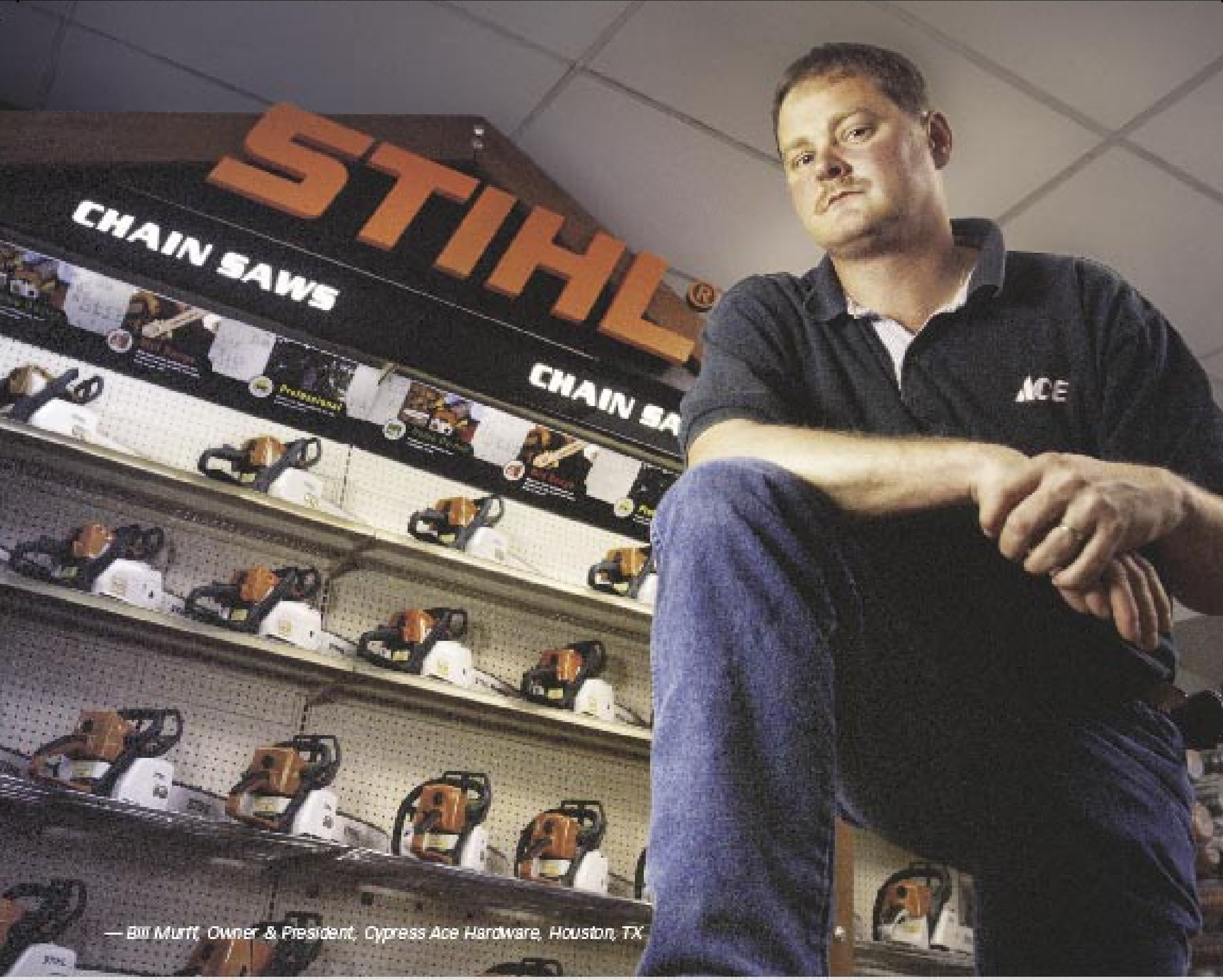


# "I don't have time for brands that don't have time for me."

"Sure, I used to carry a certain other brand of outdoor power equipment. That is, until it became worthless to my business. First these guys undercut me by selling through warehouse chains. Then they decided it wasn't worth their time to give me the same support the megastores were getting. So, see ya. Now I have fewer parts to order, less clutter on my sales floor, unbeatable product support, and more loyal customers than ever. In fact, my business has grown every year since I dropped those guys. Hey, maybe I should give 'em a call, just to say thanks."

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