



BTA GRAND SLAM

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BTA GRAND SLAM

- ✓ **Introduction**
- ✓ **Best Practices in Modern Dealerships**
- ✓ **Focus on Benchmarking**
- ✓ **Focus on Acquisitions**
- ✓ **Questions and Answers**



INTRODUCTION

- ✓ **In industry since 1993.**
- ✓ **Co-founded Global Imaging Systems**
- ✓ **80 acquisitions +++**
- ✓ **Left Global after Xerox sale, 2007**
- ✓ **Joined SBA (Hanson and Hey) in 2010**



BEST PRACTICES IN A MODERN DEALERSHIP



BEST PRACTICES

- ✓ **Key Factors for Success**
 - Culture of Growth
 - Profitability AND Cash Flow
 - Benchmarking / Reporting
 - Business Planning
 - Leadership Development
 - Acquisitions



BEST PRACTICES

- ✓ **Culture of Growth**
 - Not if, but how much
 - Internal growth comes first
 - Potentially Acquisition growth on top of that
 - Grow or Die!



BEST PRACTICES

✓ 5 Growth Strategies

- Retain your current customers**
- Take business from local competition**
 - Build vs. Acquire**
- Invade adjacent markets**
 - Build vs. Acquire**
- Position company in growth segments**
- Invest in new businesses**



BEST PRACTICES

✓ Profitability AND Cash Flow

- Profit and Cash Flow NOT the same**
- Poor asset management can lead to cash shortages**
- Cash cycles in the business**
 - Short cycle – Cash With Order**
 - Long cycle – Rental**
- Cash Flow Statement part of monthly FS**



BEST PRACTICES

- ✓ **Benchmarking / Reporting**
 - Timely / Meaningful / All aspects
 - All activities measured vs. the model
 - Financial reporting
 - Operational reporting
 - Stack Ranking (techs / reps)
 - Business Planning
 - Compensation



BEST PRACTICES

- ✓ **Business Planning**
 - Mission and Vision
 - Strategic and Tactical
 - Performance tied to compensation
 - NOT just a budget
 - Renewed plan every year with every company and published



BEST PRACTICES

- ✓ **Leadership Development**
 - Careful selection of leaders
 - Entrepreneurial spirit
 - Training at ALL levels
 - Significant investment (not cost)
 - Internal programs, external programs



BEST PRACTICES

- ✓ **Owner/President Development**
 - Independent Dealer Executive Academy (IDEA)
 - Cosponsored and taught by SBA and ProsElite
 - Incorporates Sales, Service, Admin, Finance
 - Designed for executives



BEST PRACTICES

✓ Acquisitions

- Intelligent / Disciplined**
- Leverage management team**
- Efficiencies of scale**
- One less player to compete against**



**FOCUS ON THE
BENCHMARK MODEL**



2010 MODEL FOR SUCCESS

WHY DOES IT WORK?

- We are in a mature industry with highly predictable results.
- Minor updates to the framework account for changes in the industry:
 - Analog to Digital
 - B&W to Color
 - Addition of MPS, IT, Solutions, etc.
- The basics of the business have not changed, even though the emphasis has changed.



2010 MODEL FOR SUCCESS

COMMON MISCONCEPTIONS:

- “We’re on the model” – The vast majority of companies I have reviewed DO NOT have the bucketing set up correctly. In addition, most companies have few reports geared to the model, and usually only certain aspects of it.
- “We use the model” – What do you use it for? Do you make decisions based on your results compared to it? Is your management compensation geared towards it? Do you business plan around it? Is it only used in Service?
- “The model doesn’t apply to my business because...”
 - We’re in the city...
 - We’re very rural...
 - We have a large rental base...
 - We have an IT division...
 - Only applies to big companies...
 - Our market is more competitive...



2010 MODEL FOR SUCCESS

MODELS / BENCHMARKS

Definition: **Benchmark = Minimum Acceptable Performance !**

Based on 90th percentile of best sustainable practice.
You can (and should) aim to Overachieve these !



2010 MODEL FOR SUCCESS

MAJOR COMPONENTS

1. Profitability / Income Statement
2. Productivity / Staffing
3. Service Operations
4. Sales Operations
5. Admin Operations
6. Underlying Mechanics and Assumptions



2010 MODEL FOR SUCCESS

KEY UPDATES in 2010

1. Separate MFP and MPS
2. Fine tune MFP profitability by category
3. Small increase to Administrative expenses
4. Refine Productivity Stats
5. Other IT and Solutions businesses too varied and new to meaningfully benchmark



2010 MODEL FOR SUCCESS

INDUSTRY MODEL – MFP DEALER PROFITABILITY

<u>Sales Mix</u>	<u>Sales Category</u>	<u>Gross Profit %</u>	<u>Sales Exp %</u>	<u>Admin Exp %</u>	<u>Profit (Loss) %</u>	<u>Weighted Profit %</u>
48	EQUIPMENT	35.0	(25.0)	(16.5)	(6.5)	(3.1)
18	SUPPLY	45.0	-	(16.5)	28.5	5.1
32	SERVICE	52.0	-	(16.5)	35.5	11.4
2	RENTAL	50.0	-	(16.5)	33.5	<u>0.7</u>
TOTAL						14.0



2010 MODEL FOR SUCCESS

MFP COMPONENT BENCHMARKS

TOTAL SERVICE COGS % OF SERVICE SALES	48%
SALARIES	25.5%
PARTS	17.0%
TRAVEL	3.5%
TRAINING / OTHER	2.0%
TOTAL SALES EXP % OF <u>EQUIP</u> SALES	25%
MANAGER	5.0%
REP	14.0%
MISC / OTHER	6.0%
TOTAL ADMIN EXP % OF TOTAL SALES	16.5%
COMPENSATION	6.8%
PAYROLL TAXES	2.3%
FACILITIES / OCCUPANCY	2.8%
BENEFITS	2.4%
MISC / OTHER	2.2%



2010 MODEL FOR SUCCESS

MFP PRODUCTIVITY BENCHMARKS

SALES PER EMPLOYEE	<u>Model</u> \$220k
EQUIPMENT SALES PER SALES EMPLOYEE	\$325k
SALES PER ADMIN EMPLOYEE	\$1,000k
SERVICE SALES PER SERVICE EMPLOYEE	\$175k
SALES PER COPIER IN THE FIELD PER MONTH	
SUPPLIES RANGE	\$40 - \$50
SERVICE RANGE	<u>\$70 - \$80</u>
TOTAL	\$110 - \$130



2010 MODEL FOR SUCCESS

INDUSTRY MODEL – MPS DEALER PROFITABILITY (Assumes 3 year Mature Business)

<u>Sales Mix</u>	<u>Sales Category</u>	<u>Gross Profit %</u>	<u>Sales %Exp %</u>	<u>Admin Exp %</u>	<u>Profit (Loss) %</u>	<u>Weighted Profit %</u>
4	EQUIPMENT	17.0	(15.0)	(20.0)	(18.0)	(0.7)
63	SUPPLY	45.0	(15.0)	(20.0)	10.0	6.3
33	SERVICE	69.5	(15.0)	(20.0)	34.5	11.4
0	RENTAL	0.0	(15.0)	(20.0)	42.0	<u>0.0</u>
TOTAL						17.0



2010 MODEL FOR SUCCESS

MPS COMPONENT BENCHMARKS

TOTAL SERVICE COGS % OF SERVICE SALES		38.5%
SALARIES	20.0%	
PARTS	7.5%	
TRAVEL	2.0%	
TRAINING / OTHER	1.0%	
TOTAL SALES EXP % OF <u>TOTAL</u> SALES		15.0%
MANAGER	3.0%	
REP	10.0%	
MISC / OTHER	2.0%	
TOTAL ADMIN EXP % OF TOTAL SALES		20.0%
COMPENSATION	6.8%	
PAYROLL TAXES	2.3%	
FACILITIES / OCCUPANCY	2.8%	
BENEFITS	2.4%	
MISC / OTHER	5.7%	



2010 MODEL FOR SUCCESS

MPS PRODUCTIVITY BENCHMARKS

SALES PER EMPLOYEE **\$250k**

SALES PER SALES EMPLOYEE **\$400k**

SALES PER ADMIN EMPLOYEE **\$1,500k**

SERVICE SALES PER MPS TECH **\$500k**



FOCUS ON ACQUISITIONS



ACQUISITIONS

- ✓ **Strategic Thinking**
- ✓ **Understanding the Value Equation**
- ✓ **Buying Considerations**
- ✓ **Selling Considerations**



ACQUISITIONS

- ✓ **Strategic Thinking**
 - **President's Owner's Job**
 - **Its easy to get lost in the day-to-day**
 - **What do you want to accomplish**
 - **At least 3, no more than 10 years out**
 - **Usually involves growth**
 - **Internal first / Acquisition second**



VALUE DEFINED

- ✓ Webster's – "a fair or proper equivalent in money for something sold or exchanged; fair price or return"
- ✓ The value of a business is subjective and based on many variables, including:
 - Seller's Expectations
 - Buyer's Expectations
 - Market Conditions
 - Timing
- ✓ Focus on Strategic Buyer Scenario



Understanding the Value Equation

Price = (Profit x Multiplier) – Debt + Excess Cash

- ✓ There are several methods to value a business, each appropriate in different situations.
- ✓ This method has been the most common and accepted method in this industry for over 20 years.
- ✓ This model assumes a purchase of 100% of the corporate ownership with the intent to continue operations intact.



Understanding the Value Equation

Price = (**Profit** x Multiplier) – Debt + Excess Cash

- ✓ **Profit** is defined as Earnings Before Interest and Taxes (EBIT) as adjusted for: 1) Non-recurring items; 2) Entrepreneurial Addbacks; 3) Accounting Irregularities.
- ✓ a/k/a Adjusted Operating Profit.
- ✓ Profit is NOT adjusted for Depreciation and Amortization as well (EBITDA), to the extent a Buyer will continue to experience these expenses.



Understanding the Value Equation

Price = (Profit x **Multiplier**) – Debt + Excess Cash

- ✓ The **Multiplier** is a subjective value that is negotiated between the Buyer and Seller based on perceived value and market conditions.



Influencing the Multiple

- ✓ **Don't believe everything you hear..**
 - General range from 2x to 6x Adj OI
 - There are always exceptions
 - Meaningful Prices are NOT relative to Revenue size



The Multiple Leads to ROI

Example: Given multiple of 6x Profit (P), Interest rate of 7% and income tax burden of 40%;

Yr 1 profit = P (assuming no growth)

Yr 1 interest = $6P \times 7\% = .42P$

Yr 1 tax = $.58P \times 40\% = .23P$

Therefore Yr 1 NI = $.35P$ ($P - .42P - .23P$)

ROI = $.35P / 6P = 5.9\%$ (17 yr payback)

ROI increases with pay-down of debt and improvements in operations



Influencing the Multiple

- ✓ **Revenue Size & Market**
- ✓ **Growth, Historic Trend and Future Potential**
- ✓ **Management Team**
- ✓ **Product Assimilation**
- ✓ **Strategic Needs of Buyer**
- ✓ **Potential for Upside in Operations**
- ✓ **Cultural Fit (expectation of continuity)**
- ✓ **Organizational Capability**
- ✓ **Organizational Risks**



Maximize Operating Profits !

Things to Consider

- ✓ **Fairly factor out Entrepreneurial Expenses.**
- ✓ **Consider Accounting Differences.**
- ✓ **Use the Model For Success.**



ACQUISITIONS

✓ Buying Considerations

- Be Careful!**
- Don't buy junk**
- Do your due diligence**
- Have a plan before negotiate**
- Don't bite off more than you can chew**
- Get manufacturer to help \$**
- Get good advice**



Thank You !!

**QUESTIONS
&
ANSWERS**