

Five Things\$ to Boost Profits\$ Overnight

Part Five



Don't you hate articles that are chopped up into installments? We all just want to zip on through to the end. Well you have arrived. If you have read the other four segments of this five part series, thanks for hanging in there. This is the final installment in this series and I trust by now you have implemented some of my ideas and that your business' profits have increased. Just for review, here's the list.

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

The first four all require planning, patience and persistence but do not take a long time to accomplish. Each one can have a huge impact on your bottom line. They are offensive weapons that you can employ any time you like to zero in on growing the company's bottom line. **Raising your prices** is by far the easiest yet the scariest of the four. You just have to adopt the Nike slogan, "Just Do It". If you've done a good job of building your brand, customers will be willing to pay more for your services. **Reducing your cost of sales** causes less anxiety but will require more work. The key is doing a better job of negotiating lower material costs with your suppliers and paying closer attention to your labor productivity. This can have an overnight impact on the bottom line. By **changing your product mix**, you make a conscious decision to sell more profitable products and services and reduce your company's dependence on less profitable segments. **Increasing sales quotas** simply raises the bar for your organization's sales goals. It gives everyone a higher hurdle to jump over and when done properly rewards both the company and its employees.

So that brings us to the last way I am proposing that you boost profits overnight, **eliminate crappy customers**. I know what you are saying....."that Apple fellow has just lost his mind, telling us to get rid of customers." That's exactly the reaction I received from my staff when I ran door dealerships. While it may sound crazy it is fundamental to every business. It is no different than identifying any other area of the business where the cost just does not justify the effort. Let's examine this more closely.

What is a crappy customer?

A crappy customer put simply is a customer that does not afford a good return on investment when doing business with them. Some of the common characteristics are as follows.

- Expects a lot for a little
- Demanding and controlling
- Slow to pay
- Quick to pay but expects lots of "freebies" in return
- Will not accept recommendations (knows it all)
- Little or no respect for people serving them

These customers are ultra high maintenance and require more of your time and resources to serve. Aside from the monetary impact, they can be abusive to your staff. They do not show respect to the people serving them and often talk down to them or are just plain rude. I'm sure you know the type I'm describing. From a financial perspective, they pride themselves on beating their suppliers down on price. It's almost sport to them. They also have a preconceived notion of what they should pay versus what the goods or services cost. Sound like customers you've dealt with at some point? Let's look at a few examples.

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GC's and Builders

I will be the first to say that dealing with general contractors and homebuilders in general can be a rewarding experience and is a vital customer segment to garage door dealers. But like most things, they are not all the same. Most of the builders and general contractors I have dealt with were good to excellent customers. They were honest, paid well and treated the relationship with total respect. However, over the years we encountered a handful that earned the "crappy customer" label. Here are two examples. I've changed the names to protect the guilty.

ADW, Inc. was a commercial general contractor that we did business with for a few years. The first job or two went fine but then things changed. Even when we were the successful bidder, they would shop our price to the other door guys who had bid the job to see how low they could go. They expected us to do additional work such as framing and electrical wiring even though we had taken exception to those on bid day. When we refused they got the work done and backcharged our contract justifying it by saying it was all part of Section 8. And as you probably assumed, they paid slow, each time telling us that they had not been paid by the project owner. After so much time had passed we contacted the owner only to find out that they had indeed been paid and that they were "playing the float" (investing cash for short term interest gain) with the money. When confronted, we were told that it was none of our business and that they would pay us "when they got around to it." They were also quick to decline change order requests when other trades caused delays or damages to our scope of work. One day one of our sales guys came to me and complained about ADW shopping our price after they had given us a letter of intent. On that same day the credit manager called me about the many broken promises to pay on their account, which was 120 days past due at the time. Finally that same afternoon my service manager called me about another incident where ADW expected us to correct our work damaged by another trade at no charge, dismissing it as "the cost of doing business with us." It was time to have a rat killin as we'd say in the south. The next day, after speaking to my management team, we fired them! I drafted a nice letter to their estimating department and told them to please



remove us from their bidders list. Our salesman that had been responsible for their account for years was very concerned about the loss of business. He asked me how he would replace it. I told him, "with better customers that deserve us."

L&P Builders, Inc. built tract and custom homes and were one of our area's largest builders. We were excited when they chose to do business with us. The first few years were good. We did a much better job than our predecessor and L&P seemed to appreciate it. Then things began to change. They were forever asking for price reductions and expected us to provide free goods for the numerous homes they entered into the local Parade of Homes. Meanwhile there was an ownership change and that's when things really headed south. They always paid us but issued an edict stating that all subs would be paid with Net 60 terms, no exceptions. Times were getting tougher due to a housing slump, so we went along. Then one day they called us in and said that we had to agree to warranty our products for 3 years to coincide with their house warranty to the homeowners. Seemed a bit much but we went along. They launched a TV campaign and expected that all subs would participate. Basically that meant we (the subs) would pay for it. Again, we went along, reluctantly. A few months passed and their project manager called us in for a conference about our contract. Although we were several months away from its term, they had decided to contact our garage door manufacturer to seek a volume rebate. Although their request was declined, they expected us to provide it, stating "we do not care who it comes from" all the while threatening to look elsewhere for a garage door supplier. All of this on top of the fact that their job supers would call us out for installation and not even be close to being ready, causing countless false starts and consequently increased labor cost. Like the example above they too refused to pay for repair work when it was justified. The coup de gras was when their president called me and asked that we design and install garage doors for his new chalet at his river home. Once completed and invoiced they paid 50%. When we inquired

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we were told that the builder was offended that we even sent a bill at all. We stopped going along at that point. They seemed shocked when we resigned but never asked why. Now they are beating up some other poor soul I suppose. The good news is that their sales volume was replaced in a 6 month period by adding three smaller custom builders that purchased better quality products and discounted their bills!

In both of these examples, the pattern was the same. Constant price pressure on already lower margin sales and at the same time expecting premiums and freebies for the high honor and privilege of being their sub. The cost of doing business with these two customers just became too high.



Commercial Businesses, Municipal and Government

As stated previously, the majority of our commercial customers were a pleasure to serve. Most appreciated receiving the top notch service we gave and made us part of their building maintenance team. Our commercial customers included industrial plants, distribution centers, retail businesses, property management firms and many others. It was the cornerstone of our marketing plan and very profitable in most cases. Then of course there's always the exception.

ERC Corp. was a good size industrial plant that needed constant repairs on their 20 year old dock doors. They paid well and provided a steady stream of repair work. Clearly many of the doors needed to be replaced but their plant manager refused. The time and material billing began to grow as did the repairs required. ERC then began to closely question the parts and labor charged on each invoice and wanted us to discount the bill to what they thought was fair. The other issue was their perception of warranty. Basically, in their minds if we touched the door for any reason we owned it. If we replaced cable one month and the next month they had a bearing

fail, they expected it to be covered at no charge. After going through this process a few times we pushed back. The plant manager abruptly interrupted the conversation and stated that their previous overhead door service firm would be glad to do business in this manner. We agreed that he should call them from that point forward.

Ortem Marketing Co. was a retail store service support company that served the mid-Atlantic area. They serviced many national accounts, many of which were located in shopping malls. Our scope of work was repairing coiling doors, grilles and hollow metal doors. This relationship came to an abrupt halt when they would call after hours, expect us to rush out and provide repair assistance to the store and then we may get paid in 90 days. In addition, when repair parts were needed they wanted to provide them, often sending the incorrect ones and refusing to pay for the additional trip charge once the new parts were received. They also expected us to get store stamps, use their work order forms, not charge for travel time and to disregard any request made by store personnel. Yeah, that was easy to do....not! When we advised them that going forward we would require a credit card payment from them at the time of service and that all parts would come from our inventory, they declined to continue using our service on the spot. It was a good day and I was a hero to our service department personnel.

Cheshire County had numerous fire departments, vehicle maintenance facilities, rescue squads and other buildings that were an overhead door dealers dream customer for a service account. Nice folks that were easy to work with, especially when they needed service now. We jumped through hoops for them for several years and it was a win-win relationship. Or so we thought. The contract for door service went out for bids every three years. This particular year came with a few "deviations" to the standard specs. First, they wanted us to provide a copy of our material costs for each invoice and would only agree to pay our actual cost. Second, there would be only one standard labor rate for service performed during or after hours. There would be no overtime rates allowed. Third, they would only pay for time

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on the job, no allowance for travel time. We considered these new changes and asked for a meeting with the purchasing agent. We voiced our concerns about the new specs and the agent politely listened to our position. He then explained that he might be able to bend the rules if tickets to the NCAA final four somehow found their way to his desk before bid day. You guessed it, another rat killin'. We returned our bid with a cover letter stating we were no longer interested. Years later, a new purchasing agent called and asked if we could return to doing business as we had for several years. This was mostly due to the lousy job our successor had done. They've been customers ever since.

In these examples once again the customer is looking to get a lot for a little. They use bully tactics mostly to get what they want. Unfortunately in many cases the dealer on the other end of this transaction feels trapped. He needs the business to keep his trucks rolling and is worried that the volume cannot be easily replaced.



Homeowners

If you have heard me speak at the IDAExpo™ or attended any of my other workshops you know how I feel about the value of retail. Sales to homeowners for repair and replacement garage doors are typically the most profitable sales available to a door dealership and are the best friend to your cash flow. As with the other groups previously mentioned, the overwhelming majority are friendly, easy to deal with and pay on the spot. In most cases they truly appreciate receiving quality service and will become customers (and advocates of your service) for life. However, there are some that sink to the level of "crappy customers". They eat away at your profit, try your patience, are never satisfied and always believe you are trying to take advantage of them. Of them! The unsung heroes are the people on the

phones taking their calls. How they keep from losing their cool was always an attribute I admired greatly. On the other end of the line was often someone that seemed to be mad at the world and was expecting a fight at every turn. Not very happy people to say the least. Nevertheless, we would attempt to solve their problems time after time and subject our personnel to rude and condescending behavior. Here are a couple of examples.



Mr. Davis started out to be the best customer a door dealer could

ask for. He was recently retired, had a boatload of money and was in the process of a whole house remodel. He started with garage doors and bought the best we had to sell, never quibbling for a moment over price. Since we sold other door products, he quickly became interested in replacing all of the entry doors in his home. The sales tickets began adding up to a significant amount. All was well, everyone was happy, or so I thought. One day, Gail, one of our customer service reps, came to my office in tears and told me that Mr. Davis was on line two and wanted to speak to me. I picked up the phone and asked if I could call him straight back to which he replied "no". He proceeded to yell and scream about the pending installation of his latest entry door and being postponed due to the driving rain storm we were having that day. As I tried to calm him down and explain our position he cut me off and said "you work for me and have to do what I say, so get someone over here now and install my door today." I told him I'd have to call him back. At that point I asked Gail about Mr. Davis as a customer. She unloaded on me. She explained that the sales person, the installers and everyone else Mr. Davis interacted with hated dealing with him. He was nasty on the phone and often made crude, suggestive comments to the female staff members. On site during installations he would stop or delay the techs from completing their work so he could tell stories about his career and was often intoxicated during the process. Gail stated that everyone put up with him since he was purchasing all of these high end doors. He was basically terrorizing our staff and justifying it by thinking his purchases trumped civility. He was wrong. After checking with our dispatcher I discovered that the door to be installed was still in our warehouse. So I called him back as promised

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and said I had discussed this with my staff and it was our position that we did not believe we could service his account any longer. I explained that we would be returning to his home that day but with a certified check for the amount of his deposit on the door we would not be installing (or any other for that matter). Mr. Davis laughed and again requested that his door be installed today and that I worked for him. I politely told him that as long as the name on our building matched mine, he was not my employer. At that point he hung up. We delivered the check that day along with a letter terminating his account. He signed a release and we never heard from him again. Our staff, especially the female members, were very happy about his dismissal.

Mrs. Goins had called us for service on a Sunday morning and was frantic about her car being trapped by the “garage door that you sold us recently.” So our dispatcher sent the on call tech. She had a broken torsion spring on a large double car door. Since we had installed the door we knew which springs to bring and repaired the door on the spot. While checking our records we noticed that the door and opener had been installed by us 8 years prior. The customer had declined our solicitation for annual maintenance each year but there were several warranty call back service tickets in the file. One was responding to her accidentally activating the vacation switch. Another was a bumped and misaligned photo-eye. Then there was a questionable call back where the door had obviously been locked manually and the opener was activated which caused slight damage to the top section of the door. All problems were taken care of under warranty even though the last one was more than three years after the installation in the interest of customer relations.

An hour later the repair was complete and the customer was briefed. When the tech presented the bill for \$220 Mrs. Goins refused to pay. She told our tech that the work should be covered under warranty. When we contacted her the next day and reminded her that the door was long past the warranty period she then said that the spring should have lasted longer than 8 years and that we were just trying to take advantage of



her. After much discussion she decided that she would pay “a reasonable amount” and sent us a check for half of the invoice amount. Once received, the staff made me aware of this situation so I called her myself. Mrs. Goins was pretty nasty about the fact that I had even called and vehemently restated her position. It was clear that I would be unable to reason with her. So when she said “you’ll take half or nothing” I decided to take nothing. After the phone call ended I sent her a letter, along with her check, and told her that going forward I felt it best that she contact another company to provide her with garage door service support. Mrs. Goins behaved like a terrorist and to use a line from President Reagan, “you cannot negotiate with terrorists.”

The Cost

In all of these examples the overriding impact on the dealership is cost. The primary cost being time, including additional field labor cost, more office staff time, wasted sales efforts and the extra time needed to manage situations created by this type of customer. But the hidden cost and most impactful is the opportunity cost you incur by dealing with a crappy customer. While they are sucking away at your time, what could you be doing that would add rather than take away from your bottom line? The most obvious answer is spending this time with customers that value your service and are willing to pay a fair price for it. They are honest and straight forward, communicate with your staff in a friendly and respectful manner and just want their problem solved. You know, like the other 95% of the customers you already serve!

Just to distill this down into hard numbers, let’s look the dollars and cents of dealing with crappy customers. In our last example, replacing a spring after hours should have yielded a significant margin but instead turned into a financial disaster.

Invoice price for service at OT rates	\$220	
Cost of sales (1 hour labor plus material)	- 75	
Gross margin	\$145	66%
Additional labor cost for non-warranty call backs 3 hrs @ \$30 = \$90		
Additional staff time needed for phone calls, research and documentation 2 hrs @ \$20 = \$40		
Customer arbitrary discount taken	\$110	
Total additional cost	-240	
Net Loss		(\$95)

If you add in the opportunity cost the loss is much greater. Let’s say your average sales per labor hour for residential service is \$125. The opportunity cost is what revenue you

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could be generating instead of wasting time on a customer like Mrs. Goins. So in this example you could have generated \$500 (4 hours @ \$125) in sales. If your average margin on residential repair work is 60%, you could have made \$300 in gross profit during the same timeframe. Instead, when you add this amount as opportunity cost, your net loss in this example balloons to (\$395). The big shocker happens when you apply this logic to all of the above examples. Needless to say grinding it out year after year with customers like these is a losing proposition and erodes your bottom line and the spirit of your employees.



Ripping Off the Band-Aid

So you've put up with a crappy customer for a long time and have now decided you've had enough. You swear the next time you're going to walk away. But you don't. Instead you continue trying to give good service like you always have only to find yourself in yet another frustrating situation. You keep hoping things will improve but they never do. I would propose that once you have exhausted your ability to cultivate a good working relationship with the customer, and feel that is no longer in the company's best interest to continue, you should consciously decide to end it. Just rip off the band-aid. Yes, it may hurt for a short time but your company will be better off for it. It is true that you may have to work a little harder to replace the sales volume in some cases. However the benefit to your bottom line, productivity and morale of your staff is immediate. Even if you do not replace the sales right away, at least you are not losing more and more on the same crappy customer. While this act tugs at your emotions, I would submit that it's more about safeguarding your profitability than how it makes you feel personally. Spend your time focused on customers that help your company provide jobs and keep your company financially healthy. Let Mrs. Goins be someone else's problem.



Conclusion

This series of articles was intended to help you focus on five ways that you can boost your bottom line quickly. I would not recommend using just one or two of these. I would suggest that you need to use all of them in order to realize the full benefit to your bottom line. While raising your prices is a quantum leap forward it will not be effective without monitoring and controlling your costs. Changing your product mix can add more highly profitable sales to your revenue but you need to make sure enough sales are being made by constantly monitoring and often raising sales quotas. All of these efforts can easily be undone if they are directed at crappy customers that impact your staff and bottom line like a bottom dwelling monster. Direct your sales efforts to customers that deserve your service rather than those that undermine it.

Owning and operating a door dealership is challenging every day. Your first responsibility as its owner is to your company's profitability. The financial statement is your "report card". It's a snapshot of your performance as its manager. If your most recent report card shows that your company's profits are not making the grade you expect, the time to act is now. You have the ship's wheel in your hand, it's up to you to steer it towards a more prosperous future.



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