

Four Profit Improvement Strategies

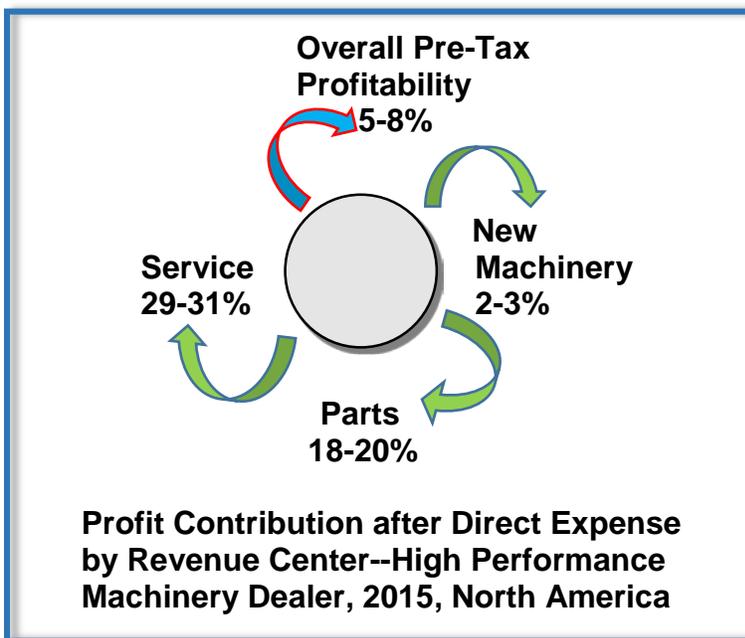
for 2015

By Walter J. McDonald
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In our McDonald Group *Asset and Revenue Center Management Workshop* we work extensively on profit improvement strategies for machinery distributors. As the instructor, I was impressed with the intensity and seriousness of participating managers. Each of the companies who have attended are now working on significant programs to bolster revenue center margins and improve operating cash flow. Here are some of the key ideas discussed and remedial action plans being implemented:

1. Focus First on Service Revenues

For many years, some manufacturers have told us to focus only on equipment sales, then benefit from parts and service revenues that follow. Today, astute dealers give priority focus to service revenues in today's market. Here's why.



By focusing on and building service revenues, you generate a critical mass of highly satisfied customers. These accounts will provide the profitability and cash flow necessary for investments in new machinery market share growth.

Once a service revenue base is established through aggressive sales of full maintenance contracts and effective "fix before fail" machine inspections, you can generate cash to reinvest in lower margin machinery sales efforts.

New machinery sales profit contribution after direct expense does not generate enough revenue to fund the business. Yet, what percent of your management time is devoted to machinery sales vs. your highest margin business, service labor? I suspect service is only a fraction of time and attention you focus on machinery sales issues.

We have all heard the big excuses why building service labor sales can't be done:

"Our service is not competitive."

"It takes too long to develop this business."

"There are not enough service prospects."

"We're not sure our service department could do it."

"We don't know how to sell it."

"Our branch management compensation plan discourages service business development activity."

What successful dealers are doing: Build the Customer Support Sales Representative (CSSR) program through intensive planned maintenance contract sales and incremental parts and service sales. Ultimately you should have one CSSR for every new and used machinery sales rep. You can also sponsor our *Asset and Revenue Center Management Workshop* for your top management team to learn best practices and performance metrics.

"Our focus for 2015 is finding, hiring and keeping good mechanics. We have excellent ones now and need more."

Operations Manager, Dallas

By improving the productivity and efficiency of your service department, you will also be able to utilize your Product Support capabilities to gain competitive advantage in your market area. Key issues include making sure the following criteria are being met:

- 92% off-shelf Parts Fill Rate to the service department on primary lines.**
- 75% Service Recovery Rate of total labor hours sold to total labor hours paid.**
- 3.3 Customer Labor Rate Multiple of average technician wages and benefits.**
- 12-15% of total dealer Dollar Sales Mix in service labor sales.**
- 110-120% Absorption Rate from service, parts, and rentals gross profit.**

Absorption Rate? Absorption rate is critical to sizing your administrative expense to fit your current business.

What are some low-cost high-benefit alternatives?

- Substitute data base marketing lead generation for low sales visibility programs.**
- Substitute high cost, low productivity sales reps with lower cost product support sales personnel focusing on rental, service and parts sales and machinery prospecting.**

"Up until now the tail has been wagging the dog. What can we do with compensation to match performance to company goals? How can we build programs to build service labor sales as a primary objective?"

General Manager, Greensboro, NC

"I'm focusing on growing my business, especially my service department. I want more technicians on the road as quickly as possible."

Dealer President, Houston

"We are really going to work toward a better absorption rate from parts service and rentals."

Dealer Vice President, Delta, Canada

2. Build Iron-Clad Performance Objectives in the New Machinery Sales

You don't want all the business, just the business that is good for you. Begin by monitoring your sales territory deal visibility rate.

- ☑ **70% minimum market unit deal visibility rate.**
- ☑ **Re-boot your lethargic and ineffective sales team through my dynamite *Executive Sales and Sales Management Workshop*.**

If your sales reps are "seeing" only 30-40% of the deals, they do not have enough good prospects. They are also arriving late on the deals which contributes greatly to price pressure. Because they arrive late, they're not fully utilizing diagnostic sales tools: identifying the customer's real issues, learning their organization, understanding how your company can help the customer improve profitability, reduce costs or improve productivity. Price is their only sales tool. A very dangerous position.

Remember: Visibility Rate x Closure Rate = Market Share!

[See our website White Paper on deal visibility, *Photo Shoot on the African Serengeti?*]

Secondly, make sure that your gross profit from new, used and lease/rentals covers total sales department expenses by 115% to 130%. This means your sales department must carry its own weight.

- ☑ **115% coverage of total sales department expenses by new, used and rental/lease machinery gross profit.**

"We are going to focus on improving the sales and profits of our used machinery business. We have some excellent opportunities there."
Dealer Business Manager, Overland Park, KS

"We are going to focus on meeting customer needs through an enhanced account management program by our entire management team."
Dealer Sales Manager, Providence, RI

Providence, RI *"We are going to increase our customer base with customers who will add to our bottom line."*
Dealer General Manager, Plainfield, NJ

Do you understand your customer's profit zones? Where will he allow you to make a profit? What services can you provide that the customer will allow you to profit from? This could include planned maintenance contracts, full maintenance leases, operator training, maintaining service histories, providing creative financing, offering low-hour rent-to-sell units with warranties. Are you compensating your managers and new machinery sales reps to sell your highest margin businesses?

The next step is to utilize data base marketing techniques to drive sales development activities in all revenue centers. You need two full-time employees to make this happen: one administrative person and one on the telephone. Just make sure your telephone contact person has a very pleasant and assertive telephone style. First task is to purge, update and expand customer profiles. (As much as 40% could be incorrect today.) Then identify purchase/rental/service needs and intentions. This team should provide a large number of qualified leads each month to both machinery sales and product sales representatives. This will enable your new and used truck sales reps to focus on relationship selling and closing. Check the number of transactions per year of your top people. You should be working toward these sales objectives:

- 95-100 new and used truck sales transactions per year per rep.**
- 75-80 planned maintenance contracts per year per customer support sales rep.**

3. Build Parts Sales Programs

The most effective parts sales programs are derived from effective machine inspection programs, especially planned maintenance contracts. Your parts business, together with service, rentals and retail used equipment, comprise the *four horsemen* that drive greater dealer profitability. Make sure your parts operations is under control.

Ensure your parts manager has the quiet, dedicated time essential to study and manage his/her stock status reports. Remember, there is nothing you can do to better strengthen full-margin parts sales than to aggressively sell planned maintenance contracts.

"I want to build our parts sales across the board."

Dealer CFO, Grand Prairie, TX

4. Focus on Employee Knowledge and Skills Training

If your employees can't make good decisions, there may be a good reason. What should your minimum employee training investment be in hours for internal and external training? Here is a good rule of thumb:

- 30 hours of formal on-the-job coaching, classroom or self-study training per employee per year.**

"In order to empower our employees to make good decisions, they must be educated."

General Manager, Greensboro, NC

What are your key profit improvement strategies for 2015? Are you focusing on those few critical activities that will have significant impact on your business? Do you know what they are? Remember, *your sales mix contributes most to your success*. If you are still just flogging new machinery sales as the priority way to build the business, you are focusing your efforts on the least profitable part of your operations. Evaluate the profit potential of each revenue center. Is each revenue center contributing its fair share to your bottom line? Here is a guide for today's retail North American market. Where do you most need to improve?

Revenue Center	Gross Margin %	Profit After Direct Expense	% of Overall Dealer Sales
Service	60-63%	30%	12-15%
Parts	28-31%	20%	25-28%
Rentals	30-35%	24%	15-18%
Used Machinery	28-30%	20%	12-15%
New Machinery	10-13%	2-3%	Under 35%

Please give me a call if you would like to discuss any of these topics. We would also be happy to assist you with internal dealer management training. Ask for our comprehensive 2015 *Dealer Training and Development Resources Catalog*. Just give me a call or e-mail me.

Suggested Readings and Resources

- ***The Power of Full Engagement*** by Jim Loehr. *How to manage energy, not time.*
- ***Asset and Revenue Center Management Workshop*** by The McDonald Group, Inc.

Walter McDonald is President of The McDonald Group, Inc., and a long-term construction equipment, heavy duty truck, forestry equipment and material handling industry consultant, market researcher and seminar leader. Since 1975 Walter has conducted over 2,650 workshops and seminars worldwide. His *Asset and Revenue Center Management Programs, Parts and Service Management Workshops, Advanced Selling Skills, Used Machinery Sales Management* and *Executive Sales Management Workshops* have been extremely well received by participants. For additional information, contact Walter 847/340-5518, or e-mail: Walt@McDonaldGroupInc.com.