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

2003 Y&G • THE YEAR OF THE DEALER •

# Dealer Survival Guide

volume 7

A supplement to Yard & Garden magazine

## The next step in survival: profitability

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# Dealer to Dealer: How I Built My Bottom Line

Dear Fellow Servicing Dealers,

My grandfather founded my family's business, Central Sales in Miamisburg, Ohio, in 1962, long before the competitive challenges arose from mass merchants, Internet sales, and direct mail-order catalogs.

Today, as I now own and manage the dealership, I can tell you that I'm very aware of the ever-changing times in the outdoor power equipment industry. I've come to understand that in order to succeed in today's market, I must be open to change and be willing to invest in the future of my business. That's why I'm so pleased to see this issue of *Dealer Survival Guide* focus on the invaluable financial and business management advice from Jim Yount.

I first learned of Jim Yount through Stihl's Retail Readiness™ sales, marketing and business management program. I decided to attend one of his seminars at a time when our dealership was just "surviving" year after year, and it was clearly worth the investment! We have incorporated many of Yount's business and financial principles into our everyday operation and the rewards have been plentiful. By practicing his approach, my growth rate has more than tripled over the past three years.

Without a doubt, Yount's method of forecasting has made the biggest difference in our business. I can now identify where my priorities need to be in relation to revenue generation and how to increase my profitability by re-evaluating our gross profit to operations ratio. I can also recognize where my sales should end up every month, giving me advanced notice should we have a down month, or on the brighter side, a really strong month. And, I've learned how to decrease my expenses by streamlining product lines and eliminating those that aren't profitable, thereby increasing my bottom line.

Simply put, Jim Yount's education and training helps dealers like you and me identify and fix our problems, as opposed to guessing. He provides the foundational building blocks for our financial success and helps us structure the growth of our dealerships. I know you'll recognize how valuable Yount's business management principles are after reading his article, which starts on page 4 of this *Dealer Survival Guide*. I certainly have.

Sincerely,

Dick Hilinski

Dick Hilinski, Owner
Central Sales
Miamisburg, Ohio

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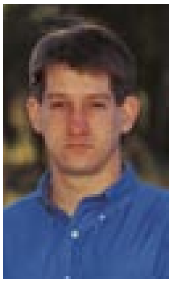
## Gregg Wartgow, editor

This issue of *Survival Guide* examines a subject that would seemingly be very rudimentary in business: profitability. But it's not always the case. Many small business owners adopt an "ends meet" mindset; "I hope I have enough cash this month to make payroll." When this is happening in June, it's probably time to re-examine your business and figure out exactly what your goals are.



For some, making ends meet is as good as it's going to get. This type of business owner wants to give himself a job, and pretty much wants just enough cash flow to keep his doors open.

For other business owners, making ends meet merely appears to be as good as it gets. These owners have goals that are a bit loftier. But they're trapped in the day-to-day chaos of running a small business. It can be a tough gig. And after a while, it's easy to take your eye off the golden trophy (profit) and just focus on the finish line (ends meet).

It's important to manage your business with a "profit-centered mindset." You need to keep your eye on that golden trophy, and you need to design, implement and monitor a plan that will allow you to win it.

The subject matter in this *Survival Guide* is designed to help you get headed in the right direction. Several "profit-centered" concepts are explored: pricing and selling strategies, managing operating expenses, managing the shop for a profit, technician efficiency, studying computer-generated financial reports, and more. As always, we hope you learn something from it.

# What stage is your business in?

## *Tips on how to evolve past survival mode*

By Gregg Wartgow

Business acumen is something someone has to teach you. It is not something you inherit. It's not in your DNA. Now, you may have certain talents that enable you to understand the concepts relating to how one manages a business for profit. But unless someone teaches you those concepts, you'll spend your whole life struggling. That's not only true with businesses, but also of people in general. It's pretty simple: If you spend more money than you earn, you're in trouble.

In this in-depth article, consultant Jim Yount shares his theory on the four stages a business goes through in its lifetime. From there, pricing strategies that enable you to maximize your gross profit dollars are explored. Finally, the importance of pre-tax net profit is discussed, along with tips on how to best utilize this money to nurture your business and lessen your tax burden.

As you read through the following pages of this *Survival Guide*, ask yourself the question: Which stage is my business in? Then ask yourself: Is this where I want to be? If not, what do I need to be doing to get where I want to be? Hopefully, this *Survival Guide* will help you find the answers to some of these questions, and aid you in getting your business on a plan toward profit and growth.

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

## Four stages of business evolution

### Survival

"I've started three businesses in my life," Yount says. "Let me tell you, stubborn determination is a major factor when your business is in survival mode. You have to be prepared to do some of the toughest things you've ever done in your life, particularly if you're getting tight on cash — things like firing your lazy brother-in-law. We talk about this at our workshops because far too many businesses are still in survival mode after 10 or 15 years. In America, roughly 48% of new businesses fail in the first year. If you don't recognize the problems in your business, you're going to be in serious trouble, too."

### Profitability

It's easy to "get stuck" in survival mode. As a business owner, you can't allow that to happen. Yount says it's OK for the first few years as your business is getting off the ground. But you have to manage your business for profit. "That profitability never comes until you adopt a profit-centered mindset," Yount points out. "If you don't manage your business to make a dedicated profit, you'll find every excuse in the book to avoid doing the tough things you need to do to remain successful."

To run a profitable business, a dealer needs a diversity of skills. This is much more than knowing how to repair or sell a lawn mower. You need some business savvy. You need to know how to manage cash flow. It's pretty simple: If you continue to spend more than you earn year after year, you're going to close your doors. It takes profitability to run your business. Without profit you can't pay yourself a respectable income, you can't pay your employees a respectable wage and/or benefits, and you can't make any other investments in your business to keep it moving forward.

### Business growth

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.

Yount says, "If things aren't progressing the way you'd hoped, you may need to change the plan right away ... you can't wait a year or two. You need to monitor the plan quarterly, monthly or maybe even weekly. If things aren't going the way you expected, something's wrong and you need to change it. Maybe you over-projected, weren't honest or had too much blue sky in your forecast. Re-think the goal, and re-think the strategy designed to achieve that goal."

### Decline and closure

Yount says he's found that businesses that have been around 35 or 40 years are now in the decline and closure stage. It's caused by one thing: neglect. "Owners neglect the products and services they offer, their customers and themselves," he points out. "They don't keep themselves up to speed with changes in the industry. For example, a dealer in the decline and closure stage today may have failed to keep up with evolving engine technologies or electronic parts ordering. This dealer often feels burned out. Have you ever felt burnout? Man, I've been burned out more than once in my life. If you don't get a handle on it, it will destroy you and your business."

## Remaining competitive — but still profitable

### Profit-centered pricing strategy

Competitive pricing is a requirement of any retailer that's interested in survival. The question is: What exactly is "competitive" when it comes to the prices attached to the goods and services you offer?

Yount is quick to point out that remaining competitive doesn't mean you have to match your competitor dollar for dollar. One dealership may have a lot of services included in its price, such as free pickup and delivery, loaner equipment and next- or same-day parts availability. But the other dealership may not offer these types of services because it has discounted its prices so much that it can't afford to do anything extra.

Yount says, "This dealer typically pays technicians a 'survival rate' only, so this dealer obviously won't attract the best technicians in the world. On the other hand, I can take you to dealerships where a lead tech makes $50,000 a year. It all depends on how much you want to give your customers. Then, you don't have to match your competitor dollar for dollar because you're willing to work harder and do more for your customers. When your business has been around for 20 years, when you send your techs to service schools every fall, etc., you can charge more than your competitors because your services are worth more."

**"If you don't manage your business to make a dedicated profit, you'll find every excuse in the book to avoid doing the tough things you need to do to remain successful."**

— Jim Yount

In his workshops, Yount talks about "economic value-added selling," which relates directly to what's being discussed in the above paragraph.

"I'd done some work with a dealer who'd built his business from the ground up, and was doing roughly $3 million a year after seven years in business," Yount recalls. "This dealer taught me something. In the middle of his showroom was a 2'x4' sign. It said, 'If you do business with my company, this is what you get ...' Then it listed 10 or so items such as factory-trained technicians, we service what we sell, employees are outdoor power equipment specialists, complete assembly, and on and on. This dealer figured out, all on his own, that if he'd tell his customers up-front what his price includes, they won't ask him for a discount. They know they are paying for, and getting, much more than just a lawn mower,

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chain saw or string trimmer."

You have to do more than sell price. You have to sell your company. Lowest price is never the ultimate weapon. Some people think it is. And for some people, it's the only thing they can sell. "When dealers say they have to match their competitor's price, it tells me they have never developed their selling skills," Yount says.

## Price-sensitive and non-price-sensitive items

Now, you don't want your prices to be so outrageously high that customers are scared away when your flyer comes in the mail. However, did you know that by competitively pricing certain "fast-moving" parts and accessories you can create a perception that everything in your store is priced competitively? It's true. Yount uses a grocery store analogy to explain.

"Think about the grocery store flyer you get in the mail. It's full of all those items you buy on a regular basis — staples like milk, eggs, apples, bread, meat, etc.

**"When dealers say they have to match their competitor's price, it tells me they have never developed their selling skills."**

— Jim Yount

What does this tell consumers? 'Come in and check us out because our prices are competitive with everybody else.' These fast-moving staples are price-sensitive. At an outdoor power equipment dealership, the fast-moving staples are what is stocked out in front of the counter in the display: engine oil, saw chain, drive belts, blades, etc.

"Now, this doesn't mean you have to give your merchandise away. It just means you need to be competitive. And if you're not making any money by being competitive, you need to be prepared to possibly look at some different suppliers who you can make more money with. You can still make good margins on these fast-moving items."

On the other side of the coin are the non-price-sensitive items: things behind the service counter. These items (like major engine parts) are not purchased quite as frequently. So the customer is rarely tuned into the price of these items. Furthermore, you have to invest a lot of time in selling these items. You have to unpack them, make sure they have a bar code, put them in the computer, locate them in a bin, look them up on microfiche or PartSmart, pull them back out of the bin when the customer wants them, and so on. There is a fair amount of cost tied-in with these items. "So don't be afraid to add at least a couple percentage points to your margin on them," Yount advises.

"I can share this with you," he continues. "No dealer can survive on manufacturer's suggested retail price (MSRP) on parts. I don't know of any dealer making 35% on parts who has a profitable business, period. You typically need more than 35% from your parts department. Now, you can't really say a certain margin across the board will work for every dealership. On the other hand, manufacturers can't set 100 different MSRPs. So the manufacturers say, 'Here's one MSRP. You'll have to adjust it accordingly to fit your business and market.'"

## The cost of doing business

Perhaps the most critical factor in establishing your fair market value is your cost of doing business. If your prices don't allow you to gross enough profit to cover your cost of doing business (operating expenses), your business is not going to make it. This is the first question Yount asks when consulting with a dealer.

Consider the following scenario. If it costs a dealer 31% of sales to do business, Yount wonders why that dealer would sell some accessory items, such as grass catchers, at a 25% margin. Of course, there is only so much margin you can squeeze out of equipment sales. The same can be said about your parts department. But, as pointed out in the previous discussion regarding pricing strategies, you have to examine each and every part, accessory and piece of equipment you stock in order to maximize the true profit potential of everything you sell.

"You have to manage each line item," Yount explains. "We like to see dealers with a 40% margin across the board in the parts department. Now, within that department you're going to have some 25% items, but you're also going to have some 54% items. Dealers have

## Bottom line benchmarks

Here's an example of what a profitable $1.8 million dealership's financial breakout may look like:

Annual sales: $1.8 million
Direct cost: 72%, or $1,296,000
Gross profit margin: 28%, or $504,000
Operating expenses: 23%, or $414,000
(payroll, office supplies, vehicle expense, equipment depreciation, interest, utilities, advertising, uniforms, insurance, travel, etc.)
Pre-tax net profit: 5%, or $90,000

to manage each line item and price merchandise accordingly. They can't let the manufacturers set the pricing for them. Every dealership is different.

"Let me share an example of what I'm talking about," Yount goes on to say. "McDonald's is the same all around the world. In small-town America, a McDonald's breakfast biscuit might be $1.89. That very same biscuit might be $2.49 in Chicago. It's the same biscuit, bacon and egg. What's different besides the 60 cents? Well, it costs more to run that McDonald's franchise in Chicago than it does in small-town America. The costs are different. The wage structure is different. As a dealer, you need to know what it costs to do business so you can establish a 'fair market value' for your products. Then you have to fight for every ounce of profitability on every line item. If you don't, you're going to be in real trouble."

When Yount consults with a dealer, he spends several days at the dealership. He makes it a point to search the self-service displays out on the floor. He's looking for pricing, and in turn, any profit that is being left on the table.

Yount says, "I pick up an item, regardless of what it is. Let's say it has a price of $2.21. There's nothing magical about $2.21, particularly the 21 cents. Why not get 29 cents? Every time a customer goes out the door, that customer has left 8 cents lying on the table. You have to understand that margins and profits are made up of pennies, nickels and dimes. You have to be tuned in to how you can maximize the profitability of your store by pricing each and every item you sell to its maximum profit potential."

As a general rule, raising your prices on certain items by 5% will often go unnoticed by customers. Try it on some of the parts and accessories you sell, and see what happens.

### Distribution of the dollar

Maximizing the profit potential of the products you sell is a key first step towards becoming a truly "profit-conscious manager." But there's a lot more to it if you want to evolve past survival mode.

If you were selling equipment at 30% and parts at 50%, you could still be unprofitable. You need to keep your operating costs under control. And you need to be thinking "pre-tax net profit." Pre-tax net profit is the lifeblood of your business. Pre-tax net profit is what you need to pay back debt, remodel your store, buy that new lift for the shop, etc. You need pre-tax net profit to sustain and/or grow your business.

"We've seen the best and worst in the country," Yount says. "The average pre-tax net profit for power equipment dealerships is 1% to 2%. I'll tell you this, you cannot grow a business on 1% to 2% net profit. You're not doing much more than surviving. This may shock you, but we've seen net profit as high as 18%. However, we're typically seeing 2% to 12%; all across the board in that range."

What's the difference between the dealer who has 2% net profit and the dealer who has 12% net profit? Yount says it could be pinned down to a host of problems.

"Payroll is probably the largest area of expense, and it can be the most likely to get out of control," Yount warns. "With many dealerships, up to 70% of every gross profit dollar is spent on payroll. Let's say a $1.8 million dealership has $500,000 in gross profit. If this dealer spends 70% of that on payroll — or $350,000 — the dealer is left with $150,000 for all other operating expenses. That's not enough.

"The only time spending this much on payroll works for a dealership is when the employees are all

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family members, and the only thing they're trying to do is maximize their personal incomes. They're not trying to grow the business. That's their choice. But if you're a dealer interested in running a profitable business, it's the wrong choice."

Typically, for a small business such as a dealership, wages and benefits should not exceed 50% of gross profit. If you're spending more than half of what you gross just on wages, you're not managing the efficiencies of your employees very well. "That's not the employees' fault, it's the manager's fault," Yount points out. "The employees aren't being managed or trained well. Employees may not have clear job descriptions. At 40% to 45%, you can still be pretty healthy. However, we usually see the most profitable dealers in the 34% to 36% range."

Payroll includes what you pay yourself, and you have to pay yourself a fair market wage as an owner/operator. Yount says, "This isn't the wage of 'just another employee.' You're the owner, manager and oftentimes an operator. You're assuming all the risk associated with being in business. Your salary should reflect that. Your salary should be included in your operating expenses under payroll.

**If your prices don't allow you to gross enough profit to cover your cost of doing business (operating expenses), your business is not going to make it.**

"I can tell you stories about several dealers I've met who had file cabinets full of their own paychecks they couldn't cash," Yount continues. "Those dealers wrote out their paycheck each week, but they couldn't cash them because there was no money in the bank."

Yount says he asks dealers to take the annual salary they paid themselves, then divide it by the number of hours they worked. They're shocked to see that they've been working for $4 an hour. "It's OK to do that in your first few years in business — when you're in survival mode," Yount says. "But you can't keep doing that forever. You have to work your way out of it and get into the stage of profitability."

## Nurturing your business with pre-tax net profit

As stated earlier, pre-tax net profit is the lifeblood of your business. Without it, you are merely surviving. If you want your business to prosper, you need to do everything you can to achieve a pre-tax net profit in excess of 2%. This must be part of your annual budget.

Let's again use the example of a dealership doing $1.8 million a year, with a pre-tax net profit of 5% ($90,000). First you have to pay income tax. You obviously don't want to pay more than the lawn requires. Yount's advice? Get a good CPA.

"At Jim Yount Success Dynamics, we do not pretend to be tax experts," Yount points out. "Tax laws change every year, so you need to rely on a good CPA for guidance. You need to sit down with your CPA at least once a year, either during tax time and/or at the beginning of the year, to plan for your business. Your ultimate goal is to invest as much as you can back into your business while, at the same time, reducing your tax burden."

For example, certain work done to your store can be classified as a deductible expense — if that work is classified as repairs or maintenance. So, painting your showroom could be a deductible expense since it's considered maintenance. However, buying some new fixtures or signage for your showroom could be considered an investment in your business, since the signage and fixtures could be considered capital assets. This would not be a deductible expense, and would have to be depreciated over time.

Gregory Wiese, owner of Iowa Outdoor Power in Wheatland, Iowa, who also happens to be a CPA, adds, "In some instances, you can make an election to deduct capital assets in the year of purchase. But it depends on the kind of asset, along with a host of other variables that come into play. However, if you can keep the dollar amount small enough, it can often be classified as a repair. This can get tricky, so be sure to consult with a good CPA who can provide you with sound advice."

Once you've reduced your tax burden as much as possible and paid the tax man, your remaining net profit should then be used to reduce any debt burden you may have. For example, it's not uncommon for a dealer to go to the bank and borrow money to help get through his/her off season. When the dealer begins to pay that loan back, it has to come out of net profit.

This is not a deductible expense. Other forms of debt — such as credit card debt and notes on trucks, forklifts or property — are classified the same way. That's why your business absolutely has to make a solid net profit in excess of 2%. You need to be able to go to work on your debt load immediately — before it gets out of control.

**If you want your business to prosper, you need to do everything you can to achieve a pre-tax net profit in excess of 2%. This must be part of your annual budget.**

When is your debt load out of control? According to Yount, if a dealer has to keep going back to the bank year after year to pay his/her operating expenses in the winter months, something is wrong in the business. "The business is not being managed, and soon the business will take control, destroying itself and the people who own it," Yount says. "Debt ratio is all based on profitability. Some experts say sales-to-debt should be 3 to 1. But if you only have a 2% net profit margin, you can't afford even this much debt. On the other hand, if you're pre-taxing 10% you can likely afford a much larger line of credit."

Next, it's a good idea to set aside a percentage of your remaining net profit to fund an investment/retained earnings account. Then, for whatever reason your business slows down in the future — off season, drought, economic factors — you can tap into your retained earnings account in order to pay your bills. You don't have to go to the bank and increase your debt load.

If you're one of the fortunate dealers who has enough cash at the end of the year to dump into a retained earnings account, be careful not to neglect these funds. Yes, you're saving this money for a future emergency. But you can't wait forever to spend it. Have a plan as to how you can utilize these funds in your business — before the IRS comes after it.

"I had a dealer call me once who needed my help because he had too much money," Yount says with a chuckle. "This dealer had nearly $500,000 in a retained earnings account that had been accumulating over the years. His CPA told him that if he didn't spend it soon he would be taxed at 35%. So again, rely on a good CPA to keep you up to date so you know what your options are."

You also want to provide for business goals. If you want to grow your business, where is the money going to come from? You should save your money. Look five years down the road. Where do you want your business to be? How much money is it going to take to get there? Then, at the end of a year, if you want to set aside $10,000 of your net profit to go into a separate fund so you'll have $50,000 for remodeling in five years, you can do it. Again, you need to get with your CPA and look at the size of your business, your pre-tax net profit, and figure out how much you should be setting aside for investment.

Finally, you want to provide for personal goals. "Just about everybody I know who's started a business had a dream," Yount says. "That dream included the ability to live in a better home or drive a better car, maybe take a nice vacation once in a while. Unfortunately, for many small business owners, that dream tends to go away except for the few at the top 4% or 5%."

By developing a profit-centered mindset, you could be one step closer to achieving that dream.

# Be a profit-conscious manager

## *Your computer system can provide you with all sorts of financial information. How are dealers using these reports to better manage the bottom line?*

By Gregg Wartgow

In order to manage your business toward profits and growth, it's imperative to stay on top of your financial information. To readily access this important financial information, there is no substitute for a solid business management system (BMS) — preferably one designed specifically for the outdoor power equipment industry. There are several on the market, each of which can generate a host of important financial documents you can use to make day-to-day business decisions.

Even with the help of a quality BMS, financial management can be a little overwhelming, especially during the busy season when it becomes harder and harder to find the time to sit down and look at the numbers. Which financial reports are the most useful for you to review? What does the information presented in these reports tell you? And how do you put that information to use when making everyday business decisions?

**"Gross margins by department may look good, but if a department isn't managing its costs properly, the contribution to the total bottom line of the dealership suffers."**

— Anne Salemo, Charter Software

### Report by department

The most important aspect of dealership financial management is to departmentalize your financial reporting. In other words, equipment sales, parts and service should each be held accountable for their individual profitability. You may even want to consider further departmentalization, possibly with a separate rental department, for example. If you're still in the process of choosing a BMS, make sure the provider you're looking at allows you to departmentalize your financial reporting.

Charter Software's Anne Salemo says, "Setting up your accounting system for departmental reporting not only allows you to see the gross profit margin for each department, but also the operating expenses. Gross margins by department may look good, but if a department isn't managing its costs properly, the contribution to the total bottom line of the dealership suffers." You need to be able to examine each department separately so you know where you need to make adjustments.

Dealer Rod Schutzman, owner of Midway Outdoor Equipment in Hiawatha, Iowa, says his most useful financial report is the "sale summary financial report." As a user of the Ideal Profit System, Schutzman says this report breaks down business into departments: equipment, parts and labor (service). From there, the report breaks each department down even further, showing cost and gross profit. It's not a report he runs every day, but it's the one he pays closest attention to.

"I use this report in conjunction with my yearly forecast, which is broken down by month," Schutzman explains. "I compare my sale summary to my forecast, determine where I'm up or down, and where I need to make improvements."

Similarly, a quarterly income statement helps Kathy Smalley of Guy's Saw Center in Pine Grove, California, keep an eye on overall gross profit margin. "When reviewing our income statement, I'm mainly looking at what percentage of gross sales our operating expenses are," explains Smalley, a c-Systems Software user. "This gives me an idea of what our minimum gross profit margin must be for us to cover our operating expenses. In order to stay profitable, we try to keep our operating expenses to around 15% to 17% of gross sales."

Reports such as these are part of a bigger picture, Schutzman and Smalley concur, providing a quick look at each department's overall profitability. Thus, they provide a good starting point for examining how profitable your business is. But then it's time to roll up your sleeves and really do some investigating, and examine specific product categories and lines.

## Keeping an eye on margins

With the Ideal Profit System, Schutzman says several reports are automatically generated every day: category sales summary, parts detail and equipment detail. As stated earlier, it starts with the basic categories of equipment, parts and labor (service), but then breaks those three main categories down into more and more detail. Schutzman says, "I pay special attention to the equipment detail report. It shows my profit margin for each of my main product categories. From there, it gets even more specific, showing the profit margin on individual brands. For example, if I notice that intermediate walk mowers aren't getting the margin I'd hoped for, I can examine that product category and see if, perhaps, it's one brand that's pulling down the average. In many instances, I can pinpoint the problem this way, and come up with a viable solution."

Sometimes, Schutzman must confer with his sales reps to get to the root of the problem. He relates, "There may have been a misunderstanding about a promotional item, and one rep may have ran it too long. Maybe a landscaper has been making a special deal with us, and we need to discontinue that."

Smalley reviews a "gross profit by product line report" on a monthly basis, generally speaking. Keeping in mind that operating expenses cannot exceed 17% of her gross sales, Smalley shoots for a 20% to 25% margin on equipment. "The more above 17%, the better," Smalley adds. "But we cannot drop below that operating costs level of 15% to 17%. If we do, we know we're losing money."

If a product category or line isn't achieving the 20% to 25% margin Smalley shoots for, there are a few things she considers. First of all, the dealership may not be using updated pricing. Secondly, just as Schutzman also pointed out, the sales staff may be giving discounts that Smalley is not aware of. Finally, the product and/or line may be capable of nothing more than the margin it's getting. Smalley tells, "In that case, we might go back to our distributor and say, 'I'm just not making any money on this. Either give us a little room to grow, or we simply won't be able to stock this product any longer.'"

On occasion, that scenario has also presented itself to Schutzman. He says that about every six months, he examines products he may want to reconsider stocking.

### *Other ways to watch the bottom line*

In addition to the many "banking-style" financial statements most BMS's generate, there are other reports designed to help a dealer better manage his/her bottom line. Smalley gives thanks every day for her "mechanic efficiency" and "part demand" reports.

The mechanic efficiency report, reviewed monthly, is a pretty good indicator, Smalley says, of what each technician is adding to the bottom line. It shows how much each tech has billed out, and how much it costs to employ each tech. In turn, it helps Smalley determine which techs may need more hands-on management, and which might be in line for a raise.

The part demand report, reviewed weekly, helps Smalley make better ordering decisions. "The financial benefit is that we aren't tying up too many dollars in inventory that isn't moving," she explains. "We have the inventory on hand when we're selling it, but it isn't sitting around here when we're not."

And if Smalley isn't selling a certain part at all, she knows better than to order it next season. Here, yet another report comes in handy: "the annual return report." This report tells which parts had no sales for the year. "We return these parts to the manufacturer at the end of the year," Smalley says. "Yes, we have to pay a 20% restocking fee. But that's better than heavily discounting the parts to get rid of them. And it's a lot better than having them sit on our shelf so we have to count them again the next year, wasting all that storage space."

"I simply ask my supplier what I can do to bump my margin a bit," Schutzman tells. "Maybe I can take some early pay discounts, or get into a larger volume discount. But if we can't find a way to get my margin up, I must consider eliminating it from my product mix. It all ties back to my forecast and budget. If I'm going to realize my desired end result, I may need to make some adjustments along the way if I'm not getting the right margin on some products."

As for the products that are getting a nice margin,

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Smalley encourages her sales staff to do one simple thing: sell more of them. "We let our staff know which products are making us the most money, and that they should push those products, if possible," she points out.

**"I'm mainly looking at what percentage of gross sales our operating expenses are ... In order to stay profitable, we try to keep our operating expenses to around 15% to 17% of gross sales."**

— Kathy Smalley, dealer

## No margin for error

Staying on the topic of profit margins, a third beneficial financial report for Schutzman is the "no cost item report." This report shows any parts or equipment that were sold that didn't have a cost associated with them. How would this happen? It's simple human error, Schutzman says, as it's possible that when a part or piece of equipment was received, the person entering the data into the computer forgot to type in a cost. This doesn't happen very often these days, as Schutzman's dealership has been on the Ideal Profit System since 1994. Hence, most of his employees are quite familiar with the software. Still, due to human error, it happens from time to time. And when it does, it can really mess things up. So Schutzman keeps an eye on it.

He explains, "When we sell that item, it looks like we made 100% profit on it. That skews all of our other reports off a bit, and we don't get an accurate picture of what's going on in our business. So I make it a point to review the no cost item report every day to catch these errors immediately."

## Going with the flow

When you have customers who have purchased on credit, and are delinquent in making their payments, your cash flow can dwindle down to nothing in a hurry, Smalley points out. To minimize this, she utilizes her "accounts receivable aged report." This document tells her which customers have bought on credit and have 30-, 60- or 90-day terms. She reviews this report on a monthly basis ... maybe more.

Smalley says, "If more customers are getting to be 60- and 90-day accounts, I review the report every couple of weeks, and make follow-up calls. It comes from both the consumer and commercial side, but mainly commercial. Sometimes, we have to put a customer back on COD in order to get their money in the future."

As for the money you owe to your suppliers, Jim Archut, corporate sales manager for c-Systems Software, says a cash requirements report is key for a dealer. "A report like this lists totals for upcoming payables due," Archut explains. "This helps a dealer see how his bank balance compares with the bills that are coming due, and helps ensure that any vendor's prompt payment discounts are taken advantage of."

Regarding your other financial reports, some of which have been described in this article, consistently reviewing them will help you gain a better handle on where you're not making money, where you are making money, and where you could be making more money. In other words, you can become a more profit-conscious manager, which is why you are in business in the first place. Y&G

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# How Do You Rate?

*The first step to getting the most from your service department is coming up with an equitable shop labor rate.*

Many factors go into creating a profitable service department — technician efficiency, recovery rates and accurate billing, to name a few. Of course, you also need solid technicians who can provide the quality service necessary to keep customers coming back. And you need to charge a solid labor rate that ensures you're getting all that you deserve.

Jim Yount of Jim Yount Success Dynamics says the most common practice for establishing a service department hourly labor rate is to call other area dealers and ask what they charge. But that's not the best approach, because for the most part, their answers are irrelevant. First of all, every business is different. Furthermore, that dealer who charges $X per hour could very well be losing money year after year. Why in the world would you want to follow his example?

In order to establish a solid labor rate for your shop, you need look no further than your own dealership. At the center of managing a business, or service department, for profit is a set of core principles. The first principle is to know what your costs are.

## Get to know your costs

To establish a creditable service department hourly labor rate, one must first know the actual applied hard cost. Since the service department must pay its share of the rent, electricity, telephone, taxes etc., you need to determine its fair share of last year's operating expenses.

Our example is from a business with annual sales of $1.2 million.

From your year-end income statement, pull out the operating expenses for last year and develop a worksheet as described below:

| | |
|---|---|
| • Total operating expenses | $400,000 |
| • Subtract the personnel cost: | |
| Salaries, wages, commissions, etc. | $170,000 |
| Social sec., FICA, FUTA, SUTA | $13,500 |
| Retirement plan | $3,000 |
| Health insurance | $16,000 |
| Workers comp insurance | $5,000 |
| Life insurance | $2,500 |
| Total personnel cost | $210,000 |
| • Actual applied hard cost ($400,000 - $210,000) | $190,000 |

Now, your service department needs to pay its fair share of these hard costs. So, you need to determine the percentage of your facility's total square footage that is designated for your shop. The typical outdoor power equipment dealership is 5,000 square feet, and the shop represents 30% of that at 1,500 square feet. So in this example, we'll use the benchmark of 30%.

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*continued from page 13*

| | |
|---|---|
| • ($190,000 x 0.3) | $57,000 |
| • Equipment cost is $25,000 with a five-year replacement | $5,000 |
| • Total hard cost for shop ($57,000 + $5,000) | $62,000 |
| • Add the cost of one technician (salary and benefits) | $30,000 |
| **Total cost of operation ($62,000 + $30,000)** | **$92,000** |

With a shop labor rate of $50 per hour, this shop would have to bill 1,840 hours to customers just to break even (1,840 hours x $50/hour = $92,000). That's equal to the technician billing roughly 35 hours of a standard 40-hour week to customers. That technician's efficiency rate would be about 88.46%. Yount says his experience reflects that the average shop operates with an efficiency rate of 40%.

**To establish a creditable service department hourly labor rate, one must first know the actual applied hard cost.**

| | |
|---|---|
| • Add your second technician | + $30,000 |
| **• The new department cost is** | **$122,000** |

At $50 per hour you must bill customers 2,440 hours to break even (2,440 hours x $50/hour = $122,000). That's equal to billing the customer for 47 of the 80 hours worked by the two technicians. The efficiency rate is 58.75%, which is well above the industry average of 40%. But you're still not producing a profit — you're just breaking even!

## What happens if you raise your shop labor rate?

Notice how this would change if the shop labor rate is increased to $60 per hour.

Hours billed to customers would be 2,033 to break even. That's equal to billing 39 hours to the customers of an 80-hour payroll week. The technicians' efficiency rate is 48.75%; much closer to the industry average.

EDITOR'S NOTE: Yount says it has been his experience that a profitable service department can and should operate at between 70% and 80% efficiency. Take a look at the story "Working as a Unit" on page 15 for tips on how to boost the efficiency rating of your technicians.

Yes, there are numerous other considerations in managing a shop for profit. But this process is necessary to establish an equitable hourly shop labor rate — a great first step toward reaching your shop profit goals.

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# Working as a unit

## *A group incentive plan drives tech efficiency to the next level.*

By Gregg Wartgow

Rob Titus spent a lot of time thinking about a way he could increase his service department's efficiency. He wanted to come up with a group incentive plan that would encourage his technicians to work together as a team. Finally, he came up with a program he thought would work. He implemented it in 1996, and hasn't regretted doing so for one second.

"Our shop's group incentive plan has pretty much accomplished everything I'd hoped it would," says Titus, president of Keizer Outdoor Power Equipment in Keizer, Oregon. "Before the group plan, the service department's efficiency percentage was consistently under 50%. Now, it's typically in the 60 percentile range during the busy season, and has even reached 70% on occasion. Like everything in business, it's constantly being reviewed, tweaked and improved. But the concept behind it hasn't changed. It's the primary reason our shop efficiency has improved so greatly over the past seven years."

### The origin of the 'group' concept

Titus purchased Keizer Outdoor Power in 1981. Prior to that he worked for an automotive parts house that also had a small engine department. There, he observed several differences between the auto and power equipment industries — especially the way in which technicians functioned on a daily basis.

"On the automotive side, the technician is pretty much left alone," Titus points out. "So it's not uncommon for a tech's efficiency rating to be 100%. But on the power equipment side, there's more contact between the technician and the customer.

"Initially, when I purchased Keizer Outdoor Power, we were looking at implementing individual incentive plans for our technicians," Titus continues. "But we knew what would happen if we did. We'd have technicians who'd be cherry-picking all the good jobs. We'd have a technician who would be stuck doing all the odds and ends, which would negatively affect his efficiency rating. We didn't want any of that. We wanted a plan that would encourage our techs to work together as a unit."

### Advantages of the group plan

Getting the entire service department to work together is the primary benefit of the group incentive plan. Titus relates, "My techs are all good at everything. Still, each has his stronger points, too. If they really want to be productive, they'll work this to their advantage. For instance, if one tech is strong in the electrical area,

*continued on page 16*

*The technicians work together as a unit to achieve the best overall efficiency rating possible.*

*Dealer Rob Titus*

*continued from page 15*

he'll typically take those jobs so the department can turn that repair around as quickly as possible."

Another thing the service department does to keep its overall efficiency rating high is assign one person to take care of all the odds and ends. Then, the others can keep turning wrenches. "You lose efficiency when you have everyone running around doing this and that," Titus points out. "They can't stay focused. It's hard for them to plan their workday."

While one tech takes care of most odd jobs, one tech is totally left alone to repair equipment. The others find themselves somewhere in the middle. That's where the group average comes in.

Titus explains, "That tech who's left alone has a much higher efficiency percentage than the others. He knows he has that higher percentage because the others are taking care of a lot of odds and ends, bringing their percentages down lower. It all evens out. By working together as a team, they work toward the best overall percentage of the department. And their bonuses are based on that overall percentage."

**"… they work toward the best overall percentage of the department. And their bonuses are based on that overall percentage."**

— Rob Titus, dealer

## An added bonus

Sharing wholegoods profits with the service department gives technicians even more incentive to perform at the highest level. Furthermore, it's another way to encourage a team atmosphere — this time throughout the entire dealership.

Each month, Titus takes the wholegood sales that are invoiced and gives the service department a percentage of it. Then, that amount is added to the total dollars billed by the shop that month. He does that because the techs are the ones who put the equipment together. The techs are the ones who have to talk individually with the customer as a unit goes out the door; going over starting procedures, servicing, etc. So it's only fair that they get a slice of the pie when a piece of equipment is sold.

## Keeping techs inspired

Anytime you're trying to motivate employees with incentives, it's important to keep them updated on their progress toward the goal. At Keizer Outdoor Power, the technicians take it upon themselves to remain up-to-date — thanks to the Ideal Business Management Software.

Titus says, "Our techs plug their hours right into the Ideal software, and they can see what they have for completed invoices and shop work orders. They know from day to day where they stand. Because it's of such interest to them, they get together just about every day and see where they are."

## Addressing off-season cash flow

Yes, efficiency is important. But Titus says the whole concept of the group incentive plan was based on the idea that there are limitations in the outdoor power equipment industry — especially up in Oregon where Keizer Outdoor Power is located.

"Because we are so seasonal in our particular area, we want to be able to pay bonuses based on good cash flow — at that time of year when we're making good money — and not have the burden and the overhead in the winter months when we're slowing down. Our technicians realize that their opportunity is the same as the dealership's: when we're in that window of time when we're making good money."

Titus points out that your incentive plan must be tailored toward your individual business. Every shop is different. Not every shop has three or four technicians. Titus says, "The whole point is to give your service department an incentive, and a goal it can reach. This will force your shop to be as efficient as it can so it can reach the reward."

*Originally printed in Yard & Garden's April/May 2002 issue.*

# How the group incentive plan works

Here's an example of how Rob Titus structures his group incentive plan for his technicians. Plug in your own numbers and see where your service department stands.

## Computing tech efficiency

The first step is to calculate each technician's efficiency percentage, which is determined by taking hours billed/hours worked. Then you take the average.
For example:

Tech 1 = 36/40 = 90%
Tech 2 = 28/40 = 70%
Tech 3 = 28/40 = 70%
**Average = 76%**

Next, check the dollar amount billed at 50% efficiency. According to business consultant Jim Yount of Jim Yount Success Dynamics, at 50% you should be about breaking even. Here's an example:

Billable dollar amount = $10,000
At 50% efficiency = $10,000 x 0.5
Dollars at 50% efficiency = $5,000

Now, figure out how much extra your technicians made you by being more efficient. Take the 76% average from the above example.

Billable dollar amount = $10,000
At 76% efficiency = $10,000 x 0.76
Dollars at 76% efficiency = $7,600

## More efficiency = more profit

With a billable dollar amount of $10,000, the difference between operating at 76% efficiency compared to 50% efficiency is $2,600. Keep in mind that anything over 50% is typically profit. So, by increasing shop efficiency from 50% to 76%, you can realize an additional $2,600 in shop profits.

## Now … it's bonus time

The next step is to determine how much the technicians earned in total commission. Titus uses the following chart to determine how much of a bonus his technicians get. Obviously, the more efficient the shop is, the bigger the bonus.

| **Efficiency range** | **% bonus** |
|---|---|
| 50% - 59.99% | 10% |
| 60% - 69.99% | 20% |
| 70% - 79.99% | 30% |
| 80% - 89.99% | 40% |
| 90% - 99.99% | 50% |

Using our example of a shop running at 76% efficiency, which falls in the 70% to 79.99% category, this shop's bonus would be 30% of shop profits. The calculation is simple:

$2,600 x 0.3 = $780

Since Titus uses a Group Incentive Plan, all technicians receive the same bonus. From the example we've been using, each of the three technicians would get a $260 bonus:

$780/3 = $260

## Dangle the carrot, but make it reachable

Titus says his current bonus structure is in the process of being modified. The goal is to encourage his service department to become even more efficient by making goals more achievable.

He explains, "We found that it was typical for our technicians to land in that 60% area. To push them to get up to 70% was tough, and a bit unfair. If they were to reach 68%, for example, it's hard to tell them 'nice job but you didn't reach the next bonus level of 70%.' That's demoralizing, and it's not necessary.

"So we're trying to break it down in five-point increments as opposed to 10. That way, the next bonus level is much more achievable. This will only encourage our service department to keep working harder to get more efficient because the next bonus level isn't so hard to reach."

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# Promoting tune-ups

## *Helping consumers understand the virtues of a mower tune-up can lead to more service work.*

According to Briggs & Stratton research, a well-tuned mower helps protect the environment by reducing mower emissions up to 50%. Jeremy Symons of the National Wildlife Federation adds, "By performing a mower tune-up, homeowners use energy more efficiently and cut down on emissions."

But surprisingly, roughly 60% of all mower-owning households in the United States don't perform any mower maintenance, which leaves plenty of room for improvement — and opportunity for servicing dealers.

"Extensive research shows people don't perform maintenance because they feel they lack the competency and time to do it themselves," says Cherie Burns, manager service marketing for Briggs & Stratton.

**Reduced emissions are just one of the many benefits of tuning up your mower. It's a good idea to point them out in your advertising messages.**

### Promoting tune-ups

That's good news for dealers. While most do a superb job of promoting their winter service specials to existing customers, what about their "potential" customers? What about that 60% that doesn't perform any mower maintenance?

Getting those people to bring in their mowers for a tune-up comes down to one thing: education. Reduced emissions are just one of the many benefits of tuning up your mower. It's a good idea to point them out in your advertising messages.

**Conserves gas.** A tune-up reduces fuel consumption up to 30% by maintaining the appropriate air/fuel mixture in the engine.

**Extends mower life.** Regular tune-ups keep equipment running in tip-top shape, extending the life of the engine and mower. This reduces repair costs and minimizes the likelihood of prematurely replacing individual parts or even the entire engine. It is also a great way for consumers to protect their warranty coverage, and their entire investment.

**Restores horsepower up to 7.5%.** A well-tuned engine runs at full strength to get the job done quickly and easily.

### Cashing in on the do-it-yourselfer

When it comes to the do-it-yourselfer, it's still possible to gain their business — through parts and supplies. Putting together a "package deal" might be a good tactic.

For example, Briggs & Stratton offers its own easy-to-use maintenance kit, complete with all the essential elements: air filter, oil, spark plug and fuel stabilizer. A new color-coding system makes selecting the right kit simple. The kits, which are made available through Briggs dealers and other select retailers, also include easy how-to instructions.

By promoting the many benefits of a mower tune-up, not to mention how it can save time and money in the long-run, it just might be possible to bring in some new customers this spring. Converting even a small percentage of the 40 million households who don't perform any mower maintenance would be a positive step toward protecting the environment — and getting a little bit more from your service department.

*Originally printed in Yard & Garden's April/May 2002 issue.*

# The power is in the process

## *A good strategic plan is useless without an even better plan for executing it.*

By Pam Mitchell

When an organization or a team decides that they want to improve their efficiency, what usually happens first? Most groups call a meeting. We have all been there. Someone says, "Hey, we need to cut costs," or "speed up production," etc. Then, the ideas start to flow. But we all know how these meetings go.

One idea leads to the next. The conversation jumps around like a scattered cocktail party conversation. It becomes difficult to know which idea the group should evaluate first. Everyone in the meeting views reality from his or her own perspective. Each person makes a case for his or her own pet project.

What is the typical outcome of these meetings? Through no fault of the people in the meeting, most close with few decisions and a lot of ideas that will never be implemented. The problem is *not* the people, it *is* the process. Brainstorming has its applications, but this is not one of them. It is too scattered. It would be like asking 10 people to cut your lawn with a pair of scissors. The tool is too small. Each person has a different starting point. And you will likely miss a lot of ground.

### Reality-based planning

When teams or organizations want to improve the way they accomplish a task, the first step is to create a picture of reality. Think about any problem you've attempted to solve by working with other people. The biggest roadblock is generally differing viewpoints of the problem or its cause.

"Process mapping" is an effective starting point because it provides a consistent, organized way to define reality. A process map is a flow chart that shows each task in a process and who completes that task.
The benefits are:

- It provides a visual.
- It helps people understand what happens upstream and downstream from their part of the process.
- Data is contained in manageable "buckets" so that groups can solve issues one at a time.
- The cost of waste is calculated, so groups can identify the low-hanging fruit.

Streamlining operations has been critical to high-performance retailers as the total retail square footage per U.S. resident has increased 53% in the last two decades. In fact, several high-performance retailers have used process mapping to determine how to reduce the cost of their new store openings.

The retailers that will thrive into the future are on the lookout for ways to become more competitive without reducing value. Is your industry facing similar challenges? Let's look at how thriving retailers do it, along with the results that can be achieved.

### Creating a process flow chart

The process mapping team includes representatives from each group or department responsible for making a process happen. For example, if you want to evaluate the process of handling a shop ticket, you might involve the counter person, service manager, technicians, parts manager and office manager. Make sure each team member is experienced enough to have a thorough understanding of his or her portion of the process. Team members who have cross-trained in other functions are particularly valuable.

The first step is to **choose the starting and ending points**. Let's use that example of handling a shop ticket.

In a "process flow chart," each horizontal row represents a department. Each vertical column represents a time bucket. Time is counted down to an event. In this case, we'll say "3 days" represents the time needed to complete a shop ticket from start to finish. Your team's task is to fill in every detail between those two endpoints, and to create a "flow" of activity. For example:

- Check in customer at front counter
- Receive mower and store in back
- Transfer shop ticket to technician

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*continued from page 19*

- Look up and order parts
- Retrieve parts
- Prep mower for repair
- Repair mower
- Transfer shop ticket to service manager
- Store mower for customer pickup
- Contact customer for mower pickup

As you begin building your flow chart, ensure the participants that nothing they are currently doing is wrong. There is no blame being handed out. Since the purpose of this exercise is to change the process, there is no reason to defend the status quo.

Prior to the process mapping session, you and/or your managers should assure your employees that no one will lose their job for improving a process. It's also helpful to further assure the team that improving the process does not mean that they were failing before. This helps keep the tone positive and upbeat, as opposed to defensive and hostile.

**The retailers that will thrive into the future are on the lookout for ways to become more competitive without reducing value.**

Begin by taping large pieces of paper to the walls. Each person should write single tasks on post-it notes. The facilitator starts the group off by asking what happens first, and who does it. The facilitator puts the post-it note on the row and column based on who completes the task and when.

Post-it notes are the best medium for this task, because filling in the large pieces of paper is a messy process. As the team watches the action unfold, it will trigger ideas that they missed the first time through. The objective is not to be orderly and sequential, but to make sure that all tasks are represented on the flow chart.

The facilitator should probe deeper with questions like, "What happens when...? What happens if...? Who needs that information?" Remember that everyone is accustomed to working in their own small niche, so the rest of this information might be new to them.

I often hear people say, "Wow! I never knew so many people depended on the way I handle this part of the process." Perhaps, after this exercise is completed, those people will pay more attention to what they're doing and how they're doing it in the future.

After all the tasks are filled in, it is the facilitator's job to link those tasks together with arrows completing the "flow." This process continues until the group reaches the endpoint.

Try to make the meetings as fun as possible. This is a lot of information, and the meetings can be grueling. Break them up with a few stories and exercises to get your employees moving, and help them recharge their batteries.

## The proof is in the profits

Once your flow chart is put together, highlight those steps the group has identified as "waste," or movements that they would like to minimize or eliminate. This is where process mapping derives its power. The power is in the ability of the group to apply lean thinking principles to streamline an existing process.

Several retailers have been amazed at the results they can achieve by applying lean thinking principles to the building and remodeling of stores. Jim Tyson from

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## About the Author

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Pier 1 told a packed audience at the International Mass Retail Association Conference that Pier 1 had saved an estimated $1 million per year by applying lean principles to the new store opening process.

They started with a process map, and taught their new store opening group the seven forms of waste:

- Correction
- Excess inventory
- Unnecessary processing
- Conveyance
- Excess motion
- Waiting
- Overproduction

The secret to Pier 1's success is that they did not bring their egos to the meeting. No one owned the old process. They seemed willing to put *everything* on the chopping block, and the results have been spectacular.

Another key to Pier 1's success was that no one feared that they would lose their job if the streamlining process was a success. They did, however, avoid adding two new positions which had been planned to handle the growing work load in the purchasing department.

Pier 1's story is typical of organizations that dedicate themselves to process improvement. Rather than trying to eliminate people, think about the opportunities to put them to more productive use once you put an end to the firefighting atmosphere. Process mapping is the first step to convince people that it needs to be done, and to highlight the low-hanging fruit. YG

# Survival Tools You Can Use

## Promote your "added value"

Create a poster for your showroom, a counter top sign, a flyer, etc. that promotes that added value that goes along with doing business with your dealership. Include the phrase "Outdoor Power Equipment Specialist" in all of your marketing materials: invoices, business cards, newspaper ads, yellow page listings, web site, you name it. You need to continue hammering this point home with current and potential customers.

Below is an example of what your poster might look like. Naturally, you'd want to adjust the below list according to the services your dealership provides.

*EDITOR'S NOTE: For a copy of the graphic ("Outdoor Power Equipment Specialist") as seen at below, send an e-mail to Gregg.Wartgow@Cygnuspub.com. The image can be e-mailed to you, and you can use it in your own marketing materials.*

### Toby's Promise ...

When you buy from Toby's Power House, you get a lot more than just a piece of equipment. You also get:

- Superior customer service and expert advice from our professional, courteous staff of outdoor power equipment specialists
- Free pickup and delivery on purchases over $1,000
- A full line of accessories and safety apparel to complement your equipment purchase
- Comprehensive parts support
- Unmatched service support from our factory-trained staff of certified technicians
- A loaner unit if your mower goes down while your grass is still growing
- A wide array of only the finest outdoor power equipment on the market today
- Opportunity for future trade-ins
- Attractive financing options
- All this at extremely competitive prices

When you buy from Toby's Power House, you get the long-term support of a staff whose business **is** outdoor power equipment.


**Toby's Power House**

*Your lawn care partner*

# How price-driven is your market?

## *If customers see a value differential, the more likely it is that they'll pay a price differential.*

By Jim Pancero

Developing and maintaining an effective pricing strategy is one of the toughest aspects of owning your own outdoor power equipment dealership. The impact of the mass merchants in your area can also lead to additional challenges and stress to your pricing strategy. But you don't have to match — or go below — the mass merchants' pricing to win.

The fact that there is no totally price-driven market is one of the most basic foundations of retail pricing strategy. Think about the last time you purchased something based solely on price. For you to have made your brand and retailer decision based only on price means you first had to decide that all vendors and brands you were evaluating were identical, or generic. If a buyer sees no value differential, he or she will naturally buy the cheapest brand from the cheapest, and most likely largest, retailer.

But if a buyer can see a value differential between either the brand and/or the retailer, a significant majority will be willing to pay a higher price. There is a simple formula in the price/value equation: the more of a differential in value a buyer perceives, the more of a differential in price they will be willing to pay.

**If a buyer sees no value differential, he or she will naturally buy the cheapest brand from the cheapest, and most likely largest, retailer.**

### You have a value differential to offer

You can have a significant competitive advantage over the big boxes if you initiate your own market strategy. You can only win if you play your game — not theirs. The best strategy for an independent dealer is to work to match the mass merchants in areas such as a modern store appearance and inventory availability, and exceed them in others like offering a friendly, persuasive buying environment and outstanding product expertise.

### Are you matching the mass merchants?

Today's reality is that the mass merchants are defining the outdoor power equipment market. They are spending the vast majority of the advertising dollars, have prime store locations and are first in the minds of most retail buyers.

But just because they have the strongest market presence doesn't mean you can't have a very successful and profitable retail business. The first step to successfully competing against the mass merchants is to make sure your buyers don't see any weaknesses or deficiencies in your buying environment compared to the big boxes.

Do you have a modern, clean and professional looking store? Are you maximizing the impact of your floor displays, outdoor and interior signage? Does the outside of your store give a strong impression to help generate floor traffic? Are you carrying the proper inventory levels? Does your service counter look modern and professional? Are you open all day on Saturday and Sunday? Do you have extended spring and summer hours? Does your staff wear uniforms or at least name tags and matching shirts?

The critical issue is not to try and beat the big boxes in these areas. You only need match them to be successful, especially if you can excel in the following areas.

### Are you also exceeding the mass merchants?

Once you can match the areas already mentioned, you can gain a significant competitive advantage by exceeding the mass merchants in the following four proven independent outdoor power equipment dealer best practices:

1. The "best" sales and service personnel
2. The "best" and most persuasive communications of your uniqueness
3. The "best" service
4. The "best" and most targeted promotions and advertising

"Best practices" are the activities and/or approaches that have proven to generate the most selling success and profitability for the independent servicing dealer. Your competitive advantage and success has to be based on you offering your buyers a significantly different and more positive buying experience than the mass merchants. You need to be playing to your strengths as a smaller, friendlier and more helpful buying environment. That means you need to be implementing the "best practices" of outdoor power equipment retailing by offering your buyers:

**1. The "best" sales and service personnel.** Do you have enough people working your retail floor and service area who are friendly, helpful and knowledgeable professionals? Do they immediately greet all customers entering your store — even on your busiest days? Do both your prospects and buyers see your people as being true experts in the outdoor power equipment market? Are your people always offering usage and application tips and suggestions? Do they go to the extra effort of asking questions before recommending or demonstrating a product?

**2. The "best" and most persuasive communications of your uniqueness.** How are you communicating your uniqueness and the "added value" of buying from you vs. the mass merchants? How are you getting your message out that buyers will get better and faster help, as well as deal with friendlier experts and in-store support compared to anything they buy from the big boxes?

Are your people making a point to "talk up" your uniqueness and value over the big boxes on every possible call? Your people can talk about the positive differences you offer a buyer vs. the mass merchants without having to resort to "trash talking" any competitor.

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*How are you getting your message out that buyers will get better and faster help, as well as deal with friendlier experts and in-store support compared to anything they buy from the big boxes?*

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**3. The "best" service.** Do you communicate and prove your ability to service what you sell by "bench testing" every piece of equipment right before it is sold? Do your people talk about how you personally service a buyer's outdoor equipment easier and faster than the big boxes? Do you offer training classes on the safe operations of the equipment you sell? Do you offer training classes for first-time users of outdoor power equipment?

**Do both your prospects and buyers see your people as being true experts in the outdoor power equipment market?**

**4. The "best" and most targeted promotions and advertising.** Your uniqueness has no impact unless your added value is communicated and promoted to your customers. Mass merchants are experts at the large advertising venues like television and national publications. But you can increase your competitive advantage and get your message to your buyers by maintaining an ongoing advertising and promotions campaign specifically targeted to the buyers in your market area.

How creative is your direct mail advertising? Are you cross promoting your business by, as an example, including flyers on your hand tools when you run a mailing to your current customers for the winter servicing of their lawn mowers?

## The most critical key to selling against the mass merchants

The most critical key is based on you developing and communicating as much uniqueness and differentiation as possible in your market. That differentiation needs to be in the support you offer both before and after a sale, as well as in the equipment you sell.

You will have little market differentiation and low margins if you just sell the exact same brands and models as the big boxes in your area. That's why companies such as Stihl refuse to sell through the mass merchants. By representing companies such as this, you have the ability to offer a unique and higher-quality product than your customers can find in stores such as Home Depot and Lowe's.

We know you are good at running your business and providing a quality product to your customers. Now, think about the most important question that will directly contribute to your success and profitability as an independent outdoor power equipment servicing dealer: Are you good enough to get better than the mass merchants and other independent dealers in your market area?

*Jim Pancero is a leading authority on advanced sales and sales management techniques. His training programs and keynote speeches focus on innovative, cutting-edge selling processes and strategies for today's marketplace.*

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# Survival of the fittest

## *A plan for profit and propensity for professionalism have helped J.R. Pate put his dealership on the map.*

By Gregg Wartgow

Pate's Lawn Mower Sales & Service in Chatsworth, Georgia, has been around for quite some time — 16 years to be exact. However, the business it is today looks nothing like it did back in 1987.

J.R. Pate is running the show these days. He's transformed the business from a small repair shop into a full-blown sales and service operation that draws both residential and commercial customers from five counties. Pate says, "Advertising, showroom appearance, parts sales, professionally trained technicians and a lot of hard work has turned us into a real dealership with tremendous growth potential."

Actually, there is one similarity between the "old" Pate's and the "new" one: Service is king. Pate took over the dealership from his father, LeRoy Sr., in 1996, and has built on his father's founding principle of "fix it and fix it fast." While he can't guarantee the one-day turnaround his father did, Pate says the quality of the workmanship remains the same.

"Some days we'll see 25 to 40 mowers come in, and we just can't fix them that fast," Pate relates. "Our dealership's motto has not changed, though: 'We don't *patch* it ... we *fix* it!' This philosophy generates residential customers from 50 to 75 miles away. We also service local consumers and commercial customers, along with an area Wal-Mart store."

### PROFILE

PATE'S LAWN MOWER SALES & SERVICE
Chatsworth, Georgia

**Owner:** J.R. Pate
**Founded:** 1987, started selling equipment in 2001
**Employees:** 4
**Annual sales:** $400,000 and growing
**Sales breakdown:** 56% equipment, 22% parts, 22% service
**Customer mix:** 80% consumer, 20% commercial
**Major lines:** Dixie Chopper, Dixon, Encore, Great Dane, Kawasaki, RedMax, Shindaiwa, Simplicity
**Shop rate:** $55 per hour

Last year Pate serviced four area Wal-Mart stores. He'd dropped three of them for this year. "I need to spend more time on *our* customer base — a customer base that continues to grow," Pate points out.

**"Advertising, showroom appearance, parts sales, professionally trained technicians and a lot of hard work has turned us into a real dealership."**

### Takin' the reins

Pate took over the business after being medically discharged from the Marine Corps. He was familiar with stock control and supply, as that was his job in the Marines. But from a technical standpoint, Pate admits, he had a lot to learn. "I struggled along, being taught by my dad," he tells. "Things went OK, but I never thought this job would grow into something I would like better than the Marines. Boy was I wrong."

Pate says he subscribed to *Yard & Garden*, and saw what he thought was the way to a better life: selling wholegoods. Pate's dad had made a living repairing and re-selling old, broken-down mowers. But Pate wanted the dealership, now under his command, to be a whole lot more.

He soon met his wife, Christy. They had a son, Daniel, and decided to transform their small repair shop into an honest-to-goodness power equipment dealership — and a professional one, at that. "We wanted a facility that was more modern and clean, so women would feel comfortable coming in to buy parts," Pate says.

### From service to sales & service

Christy wasn't all that thrilled about going into debt with floorplanning, Pate remembers. In 2001, he says she initially agreed to one line: Dixon.

"At that time, just about all of our business was

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homeowner," Pate explains. "We wanted what we felt was the best homeowner lawn mower on the market. More importantly, we had already made the decision that if we were to sell equipment, we would not sell equipment that's also sold through mass merchants. We wanted to start our own line in our own town, even if we had to pioneer the line, and build our dealership that way. The same goes for all the other lines we picked up over time. We wanted to be unique."

Later on in 2001, the Pates made a trip up to the Louisville EXPO. "We saw a lot more possibilities for our dealership, but first the building needed repairs and upgrades," Pate says. "Organization was first on the list. Christy has a lot of experience in the medical field, so organizing records is her specialty. Thanks to her filing system, records can now be found and pulled instantly."

Next on the list, in order to free up space, was to clean up and sell their sizeable collection of used inventory — both parts and mowers. Pate says that every time a customer came looking for a part, he would ask him if he might be interested in a used part. In many instances, the customer did. Same goes for the used mowers on his lot. Pricing was primarily based on the Intertec Blue Book Value. "We got a lot more than Blue Book for many of our used mowers," Pate points out. "It depended on how much time and money we'd put into the machine, and how good a shape it was in."

Pate's used inventory was gone in less than a year. The income from the used inventory was then put into a special budget. This money was to be used for business growth. Pate says, "We didn't want the income from our used inventory to pay for our regular expenses. We wanted to use it to buy a fax machine or computer — tools our business needed to grow."

Soon after the used inventory was unloaded, a 2,000-square-foot addition was built onto the front of the store. This was Pate's new showroom. Several of his suppliers provided him with displays when he purchased a certain amount of inventory. He also took advantage of display co-op programs from some of his other suppliers.

Reading about other dealers in *Yard & Garden* gave Pate some more good ideas. "I designed and built our front counter based on a photo I saw of another dealership in *Yard & Garden*," Pate relates.

To go along with the new front counter, a brand new computer was purchased. In fact, a total of three computers throughout the dealership were networked (front counter, shop, parts room). Christy implemented QuickBooks Pro as their accounting system. While Pate has continued to shop around for an industry-specific business management system, he says QuickBooks seems to do the trick — for now.

"It gives me the inventory, sales and tracking capabilities that I feel handle my needs pretty well," Pate says. "As we grow and become more sophisticated, I'll look more closely at a business management system


*Christy and J.R. Pate*

designed specifically for this industry.”

With an organized, professional, fully functional venue to showcase his new sales department, Pate turned his sights back on the heart and soul of his business: the service department. The shop was remodeled and enlarged. Then Pate installed a computer, and implemented PartSmart, E-fiche and micro-fiche for looking up parts. He also does a fair amount of parts searching and ordering over the Internet.

## It all starts with a plan

All the necessary pieces were now in place to help evolve Pate’s Lawn Mower Sales & Service into a full-blown power equipment dealership. To ensure that evolution would take place, Pate needed a plan.

“I sat down with the *Survival Guide*,” Pate recalls, “and used it to help write a five-year plan and budget. It was actually more of a forecast since the only money I had was cash coming in the door that I needed to operate the business on.”

As part of his five-year plan, Pate wanted to draw business from three counties. But he wasn’t sure how to go about doing that. Pate tells, “We did mass mailings to bring in service business. That was only marginally successful. We ran some ads in the local papers and recorded a few radio spots. That helped bring in a few more customers. Then we did a 15-minute infomercial on our local cable channel. This turned our dealership around in a hurry. We sold out of all the products we advertised! We had customers coming in from five counties.”

Pate says that before the infomercial aired, several of his customers had been telling him how much they like to see business owners explaining the products they sell. This gave Pate an idea that might make for a good commercial. But a mere 30-second TV spot wouldn’t be enough time to tell his story. So he opted to put together a 15-minute infomercial.

“I put myself in the infomercial, explaining the many features of the Dixon mower,” Pate says. “Then I demoed the mower for a couple minutes. Finally, I took the camera back in the shop and talked to my two technicians. I asked them, for instance, ‘What are the main things you can tell a consumer to do that will extend the life of his mower?’ The techs answered, ‘Change the oil, along with the oil and fuel filters.’ Customers were breaking down my doors to buy the Briggs & Stratton Protection Plus Kits. Overall, our customer list tripled within 90 days after the infomercial first aired.”

Pate says 2003 is truly The Year of the Dealer in his area. His dealership’s gross sales are up 22%, and his business is still gaining momentum. There’s a lot to manage these days.

Pate says, “I look at my critical financial numbers that Jim Yount discusses, such as operating expenses, labor, etc. I’ve come up with a good financial plan I can live with, and will help me pay my employees through the tough winter months. The plan was rough in the beginning. But as business started in the spring of 2002, sales and service started to grow. By April we had doubled our gross sales of the previous year. By July we had nearly quadrupled them. My employees are happy because we are exceeding our goals. All of us are enjoying the better work atmosphere, and more customers continue coming to our store.”

## Professional from front to back

As his father did before him, Pate rallies his staff around the notion that the service it provides must be second to none. “Service separates us from all other dealers, and of course, the mass merchants,” Pate says. “This is why our business continues to explode. We just

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recorded our fourth infomercial. We explain that 'Service is King' in our dealership. We point out how our technicians are factory-trained. Then, when a customer walks through our doors, our certificates are right there on display. And we guarantee all of our work."

Pate requires all of his technicians to attend the annual update schools offered by his suppliers. "Education is so important today," Pate relates. "Without it, you cannot perform to your required level of professionalism. Our goal is to have myself and all of my technicians qualified as Briggs & Stratton Master Service Technicians in different areas."

As you can see from this statement, education applies as much to Pate as it does to his staff. When he was just taking over the business, Pate attended the formal Briggs & Stratton Field Service School. He says this was a critical step in learning how to analyze an engine, and it also allowed him to perform warranty work for Briggs. Pate then attended the Kohler school for the same reasons. Most recently, he passed the EETC's Four Stroke Certification Test.

Once schooled in the technical aspect of his job, Pate set out to sharpen his management skills. "Christy and I attended the MTD Customer Service School, hosted by distributor Dixie Sales Co., in December 2001," Pate says.

"We also attended the Dealer University at EXPO in July 2002. These events were great for business management, and provided us with the information we needed to grow our business. We plan on attending the Dealer University again this October, and I'm hoping to bring my entire staff along."

Pate points out that his dealership has evolved tremendously, both professionally and technically, since he took over in 1996. Back then, it was Pate and one other full-time technician. A third tech helped out during the busy spells. But the dealership closed down during the winter. That's not the case today.

Pate says, "We have two full-time techs, Christy and myself, and a part-time cleaning lady. We no longer close in the winter since we became a Briggs & Stratton Protection Plus dealer, allowing us to perform winter service on our customers' equipment. Saws and trimmers keep us busy during the winter, too, especially our two-cycle 'Master' Gene Levan.

"Chris Keener is our four-stroke technician," Pate adds. "Both Chris and Gene are part of our ZTR Pro Staff. This is something I'd come up with a couple years ago. We want to be unique. And we want to be profes-

*Employees Chris Keener (pictured) and Gene Levan have been invaluable to Pate and his business.*

sional. We want our customers to know that we've gone through all the hydro gear schools, etc., and know how to fix a zero-turn mower. We're experts. I've had T-shirts made with our ZTR Pro logo that we all wear. It's an important part of our infomercial. I've actually had numerous customers call who ask to speak with a member of our ZTR Pro Staff. It's been very effective."

Pate says he, Chris and Gene are all learning more about commercial mowers and zero-turning equipment. "I think the market is changing in that direction. Our sales show that more consumers are buying zero-turn mowers. We must continue to change with the market and our customers."

## Profitable from front to back

Pate says the blueprint for his dealership is rather simple. "Wholegoods is how we make new customers, parts is how we make money, and service is where I place the most importance because it ties everything together," Pate explains. That's not to say the dealership doesn't make any money on the equipment it sells.

Pate says one of his primary goals is to limit his total dollars on floorplanning, and begin to purchase equipment without any chance of paying interest. It's not easy, especially when you're just getting the business rolling.

"Right now, we have to live with the chance of paying some interest," Pate says. "We just need a plan to move the inventory fast. We discount slow-movers to get them off the floor as soon as possible. However, we do not discount our fast-movers. Keeping profit levels up is the mainstay of the business plan. Profit is the driving force. Without it, you don't even need a business plan."

Pate adds value to the sale to help keep prices where he wants them. He explains, "We offer free pickup and delivery. And we offer a free first service to help make a sale."

Additionally, Pate's blueprint does not suggest that his service department doesn't need to be profitable, either. "The shop must make a profit in order for the dealership to survive," Pate says. "Tracking billable service hours is how we maintain a profit in the service department. We've set up goals that must be met in order for the techs to make good money. The incentive system is simple: make enough money to pay you and me your salary, then we split the rest in half. Sometimes my techs end up making $27.50 an hour if they meet our goals."

Here's an example of how Pate's tech incentive program works.

Tech's salary = $300 a week
$300 ÷ $55 (hourly shop rate) = 5.45 hours
5.45 hours x 2 = 10.9 hours the tech must bill out to reach pay of $300 a week

*Anything over 10.9 hours is then divided in half between the technician and the shop.*

Pate says a program like this really motivates his two technicians to work as quickly and accurately as possible. It's simple: The more equipment they turn around, the more money they make. And the more money the shop makes. Pate points out, "The way this system is set up, half the labor pays the technician. The other half supports the shop; buys tools, keeps the lights on, etc. Our shop pays all its own bills."

Like with most dealers, the parts department represents the biggest profit center for Pate's dealership. His keys to success? Chalk it up to the three Ms: marketing, merchandising and margin. For instance, the parts department, as you can imagine, is a strong component of the "Service is King" infomercial. Parts are equally important when it comes to dealership merchandising.

"We make sure the majority of our parts are visible to customers," Pate says. "We keep all our parts neatly on shelves and on peg board hooks. All parts are organized with re-order tags. This helps a lot when taking inventory. What's missing gets ordered once a week. Some parts are special-ordered on a daily basis,

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and the customer pays shipping. This way we can add our other needed parts to the order and save ourselves shipping."

When Pate's father founded the business, aftermarket parts (Stens) were critical to the business's success. This still holds true today. Pate still carries Stens, along with Rotary, Oregon and Sunbelt. "It's silly for a dealer not to offer aftermarket parts," Pate says. "The margin is typically better, and the warranty is often better, also."

Pate's parts business has really grown in the last couple years. In 2001, he had a total parts inventory of around $120,000. It's pretty much the same today, but it turns quarterly. "The computer tells me sales for each item, and identifies the fast-movers — so that's what we stock," Pate points out. "We still have some slow-moving parts. We are trying to get rid of them by selling to local 'shade tree' mechanics. They still need these older parts to repair the old mowers we no longer have to work on now that we have our own customer base to take care of. Turning away work is not easy. However, I believe that at some point a dealer has to decide what is worth his time ... and what isn't."

**"Without education, you cannot perform to your required level of professionalism."**

As the proud owner of a full-blown dealership, Pate prefers to spend his time selling mowers, looking up parts, training employees and managing the books. Christy handles parts ordering, pricing, personnel records, warranty and other administrative duties.

"Every member of our staff does an incredible job, and performs far ahead of expectations," Pate says. "We have a meeting at the end of each month to discuss profit/loss, and any area that needs attention. This past April we were up 25% on service labor. This is immediate growth any dealer can relate to.

"We are still growing and learning," Pate continues. "We project growth in all areas. My employees are making the biggest difference. They are willing to apply the ideas and plans for our dealership. Together we can do it." YG

## Survival Tactics — In Practice

- Carefully selects suppliers who are dedicated to the servicing dealer
- Requires technicians to attend service schools and become certified
- Actively promotes the service and parts departments as a point of differentiation
- Charges a fair shop labor rate that enables his shop to turn a profit
- Offers unique compensation packages to encourage more shop efficiency
- Develops unique marketing tools that help break through media clutter
- Does not discount fast-moving inventory
- Develops a plan and budget designed to ensure profit and growth
- Budgets for continual business investment
- Attends trade shows and educational workshops to improve as a business owner