by Dan Apple
The Apple Group, LLC

Five Thing$ to Boo$t Profit$ Overnight Part Three

As discussed in my article in the last issue of *ID&OI* magazine, Volume 46, Issue 6, page 36, there are five ways to increase your profits nearly overnight. Let's review.

Boost profits overnight? Really? If you have been reading this series of articles what I am suggesting is that you can improve your products expeditiously and it does not have to take years to do. The key is aggressive, managerial action on your part with the daily support of your sales team. Each of these five things I am proposing can help significantly. Some can happen almost overnight while others will take a little time to develop. That leads us right into #3 on my list.

1. Raise Your Prices
2. Reduce Your Cost of Sales
3. **Change Your Product Mix**
4. Increase Sales Quotas
5. Eliminate Crappy Customers

Definition

What do I mean by "product mix"? Basically it's the markets you serve with the products you sell. In the garage door business there are three basic segments, residential product sales, commercial product sales and service. Within each segment there are sub categories like new construction, retrofit and replacement and planned maintenance. Here's an example of a sales product mix.

Segment	Amount	% of Overall Sales
Residential New Construction	$740,000	37%
Residential Retrofit	$180,000	9%
Commercial New Construction	$360,000	18%
Commercial Retrofit	$240,000	12%
Residential Repair	$100,000	5%
Commercial Repair	$300,000	15%
Finished Only	$80,000	4%
TOTAL SALES	**$2,000,000**	**100%**

I like to refer to product mix as a "bucket system". Each segment is a buck in which you deposit sales and ultimately profits. These profits vary based on the type of sales in each "bucket". For instance, the repair sales bucket yields a higher margin than say commercial new construction. Residential retrofit sales profit may be significantly better than new construction but may not yield anywhere near the sales volume. All of the segments or "buckets" are important to your strategic sales plan. However, managing your product mix requires that you constantly try to create a balance among the sales segments. Too many sales at low margins might be good for volume, which makes your suppliers happy but probably impacts your bottom line in a way that you may not like come the end of the year. While you do need volume segments to offset your fixed costs, you also need to make profit intensive segments to create the balance needed for a healthy bottom line.

Measuring your buckets

Managing your product mix starts with knowing where you are right now. How does your mix compare to the above chart? Knowing what's in your buckets and carefully measuring their contents will help you get the mix the way you want it. To do this you must understand what kind of gross profit margin each product segment yields. Let's revisit our example.

Sales Segment	Sales Volume	% of Overall Sales	Gross Margin $	Gross Margin %
Residential New Construction	$740,000	37%	$207,200	28%
Residential Retrofit	$180,000	9%	$72,000	40%
Commercial New Construction	$360,000	18%	$90,000	20%
Commercial Retrofit	$240,000	12%	$84,000	35%
Residential Repair	$100,000	5%	$55,000	55%
Commercial Repair	$300,000	15%	$180,000	60%
Finished Only	$80,000	4%	$32,000	40%
TOTAL SALES	**$2,000,000**	**100%**	**$720,000**	**36%**

Not bad, right? Could it be better? Sure. To improve the overall gross margin we simply need to transfer sales from the less profitable to the more lucrative "buckets". Of course this requires a concerted effort on your part to do this. In

Continued on page 42

our example did you notice that even with 1/3 less volume in commercial retrofit the profit is close to the same as commercial new construction? Think that's something? Check out commercial repair versus new construction! In essence you can control your profit by controlling your product mix. Let's see what happens when we reduce the amount of residential new construction sales and substitute more residential retrofit and repair sales. While we're at it, let's replace some of the commercial new construction sales with more commercial repair work. Watch what happens to the overall gross margin.

Sales Segment	Sales Volume	% of Overall Sales	Gross Margin $	Gross Margin %
Residential New Construction	$600,000	30%	$168,000	28%
Residential Retrofit	$230,000	12%	$92,000	40%
Commercial New Construction	$280,000	14%	$56,000	20%
Commercial Retrofit	$270,000	14%	$94,500	35%
Residential Repair	$190,000	10%	$104,500	55%
Commercial Repair	$350,000	18%	$210,000	60%
Finished Only	$80,000	4%	$32,000	40%
TOTAL SALES	**$2,000,000**	**100%**	**$757,000**	**38%**

As you can see, by moving some sales into more profitable segments like retrofit and repair, the impact on the gross margin is pretty dramatic. In this example it increased the gross margin to 38% or $36,800.

That's the good news. The better news is that most of this money drops straight to your bottom line! Now how cool is that?

Plotting your course, steering your ship

The process of reconfiguring your product mix takes work and patience. It starts when you establish your sales goals for the year. As the captain of your ship it is up to you to figure out where you want your organization headed and then plot a course on how to get there. If you are too heavy into new construction consider ways to attack the retail market by selling replacement doors and openers and doing more service work. While this will probably require more promotion and advertising, the critical thing needed is your focus and determination to implement this change. Once you are locked in, your next challenge is providing the necessary leadership to get your team onboard by showing them how improving the bottom line is in their best interest. Make that happen and most of your battle is won.

Sell the good stuff first

One of the easiest ways to change your sales mix is by developing a mindset to "sell the good stuff first." For years this was understood in the sales groups that I managed. They understood that selling the higher quality product at higher margins was beneficial to all sides of the transaction. The customer got a better product, the company made more profit and they earned a higher commission. Everybody wins! Since it takes basically the same time to sell a better quality sandwich door as it does a builder grade pan door, why not pitch the better product first? I had a salesman that had an excellent closing ratio but in terms of profit margin and commission he rarely met his quota. After analyzing his sales in detail it was determined that he mostly sold lower

end products because he did not believe that his customers would be willing to buy the more expensive garage doors and openers. While his approach helped him close more sales, his assumption about customer purchasing habits limited the quality of his sales. Once he made the connection that selling up was a win-win-win, his value as a garage door sale person increased exponentially (and so did his salary).

More than garage doors?

If you have read other articles that I have written for this publication you already know that I subscribe to the strategy of selling more products to the same customers. These include entry and storm doors, retractable awnings, hollow metal and storefront doors, pet doors, loading dock equipment, parking systems or whatever highly profitable products you can bring to the marketplace and enhance your core garage door products. All of these I have mentioned require similar technical and selling skills. By offering packages instead of a single product you can easily pump up your margin while providing a valuable service to your existing customers. Everybody likes one stop shopping. Here's an example of how bundling products can dramatically increase sales and profits.

Quote #1 – Replacement double car pan type garage door and basic opener.

Sales Price	$1,500	
Material and Freight (Garage Door and GDO)	750	
Labor	225	
Tax	45	
Total Cost of Sales	1,020	
Gross Profit	$480	32%

Quote #2 – Same as #1 but also with new front entry door.

Sales Price	$3,500	
Material and Freight (Garage Door, GDO and Entry Door)	1,500	
Labor	425	
Tax	90	
Total Cost of Sales	2,015	
Gross Profit	$1,485	42%

Many dealers that I talk to like the idea of diversifying their product offering but they are reluctant to add new products for a number of reasons ranging from lack of

Continued on page 44

 (continued from page 42)

product knowledge to technical skills. But the main reason is fear of the unknown. While it is reasonable to be cautious when adding new products, caution should never trump your entrepreneurial spirit when it comes to expanding your company's horizons and improving your bottom line, especially when you can offer more services to the same customers.

A garage door dealer client of ours experienced first hand the power of product mix management. Some was by design but most was out of responding to the recession. Over a five year period they not only rebounded from a significant blow to their sales volume in new construction business, they also dramatically improved their bottom line in the process. They added new products such as replacement entry and storm doors, solar shading products and commercial pedestrian doors. They also renewed their interest in the retail market by refocusing efforts previously expended on builder work. For the first time they actually advertised their repair services which helped them develop an annual planned maintenance program for the thousands of garage doors they had installed over the years. As you will see from the table below, their plan worked in spades and what appeared to be a bleak five year outlook turned into a very healthy bottom line.

This table shows how they managed their product mix after the huge downturn in new construction sales.

% of sales 2008	Segment	% of Sales 2013
37%	Residential New Construction	14%
18%	Commercial New Construction	3%
9%	Residential Retrofit	24%
12%	Commercial Retrofit	14%
0%	Other Products	6%
4%	Residential Repair	12%
15%	Commercial Repair	19%
0%	Planned Maintenance	4%
4%	Finished Only	4%

This table shows the impact to their profits over the same period. As you can see their sales in 2013 were actually $500,000 less than 2008 yet they nearly doubled their net profit by effectively managing their sales product mix.

	2008	% Sales	2013	% Sales
Sales	$5,000,000		$4,500,000	
Material + Freight	$2,500,000	50%	$2,000,000	44%
Labor	$750,000	15%	$550,000	12%
Total C.O.S.	$3,250,000	65%	$2,550,000	56%
Gross Profit	$1,750,000	35%	$1,950,000	43%
Overhead	$1,500,000	30%	$1,485,000	33%
Net Profit	**$250,000**	**5%**	**$465,000**	**10%**

Summary

Using sales product mix management as a key tool in the ongoing battle to improve profits should be an integral part of your business plan. Striving to balance your company's "buckets" is the key. This requires careful planning and constant monitoring of your sales performance. Whether it is making changes within your current sales segments or adding new products, as the business owner you have the ability and the responsibility to steer the ship in the direction of improved profits. No, it does not happen overnight normally as our title suggests. However, the process can start today. Through proper planning, implementation and execution you and your team can begin improving your company's product mix which can fill all of your buckets with cash! IDA

Dan Apple is president of The Apple Group LLC, a consulting firm located in Bonita Springs, Florida. His focus is assisting garage door dealers with profitability and marketing. Dan served as president of Apple Door Systems in Richmond, Virginia for 33 years which grew to a statewide dealership with eight locations. He was the first president of the Institute of Door Dealer Education and Accreditation where he was responsible for creating the industry's first national accreditation program in 1998. Dan also served as a director of the Door & Operator Dealers Association and the International Door Association from 1994-1998. For more information, contact him at 804.640.4253 or email: danielapple@me.com or visit the website at www.AppleLLC.net.