



Achieving a 20% Operating Profit in an Increasingly Competitive Marketplace



Tom Ross

- Leo Burnett, 1964-1997
 - EVP, Account Management
- “Retirement”/Consulting, 1997-2003
 - Boating/golf
 - Increasing consulting, including Alert (1999-2003)
- Alert Management Systems, 2004-
 - Chairman, CEO



Agenda

- Importance of Profitability
- Ten Guiding Principles of Highly Profitable Rental Companies
- Step by Step Illustrations of How to Construct 20% Profit Business Plan
- Including lots of Illustrations 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

- 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
- Lets Expenses be “What’s Left Over”





Ten Steps to Creating a High Profit Business Plan



I. Assessing the Competitive Marketplace



I. Assessing the Competitive Marketplace



- Leadership Principles
 - Superior products/services
 - Fair premium price
 - Tell folks

I. Assessing the Competitive Marketplace



- How do we Stack Up?
 - Location
 - Facilities
 - Rental inventory
 - Sales items
 - Pricing
 - Marketing

I. Assessing the Competitive Marketplace



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



II. Assemble and Motivate A Great Team



II. A Great Team



- Hiring
 - Good people are critical, especially in key roles
 - Usual process
 - Review resumes
 - Probe experience/skills
 - Check references
 - Hire the best people we can find

II. A Great Team



- Hiring
 - Our batting averages are not great
 - Seldom as a result of experience/
skills issues
 - Why?

II. A Great Team



- Hiring
 - Behavioral issues!
 - Rude to customers
 - Careless with assets
 - Poor work ethic
 - Unresponsive to suggestion
 - Dishonest
 - Other

II. A Great Team



- Hiring: Behavioral Interviewing
 - Robal Johnson
 - RAJ & Associates
 - Phone: 312-943-0479
 - Email: rajassoc@aol.com
 - Website: rajassoc.com



II. A Great Team



- Hiring: Behavioral Interviewing
 - Don't focus on the resume
 - Start: "Tell me about yourself"
 - Interrupt, ask them to start early in life
 - Then just probe: and then... why... how come... because... tell me more... then what... etc.
 - Use indirect questions
 - Questions that don't give away the answers

II. A Great Team



- Hiring: 12 Behavioral Clues in Interviewing Process
 - Speech Patterns: Direct? Thorough? Precise? Detailed? Other?
 - Self image
 - What a person likes to talk about
 - Admired people
 - “Ruling passion”
 - How treats others

Source: RAJASSOC.COM

II. A Great Team



- Hiring: 12 Behavioral Clues in Interviewing Process
 - Proudest achievements
 - Reading habits
 - Life goals
 - Work area
 - How decisions reached
 - Reactions to setbacks

Source: RAJASSOC.COM

II. A Great Team



- Recognize Employer's Responsibilities
 - Superior pay for superior performance
 - Opportunity to increase employability
 - NOT guaranteed employment

II. A Great Team



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

II. A Great Team



- Provide On-going, Special Recognition for Great Ideas and Contributions
- Provide Promotions and Training Opportunities for Outstanding Performers

II. A Great Team

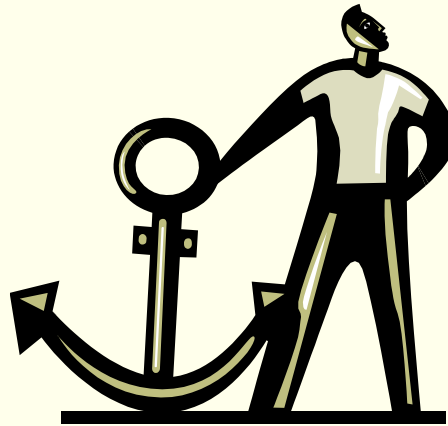


- Make certain everyone knows what you expect of them
 - Company mission/vision
 - Company values/attitudes
 - Model the behavior you expect

II. A Great Team



- What About your Non-performers?



II. A Great Team



- Lay off non-performers
 - Hard. Requires real courage
 - Everyone will mourn
 - No one will be surprised
 - Energizing impact on whole company

(NB: Often has positive effect on person laid off)

II. A Great Team



- Key: Engage Key People in Developing and Executing your Business 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



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

III. Start With the Profit Goal in Mind



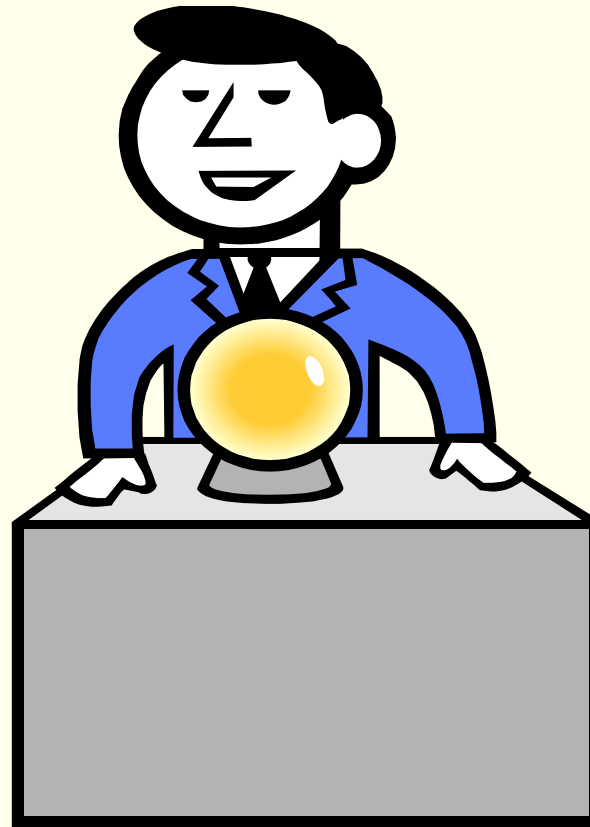
General Tool Companies (ARA Data)	Average Company
Revenue	\$ 957,700
Expenses	904,064
Op. Profit	53,631
% Op. Profit	5.6%

III. Start With the Profit Goal in Mind

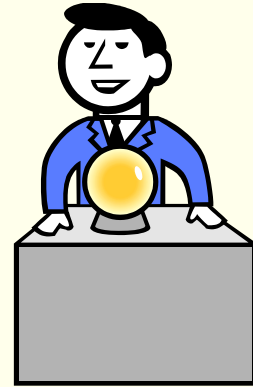


General Tool Companies (ARA Data)	Average Company	Top 25% Company
Revenue	\$ 957,700	\$900,200
Expenses	904,064	755,268
Op. Profit	53,631	144,932
% Op. Profit	5.6%	16.1%

IV. Implement Growth Plans & Forecast Conservatively

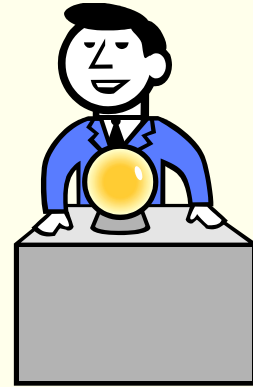


IV. Implement Growth Plans & Forecast Conservatively



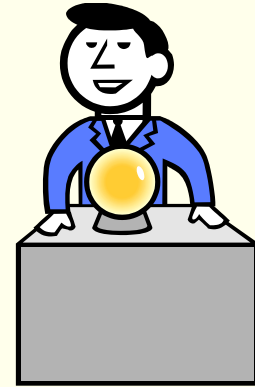
- Revenue Strategies
 - What new programs can we implement to grow the business?

IV. Implement Growth Plans & Forecast Conservatively



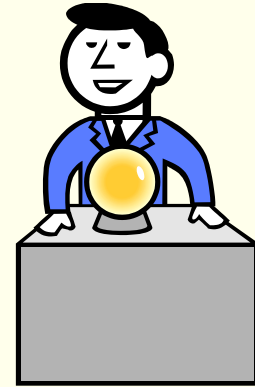
- Revenue Strategies
 - Physical facilities
 - Pricing
 - Inventory
 - Maintenance/repair
 - Customer service
 - Marketing

IV. Implement Growth Plans & Forecast Conservatively



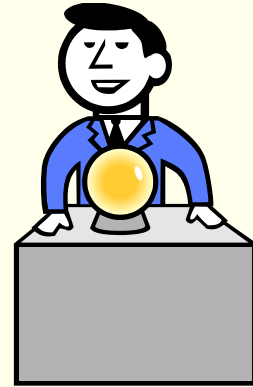
- Revenue Strategies: Physical Facilities
 - Additional location
 - More display space
 - More walking space
 - Fresh paint/inviting decor

IV. Implement Growth Plans & Forecast Conservatively



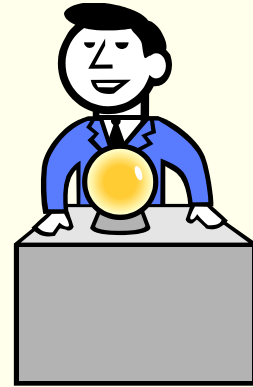
- Revenue Strategies: Pricing
 - Increase rental rates
 - Increase delivery rates
 - Weekend/flex/shift rental rates
 - Create overtime/weekend repair rates
 - Where appropriate consider including: gasoline surcharge, labor, change fees, cleaning, etc.

IV. Implement Growth Plans & Forecast Conservatively



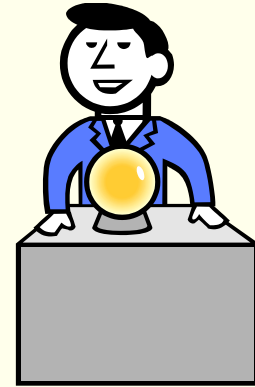
- Revenue Strategies: Pricing (con't)
 - Increase damage waiver
 - Switch to FTV policy

IV. Implement Growth Plans & Forecast Conservatively



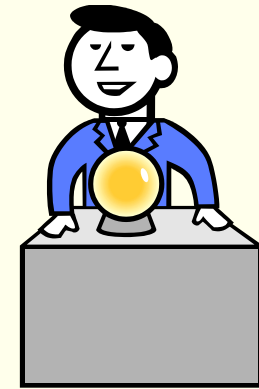
- Revenue Strategies: Inventory
 - Missed rental reports: increase inventory
 - Track sub rentals: increase inventory
 - Opportunity categories
 - e.g., full line of masonry products
 - Niche opportunities
 - Everything for sale
 - Increase inventory of related and impulse items

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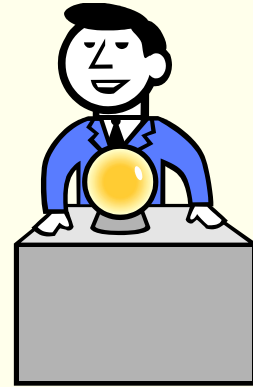
- Revenue Strategies: Maintenance & Repair
 - Ready to rent program
 - Preventive maintenance module
 - GlobalTRACS
 - Alert has new interface
 - Customer repair service
 - Service what you sell

IV. Implement Growth Plans & Forecast Conservatively



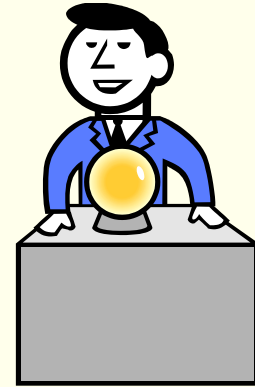
- Revenue Strategies: Customer Service
- Where do we stand?
 - Customer surveys
 - Calls to key customers
 - Calls to former customers
- How do we improve?
 - Employee training and coaching
 - Motivators

IV. Implement Growth Plans & Forecast Conservatively



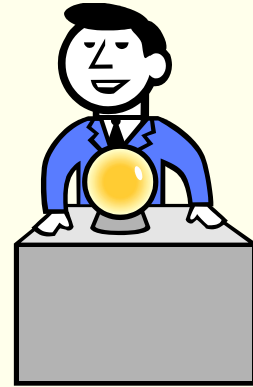
- Revenue Strategies: Marketing
 - Three critical priorities
 - Your Website
 - Yellow Pages
 - Direct Marketing
 - Current customer needs
 - Potential customer needs

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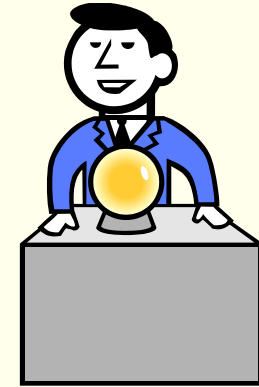
- Revenue Strategies: Marketing
 - A few words on websites
 - Search for your own site
 - Hire an expert
 - Hosting issues
 - SEO

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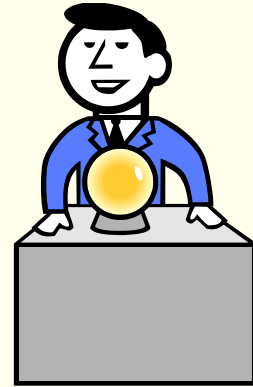
- Revenue Strategies: Marketing
 - A few words on websites
 - Constantly add material
 - Consider pay per click
 - Provide for online reservation requests
 - Consider adding pricing

IV. Implement Growth Plans & Forecast Conservatively



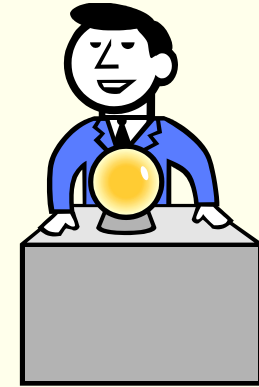
- 2007 Plan Assumptions
 - Additional inventory
 - New category of inventory
 - Additional related items
 - Additional impulse items
 - Expanded, improved show room
 - New marketing initiatives

IV. Implement Growth Plans & Forecast Conservatively



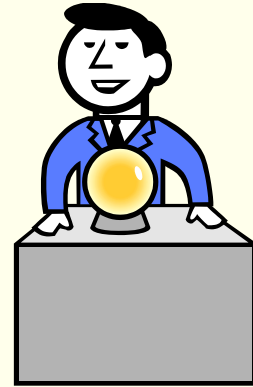
- Other Factors
 - Revenue growth this year: +3%
 - Population growth: +3%
 - New construction: -10%

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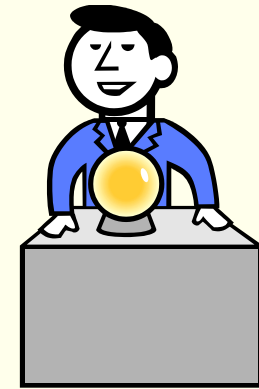
	This Year	Next Year
Revenue	\$ 957,700	??
Expenses	904,064	
Op. Profit	53,631	
% Op. Profit	5.6%	

IV. Implement Growth Plans & Forecast Conservatively



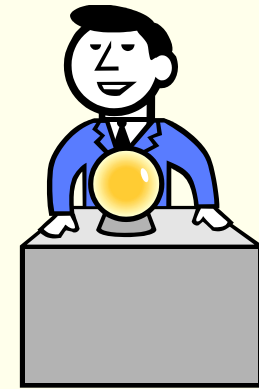
- What's a Good, Conservative Forecast?
- Let's say: 6%

IV. Implement Growth Plans & Forecast Conservatively



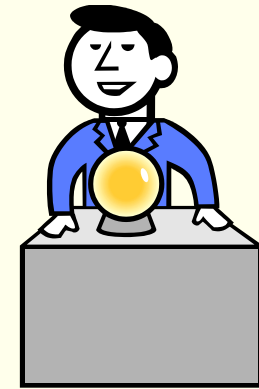
	This Year	Next Year
Revenue	\$ 957,700	\$1,015,157
Expenses	904,064	
Op. Profit	53,631	
% Op. Profit	5.6%	

IV. Implement Growth Plans & Forecast Conservatively



	This Year	Next Year
Revenue	\$ 957,700	\$1,015,157
Expenses	904,064	
Op. Profit	53,631	163,440
% Op. Profit	5.6%	16.1%

IV. Implement Growth Plans & Forecast Conservatively



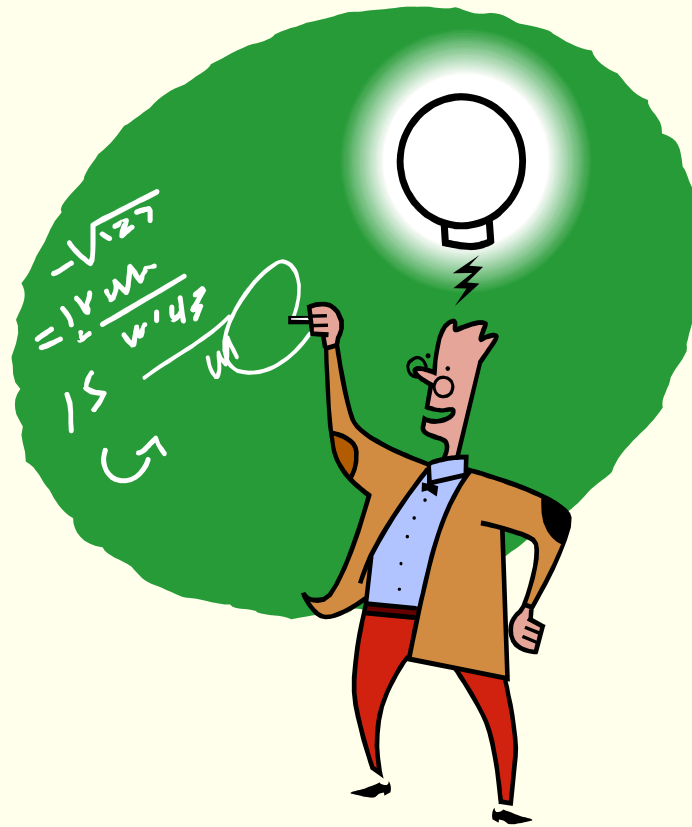
	This Year	Next Year
Revenue	\$ 957,700	\$1,015,157
Expenses	904,064	851,717
Op. Profit	53,631	163,440
% Op. Profit	5.6%	16.1%

IV. Implement Growth Plans & Forecast Conservatively

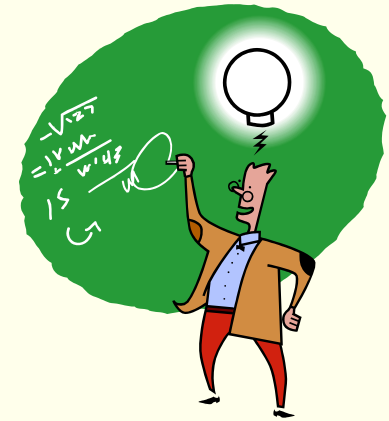


- Remaining Requirements:
 - Reduce expenses by \$52.3k
 - Without jeopardizing \$57.5K revenue increase

V. Using A Success Formula

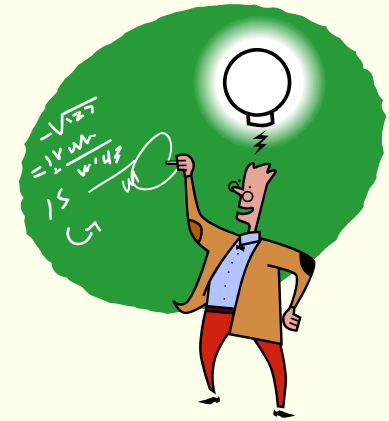


V. Using A Success Formula



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

V. Using A Success Formula

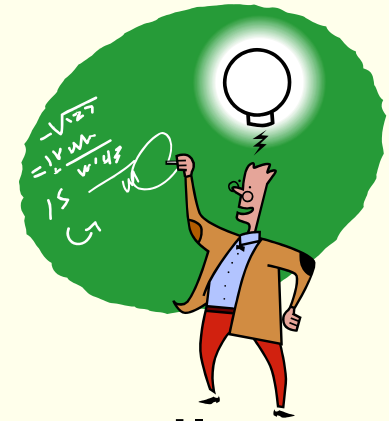


Great Source:

ARA's Cost of Doing Business Survey

- By type of rental company
- Includes data on “mix”
- All companies average vs. top 25%

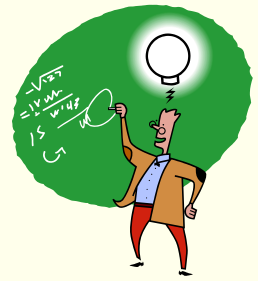
V. Using A Success Formula



- Rearrange Company data to easily Compare with ARA Categorization
- Compare Your Results to Top 25%
- Find Ways to Emulate Success of Top 25%

(Participate in the CODB Survey!)

V. Using A Success Formula: General Tool

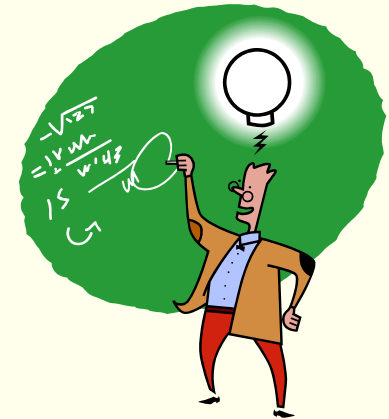


	This Year		Next Year		Difference
	\$ (000)	% Rev	\$ (000)	% Rev	\$(000)
Revenue	957.7	100.0	1,015.2	100.0	+57.5
Direct	329.4	34.4	287.4	28.3	-42.1
Gross Profit	628.2	65.6	728.0	71.7	+99.6
Owner Comp	62.3	6.5	111.7	11.0	+49.4
Other People	269.1	28.1	218.3	21.5	-50.8
Other Expenses	243.3	25.4	234.5	23.1	-8.7
Total Op. Exp	574.6	60.0	564.6	55.6	-10.2
Pretax Profit	53.6	5.6	163.5	16.1	+109.8
Owner Comp + Profit	115.9	12.1	275.2	27.1	+159.2

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

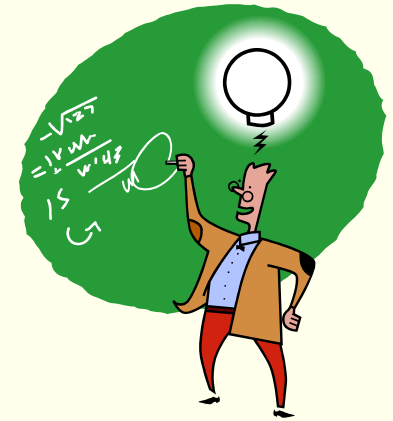


V. Using A Success Formula



- Required Expense Reductions:
 - Direct expenses: -\$42,100
 - Other people expenses: -\$50,800
 - Other expenses: -\$8,700
- Without jeopardizing \$57.5k revenue increase

V. 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



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



Twelve Expense Reduction Strategies



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



Direct Costs

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

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



Direct Costs

3. Improve Merchandise Margins

- Find lower cost suppliers
- Discontinue unprofitable items
- Raise prices on convenience & impulse items

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



People Expenses

4. Cut Staff to Meet Lowest Level of Annual Demand
5. Use Temporary Labor* to Fill Seasonal Needs
 - * Sources: Teachers, College Freshman, other?
6. Eliminate Out-dated Processes and Other “Dumb Work”

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



People Expenses

7. Greater Use of Technology

- Current rental/sales software
- Software training
- Advanced profitability tools, e.g.,
 - Report Writer, VSIFax, IdScan, Work Order, Preventive Maintenance, Heavy Equipment Reports, GL Interface, etc.

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



People Expenses

7. Greater Use of Technology (con't)

- New: GlobalTRACS
- New: Signature Capture/Debit Card

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



Other Operating Expenses

8. Run Equipment Earnings Summary Report & Excess Inventory Report

- Sell underutilized equipment
- Reduce maintenance
(purchase high utilization
equipment)

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



Other Operating Expenses

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

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



Other Operating Expenses

11. Outsource Payroll and Insurance
Coverage Needs

12. More Technology, e.g.

- Cut Sheet Printing
- Phone System

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

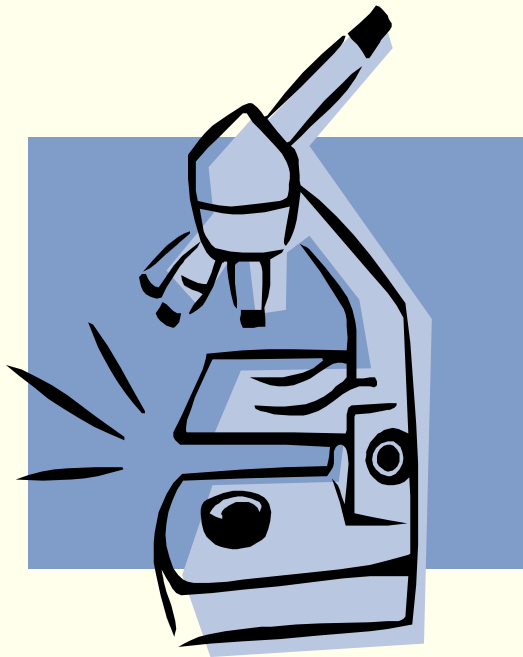


IX. Be Experimental

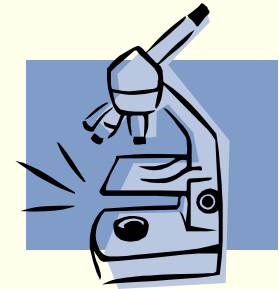


- Analyze your Best Customers' Behavior
- Study/copy your Competitors
- Compare Notes with IAUA Members
- Don't be Afraid to take Risks
- Start Small and Test in your Down Season

X. Monitor & Measure Everything



X. Monitor & Measure Everything



- The Act of Measuring Alone will Improve Profitability
- Dump your Failures Early
- Build on your Proven Successes

Summary

- I. Know Your Competition
- II. Build & 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



Thank You

