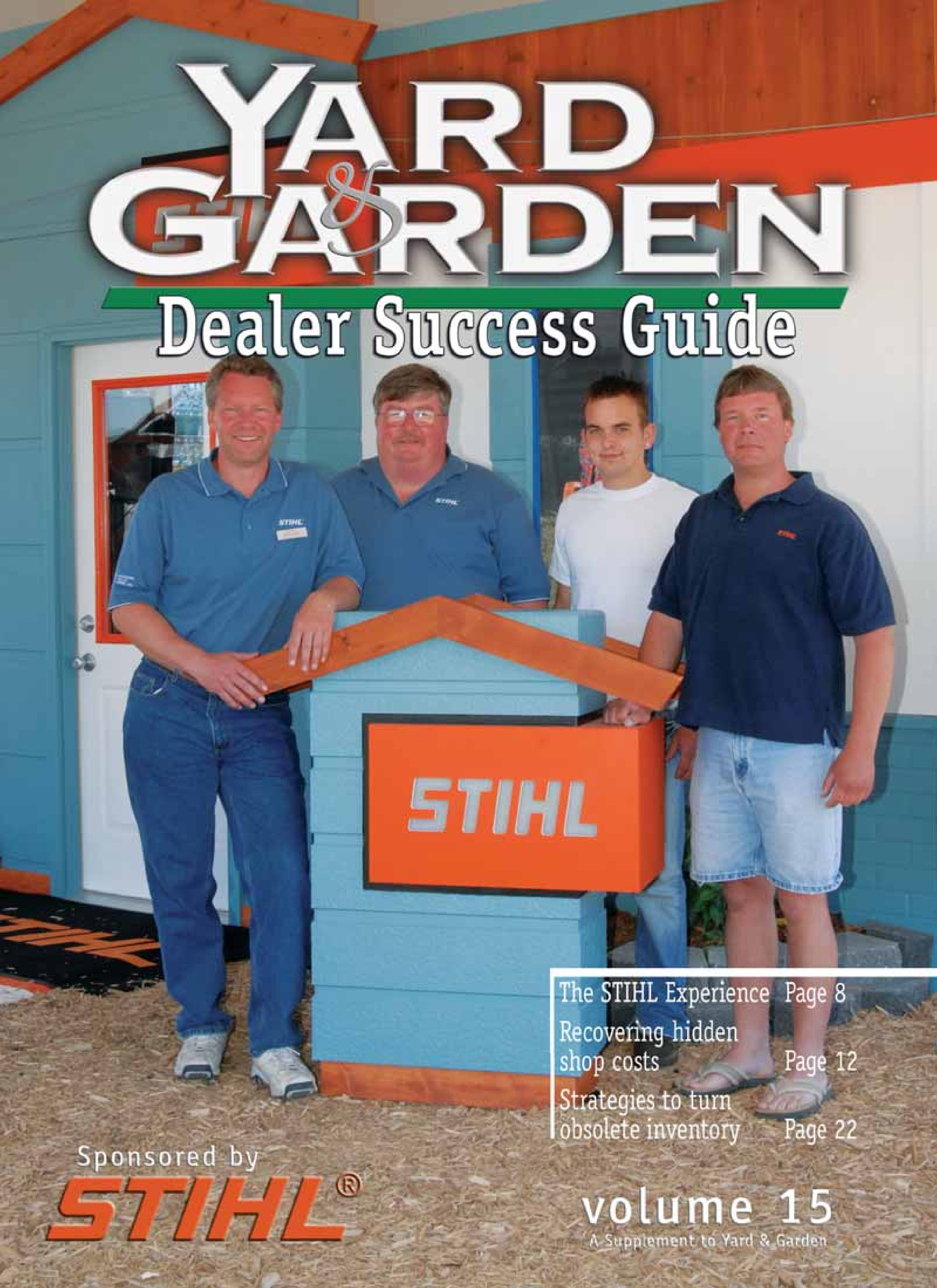
YARD & GARDEN

Dealer Success Guide



volume 15

A Supplement to Yard & Garden

STIHL®

Maximizing Opportunities

To All Servicing Dealers,

It's no secret that 2007 has proven to be a challenging year for many outdoor power equipment dealers. This is true for large mass merchants, as well. The Home Depot second quarter, same store sales were off 5.2% as compared to 2006, and Lowe's was off 2.6%. However, challenging economic times can be an opportunity for increasing your presence in the market at the expense of the mass merchant competition.

This is the time to evaluate what manufacturers and distributors are doing to support *you*. Are they supporting you with merchandising and advertising efforts to bring customers into your store? Are they actively marketing to create demand for their brand and for your dealership?

Taking advantage of programs offered by manufacturers that maximize your dollars and give you a bigger share of voice with other independents may well be the best way to promote your business against the big box stores. Be sure to check out the article on STIHL® TIMBERSPORTS® and how dealers from Iowa and Illinois worked with their STIHL distributor, Mississippi Valley STIHL, to activate this event with their customers.

I believe you'll also enjoy the case study on how Harley Davidson reshaped their image and built what has become legendary brand loyalty. From ways to kick start sales to how to increase the productivity and profitability of your service department, the *Yard & Garden Dealer Success Guide* team has put together another outstanding issue with great tips and advice for your business.

Best wishes and good selling,

Fred J. Whyte
President
STIHL Incorporated

Goals should inspire, not depress

Setting goals is an obvious first step in any business growth strategy. Goals give you an "end zone" to drive toward as you quarterback your team through the season. Just like on the football field, goals are often met—and games won—a few yards at a time.

As important as goals are, they are often misunderstood and misused, and wind up being counter-productive. Goals can be vague and sometimes intimidating, which typically leads to their being forgotten. Instead, goals should be clearly defined, realistic and inspiring. Goals should also be based on specific actions which, when accomplished, will help your company meet its more dramatic objective.

For instance, if you'd like to grow wholegoods sales 10% this year, set some specific goals that can help you accomplish that:

- Personally visit two big commercial customers a week in the lead-up to spring to demo product.
- Implement some kind of referral program to encourage existing customers to send new customers through your doors.

Here's another example. If you want to increase shop efficiency 15%:

- Develop and implement an incentive/commission structure for techs that will encourage them to keep their noses to the grindstone.
- Get rid of shop clutter and implement a policy to keep the shop clean and orderly. Either make it the service manager's responsibility, or make each tech responsible for his own bay. Then monitor it.

Everyone wants to "grow sales," "increase profits" and "improve customer service." How you go about doing that is what's sometimes elusive. Setting specific goals and strategies like those mentioned above, and those discussed in this edition of *Dealer Success Guide*, help you and your employees get your arms around the broader objectives at hand. ■

Gregg Wartgow
Yard & Garden Magazine
1233 Janesville Ave.
Fort Atkinson, WI 53538
800-547-7377 x1614 • 920-328-9011 (fax)
Gregg.Wartgow@cygnuspub.com

ON THE COVER – From left to right: Mike Joynt, president of Mississippi Valley STIHL; Larry Chambers, territory manager for Mississippi Valley STIHL; Willy Grandinetti, customer of The Power House, a STIHL dealer; Jeff Schreiner, president of The Power House. STORY ON PAGE 8.

DEALER SUCCESS STORIES

There is no magic formula that will allow you to make the dramatic jump from Tier 2 to Tier 3. A lot of it has to do with market conditions. How you market yourself, which includes in-store merchandising, can also make a difference.

Tier Pressure

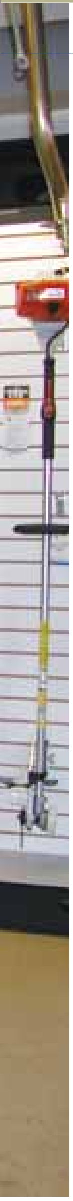
There are big dealers and small dealers. If you're somewhere in the middle without a plan for growth, your business's demise could be more imminent than you think.

It's a familiar story. A guy starts up a small-engine repair business out of his garage. He's located in a rural area with a strong demand for a local repair center. He's a service-only dealer. He's doing a fairly modest volume. However, since nearly 100% of his income is from service labor, his gross margin is fantastic—sometimes 50% or more. He doesn't carry any equipment lines. And, since he's operating out of his garage, his overhead is very low. Life is good as a lower-level Tier I dealer.

Fast-forward a few years, giving this business some time to evolve. His annual revenue is now in the $600,000-$750,000 range. He's now carrying an equipment line or two. His gross margin on equipment isn't all that great, but parts and service margins remain strong. And because he's still a parts- and service-dominant dealer, his overall gross margin is a healthy 30%-plus. His overhead is still low—probably 15-18% of gross, which is well below the industry average. He doesn't do much advertising. Payroll is low since it's him, his wife and a buddy. This dealer is likely netting $50,000-$100,000 a year. Life is great as an upper-level Tier I dealer.

BRIGHT LIGHTS, BIG CITY

But now he's on the radar screen. He's showing up as a listed dealer for one or more of the engine manufacturers. He might be in the Yellow Pages. Manufacturers are start-



ing to knock on his door. A "bright lights, big city" image is created in his mind. After all those years of hard work, sweating in his garage, he has a chance to become a legitimate business. He can add several more equipment lines and begin to rapidly grow his customer base.

This is where it starts to crumble for many a dealer. When he gets caught up in the excitement of transforming his business into a "legitimate" power equipment sales/service operation, he's stepping away from the Tier I lifestyle that he's grown accustomed to. He's moving into Tier II, which has consistently proven itself to be difficult to manage.

THE SKY IS FALLING

Typically in Tier II, which is the $750,000-$1.5 million range, the dealer has to quickly learn how to manage a growing business with a considerable increase in overhead. You need a definite strategy when you get into this middle tier. Otherwise, you can make more money staying smaller, focusing on service like you did in the beginning.

Overhead, also known as operating expenses, will typically increase 3-5%, if not more, during the Tier II phase. Taking on additional equipment lines requires more operating space. So the dealer upgrades his facility. Now there's additional overhead in the form of rent and utilities. These are fixed expenses the dealer has to live with month after month, even during those slow stretches when revenue is down dramatically. Furthermore, since the dealer has likely relocated to a more suburban venue, operating expenses such as rent, utilities, employee wages and insurance are higher than they would be at his previous rural location.

In Tier II the employee base expands almost immediately. At this sales volume you need at least one more technician. You need a delivery driver. You probably need a salesperson to work the counter and showroom since you're too busy managing your growing business, dealing with vendors and taking phone calls. Your wife is now busy helping you stay afloat, so you may also need to hire an office worker, at least on a part-time basis. Now that three-person staff you had during Tier I is a seven-person staff. Even at $1.5 million a year, it can be tough to carry this payroll.

DRAWING THE LINE

The Tier II dealer, so enthralled by the newfound fame of running a legitimate power equipment dealership, is typically carrying eight or more equipment lines. It's important to carefully scrutinize the carrying costs for each of those lines: interest, insurance, property or inventory taxes, storage or floor space cost, handling costs, deterioration and theft. Obsolescence is another big carrying cost. Since the Tier II dealer is carrying so many lines, it's probable that there's some redundancy in inventory; carrying two trimmer lines, for example. This greatly increases the likelihood that obsolete inventory will start to mount.

Another issue arises due to the fact that the Tier II dealer is carrying more lines than he ever has before. This dealer's inventory investment is spread across several suppliers. Thus, in many instances, he's likely to be buying in a lower bracket, often giving him a 13-15% margin. That's simply not good enough, especially when you consider the fact that the Tier II dealer's overhead is typically 18-22%, with 22% being the more likely scenario.

To minimize the impact of this staunch reality and keep their businesses going, many dealers have made a few "tricks" somewhat common. First, they subsidize their money-losing lines with profits from their other lines. They may even subsidize with profits from the parts and/or service departments. Dealers who do this are about a half a bad season away from bankruptcy.

Secondly, some dealers stop paying their two or three "least important" suppliers. Dealers are supposed to sell and pay. But many don't. Many sell and count it as cash flow. They pay back "some" manufacturers at a time. Eventually, they lose a line or two because they don't pay. They don't care, because they can go pick up another line if they absolutely have to in order to fill a product category. And they justify this in their minds because, "the manufacturer got me into this in the first place."

A third way dealers minimize the impact of money-losing lines is by cutting out certain expenses

continued

Emerging Costs of Tier 2

Overhead, also known as operating expenses, will typically increase 3-5% during Tier II to a level of 18-22% of gross revenue, with 22% being the more typical scenario. Below is a list of the most common expenses that begin to "emerge" in Tier II.

- Payroll
- Payroll taxes
- Advertising
- Mortgage/rent/lease
- Medical expenses
- Trash
- Phone
- Electricity
- Insurance
- Interest
- Freight/postage
- Vehicles
- Uniforms
- Repairs/maintenance
- Fuel
- Office supplies
- Professional services
- Property and inventory taxes
- Training and development
- Travel

in order to reduce their overhead, making that 13-15% wholegoods margin more feasible. For instance, they stop paying their wife's salary. They don't pay themselves rent because they own the building their dad started paying off 30 years ago. It looks like they're making it. But they're not. If you're not paying yourself rent you're not fully utilizing your assets. And if you're not paying your wife you're restricting your household income. She could go work somewhere else and actually earn a paycheck.

In order to escape Tier II the right way, dealers need to work like mad, which is something many of you are probably all too familiar with.

In order to escape Tier II the right way, dealers need to work like mad, which is something many of you are probably all too familiar with. You need to put in extremely long hours. You need to run lean with a staff of three to five people. You need to fight the temptation to over-expand your brand offering. You need to maintain a firm grip on your expenses. And you need to move through Tier II as quickly as possible—preferably in one season. If you can get to $1.5 million in one year, you're out of the woods. Then, you can hunker down the next season and grow comfortably from $1.5 million.

CLIMBING TO THE TOP

There is no magic formula that will allow you to make this dramatic jump. A lot of it has to do with market conditions. How you market yourself also makes a difference. You will likely have to pursue business more aggressively and hire an outside salesperson to call on municipalities, institutions, businesses and contractors. Better yet, if you're running a lean staff and carrying a more manageable number of lines, you'll have time to be the outside salesperson yourself. Then, once you secure the additional commercial business, you can hire someone to manage those accounts while you focus on even more ways to grow your business. Remember, Tier II brings a lot of added overhead to the table. You don't want to increase your payroll too much and make this problem worse while the sales increase you'd hoped for is lagging. Grow the sales base yourself, then hire someone to manage it.

Speaking of overhead, it doesn't change all that much when you make the jump from Tier II to Tier III. You're functioning with the same employees. You're in the same building. Sometimes, however, the dealer will move from a B location (rent $3,000/month) to an A location (rent $4,000/month). That increased overhead is well worth it to some Tier III dealers, especially when you consider the boost in productivity and customer traffic the new location provides.

The biggest difference between Tier II and Tier III is that you can spread your overhead costs over a much broader base of revenue in Tier III. The Tier III dealer, in many instances, has learned how to shift his focus. Service and parts are high margin. Many have added a high-margin rental department. Used equipment is being managed properly and has become a nice profit center.

Typically, the Tier III dealer has narrowed his lines a bit because he wants to focus on his top three manufacturers so he can buy in the best brackets and increase his wholegoods margin. This also makes the dealer more important to the manufacturer. This dealer can actually get his suppliers to work "for" him; moving inventory to other dealerships, assisting at open houses and trade shows, etc. The Tier III dealer has leverage.

When you can reach Tier III, everything will be OK—as long as you keep your margins in line and your expenses under tight control. You can make some serious money in this business, just like you can make some serious money in Tier I. But, in most cases, if you flounder around in that no-man's land known as Tier II for too long, you're dead. A lot of servicing retailers are in Tier II. Maybe that's why the industry's seen the dealer network nearly cut in half in the last decade. If you're a Tier II dealer, get a strategy in place now so you're not the next one to bite the dust. ■

Originally appeared in Yard & Garden's August/September 2004 issue.

About the Author

Rick Barrera is a nationally acclaimed speaker, marketing consultant and author known throughout the Fortune 500 for his extraordinary speaking ability and his unique approach to brand building. His impressive client list includes Abbott Labs, AutoZone, Bayer, Caterpillar, IBM, Intel, Merrill Lynch and Verizon. Rick's latest book, "Overpromise and Overdeliver: Using TouchPoint Branding to Design and Deliver Extraordinary Customer Experiences," has made both the Wall Street Journal and Business Week best seller lists. It is available online at www.Amazon.com or www.overpromise.com. If you register your book on Barrera's site you'll get access to even more ideas for growing your business.

Case Study: Harley-Davidson

POWER of Emotion

Harley-Davidson is one of the most revered brands in the world. But it wasn't always that way. Struggling to compete with lower-priced Japanese imports, Harley-Davidson was on the brink of bankruptcy in the 1970s. The company narrowly escaped financial collapse by focusing on a single, universal marketing philosophy: People want to feel good about themselves when they buy things.

Harley-Davidson also came to the conclusion that humans are not logical or rational. In a buying situation, humans often make emotional decisions over rational ones. They go with their gut instinct. That's all the more reason why everything you do—advertising, sales tactics, customer service, in-store presentation, etc.—must make the customer feel good about him or herself.

Harley-Davidson also came to the conclusion that consumers would never consider purchasing a product if they didn't think the product was of high quality. So Harley quit babbling on about quality in their marketing messages. In fact, the company embarked on a concerted marketing effort to stop doing and saying the things all of their competitors had been doing and saying for years. Many of the strategies and tactics that worked for Harley-Davidson could also work for you.

AN EXTENDED FEELING

Intense competition from Japanese imports was not the only thing plaguing Harley-Davidson back in the late-70s. The company's reputation had been deteriorating in the eyes of the public. A lot of that had to do with the media's relentless depiction of an exaggerated segment of Harley's customer base: the rough, bad-news biker guy. Needless to say, the company had some work to do.

Understanding that "what your customers are saying about you determines who you are," Harley-Davidson set out to rebuild its image. A handful of guiding principles were at the core of this mission:

A brand is an extended feeling. Your brand is your company's culture. You cannot say something in your marketing message if that's not truly what you are. Consumers will likely get confused, lose trust and take their business elsewhere.

Retailers must **create an environment where customers feel good about themselves**, then human nature will take over. Harley-Davidson's unveiling of a new store concept—which featured parts, accessories and clothing in addition to its new motorcycles—played a big role in the brand's comeback. Customers were visually stunned when they walked into a dealership, and they talked about it to their friends.

When people feel good about themselves and your role in helping them feel good, **word of mouth will take over**.

Consumers like being asked what they think. Harley-Davidson's president could regularly be seen at various events across the country, asking motorcyclists what they thought of Harley's products and how the company could make them even better.

Consumers like to be noticed. In 1983 Harley-Davidson created the Harley Owner's Group (H.O.G). This was one of the company's most unique endeavors, and was extremely effective in 1) making consumers feel good about themselves, and 2) help reshape the brand through word of mouth.

Still committed to "not do or say what our competitors are doing and saying," Harley-Davidson also began employing some non-traditional marketing tactics.

Event marketing. Harley began plugging into existing events such as Sturgis and Daytona.

Traveling demos. Working with local dealers, Harley-Davidson began traveling the country, allowing motorcycle enthusiasts to try out their products and offer feedback. Positive word of mouth started spreading fast among the motorcycling public: "Harley-Davidson is back, their products are great and they care what we think."

The paramount success those traveling demos had should come as no surprise. They tie back to a philosophy that helped shape the marketing strategy that would enable Harley-Davidson to redefine itself in the marketplace and narrowly escape failure: Consumers want to feel good about themselves when they buy something. Innovative products, mind-blowing in-store presentations, and making customers feel loved and needed helped Harley-Davidson do just that. ■

Originally appeared in Yard & Garden's April/May 2006 issue.

By Gregg Wartgow

Experience of

Distributor teams with its dealers to make STIHL® TIMBERSPORTS® a true STIHL Experience for customers.

Back in January, the folks at Mississippi Valley STIHL (MVS) had been meeting to discuss ways of bringing more end-customers into what MVS president Mike Joynt likes to refer to as "The STIHL Experience." An upcoming STIHL TIMBERSPORTS event in Dubuque, IA, looked like the perfect opportunity. When it was all said and done, not a soul was disappointed.

"We did more good having over 700 customers at that STIHL TIMBERSPORTS show than we ever did at any gathering we have ever held," Joynt says. "We paved more roads and cemented more relationships, while spending equal time with our servicing dealers and their customers."

JOIN THE CROWD

Much like Harley-Davidson has done with its Harley Owner's Group (H.O.G.), Joynt says he sees a similar opportunity with the STIHL brand. "Our territory managers tell us stories about how they've stopped for gas in their STIHL-branded trucks, and people came up to them asking for hats and T-shirts, or to tell a story about a chain saw or trimmer their father owned," Joynt says. "Those people are loyal STIHL users who want to be part of the STIHL Experience."

Peoria, IL-based Mississippi Valley STIHL immediately recognized that a STIHL TIMBERSPORTS event, to be held right in the heart of its territory, would create the perfect venue for bringing hundreds of STIHL "family members" together under one tent for the experience of a lifetime. The Series, which was started in the U.S. in 1985 and is televised on ESPN2, is considered the premier lumberjack sports event in the country and has now expanded to include 18 countries.

BUZZ ON THE STREET

MVS marketing staff designed a STIHL TIMBERSPORTS complimentary invitation ticket that territory managers handed out throughout the MVS territory of northern Illinois and Iowa. At major events such as the Chicago Flower and Garden Show and the Des Moines Home Show, the tickets were a huge hit with people who always wanted to attend, but never knew how. A poster with a tear-off ticket was also created and sent out to dealerships in Illinois and Iowa. Additional posters were distributed around Dubuque to help promote STIHL TIMBERSPORTS locally.

Blurbs about the event were included in all of MVS' regional advertising, which included 52 newspapers across Illinois and Iowa during an eight-week span in April-May. MVS, in conjunction with three area dealers, then began running radio spots on a Dubuque station a couple weeks prior to the June 9 STIHL TIMBERSPORTS competition. They finished the advertising campaign with brand awareness advertising, the days of the events, which consisted of nine-plus live remotes with STIHL employees, MVS personnel, dealership personnel and their customers, as well as STIHL TIMBERSPORTS competitors.

GETTING END-USERS INVOLVED

Previously, in early spring, MVS had also sent a poster to each of its roughly 480 dealers. "We wanted our dealers to experience this unique show, but also hoped to get end-users involved," Joynt explained. "We put together a tiered promotion for dealers to encourage them to get their customers to come. For example, if a dealer brought five to 10 customers, we'd credit that dealer a certain amount. If he brought 11 to 15 customers, we'd credit him a little bit more."

The promotion seemed to work very well. Some 46 dealers attended the Dubuque event, 32 of which brought customers. In all, roughly 730 people were part of the STIHL Experience, including dealership personnel, landscapers, construction contractors, farmers and homeowners.

"We put a VIP hospitality tent together to separate the 'STIHL family' from the rest of the crowd," Joynt tells. "We wanted our dealers and their customers to enjoy the experience and really feel special."

"We also catered a nice lunch that everyone could eat in the shade of a private tented area if they wanted, like chicken salad, BBQ sandwiches, and other picnic-type foods," adds Sheila Elsey, an MVS employee who played an integral role in organizing the event.

a Lifetime

Ralph Helm Inc. was one dealership that really tried to capitalize on the relationship-building opportunity presented by the STIHL TIMBERSPORTS event. The dealership chartered a bus that ended up transporting some 41 customers from Elgin, IL, to Dubuque.

BUILD RELATIONSHIPS THROUGH SPECIAL EVENTS

Jim Stransky of Jim's Small Engine in Riverside, IA, was one of the dealers who deemed the event a great success. "MVS sent me a poster, and all I did was hang it on my desk at the dealership," Stransky relates. "Customers saw the poster and said, 'Yeah, I've heard of that TIMBERSPORTS thing. I'd love to see it sometime.'

"MVS had also sent me some complimentary tickets to hand out, which I did," Stransky continues. "Something like 72 of my customers—including professional users and homeowners—ended up making the drive to Dubuque for the event. I think even more would have gone had they not had conflicts, like a kid's ball game or something."

Stransky says the STIHL TIMBERSPORTS Experience didn't really cost him anything, and was a great customer relationship-builder. One of his customers, construction contractor Todd Hahn, now presents gift certificates for a STIHL blower to people hiring him to build their houses. "I probably would never have gotten to know Todd as well as I do, much less arrange something like this, had it not been for that day in Dubuque," Stransky points out.

Ralph Helm Inc. was another dealership that really tried to capitalize on the relationship-building opportunity presented by the STIHL TIMBERSPORTS event. The dealership chartered a bus that ended up transporting some 41 customers from Elgin, IL, to Dubuque.

Mike Jarvis organized the outing. "Early on we targeted loyal STIHL commercial users," said Jarvis, who manages Ralph Helm's Elgin store. "These were guys we wanted to say 'thank you' to and entertain. We met in a parking lot near our Elgin store, and made the two-and-a-half-hour trek to Dubuque. The bus cost us around $1,000, which is nothing when you consider what we got out of it." Because of the tiered benefit structure for dealers, MVS helped offset the cost of the bus.

EXPANDING THE EXPERIENCE

The success of Mississippi Valley STIHL and its dealers is something Roger Phelps, STIHL's promotional communications manager, thinks will spread to other areas of the country. "We are already working with dealers in Georgia for a STIHL TIMBERSPORTS competition we are planning to hold there next year," Phelps points out.

STIHL Inc. is eager to lend a hand to its distribution partners, which was clearly evident in the case of MVS and the June 9 event in Dubuque. "We provided creative materials (images, text, etc.) to MVS and its dealers," Phelps says. "We also had our PR company working directly with the local media in Dubuque to ensure that they were covering the event and mentioning the dealers.

"We believe that experiential marketing is something that is just now being embraced by our dealers," Phelps goes on to say. "As the pressure to compete with the mass merchants grows, dealers have been modifying the way they do business. It started back with new retail merchandising systems, and in the last two years with their participation in our Marketing Advantage advertising program you see in newspapers around the country. Now we're seeing dealers taking advantage of experiential events like the STIHL TIMBERSPORTS Series as a great way to stand out in their community.

"For instance, several dealers have been using the STIHL-sponsored Ironjack lumberjack show tour to enhance their sales events. But the MVS dealers have really taken it to another level in the way they promoted the Dubuque STIHL TIMBERSPORTS event. We like to share best practices with all of our dealers to help their businesses, and we will certainly be communicating what the MVS dealers did at this event." ■

By Mike Marks

Jump-Starting Growth

Putting up clean, bright point-of-purchase displays is one of the many cost-effective things you can do to enhance the customer experience.

Practical advice that can help turn a "small shop" into a mid-sized retail operation—without breaking your bank.

I recently struck up a conversation with a power equipment dealer, let's call him Jack, at a small trade show in the Midwest. During the conversation Jack told me that his biggest problem was trying to grow from being very small to being a mid-size dealership (sales climbing over $500K a year). He said that most of the reading he found was about growing from mid-size to large (over $1 million), and he didn't have the money or time to implement the majority of the ideas he discovered. Jack asked if I could give him some practical advice for his small dealership. I agreed.

The first advice I gave was the idea of working on his business instead of just working in it. I told him that most folks spend all of their time working in their businesses doing the routine tasks that are constantly required. I pointed out that these people were always at least three days behind and would never catch up.

TAKE TIME TO STRATEGIZE—THEN EXECUTE

In order to grow with very few resources at your disposal, the first step is to set aside some time, even if just a couple hours each month, to work on the business. This meant that Jack and his wife would make the time to discuss actions that could be taken to start growing the business. I told Jack that scheduling the meeting, conducting the meeting and agreeing on some specific action steps (that are written down) is central to making progress. I related to Jack that my first meetings like this were over the kitchen table after the kids went to bed.

The real power of these regular meetings starts with the second meeting. The first step in the second and subsequent meetings is to review whether or not you did what you said you were going to do in that first meeting. I told Jack that growing takes work and action that is different than running the store. Simply put, the meetings define real work that is realistic and affordable.

IMPROVE THE CUSTOMER EXPERIENCE

Jack agreed to start having meetings, but he pressed me on what to actually do. I told him that there were two critical areas that he needed to work on continually. The first is to start, and maintain, a constant level of change. The fancy word for this in business circles is innovation.

The second was to start, and maintain, constant improvements in the customer experience. In very small businesses, the most cost-effective advertising is referrals from satisfied customers.

Jack said that he didn't have any money for innovation. I replied by asking him if he had an old TV and VCR. I explained that he needed to make changes to his store every three months. I told him that he could set up the TV and VCR on the counter and collect videos from his suppliers to run on a loop. I explained that this was a single change that would make the store different.

Other low-cost things were to change out light bulbs to a higher wattage, rearrange fixtures in the showroom, add new paint or signage, and add clean and bright point-of-purchase materials from his suppliers. The point I made to Jack wasn't so much what he did, it was that he was always doing something. He takes actions as he has the time and money, and his customers get exposed to something new on a regular basis.

EFFECTIVE MARKETING YOU CAN AFFORD

When we spoke about advertising, Jack said he only did events at the beginning of the season with newspaper circulars and the occasional ad in local media. It was costly, and Jack was not confident it was a good investment. I explained that he would never have enough money to get the exposure he was seeking. The value of advertising is in repeated exposure over a long period of time. He'd be better off spending the money elsewhere for a better return.

We spoke about nontraditional approaches that were worth considering in his monthly meetings. We did a little brainstorming and came up with the following ideas:

• Saturday morning NASCAR-style lawn mower pit stops; a customer brings his mower in for maintenance and gets it back in 15 minutes. Jack could put up a neat sign or stage the service pit stop out on the lawn in front of the store to really get some attention and create excitement.

• Purchasing customer database software for a couple hundred bucks at Best Buy or Office Depot to identify professional landscapers, golf courses or other businesses for targeted mailings. These CD-ROM disc sets include searchable business contact information. It's kind of like an electronic version of the Yellow Pages. Jack could target 20 likely prospects each week to mail information, telephone or even visit.

• Printing circulars and visiting all of the home centers (big box stores), offering one-day turnaround with free pick-up and delivery on repairs for their customers. Jack told me that several of his peers said that this was a bad idea because they couldn't make any money. My answer was that it is a good idea if the alternative is to sit in the store doing nothing. I suggested starting with demand pick-up and delivery—i.e. they call and he goes. When he gets busier it is time to shift to scheduled pick-up and delivery. Try Monday, Wednesday and Friday during the middle of the day to avoid heavy traffic. Whenever it gets too busy, simply raise prices.

Scheduling a meeting, conducting the meeting and agreeing on some specific action steps (that are written down) is central to making progress in growing your business.

THE BOTTOM LINE

The work to grow a business is different that the work to run a business. Jack needed to spend less time worrying about his business and more time actually doing work to make it better. This is the core task of executive management and it never goes away. The tasks change, but no business maintains long-term growth without someone constantly working on the business. Both Apple and Microsoft started in a garage with no money. ■

Originally appeared in Yard & Garden's August/September 2006 issue.

About the Author

Mike Marks, co-founder of Indian River Consulting Group, began his consulting practice after working in distribution management for more than 20 years. He is a Research Fellow with the Distribution Research and Education Foundation of the National Association of Wholesaler-Distributors. Marks and his firm have done extensive work in the outdoor power equipment industry and have authored several books. Learn more at their Web site: www.ircg.com.

Running more inexpensive, "disposable-type" equipment through the shop presents the challenge of 1) recovering all associated costs so the repair is profitable, and 2) keeping the customer happy so he or she comes back to do more business with you.

Veiled Assassins

Keep an eye out for these top hidden shop costs.

Determining the profitability of your service department is not as simple as "billed labor minus technician wages." A plethora of hidden, indirect costs, if left unmanaged, can drain shop profits and leave you seeing red. Below is a summary of the top hidden shop costs as compiled by the "*Yard & Garden* Service Department Think Tank."

VEHICLE EXPENSES

Some dealers report that maintenance, repair and supplies for your service vehicle fleet can add upwards of 2.25% to the cost of running the service department.

To help keep a handle on vehicle expenses, coordinate fleet rates to control gas and maintenance costs. Ensure proper use of the fleet to avoid unnecessary wear and tear. And maintain all items on a regular basis to cut down on more costly repairs down the road.

SHOP SUPPLIES

Items used on repairs that are not inventoried in the parts system or captured on a repair order can sometimes add as much as 2% to the cost of a repair. These consumables include oil and gas, nuts and bolts, paint, penetrating fluid, cleaning supplies, etc.

Dealers need to ensure that all items are accounted for and listed on the repair ticket in order to bill the proper amount of supplies to the customer. In some circumstances a percentage is used, in which case it's crucial to make sure that the percentage actually covers the real cost. Some dealers will charge an additional 1.5% or 2% of the work order, but never charge more than $15.

It's also important to make it clear to shop employees that these supplies add cost to the department. Strongly discourage the wasteful and/or personal use of supplies. Some dealers even go as far as installing a locked cabinet in the shop with a request system for checking out consumable supplies.

PICK-UP & DELIVERY

Pick-up and delivery often adds 2-4% to shop cost. The solution? Charge for it. The cost of performing this service is either rolled up into repair rates or charged individually. An easy system for the customer to understand is best. But performing this service for free is a real profit drain.

WEAK WARRANTY

The time involved in performing warranty service often includes receiving the unit, diagnosis, filling out the customer invoice and warranty claim, ordering parts, storing the unit before and after repair, contacting the customer when the unit is done and returning the unit to the customer.

One dealer says that meeting the expectations of customers—both end-users and mass merchants—while avoiding unpaid labor can be a tough proposition when it comes to certain suppliers.

"One of our commercial mower manufacturers won't pay any pick-up or delivery charges," the dealer says. "How can we ask a high-end homeowner customer to pay pick-up and delivery when he paid you $6,000 or $8,000 for a 'durable' commercial mower that just broke down in his back yard?" This dealer estimates that circumstances such as this can add up to 5-10% of gross labor.

LOW-PROFIT EQUIPMENT, LOW-PROFIT REPAIRS

Running more inexpensive, "disposable-type" equipment through the shop presents the challenge of 1) recovering all associated costs so the repair is profitable, and 2) keeping the customer happy so he or she comes back.

One dealer estimates that roughly 5% of the jobs running through his service department fall into this category. "We try to train the customer that our time and experience has a value," the dealer relates. You have to charge your labor rate. In some instances, help the customer understand that he might be better off buying a higher-end product from you than having the current machine repaired.

BENEFITS & INSURANCE

The rising cost of insurance, especially employee health insurance, is taking its toll on many small businesses. The service department must pay its fare share of this sizeable dealership expense. Be sure to shop carriers so you can settle on the best plan for your business and employees.

Worker's comp insurance is another large expense. Stay on top of your insurance agent to make sure your business is classified correctly, while also taking into account your history of safe work practices and the size of your annual payroll. If these things are misrepresented, you could be paying a much higher premium than you need to be.

The Think Tank

Ben and Oscar Cavazos of MAE Equipment in Mission, TX
www.mae-equipment.com

Ed Kovalchick, CEO of Net Profit Group in Alabaster, AL
www.netprofitgroup.com

Jim Yount of Jim Yount Success Dynamics in Atlanta, TX
jimyount@attglobal.net

Melinda Delgado, executive director of the National Independent Dealers Association (NIDA)
www.nidausa.net

NAEDA's OPE Dealer Council
www.naeda.com

Most importantly, your labor rate must be based on your cost of doing business. If your labor rate is not high enough to enable you to cover all overhead expenses (including insurance and benefits) and still turn a profit, you may want to consider raising your rate.

WASTE DISPOSAL

Make sure you're adding an environmental charge to handle the disposal of waste items. Some dealers charge a minimum of $5 per repair order and increase that amount depending on the size of the order. A good rule of thumb for some dealers is 10% of billed labor.

POOR SHOP LAYOUT

Messy, cluttered shops are not only unsafe, but also slow technicians down. Having to spend several minutes locating a special tool when it should've taken several seconds is a drain on billable time. Consider installing lockers or some other type of cabinets in the shop or parts department for special tools such as drills and grinders. Every time one of these tools is used it must be signed out. A log should also be kept for each specialty tool so replacements can be ordered when necessary.

At MAE Power Equipment in Mission, TX, each workbench has its own air supply. There are two parts washers available with an air hose, as well. The blade grinder is centrally located and a grinder with a cut-off wheel is in another remote location.

POORLY EQUIPPED TECHNICIANS

The negative effects of working without adequate tools will vary by the task at hand. For instance, there's going to be a big difference in the time spent removing a

continued

Any hand tool or specialized piece of equipment that can help a technician save time may prove to be a worthwhile investment for both the technician and your dealership. Photo courtesy of Finch Services Inc., a five-store dealership with outlets in Pennsylvania and Maryland.

spindle with a basic hand wrench compared to using an air-powered impact wrench. A lift is another important piece of equipment that helps technicians function more efficiently.

Any hand tool or specialized piece of equipment that can help technicians save time may prove to be a worthy investment for both the technician and your dealership. The same can be said for the greatest tool of all: information. Service bulletins come regularly. Make sure technicians are made aware of the changes immediately so they don't waste time trying to reinvent the wheel.

TRAINING COSTS

Sending technicians to service schools, while often necessary, can also be costly. One dealer says service schools cost him upwards of 15 man-days per year.

Some dealers have expressed concern that many of the service schools they attend have lost their value. "The same story is told every year and it's more of a product sales school than a technical meeting," says one dealer. "If they're going to read to me out of a manual or off a PowerPoint presentation, mail me the manual or e-mail me the presentation; I can read," another dealer says.

To help control costs, one dealer suggests sending the service manager to the school, who can then bring the information back to the dealership to share with the technicians. However, when deeper training is truly necessary, it's hard to get around sending all of the techs who the information applies to.

Some manufacturers have made great strides in the way of Internet- and CD- or DVD-based training. Take advantage of those tools to reduce cost and bring training right to your dealership.

MISDIAGNOSIS, COMEBACKS/REWORKS

The faster repairs are turned around, the more repairs you can put through your shop, leading to more revenue from billed labor. Technicians working on a commission system are especially mindful of this. But as the old saying goes: Haste makes waste—or at least has the potential to.

Ordering the wrong parts, or parts that aren't even needed, can be costly. Additionally, some dealers say comebacks, as a result of misdiagnosis or sloppy work, can add another 1% to the service department's cost. Establish quality control checks to ensure that the customer's problem was addressed and the solution to the problem is accurate. Consider checking oil, filter and gas in front of the customer in order to "cut to the chase" if a full tune-up is needed.

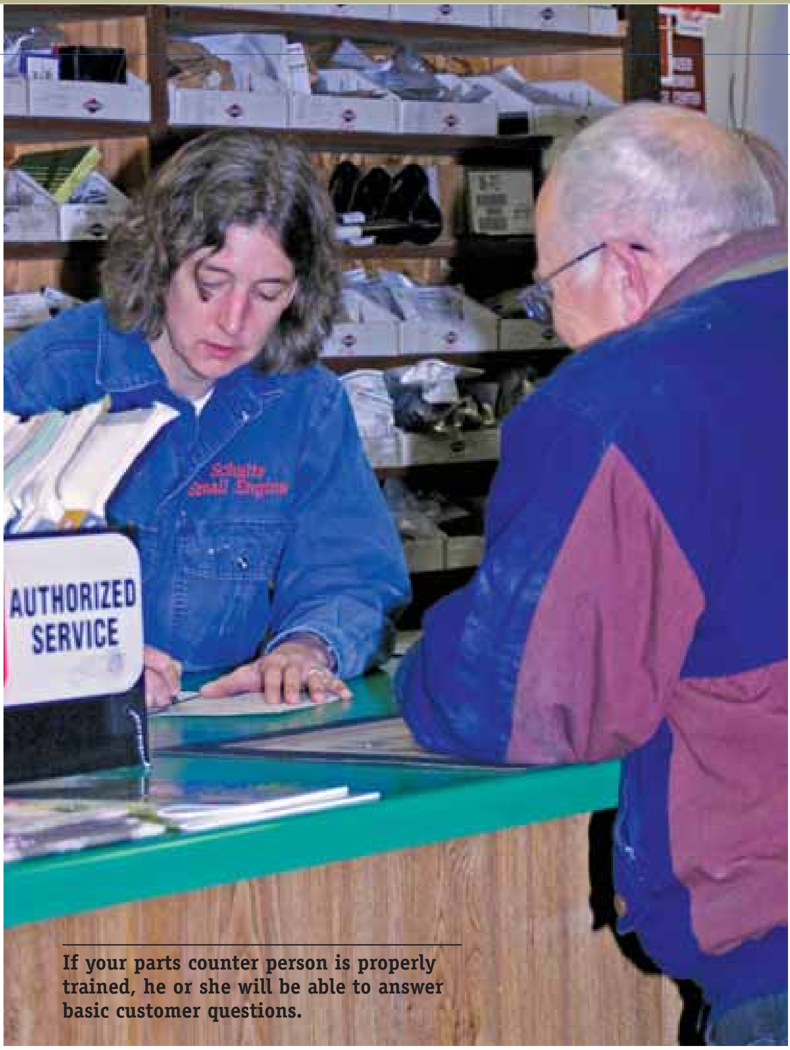
If other problems emerge during the repair process, it's important to alert the customer before the repair is completed, which also opens up the opportunity for add-on sales.

WAITING FOR PARTS

Technicians standing around waiting for parts directly affects productivity, which ultimately affects shop profitability. Make sure parts people arrive early in the morning to receive and process parts. Consider having a designated parts person for the service department. Parts for routine maintenance jobs should be picked and ready before the tech starts the job.

If your parts counter person is properly trained, he or she will be able to answer basic customer questions, and possibly return machines to customers without having to bother the techs, who should keep working.

Computers in the shop (or even service bays) enable technicians to create pick tickets without having to walk to another area of the dealership. Some dealers have "parts runners" who then bring the parts to the techs so the techs, especially the higher-paid ones,



If your parts counter person is properly trained, he or she will be able to answer basic customer questions.

can stay in their bays turning wrenches.

COFFEE, CIGARETTES & CELL PHONES

When you consider that one minute of technician time is worth about $1.50 in labor and parts sales, it's easy to see how the wise utilization of time is critical. Examples of poor tech time management are:

- Starting to work, which means all the coffee drinking and yapping about the previous night's activities stop at 8 a.m. so wrenches can start turning
- Not pre-loading the shop the night before, including the pre-pulling of parts when possible
- Extended breaks and much too frequent smoke breaks
- Use of cell phones
- Chatting it up with tool vendors and distributor reps
- While a clean and orderly shop is essential to safety and productivity, cleanup times can also be a time killer if not managed closely.

It's a delicate balance. You want your dealership to be a fun place to work, and you don't want to come off as too much of a dictator. But this down time is paid for by shop profits, so it must be made clear to shop personnel that it cannot be abused. And you must enforce it.

NO MOTIVATION TO REALLY PERFORM

The best way to manage time is to measure it precisely and post the use of it for all to see. Dealership owners and service managers need to be focused on efficiency: payroll hours vs. hours billed to customers. For most dealerships, a goal of 100% efficiency is unrealistic. A good target is 70-80%. Generally speaking, a minimum of 45-50% is needed just for the service department to pay its share of overhead and break even.

Some dealers like to pay techs a flat wage, or maybe a percentage of the hourly shop rate. But here's a given: When technicians reach their weekly earnings goal, sufficient to support a pre-determined lifestyle, they often stop working. They need motivation. And they need to be on a motivational plan.

There has to be an additional reward for additional performance. Straight clock-hour pay plans send the message that any performance is OK; it's more about attendance than performance. Share the daily cost of running the business with the technicians, along with the daily income that's generated. It's not about getting rich. It's about survival and the profit necessary to sustain a well-equipped shop that's able to take good care of its employees. Techs don't see it this way until someone, namely the dealership's owner, takes the time to explain how the business functions.

When an outdoor power equipment retailer builds a profitable service department that's capable of providing better wages and benefits, skilled (and certified) technicians will knock on their door. Service department labor rate is seldom challenged when the maintenance and repair work is completed in a clean and well-equipped shop by skilled technicians who are professional in manner and style. ■

Originally appeared in Yard & Garden's June/July 2006 issue.

Hard-working, yet easy

STIHL HSE 60 AND HSE 70 ELECTRIC HEDGE TRIMMERS

The new STIHL HSE 60 and 70 electric hedge trimmers are sure to generate buzz among homeowners and noise-conscious pros. Offering double-sided, reciprocating 18- and 24-inch blades, along with efficient, environmentally clean, electric motors, they're lightweight and ideal for multipurpose cutting. For those who need something quiter than the gasoline-powered counterparts.

For More Information Circle 209 on Reader Service Card

STIHL BR 500 BACKPACK BLOWER

Friendly to the landscape professionals who make a living with our tools. Low-sound blower – only 65 dB(A)*. Powered by a proven low-emission engine. Built with more power and greater fuel efficiency, so landscape professionals can work faster and longer.

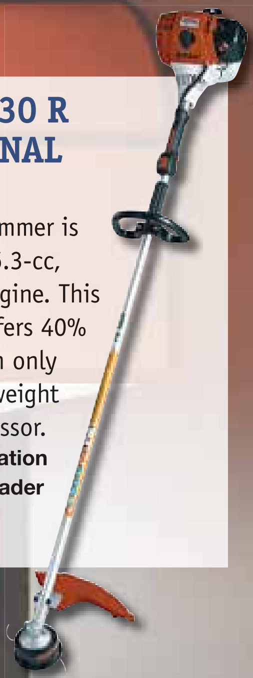
For More Information Circle 201 on Reader Service Card

STIHL BIOPLUS™ OIL

STIHL BioPlus™ oil is made with a vegetable oil base. This means that the oil is less harmful to humans, animals, micro-organisms and plants. The oil also offers excellent flow characteristics at low temperatures and has a high flash point. It's available in 1-, 5- and 20-liter bottles, and is rated by the Coordinating European Council to be 93.8% biodegradable in only 21 days.

For More Information Circle 202 on Reader Service Card

on the environment



STIHL FS 130 R PROFESSIONAL TRIMMER

The FS 130 R trimmer is powered by a 36.3-cc, low-emission engine. This larger engine offers 40% more power with only 8 ounces more weight than its predecessor.

For More Information Circle 203 on Reader Service Card

STIHL HP ULTRA ENGINE OIL

STIHL HP Ultra 2-Cycle Engine Oil is a fully synthetic, 2-cycle engine oil specially suited for high-performance chain saws and power tools. This oil has outstanding engine cleaning characteristic, plus “ultra” superior lubricating qualities in comparison to other 2-cycle engine oils. It is ideal for use in the STIHL 4-MIX® engines. This oil is biodegradable, degrading by 80% in 21 days.

For More Information Circle 204 on Reader Service Card

THE NEW MS 441 STIHL MAGNUM™ CHAIN SAW

The low-emission MS 441 STIHL Magnum™ features a new highly effective prefiltration system, innovative anti-vibration system and advanced combustion technology that delivers more power and higher torque over a wider RPM range than the MS 440 — all with a 30% increase in engine lifespan. Plus, with 60% less vibration than the MS 440, the MS 441 offers smoother cuts, reduced operator fatigue and added control for cutting heavy timber.

For More Information Circle 205 on Reader Service Card

By Kevin Kehoe

Get LEAN in Service

Getting rid of shop clutter helps reduce waste, improve efficiency, and create a culture of discipline and pride.

Service will always be a money-maker if you manage it according to three rules: 1) set a labor rate based on shop overhead cost and technician utilization rates, 2) monitor actual price-per-hour rates earned vs. the labor rate, and 3) practice lean techniques in the service bays.

I have previously written articles on developing pricing and utilization rates (see Dealer Success Guide volume 10, page 22). But this article focuses on the practice of lean. Lean is a system of management that focuses on reducing waste in operations while improving customer satisfaction. Reducing waste increases profits directly. The good and bad news is that waste exists everywhere in the service department. This is bad because waste currently costs you money. The good news is that it is easy to find and eliminate waste—and start earning better profits in service.

The average service operation incurs cost of waste in the range of 5% to 8% of sales.

The average service operation incurs cost of waste in the range of 5% to 8% of sales. This means that a service operation generating $100,000 in billings for repairs incurs cost of waste up to $8,000. This waste can be caused by a long list of items that includes:

- Lack of standard procedures
- Lack of trained personnel
- Lack of proper equipment and tools
- Lack of effective scheduling
- Lack of efficient work space layout.

The key to realizing this kind of profit improvement is to direct your "lean" plan of attack in the shop in two ways. The first way is called "Five S." The second way is called "Kaizen." I will focus on the Five S process in this article, returning to a discussion of Kaizen in a future article.

GET RID OF CLUTTER

Five S stands for Sort, Set in order, Shine, Standardize and Sustain. Here's the point: You can always tell how profitable a shop is just by looking at it. The ones where you can almost eat off the floor make money. The cluttered, dirty ones don't. Use the Five S process to get rid of the clutter and you will achieve several things. First you will increase safety. Secondly, you will increase efficiency and reduce waste. Thirdly, you will create a culture of discipline—not to mention the pride that comes with working in a disciplined environment.

Sort. Bring the shop staff in on an off day. Start in the bay and take everything off the shelves and out of the drawers, and put it all on the floor. Now make two piles: the essential stuff and the non-essential stuff. The essential stuff are those items necessary to perform repairs and generate revenue. Everything else gets tossed or stored. You will get quite an education on where all the money you spent (or the employees spent) for tools and supplies in the shop actually goes.

Set in order the service bay area. Determine the most efficient layout that puts all the essentials within arm's reach of the technician. One of the biggest sources of waste is the technician moving out of the service bay area to transport tools, parts and other items. Once they leave the bay area, they can end up in all kinds of "water cooler" conversations and side jobs, etc.

Shine. Simply clean everything so it shines—make it eat-off-the-floor clean. Technicians resist this step, saying that shops are inherently dirty, messy areas. I beg to differ, and I would be delighted to take them on a tour of very clean and very "manly" service bays that produce great profits. The key to profits is people working efficiently, cleanly, safely and professionally.

Standardize the process so it becomes more than an interesting one-day event. The goal of standardization is "a place for everything and everything in its place." If you take the opportunity to observe technicians in action during a typical day, you will see why this is important. You will be struck by how much time is wasted because tools and parts are misplaced or not available.

Standardization requires visual cues and simple instructions. An example of a visual cue is your neighbor's garage. You know the one—the guy with the pegboard tool setup with the outlines and labels for the placement of tools. He is also the guy who has every tool and material drawer labeled and laid out the same way. Think about it. Efficiency and waste reduction start with basic "blocking and tackling" concepts like a clean, functional work space.

Sustain the effort for the long-term. If you do not review and reward the technicians for "living" the new process, old habits kick in and everything returns to its original state. Conduct monthly service bay reviews and provide simple rewards such as movie tickets for each service bay that meets the standard you have set.

If you have executed The Five S's correctly, this should be easy enough, because you involved the technicians in every step of the process. Their involvement is essential to buy-in and implementation. ■

Originally appeared in Yard & Garden's August/September 2006 issue.

About the Author

Kevin Kehoe is the owner-manager of Kehoe & Co. (www.kehoe.biz). He is an experienced and inspiring speaker, consultant, author and business educator who brings 20-plus years of "real world" business management experience to a conference setting, the boardroom or your training program. He is a published author of several books and more than 150 business and trade magazine articles.

By Eddie Anderson

Hand in Hand

Better parts management will also improve shop operations.

Who's your biggest parts customer? Is it a government contract, golf course, large landscaping firm, or maybe a local shade-tree guy? Or is it your service department? Chances are, the technicians in your service department are your best parts customers. By treating them as such, you can see improvements in both your parts and service operations.

In many dealerships, the technician has to look up parts, not to mention go and find them. Would you treat one of your outside customers that way? Probably not. In fact, when a customer calls or stops by your store, you're oftentimes willing to ask and answer a battery of questions to help him figure out what he needs, and then locate the part for him. If you're willing to do that for the customer, you should also be willing to do whatever you realistically can to make life easier for your technicians.

There's also something in it for you, the owner. Think about each technician's time. You can only get so many billable hours a day out of your service department staff. You can't afford to let your technicians waste time trying to find the parts they need. Their time is too valuable.

Maintaining organization in the parts department requires a strong commitment from everyone on your team, and sometimes monetary investment. But the ensuing gains in efficiency and profits—for both your parts and service departments—are more than enough incentive to shape things up.

CONSISTENTLY ANALYZE INVENTORY REPORTS

The first step is computerization. A computer sitting on your counter is only the beginning. You also need a good business management system with solid inventory control functions. Then, you need to actually use those functions on a consistent basis. Most parts management software allows you to generate custom reports on parts inventory and movement. Be familiar with and take advantage of your vendor's part return policies and programs, if they have one.

Start pulling reports that examine sales trends so you can adjust your min/max levels by time of year. That should help you cut down on the amount of obsolete inventory you wind up with at year's end. Obsolete parts inventory is one of the biggest areas of waste I see in dealerships. You have to pay attention to what's moving and what isn't. Again, it requires diligence, but it's worth it.

PARTS ACCESSIBILITY

Keeping the parts storage area clean and organized also takes time and diligence. Many dealerships still use cardboard bins on open metal shelving to store their parts.

I've met with dealers who have brought in companies like Lista or Stanley Vidmar to evaluate their parts inventories and set up storage cabinets for parts inventory and control. In most cases, these dealers have the most efficient, profitable parts departments.

A cabinet system can shrink the parts storage area's footprint by two-thirds, which is why cabinets have proved to be a worthwhile investment for dealerships that are pressed for space. Weigh the cost of having a cabinet system installed vs. a 500- to 1,000-square-foot expansion to the building.

A second advantage of storing parts in cabinets is accessibility. Think about a really busy Saturday morning when a dozen or more customers are standing at your parts counter. If you've been diligent enough to identify your fast-moving items, you can put those top-100 SKUs in a cabinet directly behind the parts counter. Then you don't have to keep running to the back for belts, gaskets and air filters. It's always better to stock by movement, as opposed to numerical order.

Similarly, I met a dealer who put a small parts cabinet right in the service bay. He filled it with the fastest-moving parts going through that bay. This allows the Service Technician to save time by not having to pull parts from the regular parts storage area. Any dealer can do this, but it's a lot easier when you only service what you sell.

To make this work, the technician must accept responsibility. Any parts installed must be written down on the work order. The parts should be inventoried every month. If something's missing and the technician didn't bill it out, then the technician has to personally pay for it. Compensating technicians with some sort of commission or bonus system makes it more practical to implement a system like this. It is to their advantage to have these

By switching from the traditional cardboard bins on open metal shelving to storage cabinets, dealers can shrink the footprint of their parts storage area by at least two-thirds.

fast-moving parts available, and it also increases the productivity of the service area.

CONSUMABLES EAT PROFITS

Your technicians, along with you and/or your service manager, must also take responsibility for the consumable-type shop supplies that are used on a daily basis. It's real easy to grab a nut or bolt, but not write it down to account for it. This can get very expensive. I remember writing checks for several hundred dollars to restock my hardware bin when I was a dealer, and wondering if I had actually collected for them from the customer.

The best way to handle this is to run those items through the parts department so they're accounted for and billed to the customer. When a technician puts in his parts request, the nuts and bolts, etc. are keyed to the open work order. It sounds like a hassle, but if you analyze the cost involved in giving these things away, you'll find it's worth it. Accounting for other consumables such as carb spray, spray lubricants, cleaning solvents, shop rags, waste oil, and other expenses should also be considered. Be sure to read "Veiled Assassins" on page 12 for more on supplies and other hidden shop costs.

SLOW MOVERS NEED QUICK SUPPLIERS

Now let's get back to the management of your primary parts inventory. You want to keep fast-moving items in stock and make them easily accessible. As for your slow-movers, you'd better hope your suppliers can get them to you quickly. This should be a major part of your research if you're thinking about taking on a product line. Call other dealers of that line in other towns or states and ask how the company's fill rate is on parts orders.

STIHL works hard to provide prompt delivery of parts to our dealers. We also try to provide a good mix in the product line, useful and effective marketing and sales training (including online training with STIHL iCademy), merchandising tools, and what we think is the best service training in the country with the STIHL Service Advantage program.

We launched the STIHL Service Advantage program a few years ago to raise the bar of professionalism at the dealer level by helping service technicians increase their technical knowledge, and their troubleshooting and diagnostic skills.

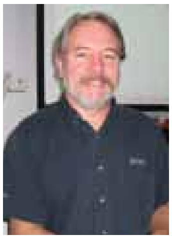
Last year we expanded the STIHL Service Advantage to include a Service Management Seminar, which is a one-day lecture class. It is taught by each of our distributors so the seminar will be available regionally. Look for opportunities to attend throughout 2008. The service management module covers several topics:

- Projecting a professional image from the service department
- Customer service – how do you deal with an irate customer? How do you develop customers for life?
- Marketing service and parts
- Service department design – flow path, tools and resources you need to make the service area efficient, productive and profitable
- Service department profits – methods of compensating technicians, calculating the right labor rate for your business, determining efficiency and productivity ratings, and methods to increase efficiency and productivity
- Product liability – STIHL informs our dealers and outlines our programs regarding this very important topic
- Setting goals and following through to meet those goals.

Now we're looking at the development of a parts training module as an extension of the STIHL Service Advantage program. Parts and service go hand in hand. Together they are what set you apart from the box stores. Managing parts and service separately, while also viewing them as integral to each others success, can help you be more profitable in this vital part of your business. ■

About the Author

Eddie Anderson oversees The STIHL Service Advantage program. Prior to joining STIHL Inc., Anderson was a vocational instructor of automotive mechanics. He has experience owning and managing dealerships, and also worked for an equipment distributor.



Dead in the Water?

A strategy for unloading slow-moving inventory

For many dealers, there are two sides to the showroom. The A side comprises all the hot sellers, while the B side comprises inventory that just doesn't seem to move. Fortunately, strong performance from the A side often results in a pleasing cash flow spike during peak selling season. But a lot of that much-needed cash now has to pay for the B side of the showroom. That's not a very good reward for a prosperous season, is it?

"It's easy to turn cash into inventory, but not always so easy to turn inventory into cash," says sales and marketing consultant Rick Barrera. "You have to get obsessive about moving inventory—especially slow-moving and obsolete inventory. When you eliminate interest cost and free-up floor space, your profitability really changes. And it creates quite a bit of excitement in your store."

Barrera says slow-moving and obsolete inventory should never exceed 5% of your total inventory. After examining this inventory line by line, one of two scenarios often emerge:

- Scenario 1: Your tertiary line(s) has the most slow-moving and/or obsolete inventory. If this brand(s) isn't catching on in your market, or your sales reps aren't giving it the attention it needs to help it catch on, you may want to consider cutting it loose.
- Scenario 2: Your top line really isn't your top line after all, at least in terms of net profitability. You may have a few units within the line that are selling well, but poor-performing models are dragging the overall line down. You may also be building up too much inventory, even when it comes to the models that are selling well.

A variety of circumstances can result in excess inventory. Some are at least partially out of your control, such as unpredictable weather patterns or an economic downturn in your market. Others are well within your control, such as poor forecasting and/or purchasing. If you happen to overdo it a bit on your early-season orders, you need a strategy to unload any slow-moving inventory before it becomes obsolete. When the inventory becomes obsolete, it becomes that much harder to move.

START EARLY, WITH A PLAN

Always be thinking about selling slow-moving inventory in-season—before it's too late. Generally speaking, outdoor power equipment retailers have a bell-shaped sales curve. Sales gradually climb until about mid-season, then start to wane as winter approaches. You want to begin focusing on slow-movers at the peak of your bell curve, which is mid-season. That way you have enough time to make some adjustments and get inventory moving before the next model year approaches. If you wait until October or November, that slow-moving inventory is now obsolete.

Focus on it. The emotional tendency is to ignore inventory that isn't moving, but you should actually do the opposite. You must focus on this inventory and create some excitement around it. Build a display with nice signage. Offer demos. This is especially important if the model was once a hot seller, but is currently experiencing a slowdown in sales, leaving you with some extra inventory.

Whether you're a three- or 10-person operation, you may want to consider assigning someone to slow-moving inventory. It's this person's job, at least once a week, to go through sales histories and the floor plan to identify which models aren't moving, and which have interest charges bearing down on them.

Control stocking methods. This is especially important for handheld product. When a new shipment of "Model X" comes in, it's a natural tendency to stack it on top of the inventory you already have for that model. What happens? The units you already had in inventory, which are probably coming a lot closer to being due, are "shoved to the back." Make sure all employees understand the importance of bringing the existing inventory "to the front" so it is sold first. It sounds pretty simple, but is often forgotten—at least until you start paying interest on those units.

Think about spiffing the inventory. Offering cash to a sales rep for selling a certain model can be very effective. How you pay out that spiff is important. Barrera says the spiff must be presented as cash as soon as the customer leaves the store. Spiffs lose their effectiveness if you tell the employee he'll see it on his next check. "You'll be astounded at how a small spiff can move a big item," Barrera says. Quite frequently, a $10 or $20 bill is enough incentive to make it work.

Discount it to a price that will move it in seven days. You must use your judgment on this one. The price you come up with may even be below cost, but that could be worth more in terms of total cash flow when compared to carrying the unit through to next season.

Sell it online. On May 30, a search of the words "lawn mower" brought up more than 8,500 listings at www.ebay.com. Today's consumers are using the Internet to buy and sell many different products, including power equipment. It's worth a shot.

Barter it. You buy all sorts of products to keep your business running, such as office products, gasoline, advertising, uniforms and shop supplies. See if any of your vendors might be interested in doing a trade for that tractor you can't seem to sell.

Triangle trade it. This is very similar to the barter concept presented above, but also involves a third participant. For instance, you could trade a tractor to a local radio station for advertising time. The radio station may then use the tractor in a giveaway promotion. You can turn around and trade that advertising time to a local electronics retailer for a flat-screen TV. In turn, you can use that TV in your own giveaway promotion, or even put it to use in your dealership as part of a display.

Bundle it with a high-margin, related product. Toss in that slow-moving hedge trimmer with a hot-selling zero-turn, or bundle it with a bunch of gardening tools. The secret is to bundle the slow-mover with a high-margin item(s) so the "blended margin" is acceptable.

Bundle it with something unexpected. You don't always have to bundle a piece of outdoor power equipment with another piece of power equipment. You can bundle a slow-mover with an Apple iPod, set of hand tools, or maybe that flat-screen TV you'd triangle-traded with the radio station and electronics store for. You could also bundle a slow-mover with sod, seed or even service labor. Offer to hang Christmas lights for the customer if he or she buys that tractor that isn't moving. Your techs are probably starting to get bored by late-November anyway.

Substitute it for a lower-cost item. Consider the following scenario: You have a chain saw that isn't moving, but is one of your higher-end saws. The saw has a direct cost of $500 and retails for $650. A customer comes in and wants to buy a $450 saw. You might want to try selling that $650 slow-mover for $500. Sure, you're selling the saw at cost, but you're also bringing in more cash ($500 vs. $450). Most importantly, you're unloading a slow-mover before it becomes obsolete.

Dealer trades. Check with other dealers to see if they have a need for any of your slow-movers. This can be very effective if you have an employee assigned to slow-moving inventory. A good rep will also help you here.

Extended financing and warranty. "My favorite is the extended warranty," Barrera says. "The manufacturer is already offering two years, so why not offer a couple more? You do your own service. What's the potential cost of parts in those two extra years compared to the cost of carrying that slow-moving unit over the winter? On financing, what does it cost you to buy extra time? Add another six months to what's already being offered by manufacturer."

Get out there and find a buyer. Take your slow-moving inventory to the fair, swap meet or mall and set up a display. Have a blow-out sale. You'll bump into the people who didn't set out to buy a tractor that day. These customers aren't

continued

comparing prices and vendors, etc. It becomes an impulse buy, which is just what you're looking for with extra value like extended warranties and bundles. "You have to determine where people are clustering … and go there," Barrera points out.

Give it to one of your best customers. He'll appreciate it and talk about it to his peers. This is especially advantageous if that customer is a landscaper. You may even be able to get some demo consideration from the manufacturer; maybe 10-15% off cost.

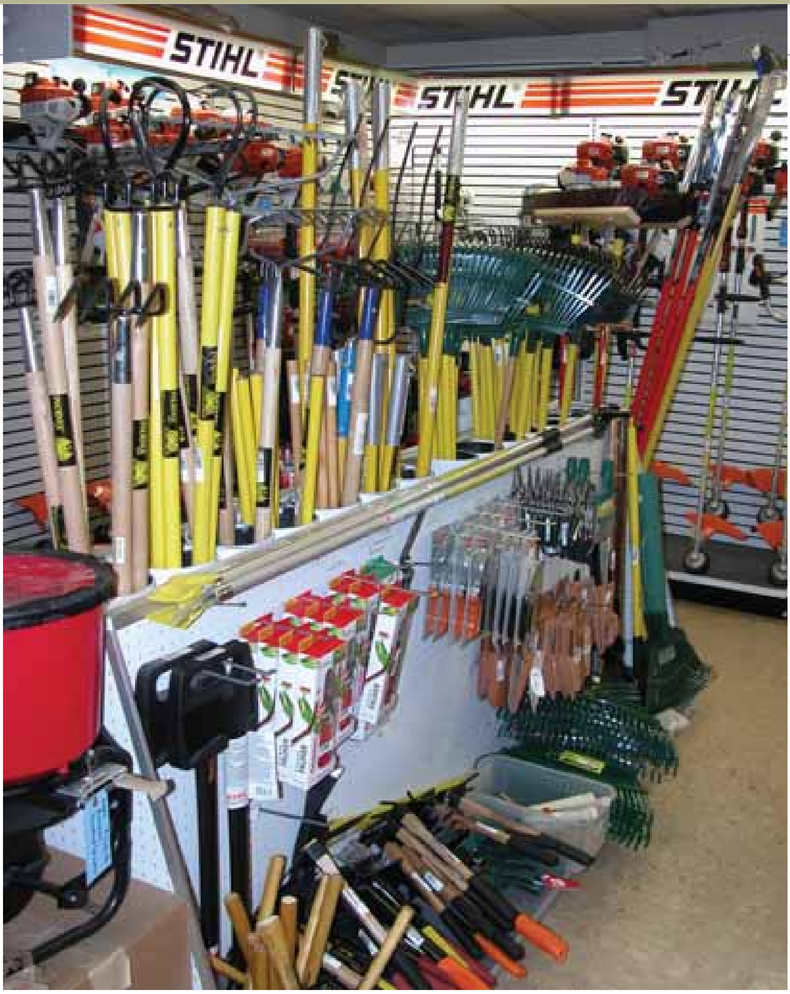
Donate it to a local church or other organization. Be sure to talk to your accountant so you are able to take full advantage of the tax benefits.

Give it away as part of a contest. Hold a drawing and give away that slow-moving tractor at the chain saw open house in early fall. Use the slow-mover as a traffic builder.

Auction it. Similar to holding a contest, take all the slow-moving summer inventory and hold an auction at your fall open house. You can always set a reserve so the bidding can't go below a certain amount.

Mark it up concurrent with the interest charges you're facing. Huh? Raise the price on an item you can't sell? If the slow-moving item is unusual and current, such as a unique aerator or broad-area mower that you'll only sell a limited amount of each year, it's probably worth quite a bit to that customer who needs it. It's worth the extra 5-10% to the customer if you have it in inventory and can get it to him now.

If possible, swap it. Check with your supplier to see what kind of "swap program" is available. Some manufacturers will allow you to swap, for instance, walk mowers for chain saws, debris blowers or snow throwers—some product that will



Bundling a slow-moving item with a hot seller can be effective, as can bundling slow-movers with high-margin items, such as gardening tools.

get you back to the upside of your selling curve for the fall and winter timeframe.

Grit your teeth and pay the restocking fee. Even though they're hard to swallow, restocking fees are often your best bargain. Of course, you don't want to pay a restocking fee on something you can sell, especially if you're still on the upside of the selling curve, or even in the middle. The closer you get to the backside of that curve, however, the greater the value of the restocking fee. Furthermore, if you have interest coming due on a unit, the restocking fee will often be less than the interest you'll end up paying.

When all else fails, you can always take your obsolete inventory apart and use it for parts, or simply trash it. But hopefully, by focusing on slow-moving inventory before you hit the backside of your selling curve, you'll be able to turn it into cash and profit for you. ■

Originally appeared in Yard & Garden's August/September 2006 issue.

About the Author

Rick Barrera is a nationally acclaimed speaker, marketing consultant and author known throughout the Fortune 500 for his extraordinary speaking ability and his unique approach to brand building. His impressive client list includes Abbott Labs, AutoZone, Bayer, Caterpillar, IBM, Intel, Merrill Lynch and Verizon. Rick's latest book, "Overpromise and Overdeliver: Using TouchPoint Branding to Design and Deliver Extraordinary Customer Experiences," has made both the Wall Street Journal and Business Week best seller lists. It is available online at www.Amazon.com or www.overpromise.com. If you register your book on Barrera's site you'll get access to even more ideas for growing your business.

"Make better buying decisions with suppliers. Take advantage of quantity discounts, interest-free extended floorplan terms and cash discounts when possible."

— Dealer Success Guide, Volume 1, Page 21

Faxon's Outdoor Power in Bowling Green, KY

By most accounts, Dave Faxon is a pretty conservative person. He's not greedy and he doesn't like to gamble. On the other hand, he's a smart businessman who knows there are times when you have to be a little more aggressive and maybe stick your neck out a little.

Dave Faxon
2005 Dealers in Excellence Award Finalist

There is a good time to borrow money, Faxon believes, such as in the case of cash discounts. "It's a good way to improve your gross profit dollars," he points out. "If your bank's interest rate is too high on your open line, check into a home equity loan. Those rates are about the best you can get."

A key attraction of a home equity loan is that the interest you pay is typically tax-deductible. The loans are often used for major renovations or additions to a home, but can also be used for an extensive range of other purposes. Borrowing to get out of debt can be risky. On the other hand, if you're borrowing to pay for something that has appreciation, you can eventually make back the money you are paying in interest on the loan.

Faxon offers the following example. "If you're going to save $1,200 on your order by taking the cash discount, and the three months of interest you'll be paying on a home equity loan is only going to come to $300, you'll be $900 ahead. I like to call it 'borrowing for a profit against the spring season.' Just run the numbers so you're absolutely sure you'll have the money to pay back the loan at the end of those three months, six months, or whatever the terms are." ■

"Once you manage your business to the point where it is profitable, you can start thinking about business growth. Growing your business requires a strategic plan, and you need a way to measure the progress of that plan."

— Dealer Success Guide, Volume 7, Page 5

Larry's Mower Shop Ann Arbor, MI

In late 2003, retired brothers Jim and Bob Blakeman were looking for something to do. They ended up buying the power equipment dealership where Jim's son Kevin worked as the service manager. Now the Blakeman brothers are looking to capitalize on the foundation the previous owner had built, incorporate more of their own ideas and take the business to the next level.

The Blakemans purchased Larry's Mower Shop in January 2004. Jim had retired from General Motors just a few months prior and Bob had recently sold his grocery store. Jim's mechanical background and Bob's experience in retail were a good combination, but the brothers knew virtually nothing about the power equipment business.

"We had a lot to learn," Jim tells. "We spent a lot of time talking to our different reps. Luckily, one of our big suppliers had a dealer meeting shortly after we took over the business. We picked a lot of brains at the meeting."

The biggest help was the previous owner, Larry Veesman. "Part of the agreement was that Larry would stick around for two or three months to ease the transition," Jim adds.

MAKING THEIR MARK

By the spring rush, just a few months after taking over the dealership, the brothers were in full stride. From an operations standpoint, Larry had been running a pretty tight ship. So the Blakemans were primarily looking for minor things they could tweak and ideas they could implement to keep sales growing.

"I wanted professional-looking signage everywhere so there would be no questions about prices," Bob says. "We started creating a lot of our own signs and price tags on

Bob Blakeman, an experienced retailer who came from the grocery store business, makes sure professional-looking signage is on every piece of equipment. Much of the dealership's signage is custom-made on its own computer.

the computer. Some of our suppliers do offer nice signage, which we also continue to use as part of our overall merchandising strategy."

The Blakemans have also looked to formalize the dealership's advertising strategy a bit more. They take full advantage of their suppliers' co-op programs in the lead-up to the mowing season, which helps them have a presence in the large markets through larger ads in bigger papers. Then, when the season is in full swing and the co-op ads scale back, the Blakemans start running their own ads in various "community papers" in outlying areas.

"The outlying areas don't always get enough attention from the larger newspapers," Bob points out. "We want to draw those customers because they often have larger properties, which makes them a prime prospect for the products we sell. Advertising in local papers from mid-summer through the fall has been very cost-effective."

The community papers have also helped Larry's Mower Shop broaden its winter service program. "One thing we learned real quick was that you need to keep techs busy through the winter, and you can't always count on snow business," Bob says. "Larry had built up a good off-season service program—we just wanted to expand it. We started running flyers in these same community papers to grow the customer base. It's worked quite well."

BETTING ON CONSUMER

A push to grow commercial business has been one thing that hasn't worked quite as well as the Blakemans had hoped. When they purchased the dealership a few years ago, roughly 15% of the business was coming from the commercial market. They have managed to grow it to 25%, though it's still falling short of their initial expectations. Perhaps it's just due to unfortunate timing.

Larry's Mower Shop took on a third commercial mowing line a couple years ago, mainly because the Blakemans observed a trend of more landscapers coming in for service and parts for that brand. What the brothers soon found out was that, for whatever reason, service and parts were all those landscapers were looking for.

Bob says he lost a number of sales to a large dealer in Indiana who beat him on price. The commercial accounts still wanted Larry's Mower Shop to provide parts and service, but that didn't help the Blakemans, who now had a stash of equipment in the showroom.

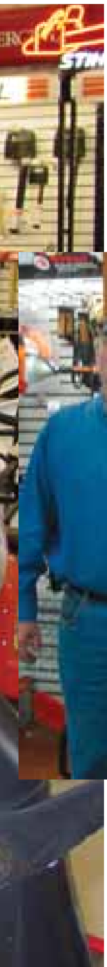
"It also didn't help that we'd taken our first order in September," Bob adds. "We thought we might get some end-of-year sales to landscapers, but it didn't happen. The next spring rolled around and we were stuck with last year's models. The timing for us was just bad."

Still, sales for the dealership's two original commercial lines were doing well. Consequently, the third line was recently dropped.

Chalk it up to trail and error—and you can't blame the Blakemans for trying. When they bought Larry's Mower Shop, they set out to capitalize on the foundation Larry had built, and then capitalize on what they saw as the best opportunities to take the business to the next level. Now, Bob says, the best opportunity appears to be a growing consumer market.

"Some manufacturers are putting a lot of effort into redesigning their consumer mower lines," Bob points out. "That tells me there are more homeowners who are seeing the advantage of cutting the grass themselves, rather than hiring a landscaper. We want to attack that market.

"We're in a high-traffic area with a lot of rooftops going up," Bob continues. "We're trying to get ahead enough (financially) to remodel our showroom so we can display our larger riding equipment. We're in our fourth season now. We're comfortable that we can predict the summer business. It's the winter business that makes all the difference. We've had two poor winters in a row. If we can have a decent winter in the months ahead, we'll be in a good position." ■



Pictured from left to right are Jim Blakeman, Dave Linebaugh (parts manager), Lisa Gilgallon (office manager), Kevin Blakeman (service manager) and Bob Blakeman.

"Let your customers know you want them to be successful, that you are interested in their companies and that you want to be their business source."

— Dealer Success Guide, Volume 8, Page 28

Pro-Mower & Snow Equipment in Warren, MI

Not all dealers have what it takes to serve the commercial market. Not all dealers want to even try. Michael Agostini, general manager of Pro-Mower & Snow Equipment in Warren, MI, doesn't fall into that category. His genuine fondness of landscapers is why he and his staff are often willing to go to extreme lengths to make their clientele happy—even if it means staying open all night long.

Each of the many programs and services Pro-Mower & Snow Equipment offers to its commercial customers was developed for the same reason. "We legitimately care about our customers and will help them in any way we can," Agostini says. "The only way for us to become successful is to have successful customers. Their goals and achievements must become ours. As we help them achieve their goals, ours become self-fulfilling."

Agostini says the dealership supports its contractors in many ways. Here are a few of its more notable merits.

EMPLOYEES CAN RELATE TO THEIR CUSTOMERS

Every person who works at Pro-Mower & Snow Equipment has, at one time or another, mowed lawns at a commercial level. Employees can relate to their landscape customers. They know what those customers are going through, and, in turn, know how they can make each customer's life a little bit easier.

ALL COMMERCIAL, ALL THE TIME

Pro-Mower & Snow Equipment services nothing but commercial equipment. The dealership only stocks parts for commercial equipment. And you won't find a non-commercial piece of equipment in the showroom.

UPTIME PROTECTION SERVICE

If a customer participates in the dealership's UPS program, he'll get a loaner if his mower fails. "We know that when the customer is down, he's out … and when he's out, he's not happy," Agostini says.

SNOWED IN

During snowstorms of two inches or more, Pro-Mower & Snow Equipment stays open all night. "What good is a warranty on a piece of snow equipment if you can only get it repaired from 9 a.m. to 5 p.m.?" Agostini asks.

SEMINARS AND TRAINING

Pro-Mower & Snow Equipment holds educational seminars for its landscape customers. The seminars

You have to be competitive

Mike Agostini says landscape contractors are just like you and him. "They care about price and they care about service," Agostini says. "You have to be on with both of them. You can't be the cheapest on every item, of course, but you'd better be competitive. And your service has to be the best it can be. You need great techs and competent parts people. Without them, it's like going to an optometrist when you have a heart problem."

The Pro-Mower & Snow Equipment team, from left: Michael Agostini's son Niko standing in front of Steve T., John A., Michael Agostini, Joe M. and Tracy on the mower.

Customers at the core of its existence

Pro-Mower was started to help lawn maintenance contractors achieve their dreams and goals by providing a business support system that would allow them to concentrate on running their business efficiently and profitably. We have since taken that further by becoming a leader in helping to provide education and training to the green industry. With your dedication and help, we can improve this industry and change the image of "the lawn guy".

— *From www.pro-mower.com*

include both technical and business-building sessions.

"The seminars do cost us time, money and energy, but I wouldn't have it any other way," Agostini says. "For our larger seminars where we bring in a consultant or special speaker, we usually charge around $20 per person to cover our costs, which also includes a great lunch we put on. Regardless,

"The only way for us to become successful is to have successful customers."

it's a small price to pay to build relationships with contractors."

The relationships Pro-Mower & Snow Equipment build on a daily basis give it the ability to communicate with customers on a very intimate level. "If you listen hard enough, you can hear exactly what those customers want and need," Agostini points out. "Then it's up to you to implement the plans it will take to achieve the necessary level of service. I'm blessed to work with such a talented and hardworking group of individuals that make me look pretty good." ■

Dale Magie has laid out a multi-faceted strategy to maximize parts sales and profits.

West Chester Lawn & Garden in Liberty Township, OH

Dale Magie has recognized the fact that wholegoods margins are slim. That's why he's devised a multi-faceted strategy to increase parts sales and profits.

First, West Chester Lawn & Garden has **created its own MSRP and discount programs** to achieve the overall margins needed to survive. "We have three layers of pricing: average homeowners, smaller contractors and larger contractors," Magie points out. "We monitor this list and update it as needed to meet our standards for discount qualifications."

They key to making your own pricing structure work, Magie relates, is finding parts vendors who won't sell direct to the end-user. "We need to work with suppliers who provide an ample selling area and profit margin, as well as decent freight, stock and return programs," he says.

West Chester Lawn & Garden has one outside salesman on the road a couple days a week for most of the year. He's **pushing the month's specials**, which typically include 10-15 commercial parts SKUs. These items are also posted at the dealership's website, www.westchesterlawnandgarden.com, and on flyers handed out at the customer service counter. Special parts pricing is also offered at various special events and service schools, which range from one-day events to week-long sales.

West Chester offers a **stocking program to large commercial customers**. "We review the fleet of equipment and stock up the customer's shelves with agreed-upon levels," Magie explains. "We deliver parts to these customers once, if not twice, a week. It's proven to be a great relationship-builder, as well as a way to retain the majority of their parts business." West Chester is also willing to take parts back at the end of the year, without charging a restocking fee, if the parts are in sellable condition.

An **eBay (www.eBay.com) storefront** helps promote West Chester's OEM and aftermarket parts business. "We've found this to be a good way to eliminate some dead, non-returnable items," Magie says. Coincidentally, eBay has been a way for the dealership to promote certain wholegoods inventory, such as used, demo and overstock units.

In the way of inventory control, Magie runs order records weekly to maintain proper levels. "We **maximize on all stock order programs** provided by our manufacturers, whether weekly, monthly or yearly," he says. "We also ensure that we maximize freight programs wherever possible."

Dead inventory is a killer for most dealers, including West Chester Lawn & Garden. Magie says they **eliminate most dead inventory** by running yearly reports that identify slow-moving items that can be returned to those manufacturers with parts return programs. ■

Duane Nolden and Ed Prochaska, Owners, Middleton Power Center, Madison, WI.