



A House Divided?

Business decisions should benefit sales & service

by: Jack Duncan, Jack Duncan Consulting

On a recent call with the BTA Service Management Discussion Group, the conversation evolved into an age-old topic: “We have to service it, no matter what they sold the contract for.”

In my more than 50 years in the industry, I have encountered far too many dealerships where the sales and service teams operate at odds with one another, even though both are critical to the dealerships’ success. When the sales team tends to generate most of the profits at the expense of the aftermarket (service and supplies), those dealerships seem to survive on cash flow. The result: When sales team members have a down month, they may struggle to meet their obligations.

In the most successful dealerships, aftermarket pricing is designed so profits are in an acceptable range to meet benchmark targets while not pricing the company out of the market. When discounts are offered based on a mutual decision by sales and service team members, the model that is most widely used would call for service (aftermarket) to be made whole from the profit of the equipment sale. In this scenario, when sales has a down month (like every year in December, for example), the aftermarket revenue stream keeps everything rolling.

To simplify, sales is expected to make a profit once — when the equipment is sold. Service (or aftermarket) must make a profit somewhere between 36 and 60 times.

I can share a real-world example from my own career in Dallas, Texas, some time ago. I was the vice president of service and another gentleman was vice president of sales. We each had a potential quarterly bonus based on the success of our respective departments. We did not always get along because, in many ways, our goals were not aligned. In a move that firmly convinced both of us that ownership had made a grievous error in judgment, our bonus plans were tied together at the hip. If either one of us failed to meet our target, neither of us received a bonus. It was crazy. But it later became a stroke of genius.

The two of us began to work together after the first quarter was not good (i.e., we failed). We began making decisions on sales gross profit (GP) and service pricing based on what was best for the company — not just for one or the other of us. Sometimes the service margins had to be slim to get the deal, but we were able to shift some of the GP from the equipment over to service



to keep the margins whole. Other times, we decided we should walk away from a deal when there was no money to be made on either side of the house.

We were once offered a chance to bid on the sale of a fax machine for each office in a national chain that you would certainly recognize. The sales revenue was going to be huge. Then we began to look at the fine print so we could really see what the benefit would be after all

the contract obligations were met. Again, we were deciding for the business, not my department or his. The deal called for an extra 50 machines to be warehoused at our repair facility and loaners to be shipped overnight whenever a machine was down. In the end, we walked away from the deal, gave the lead to our manufacturer representatives and wished them luck.

So, what is the meaning of all this? For a dealership to be truly successful, it must not only have sales revenue, but also a solid contracted revenue stream from the aftermarket. When businesses are valued for sale, for example, a higher value is placed on a contracted monthly revenue stream rather than sales revenue. The most successful dealerships will not sacrifice aftermarket revenue and support just to get deals.

So, are you a house divided, or do your sales and service teams work together, making business decisions that benefit your company — and not just the individual departments?

If you decide that this approach makes sense for your business, where do you go to get started on this “joint adventure?” Obviously, goals and incentives must be set so the organization has common objectives that bring everyone together. Next, a pricing strategy must be agreed upon based on target margins working in conjunction with the industry benchmarks. An agreed-upon level of discount can be allowed on either side to avoid having to scrutinize every deal. However, when that agreed-upon level is exceeded, everyone must come together to work out a solution. Representatives from both sides of the house must sign off on discounted deals.

The solution may be as simple as moving some of the GP from the sale of the equipment to aftermarket, and then deferred and recognized monthly so contract profitability can be tracked. This was the suggested way to handle discounts when “The Model” for our industry as taught in BTA’s Pro-Finance workshop was conceived. Other times, there may

simply not be enough margin across both sides of the deal and the smart decision is to walk away. It is tough, but sometimes it is the right thing to do. I would add that sometimes it just makes good business sense to take a deal that is skinny on both sides. I have done that to be able to purchase additional equipment at a price I could not get otherwise.

Any way we look at a deal, both sides of the house should be set up for success, not failure. Sales should be able to make reasonable profit at the time of the sale. However, aftermarket must also be able to make margins somewhere between 36 and 60 times.

This is validated by looking at the ProFinance model where both service and supply GP margin targets are considerably higher than equipment sales. It serves to illustrate that the role of sales should be to set up the recurring revenue stream and keep it profitable.

What we are talking about here is a bit of a culture shift, but it has been proven to build more successful dealerships, as well as foster a much stronger team atmosphere. Both sides

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of the house have a vested interest in the overall success of the business by virtue of common goals. ■

Jack Duncan's career in the office technology industry spans more than 50 years, beginning in 1972 after his return from the Vietnam War.

Beginning as a service technician in Kansas City, Missouri, he rose to service manager and then spent time as a senior regional technical manager for Ricoh. From there, Duncan spent

15 years at a large dealership in Arkansas, where he was responsible for all service,

supply and inventory operations, and moved from director of service to vice president of service. After the Arkansas dealership was purchased, Duncan moved to Dallas, Texas, where he served as a service manager and vice president of service.

In 2004, he started Jack Duncan Consulting (JDC).

He has taught approximately 350 to 400 students during his career and still actively works with

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