



ARA OF FLORIDA

# How to Achieve A 20% Operating Profit in the Rental Business

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# Agenda

- Importance of profitability
- Ten practices of highly profitable rental companies
- Step by Step illustrations of how to construct a 20% profit business plan
- Dozens of examples of how to increase revenues and reduce expenses



# Profit

- Definition?
- Literally, Yes
  - Profit: revenue less all expenses
- “What’s Left Over”



# Profit

- Too Important to be “What’s Left Over”
- Responsible for
  - Not just owner reward
  - Raises
  - Promotions
  - Training opportunities
  - Growing the business
  - Owner’s equity



# Profit Analogy

- It's like Breathing
- Not the Reason to Exist, but...
- ...try Living Very Long Without It



# Profit

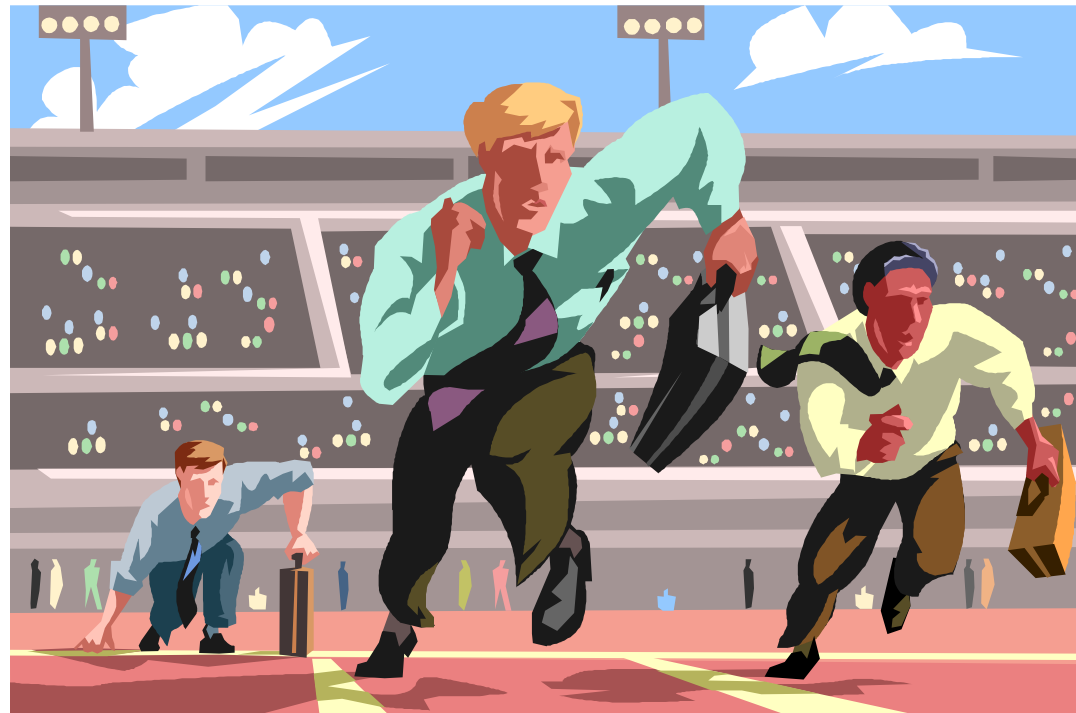
- Need to turn things around
- Treat profit as a given
- Let expenses be “What’s Left Over”



# Ten Steps to Creating a High Profit Business Plan

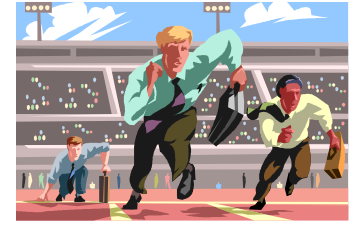


# I. Assessing the Competitive Marketplace





# Leadership Principles



- Superior Products/Services
- Fair Premium Prices
- Tell Folks



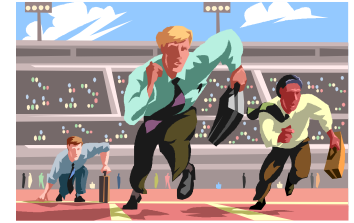
# What Do the Number 2 & 3 Players Do?



Forced to Compete on  
Price!



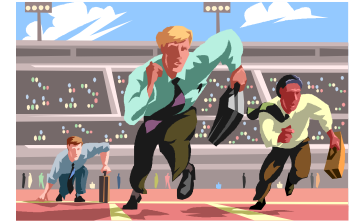
# How do we Stack Up?



- Location
- Facilities
- Rental inventory
- Sales items
- Pricing
- Marketing



# Assessing the Competition: Best Sources



- Websites
- Yellow Pages
- Advertising
- On site visits
- Secret shoppers
- Current customers
- Competitive customers



## II. Create and Motivate A Great Team





## What Employees Want



- Equity--Salary/bonus, just treatment (respect & trust)
- Achievement –Pride in getting something done plus recognition
- Camaraderie– With other employees



# Recognize Employer's Responsibilities



- Superior pay for superior performance
- Opportunity to increase employability
- NOT guaranteed employment



# Establish A Bonus System



- At Alert: “Profit/Bonus Pool”
- Everyone participates proportionate to contribution



## Other Recognition



- On-going, special recognition for great ideas and contributions
- Promotions and training opportunities for outstanding performers



# Make Expectations Clear



- Company mission/vision
- Company values/attitudes
- Model the behavior you expect



# Guess Who?

- **Respect:** We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment.
- **Integrity:** We work with customers and prospects openly, honestly, and sincerely.
- **Communication:** We have an obligation to communicate. Here we take the time to talk with one another ... and to listen.
- **Excellence:** We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.



# ENRON

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# Moral?

- We have to walk our talk.
- Words alone are meaningless.
- We have to mean it.



# What About our Non-performers?





# Let Go Non-performers



- Hard. Requires real courage
- Everyone will mourn
- No one will be surprised
- Energizing impact on whole company
- (Often has positive effect on person let go)



## Engage your People in Developing & Executing Your Plan



- Challenge them to help create new revenue ideas
- Utilize their knowledge of the business -- they know where the bodies are buried
- Review results monthly



### III. Start With the Profit Goal in Mind





# Profitability: A Decision— Not “What’s Left Over”



- Need to decide to make a fair profit
- Let expenses be “what’s left over”
- Minimum goal: top 25% of rental companies



# Start with Goal in Mind. Example: General Tool



General Tool Companies (ARA Data)	Average Company
Revenue	\$1,116,451
Expenses	\$1,076,259
Op. Profit	\$40,192
% Op. Profit	3.6%
Owner Comp.	\$78,152
Tot. Owner Return	\$118,344
% Total Return	10.6%

Source: Cost of Doing Business, 2008-2009;  
General Tool Companies, 30-59%



# Start With the Profit Goal in Mind



General Tool Companies (ARA Data)	Average Company	Top 25% Companies
Revenue	\$1,116,451	\$937,279
Expenses	\$1,076,259	\$806,572
Op. Profit	\$40,192	\$130,707
% Op. Profit	3.6%	12.6%
Owner Comp.	\$78,152	\$140,043
Tot. Owner Return	\$118,344	\$270,750
% Total Return	10.6%	26.1%

Source: Cost of Doing Business, 2008-2009;  
General Tool Companies, 30-59%





# Conclusion: Need to Emulate the Top 25%

	General Tool (30-59%)	Construction (60-89%)	Party/Event (90-100%)
Op. Profit			
All Companies	3.6%		
Top 25%	12.6		
Profit + Owner Comp			
All Companies	10.6		
Top 25%	20.1		



# Need to Emulate the Top 25%

	General Tool (30-59%)	Construction (60-89%)	Party/Event (90-100%)
Op. Profit			
All Companies	3.6%	5.6%	
Top 25%	12.6	20.1	
Profit + Owner Comp			
All Companies	10.6	10.7	
Top 25%	20.1	25.8	



# Need to Emulate the Top 25%

	General Tool (30-59%)	Construction (60-89%)	Party/Event (90-100%)
Op. Profit			
All Companies	3.6%	5.6%	9.3%
Top 25%	12.6	20.1	17.7
Profit + Owner Comp			
All Companies	10.6	10.7	16.7
Top 25%	20.1	25.8	31.0



## IV. Create Growth Plans & Forecast Conservatively





# Goals

- Big Audacious Goal
  - Appropriate for all organizations
  
- Conservative Goal
  - For expense planning purposes
  - 95% Confidence



# Revenue Strategies



- What new programs can we implement to grow the business?



# Revenue Strategies



- Physical facilities
- Pricing
- Inventory
- Maintenance/repair
- Customer service
- Marketing



# Revenue Strategies: Physical Facilities



- Number of locations
- More display space
- More walking space
- Fresh paint/inviting decor



# Revenue Strategies: Pricing



- Increase rental rates
- Increase delivery rates
- Weekend/flex/shift rental rates
- Cycle billing/Smart billing
- Create overtime/weekend repair rates



# Revenue Strategies: Pricing



- Increase damage waiver
- Switch to FTV waiver
- Fuel Surcharge
- Environmental Fees
- Cancellation Fees
- Charge rent until item is repaired, if no damage waiver
- Where appropriate consider including: labor fees, change fees, cleaning, etc.



# Revenue Strategies: Inventory



- Missed rental reports: increase inventory
- Track sub rentals: increase inventory
- Construction opportunity categories
  - e.g., full line of masonry products
- Party opportunity categories
  - e.g., for kids: inflatable's, skee-ball, basketball, air hockey, train ride



# Revenue Strategies: Inventory



- Increase inventory of related and impulse items
- Niche opportunities
- Everything for sale
- Carefully evaluate any equipment where repair is 10%+ of rental \$
- Consider auction equipment for replacements



# Revenue Strategies: Inventory



- Purchase from closing competitors (incl. phone number)
- Add drink/snack machines
- Register with National Equipment Registry
  - ARA members get first 1,000 items free
- Add training classes on equipment operation and household projects



# Revenue Strategies: Maintenance & Repair



- Ready to rent program
- Preventive maintenance
- GPS Systems
- Customer repair service
  - Service what you sell



# Revenue Strategies: Customer Service



- Where do we stand?
  - Customer surveys
  - Calls to key customers
  - Calls to former customers
- How do we improve?
  - Employee training and coaching
  - Motivators



# Revenue Strategies: Marketing



- Three priorities:
  - Your Website (Critical!)
  - Direct Marketing
    - Current customer needs
    - Potential customer needs
  - Yellow Pages (much less so)



# Revenue Strategies: Websites/Online



- Search for your own site
- Hire an expert
- Hosting issues
- SEO (Search Engine Optimization)
- Social Media



# Revenue Strategies: Websites



- Add material regularly
- Include pricing
- Online requests for reservations
- Customer Portal
- Blog, articles, videos, user forums
- Pay per click



# Example: 2011 Plan Assumptions



- Additional inventory
- New category of inventory
- Additional related items
- Additional impulse items
- Expanded, improved show room
- New marketing initiatives
- Showroom improvements



# Example: 2011, Additional Factors



- Global Insights Category Growth: 2.7-5.0%
- Others:
  - Competitive Factors
  - Roads/Bridges
  - Etc.



# Conservative Forecast:



	This Year	Next Year
Revenue	\$1,116,451	??
Expenses	\$1,076,259	
Op. Profit	\$40,192	
% Op. Profit	3.6%	



# Conservative Forecast



- What's a Good, Conservative Forecast?
- Let's say: 6%



# Conservative Forecast:



	This Year	Next Year
Revenue	\$1,116,451	\$1,183,438
Expenses	\$1,076,259	
Op. Profit	\$40,192	
% Op. Profit	3.6%	



What's the Next Step?



# Profit Decision:



	This Year	Next Year
Revenue	\$1,116,451	\$1,183,438
Expenses	\$1,076,259	
Op. Profit	\$40,192	\$149,113
% Op. Profit	3.6%	12.6



# Expenses Are “What’s Left Over”



	This Year	Next Year
Revenue	\$1,116,451	\$1,183,438
Expenses	\$1,076,259	\$1,034,325
Op. Profit	\$40,192	\$149,113
% Op. Profit	3.6%	12.6



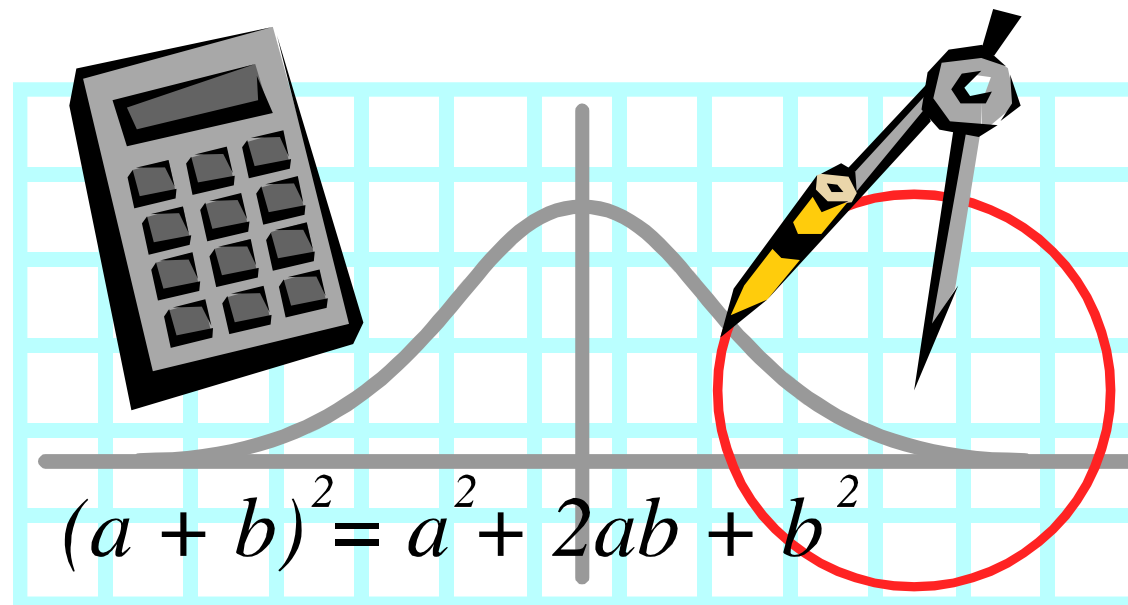
# Remaining Requirements



- Reduce expenses by \$41,934
- Without jeopardizing \$66,987 revenue increase

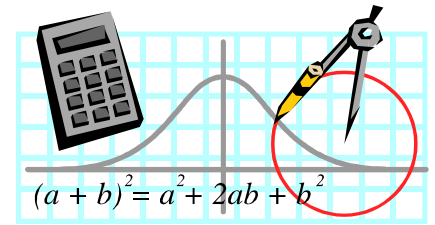


# V. Using A Success Formula





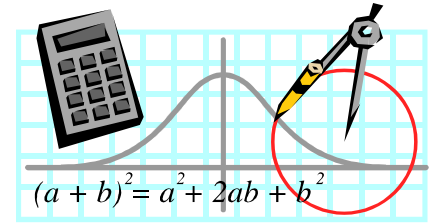
# Using A Success Formula



- Possible Sources:
  - Trade associations
  - Peer group
  - Other
- Modified by Personal Experience



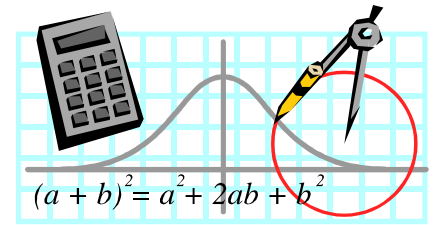
# Best Source: ARA's Cost of Doing Business Survey



- Complete data by type of rental company
- Includes data on “mix”
- All companies average vs. top 25%
- Highly detailed by revenue & expense types
- FREE! When you participate in the CODB Survey!



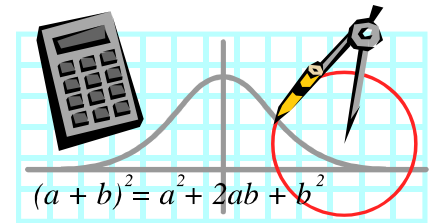
# Using A Success Formula



- Rearrange company data to easily compare with ARA categorization
- Compare your results to Top 25%
- Find ways to emulate success of Top 25% (% of revenue in each category)



# Using A Success Formula: General Tool

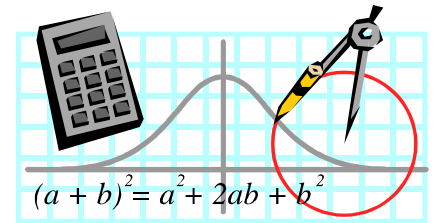


	This Year (Avg. Company)		Next Year (Top 25% Company)		Difference
	\$ (000)	% Rev	\$ (000)	% Rev	\$(000)
Revenue	1,116,451	100.0			
Direct	422,018	37.8			
Gross Profit	694,433	62.2			
Owner Comp	78,152	7.0			
Other People	337,168	30.2			
Other Expenses	238,920	21.4			
Total Op. Exp	654,240	58.6			
Pretax Profit	40,192	3.6			
Owner Comp + Profit	118,344	10.6			

Rearrange company data to easily compare with ARA categorization, e.g., General Tool (30.59%)



# Using A Success Formula: General Tool



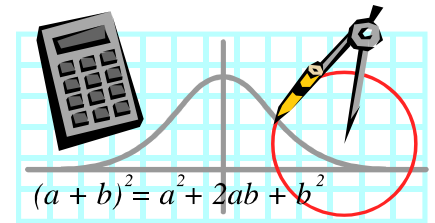
	This Year (Avg. Company)		Next Year (Top 25% Company)		Difference
	\$ (000)	% Rev	\$ (000)	% Rev	\$(000)
Revenue	1,116,451	100.0		100.0	
Direct	422,018	37.8		34.9	
Gross Profit	694,433	62.2		65.1	
Owner Comp	78,152	7.0		13.5	
Other People	337,168	30.2		23.2	
Other Expenses	238,920	21.4		15.8	
Total Op. Exp	654,240	58.6		52.5	
Pretax Profit	40,192	3.6		12.6	
Owner Comp + Profit	118,344	10.6		26.10	

Rearrange company data to easily compare with ARA categorization, e.g., General Tool (30.59%)





# Using A Success Formula: General Tool

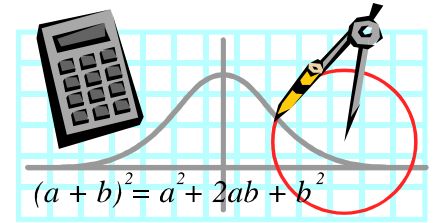


	This Year (Avg. Company)		Next Year (Top 25% Company)		Difference
	\$ (000)	% Rev	\$ (000)	% Rev	
Revenue	1,116,451	100.0	1,183,438	100.0	
Direct	422,018	37.8	413,020	34.9	
Gross Profit	694,433	62.2	770,418	65.1	
Owner Comp	78,152	7.0	159,764	13.5	
Other People	337,168	30.2	274,558	23.2	
Other Expenses	238,920	21.4	186,983	15.8	
Total Op. Exp	654,240	58.6	621,305	52.5	
Pretax Profit	40,192	3.6	149,113	12.6	
Owner Comp + Profit	118,344	10.6	308,877	26.10	

Rearrange company data to easily compare with ARA categorization, e.g., General Tool (30.59%)



# Using A Success Formula: General Tool



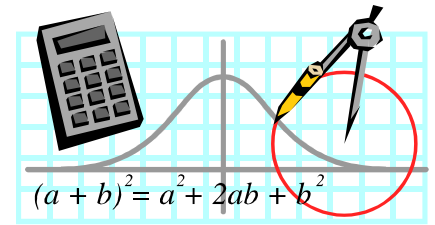
	This Year (Avg. Company)		Next Year (Top 25% Company)		Difference
	\$ (000)	% Rev	\$ (000)	% Rev	\$(000)
Revenue	1,116,451	100.0	1,183,438	100.0	66,987
Direct	422,018	37.8	413,020	34.9	-8998
Gross Profit	694,433	62.2	770,418	65.1	75,985
Owner Comp	78,152	7.0	159,764	13.5	81,612
Other People	337,168	30.2	274,558	23.2	-62,610
Other Expenses	238,920	21.4	186,983	15.8	-51,937
Total Op. Exp	654,240	58.6	621,305	52.5	-32935
Pretax Profit	40,192	3.6	149,113	12.6	108,921
Owner Comp + Profit	118,344	10.6	308,877	26.10	190,533

Rearrange company data to easily compare with ARA categorization, e.g., General Tool (30.59%)





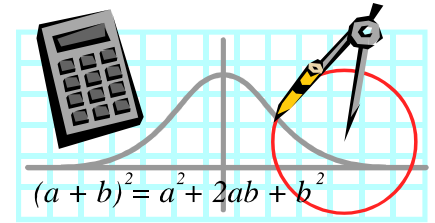
# Using A Success Formula



- Increase Owner Comp: +\$81,612
- Reduce Expenses:
  - Direct: -\$8,998
  - Other people: -\$62,610
  - Other: -\$51,937
- Without jeopardizing \$66,987 revenue increase



# Using A Success Formula



- Easy to say. Harder to do...  
... but definitely doable
- 25% of the Rental Companies are already doing It.
- We can learn to be just as smart



## VI. Look for “Obvious,” Big-Return Expense Cuts





# Look for “Obvious,” Big-Return Expense Cuts



- Expense reduction strategies
  - Direct cost reductions
  - People expense reductions
  - Other expense reductions



# Direct Costs



1. Reduce/Eliminate Sub-Rental
2. Emphasize Sales of Used Rental Equipment
  - Newer fleet, lower maintenance, lower depreciation, higher resale margins



## Direct Costs



3. Improve Merchandise Margins
  - Find lower cost suppliers
  - Discontinue unprofitable items
  - Raise prices on convenience & impulse items



# Payroll Expenses



## People Expenses, According to Hageman, Stansberry

	% of Revenue in Payroll
Construction	20-25%
General Tool	25-30%
Party/Event	40-45%

- Based upon the ARA CODB Report, this would ensure in excess of 20% profitability



# People Expenses



1. Cut Staff to Meet Lowest Level of Annual Demand
2. Use Temporary Labor\* to Fill Seasonal Needs

\* Sources: Teachers, College Freshman, other?



# People Expenses



3. Eliminate Out-dated Processes and Other “Dumb Work”
4. Greater Use of Technology
  - Latest Rental Software
  - Software training



# People Expenses: Greater Use of Technology



## 5. **Ask about latest profitability tools:**

- Business Intelligence Systems
- Operator Systems
- Web Order Processing
- Website Requests for Reservations
- Website Customer portal
- Commission Management system
- Printer Groups
- Batch Printing
- Import/Export
- Collection Letters System
- Recurring Credit Card Billing



# People Expenses: Greater Use of Technology



## 5. Ask about latest profitability tools:

- GPS tracking systems
- Driver's License Scanning
- Integrated Fax and Email
- Integrated Credit/Debit Card Processing
- Signature Capture
- Data Restoration System
- Accounting Interface Systems
- Advanced Purchase Order
- Email Requisition/P.O. Approval
- Etc.



# Other Operating Expenses



1. Run Equipment Earnings Summary Report & Excess Inventory Report
  - Sell underutilized equipment
  - Purchase high utilization equipment
  - Reduce maintenance



# Other Operating Expenses



2. Discontinue Rental/Sales Areas that are Unprofitable
3. Lease or Sublease Unused Parts of your Buildings



# Other Operating Expenses



4. Outsource Payroll and Insurance Coverage Needs
5. More Technology, e.g.
  - Cut Sheet Printing
  - Phone System



Final Step:



Zero Base budgeting for  
every GL Account



## VII. Record Every Expense in Detail (who spent what?)





## VII. Record Expenses in Great Detail



- Lots of Discrete Categories
- Eliminate Miscellaneous Category
  - Add Extra Categories Later, if Absolutely Necessary
- Involve Key People in Monthly Reviews



## VII. Record Expenses in Great Detail



- Two Examples:
  - Household Budget
  - “Job Cost” Category



## VIII. Business Building Initiatives





## VIII. Business Building Initiatives



- A Business that Fails to Grow is Destined to Fail
- What are the new ideas we will test next?
- Test in off season, expand successes



## IX. Be Experimental





## IX. Be Experimental



- Analyze your Customers' Behavior
- Study/copy your Competitors
- Compare Notes with Peers
- Don't be Afraid to take Risks
- Start Small and Test in your Down Season



# X. Monitor & Measure Everything





## X. Monitor & Measure Everything



- The act of measuring alone will improve profitability
- “What gets measured is what gets done.”
- Dump your failures early
- Build on your proven successes



# Summary

- I. Know Your Competition
- II. Create & Motivate a Great Team
- III. Start With Profit Goal in Mind
- IV. Implement Growth Plans & Forecast Revenue Conservatively
- V. Use A Success Formula



# Summary

- VI. Let Expenses be “What’s left Over”
- VII. Record Expenses Visibly and in Great Detail
- VIII. Constantly Test Business Building Initiatives
- IX. Be Experimental
- X. Monitor & Measure Everything



Questions, Discussion, Comments?