# Where's the Cash?

PROSPERITY PLUS MANAGEMENT CONSULTING, INC.

**By Jim Kahrs**

### Take Away Points:

- Service Revenue is the backbone of the company.
- Resolutions to Cash Flow Problems.
- Don't be Afraid to Increase Your Annual Service Contracts

## 4 Steps That Can Help Boost Service Revenue

Almost every dealer I know has faced cash-flow problems at one time or another. It is payroll time and a quick look in the checkbook causes a sudden feeling of panic. "How are we going to pull in the cash we need for payroll in the next three days?"

Sound familiar? If things have gotten this far there are some critical steps that can be added to prevent the situation from recurring.

A few years ago a dealer called me and asked for help solving a severe cash-flow problem. There had been some changes in the dealership and all of a sudden cash flow was a major issue. He was having trouble making sales tax payments, vendor payments and, of course, payroll. The dealer was convinced that the problem was his "lazy" accounts receivable person who just was not doing her job to collect on the accounts that were outstanding. The initial call was for us to come in and help them solve this "A/R problem."

Having seen these issues before I was not as convinced as the dealer that his dealership's problems were in the accounts receivable area. So, the first thing I did was pull their accounts receivable aging reports. The percentage of accounts receivable aged past 60 days was then compared to the BTA Business Model target of 10 percent to find that the dealership was very close to the target. Their receivables older than 60 days were just over 15 percent. Though the number was not at the target it was not so far out of line that it would cause a cash-flow problem this severe.

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I then began asking questions to find out what had changed around the time the cash crunch started. They had recently upgraded their enterprise software and lost a key administrator. Next, I looked at their sales numbers in all areas to see what the trends looked like. One jumped out immediately; service revenue was on a significant downward trend. This was odd since the dealership did not seem to be losing accounts and equipment sales were on an upward trend.

As we dug further into the situation we discovered that during the software conversion one of the dealer's people made some errors in setting up service contracts and 30 percent of the monthly contracts were not even being billed. It was the lack of billing not the lack of collecting that caused the cash-flow problem.

The dealer in this example had the misfortune of experiencing a dramatic loss in service revenue in a very short period of time. However, many dealers are experiencing this same scenario over the period of a few years instead of a few weeks and have not recognized the danger in the situation. This has not been helped by the significant drop we have seen in service contract street prices. Nothing causes cash-flow problems more than erosion in service revenue. Whether it happens overnight, like in the example I cited, or over the course of a few years this is a preventable situation.

Here are some steps to follow.

*Step 1: Assign responsibility for service revenue.*

In most dealerships everyone knows who is responsible for driving equipment sales, whether it is the vice president of sales, sales manager or dealership principal. However, when I ask who is fully responsible and accountable for service revenue I often get blank stares or comments like, "Service revenue just comes in from sales and renewals, we don't need to really drive it." Nothing could be further from the truth. Service revenue is the backbone of the company and must be driven just like equipment revenue.

If you have not assigned full responsibility for this area you should do so as soon as possible. Depending on the size and structure of your dealership you can assign this to the service manager, contracts administrator or dealership principal. Whoever it is assigned to, the point is to hold that person just as accountable for service revenue as you hold the sales team accountable for equipment revenue. Then, measure his (or her) performance and put targets and incentives in place to reward increases in service revenue.

This can be as simple as assigning a service revenue quota to the contracts administrator and then paying a bonus for exceeding the quota. For example, if your current run rate for service revenue is $30,000 per month you could pay a 2 percent bonus for each dollar billed in excess of $30,000. In this case, a month with service revenue of $33,000 would yield a bonus of $60 to the contract administrator and if this growth kept up the administrator would earn an additional $720 for the year while the dealership brings in an additional $36,000 in very profitable service revenue.

This would provide an incentive for the contracts administrator to solicit new contracts from customers who currently pay per call or make sure that he does everything possible to save a contract that is being cancelled. With this plan in place you now have someone who not only tracks the service revenue but shares in the fruits of his efforts.

*Step 2: Compare your performance against industry benchmarks.*

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The purpose for comparing your actual performance against industry benchmarks is to determine the best place to put your time and attention. You look for the areas where your performance is below the model target as these are the areas that you can realize the fastest improvement.

For example, the BTA Business Model states that 35 percent of your total revenue should come from service revenue. If your numbers reveal that 28 percent of your revenue comes from service you need to work out a plan to bring this number up. Of course, you only target plans that increase service revenue. Reducing equipment sales would help meet the percentage goal but would be detrimental to the dealership as a whole.

Another example would be the target for revenue per machine. The BTA Business Model targets $75 to $95 per machine. If your numbers fall below this it can mean that your installed base is made up of mostly small machines or that the percentage of machines under contract is low.

Either way, there are plans that can be implemented to correct the situation. The driving point here is to establish the areas of your dealership that fall short of industry targets and start addressing them.

*Step 3: Implement a plan to drive service revenue.*

There are several different plans that can be put in place to drive service revenue. They all start by simply making a decision to be proactive and truly drive this revenue. One of the most successful plans we have implemented begins with determining exactly which machines in the field are under contract and which are not. From there we create a list of non-contract machines and develop a plan to get as many of them under contract as possible.

Once the list is created you must determine which machines are still in use and which have been removed from the customer location. The list of "still-in-use machines" is reviewed to remove any machines that will not be offered a contract because of the age or condition of the machine. This list is turned over to the sales department as leads for upgrade. The balance of the list is gone through systematically to determine what type of contract will be offered and a plan to sell the contract is executed.

We utilize service, sales and administrative personnel to solicit these contracts one by one. When done properly this program results in new contracts and service revenue being added. It also helps to solidify your relationship with these customers.

*Step 4: Increase your contract prices annually.*

Your cost to service your customers goes up every year. There are increases in office rent, health insurance, fuel prices, part costs and annual salaries just to name a few. In order to keep up with these costs a dealer must increase service contract prices. Dealers who do not increase contracts annually usually tell me hey are afraid of the reaction they will get from customers. They think they will be bombarded with angry phone calls. Having done this with many clients I can tell you that this is not the case. Recently, I worked with the management team that had this concern. I asked them to trust me and we implemented a 7 percent increase on all contracts. Later, during a visit to the dealership, the contracts administrator could not wait to tell me that 45 contracts had been sent out with the new rate, resulting in only one phone call; the customer had questions about the increase, but was far from irate.

If you are not increasing your contracts annually you should and if your increases are less than 5 percent I recommend increasing them to 7-10 percent.

So, where's the cash? Very often it lies in service revenue. If you allow this all-important area of your dealership to run on cruise control you may be faced with a cash crunch in the future. However, if you drive service revenue with the tenacity usually applied only to equipment sales you will safeguard your cash flow and increase your profitability. I have not met a dealer yet who does not want or need more profit from the dealership.

*So where's the cash? Very often it lies in your service revenue.*

Jim Kahrs

## About the Author, About the Company

Jim Kahrs is the Founder and President of Prosperity Plus Management Consulting, Inc.

Prosperity Plus works with companies in the office systems industry building revenue and profitability and improving organization structure using the Hubbard Management System. Jim can be reached at (631) 382-7762 or jkahrs@prosperityplus.com.

Prosperity Plus Management Consulting is dedicated to helping office systems dealers. We provide consulting and seminars designed to improve everything from cash flow and profits to organization and people issues to sales and marketing. Our comprehensive approach to business consulting focuses on teaching the dealer owner to get a better handle on the business.

Dealers get tremendous results from our financial benchmarking programs. We work with you to determine exact financial goals and help you put the plans in place to achieve these goals. The results of our financials programs have been tremendous improvement in cash flow, significantly increased profits and stabilizing business.

Our organization programs have helped dealers get themselves out of the day-to-day grind. One of the common goals here is to have the structure in place that allows the dealer owner to take a two or three week vacation without the business crashing.

To learn more about our products and services, call 631-382-7762, or visit us online at www.prosperityplus.com


P.O. Box 85 Smithtown, NY 11787