

Hyster Company Global Dealer Business Model

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This document is a source of reference material that combines dealer and industry information, which has been provided by experts. This document is intended to stimulate and communicate business practices rather than provide a complete Policy and Procedure Manual.

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INTRODUCTION

Hyster Co. has placed emphasis on the need to have performance targets and terminology specifically for the independently owned dealers. These targets and terminology may not always be the same as that used in the Hyster's Wholesale organization, but will form a common global language on Retail performance.

The Vision for this common global understanding is to develop a model with acceptable performance targets for the identified profit centers within a lift truck dealer. The model will be a success when all independently owned dealers consider it the standard by which to compare their performance against. It includes the following areas :

- Identifies the key drivers of successful dealers, to help evaluate focus areas.
- Includes roadmaps to explain how to achieve target performance levels, and exceed them.
- Is global in nature, requiring only adjustments to target levels depending on geographic location.
- Identifies ideal organization structures with recommended hierarchy and staffing levels, and examples of how the recommendations apply.
- Defines and clarifies terminology.

Many of the explanations and definitions contained here will help to clarify the information from and about dealers included in the Retail Chart of Accounts, Management Book and Global Dealer Business System. These ties to other important developments and its applicability in a global sense make feedback extremely important and welcome. In that way the model can become the doctrine that defines how Independently owned dealers are managed for success and compared to each other.

The model started out as a template for a United States dealer. It was expected that the basic template would hold true globally with some changes for global conditions.

Much of the work is referenced from both the *Managing for Success* and *Professional Sales Management Program*. Both are available from the Hyster contact groups. Reading these documents and attending training on the concepts is highly encouraged.

The targets were initially developed from industry benchmarks, in-house information and personal experiences. More refined information has been added as the model is used, and feedback is gathered from both independent dealers and the Retail groups implementing it.

INTRODUCTION

This document is written in longhand style, not presentation, so that it can be a training and resource tool. It comes with a diskette that contains both this Word document and an Excel workbook with spreadsheets referenced throughout to localize or better fit the model to local conditions. Variables in the spreadsheets can be changed to see their impact. For example, suppose that while reading this document, Table 3 in the Service section is of interest and you want to change some of the variables. After opening the spreadsheet, click on the Service worksheet tab to open the Service section. Scroll down the worksheet until you come to Table 3, and then change the variables to see the impact.

Anywhere in the document including the Table of Contents, text in blue font is a hyperlink that allows instant movement to the referenced item anywhere in the document. Use this feature when viewing the material on a personal computer.

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FINANCIAL PERFORMANCE CRITICAL VARIABLES

FINANCIAL PERFORMANCE CRITICAL VARIABLES

A snapshot look at dealer financial performance will include the measures and target economics discussed in this section.

Note: All table information in this section can be modified for local conditions by using the Excel spreadsheets contained on the enclosed diskette.

See the following pages.

FINANCIAL PERFORMANCE

CRITICAL VARIABLES

I. FINANCIAL MODEL PERCENT RELATIONSHIPS

The following model is used to look at an entire dealer and describe the expected dealer results. A steady state business is assumed, not a market share increase driven organization in the first stages of adding coverage, or a buy in period into a newly covered market. Each department's financial standards will be more fully developed and explained in each departmental area to follow.

The overall model assumes a combined gross profit of 27.3%, which delivers 7.3% of total operating profit. All costs have to be structured in line with projected volumes as these percentages drive the dollar model in Financial Table 2. The targets are U.S. oriented; with geographic or country specific targets noted where they are understood.

Financial Table 1

	New & Used Equipment	Rental (R)	Parts (P)	Service (S)	General & Administrative (G&A)
		Note 2	Note 2	Note 2	Note 3
Net Sales	See	100.0%	100.0%	100.0%	R + P + S Sales
Cost of Goods Sold	Note 1	56.0%	70.0%	43.0%	
Departmental Gross Profit (6)	100.0%	44.0%	30.0%	57.0%	
Department Costs:					
Personnel Cost	50.0%	5.0%	10.0%	13.0%	5.0%
Operating Cost (4)	25.0%	7.0%	3.0%	10.0%	3.0%
Occupancy Cost (5)	10.0%	3.0%	2.0%	5.0%	2.0%
Total Costs:	85.0%	15.0%	15.0%	28.0%	10.0%
Departmental Operating Profit (6)	15.0%	29.0%	15.0%	29.0%	-10.0%
G&A Allocation	0.0%	10.0%	10.0%	10.0%	
Total Operating Profit: (6)	15.0%	19.0%	5.0%	19.0%	

FINANCIAL PERFORMANCE

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Note 1: Sales Department costs are expressed as a percent of the gross profit to make a point. The department is expected to pay its own way, and not be a loss leader. The sizing of the department depends upon the amount of gross profit forecast, not sales volume. Total expenses should not exceed 85% of the total gross profit.

Note 2: Rental, Parts and Service costs are expressed as a percent of sales volume.

Note 3: General and Administrative expenses are expressed as a percent of Rental, Parts and Service sales volume. This emphasizes the need to maintain expenses to an amount that can be covered by the profit from these aftermarket areas. Also emphasized is the need for the aftermarket categories to be both profitable enough and substantial enough to cover all expenses. This concept is known as Absorption and will be explained in Financial Section IV.

Note 4: Examples of operating costs attributable directly to departments include:

Office supplies	Meetings
Advertising/Promotion	Training
Telephone Bills	Books/Subscriptions
Travel/Entertainment	Dues
Furniture Depreciation	Computer Equipment in Department
Floor plan Interest	

Note 5: Examples of occupancy costs attributable directly to departments or allocated on a square footage basis of building use include:

Building Rent/Lease Payments	Building Repair and Maintenance
Leasehold/Building Depreciation	Interest on Owned Property
Property Insurance	Interest on Working Capital
Real Estate Taxes	Utilities

Note 6: The terms Departmental Gross Profit, Departmental Operating Profit, and Total Operating Profit are used to distinguish them from true accounting definitions. The treatment of interest in the model above the operating profit line is where the difference lies. The Retail Chart of Accounts allows for capturing the data in either format.

FINANCIAL PERFORMANCE CRITICAL VARIABLES

Internal charges are to be discounted to allow the selling department to breakeven at the Total Operating Profit level in the model. Use the following assumptions:

Parts sold to sales, used or rental — cost plus 25% gross profit (cost/0.75)
Service labor sales to parts, new, used or rental — list less 20%
Rentals for internal use — realistic list less 20%
Equipment transfers internally at cost or book value

II. FINANCIAL MODEL IN DOLLARS

Use the attached diskette to customize this table to a dealer's expected volume to see what the model predicts. The following example spreads the volumes for typical U.S. dealers. It uses all the percentages from the previous example (Table 1) to do the calculations and provide an expected profit by area and total for a dealer performing to the model. General and administrative costs are applied to the total rental, parts and service volumes to determine the allowed amounts by category.

Departmental sales volumes can be changed to reflect other scenarios and the template will predict overall performance, while holding cost assumptions to the above model's standards. Changing the percentage splits will change the departmental dollar volume, but note that the total of percentages by department has to sum to 100 percent.

FINANCIAL PERFORMANCE

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Financial Table 2

Example U.S. Dealer:

\$33,000,000

	New/Used Equipment	Rental	Parts	Service	General & Administrative	Total
	U.S. dealer typical percent split of sales volume:					
	50%	10%	22%	18%	(R + P + S)	100%
Net Sales	\$16,500,000	\$3,300,000	\$ 7,260,000	\$ 5,940,000	\$16,500,000	\$ 33,000,000
Cost of goods sold	\$14,520,000	\$1,848,000	\$ 5,082,000	\$ 2,554,200		\$ 24,004,200
Departmental Gross Profit \$'s	\$ 1,980,000	\$1,452,000	\$ 2,178,000	\$ 3,385,800		\$ 8,995,800
Departmental Gross Profit %	12.0%	44.0%	30.0%	57.0%		27.3%
Departmental Costs:						
Personnel Cost	\$ 990,000	\$ 165,000	\$ 726,000	\$ 772,200	\$ 825,000	\$ 3,478,200
Operating Cost	\$ 495,000	\$ 231,000	\$ 217,800	\$ 594,000	\$ 495,000	\$ 2,032,800
Occupancy Cost	\$ 198,000	\$ 99,000	\$ 145,200	\$ 297,000	\$ 330,000	\$ 1,069,200
Total Costs:	\$ 1,683,000	\$ 495,000	\$ 1,089,000	\$ 1,663,200	\$ 1,650,000	\$ 6,580,200
Departmental Operating Profit	\$ 297,000	\$ 957,000	\$ 1,089,000	\$ 1,722,600		
G&A Allocation		\$ (330,000)	\$ (726,000)	\$ (594,000)	\$ (1,650,000)	
Total Operating Profit:	\$ 297,000	\$ 627,000	\$ 363,000	\$ 1,128,600		\$ 2,415,600
Percent of Sales:	1.8%	19.0%	5.0%	19.0%		7.3%

The percentage of volume by department is only what is typical. With higher total profit available in the aftermarket categories, pursuing aftermarket sales is key to weathering an economic downturn or to cover higher than expected general and administrative costs.

FINANCIAL PERFORMANCE

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III. TARGETS FOR GENERAL & ADMINISTRATIVE COSTS

The financial model is used to size the general and administrative functions for allowed costs. Whether contained within a dealer or part of a shared service concept, G & A includes General Management, Payroll, Accounts Receivable & Payable, Credit, Accounting, Management Information Systems, Human Resources, and other Administrative functions. Personnel, Operating and Occupancy costs associated with these functions are treated as the fifth department in a dealer.

Remember that percentages are applied to total rental, parts and service volumes to arrive at total costs allowed by the categories of personnel, operating, and occupancy expense. The percentages are from Financial Table 1, and applying them to the total dollar volume assumed in Financial Table 2 produces the following amounts.

Financial Table 3

Assumed total dollar volume from Financial Table 2:		\$ 33,000,000
Assumed rental, parts, service sales from above:		\$ 16,500,000
Personnel % Rental, Parts, Service Sales	5%	\$ 825,000
• General Manager and all other Administration Positions	4%	\$ 660,000
• Benefits	1%	\$ 165,000
Operating	3%	\$ 495,000
Occupancy	2%	\$ 330,000
G&A % of Rental/Parts/Service Sales	10%	\$ 1,650,000

FINANCIAL PERFORMANCE CRITICAL VARIABLES

IV. TARGET ABSORPTION RATIO AT 120%

Absorption examines how well the aftermarket categories of Rental, Parts and Service cover total dealer expenses, less sales related compensation and floor plan interest. In an economic downturn, machine sales will usually decline much more than aftermarket sales. Both sales compensation and floor plan interest should decline as sales decline.

Absorption Ratio:
$$\frac{\text{Total Rental, Parts and Service Gross Profit}}{\text{Total Expenses - (Machine Sales Compensation and Floor plan interest)}}$$

Absorption < than 100%	Fixed net loss per transaction. Sales profit has to be used to cover non-sales expenses to break even.
Absorption = 100%	No fixed net profit or loss, or cushion.
Absorption > 100%	Fixed net profit and a cushion for downturn.

Using the example from Financial Table 2, the absorption ratio is 121%, a strong performance.

	<u>Rental GP</u>	+	<u>Parts GP</u>	+	<u>Service GP</u>		
Gross Profit	\$1,452,000	+	\$2,178,000	+	\$3,385,800	=	\$7,015,800
Expenses	\$6,580,200	-	(\$ 594,000	+	\$ 198,000)	=	\$5,788,200
	Total - (<u>Sales Compensation</u> + <u>Floor Plan Interest</u>)						
	<u>Expenses</u>						

= 121%

Sales Compensation = 30% of sales gross profit total of \$1,980,000 = \$594,000

Floor Plan Interest = \$1,980,000 sales gross profit x 10% finance interest = \$198,000

FINANCIAL PERFORMANCE CRITICAL VARIABLES

V. LIQUIDITY RATIO TARGETS

Liquidity ratios compare assets, liabilities and owner's equity or net worth to determine debt repayment ability and how well assets are being used.

- A. Debt to equity ratio target at 3-to-1:

$$\frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

Less than 3:1 indicates potential for added borrowing power.

More than 3:1 could indicate restricted borrowing power.

- B. "Net" debt to equity ratio target at 1-to-1:

$$\frac{\text{Total Liabilities} - (\text{New floor plan} + \text{Rental Financing})}{\text{Shareholders Equity}}$$

- Lift trucks are the largest dealer assets, but we have flexibility disposing of them. Remove lift truck debt to have a clearer picture of liability.
- Less than 1:1 indicates potential for added borrowing power.
More than 1:1 could indicate restricted borrowing power.

- C. Current ratio target is at 1.5-to-1 minimum:

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

- Less than 1.5:1 indicates potential for restricted borrowing power.
More than 3:1 could indicate idle or underutilized assets.

- D. Quick ratio target at 1-to-1:

$$\frac{\text{Current Assets-Inventory}}{\text{Current Liabilities-Floor plan Debt}}$$

- Less than 1:1 indicates potential for restricted borrowing power.
More than 2:1 could indicate idle or underutilized assets.

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VI. ACCOUNTS RECEIVABLE CONTROL TARGETS

Controls on account receivables determine how fast cash is collected and the impact this can have on dealer liquidity.

A. Days sales in receivables targets with 70% in current status:

- U.S.A. - 43 days.

Only customer receivables are included in these measures. For simplicity and consistency days sales are calculated on standard months of 30 days. To calculate days outstanding take the closing customer receivables balance and deduct the last month's customer sales. If this is greater than the balance express as a fraction and multiply by 30 to find the days outstanding. If the last month's sales are less than the closing customer receivables add 30 days and move back through the months until the balance is exhausted. For example:

December 31 Customer Receivables	\$1,000,000	
December Customer Sales	<u>\$ 800,000</u>	<u>30 Days</u>
To apply to prior month	\$ 200,000	
November Customer Sales		
$\$650,000 / 30 \text{ days} = \$21,667 / \text{day}$	$\$200,000 / \$21,667 =$	<u>9 Days</u>
Total Days Outstanding		39 Days

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B. Aging Analysis of Account Receivables:

- More important than knowing the days outstanding is to look at the age of the receivables. Varying age categories and the percentage of receivables greatly impact the probability that the amounts will be collected. As receivables age, there is more risk involved in collecting them. ***It is not acceptable to have receivables age beyond 90 days overdue. Action must be taken.***

	<i>Standard</i>	<i>Example 1</i>	<i>Example 2</i>
Current	70%	70%	50%
0-30 Days Overdue	15%	5%	30%
31-60 Days Overdue	10%	5%	15%
61+ Days Overdue	5%	20%	5%
Total Receivables	100%	100%	100%
Days Outstanding	43 Days	43 Days	60 Days

- The 43 days under the standard column have a much better chance of being collected than the 43 days under ***Example 1***. This is because ***Example 1*** has such a high percent in the 61+ days overdue category.
- ***Example 2*** has a somewhat higher risk than the Standard with less current receivables, but requires a larger investment to fund, due to the 60 days outstanding rather than 43.

FINANCIAL PERFORMANCE

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VII. INVENTORY TURNOVER TARGETS

The following are industry standard turnover ratios for inventories. Days-on-Hand conversions are used here as reference for those more familiar with Days-on-Hand.

Annualized Cost of Sales
Average Inventory

To convert turnover to Days-on-Hand,
divide 365 days by the Turnover.

	TARGETS	
	Turnover	Days-on-Hand
Parts Inventory	5 times per year	73 Days
Allied Inventory	12 times per year	30 Days
Used Truck Inventory	6 times per year	60 Days
New Truck Inventory	6 times per year	60 Days

Lead-time considerations on new equipment will dictate varying levels of equipment in stock and on order. Another 30-60 days of supply may well be in the pipeline, depending upon order rates, seasonality and lead-time. Pipeline reporting is important, as it is expected that dealers will have stock on hand and on order. The amounts should certainly vary according to factory and shipping lead-times. Minimums should be one month on hand and 1-2 months in the pipeline.

FINANCIAL PERFORMANCE CRITICAL VARIABLES

VIII. RETURN ON INVESTMENT GLOSSARY OF TERMS AND TARGETS

Hyster management analyzes and monitors performance through understanding the return on equity in properly capitalized tangible assets, and the return on equity in total assets. The mechanics of the calculations are described below. Return on equity in properly capitalized tangible assets represents the return provided by the working assets deployed in the business without consideration of acquisition related goodwill, if any. Return on equity in total assets measures the performance of the business on the total equity invested in the business, including goodwill. Hyster's goal is to generate a consistent, competitive return on tangible assets and at least a market return on total assets over time.

- Adjusted Annualized Return on Equity (ROE):
$$\frac{\text{Adjusted Net Income}}{\text{Adjusted Stockholder's Equity}}$$

Net Income = Income after tax

Adjusted Net Income = Net income after extraordinary items + Goodwill amortization expense

Extraordinary Items = One time in nature, outside the normal scope of business

Adjusted Stockholder's Equity = Average of stockholder's equity + Accumulated goodwill amortization since time of acquisition.

- Generally Accepted Accounting Principles (GAAP) ROE:
$$\frac{\text{Net Income}}{\text{Stockholder's Equity}}$$

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- ROE in properly capitalized tangible assets:

$$\frac{\text{Adjusted Net Income} + \text{Minority Interest} + \text{Financing Costs After Tax} - \text{Tangible Assets Financing Costs After Tax}}{\text{Equity in Properly Capitalized Tangible Assets}}$$

$$\text{Tangible Assets} = \text{Weighted Average of (Total Assets - Goodwill) - (Total Liabilities - Debt)}$$

$$\text{Equity in Properly Capitalized Tangible Assets:} \quad 50\% \times \text{Tangible Assets for Retail Operations}$$

- Return On Net Tangible Assets (RONTA):

$$\frac{\text{Net Income After Extraordinary Items} + \text{Goodwill Amortization Expense}}{\text{Total Assets} - \text{Non-Debt Liabilities} - \text{Intangibles}}$$

Target of 15%

**SALES DEPARTMENT
CRITICAL VARIABLES**

**SALES DEPARTMENT
CRITICAL VARIABLES**

Note: All table information in this section can be modified for local conditions by using the Excel spreadsheets contained on the enclosed diskette.

See the following pages.

SALES DEPARTMENT CRITICAL VARIABLES

I. NEW, USED, ALLIED SALES DEPARTMENT FINANCIAL MODEL

Net Sales:			
Cost of Goods Sold:			
Gross Profit:		See Note 1	
Expenses as % of Gross Profit:		100%	
• Personnel	50%	←	5.5% Sales Management 29.0% Sales People (Note 2) 5.5% Sales Administration 10.0% Benefits (Note 3)
• Operating	25%	←	10% Floor plan Interest (4) 5% Demo, Policy, etc. 10% Other
• Occupancy	10%		
Total Expenses:		85%	
Departmental Operating Profit:		15%	Of Gross Profit

Note 1: Sales Department costs are expressed as a percent of the gross profit to make a point. The department is expected to pay its own way and not be a loss leader. The sizing of the department then depends upon the amount of gross profit forecast, not sales volumes. Total expenses should not exceed 85% of the total gross profit.

Embarking upon market share growth, buying in to a new market, initial costs of adding substantial sales coverage, or changing over a competitive dealer to the Hyster brand will all make it difficult to impossible in the short term to be profitable in the Sales Department. What is stressed here is that the goal is to be substantial enough at some point to be profitable.

SALES DEPARTMENT CRITICAL VARIABLES

- Note 2: Assumes that the commission plan in use, what ever it is, will provide compensation at this level.
- Note 3: In the U.S. wages include time paid for vacations and holidays. The Retail Chart of Accounts maps the costs appropriately to agree with the Business Model view.
- Note 4: Floor plan interest refers to any program interest tied to a new machine serial number. Included as an Operating cost to recognize that new inventory is expected at a dealer, but the amount and age should be managed.

SALES DEPARTMENT CRITICAL VARIABLES

II. TARGET SALES DEPARTMENT SIZE BASED UPON ESTIMATED GROSS PROFIT

The following model allows costs to be spread by targets for each Sales Department cost element. Changing the assumed gross profit will change the rest of the model.

Sales Table 1

	<u>TARGETS</u>	<u>TARGETS</u>	
Net Sales:			\$16,500,000
Cost of Goods Sold:		88%	\$14,520,000
Gross Profit Dollars:		12%	\$ 1,980,000
Total Gross Profit:		100%	
Expenses as Percent of Gross Profit:			
Personnel Expense		50%	\$ 990,000
• Sales Management	5.5%		\$ 108,900
• Sales People	29.0%		\$ 574,200
• Sales Administration	5.5%		\$ 108,900
• Benefits	10.0%		\$ 198,000
• Total Personnel	50.0%		\$ 990,000
Operating Expense:		25%	\$ 495,000
• Floor plan Interest	10.0%		\$ 198,000
• Demo, Policy	5.0%		\$ 99,000
• Other	10.0%		\$ 198,000
• Total Operating	25.0%		\$ 495,000
Occupancy Expense:		10%	\$ 198,000
Total Expenses:		85%	\$ 1,683,000
Departmental Operating Profit:	% Of G.P.	15%	\$ 297,000
Departmental Operating Profit:	% Of Sales	1.8%	

If operating below this level of performance, areas to concentrate on include: sales mix, market share, productivity, and commission plan. Each of these areas are covered in the following sections.

SALES DEPARTMENT CRITICAL VARIABLES

III. GROSS PROFIT TARGET OF 12% FOR SALES DEPARTMENT

Even though the Sales Department is sized based upon gross profit dollars, there is still a level of performance to target for overall Sales Department gross profit. Sales mix determines the overall gross profit of the Sales Department. The following categories of equipment sales help to show that a mix of products can help sales department profitability.

Sales Mix	Gross Profit Expected	
New Trucks	8-12%	
Other Mobil Equipment	10-15%	
Used Trucks Sold to End users	20-25%	
Used Trucks Sold to Resellers	5-15%	
Rental Truck Disposal	40-60%	When based on book value.
Rental Truck Disposal	20-30%	When based on fair market value.
Allied *	20-25%	<u>See Sales IV.</u>

Allied can be an attractive way to build profitability, but it can also be more time consuming than the sale of lift trucks. Allied specialists are often justified where there is enough expertise in the dealer to be a major factor in distinct areas of allied equipment.

An example is pallet rack, a natural complement to the sale of warehouse lift trucks. This is especially true of Class II order pickers, reach trucks, and very narrow aisle product where the warehouse layout design depends upon the lift truck used. Where a dealer has the expertise to correctly design, apply and install the racking, a significant volume and profit opportunity exists. However, not paying attention to the details can impose a significant liability on the dealer.

Material handling catalog sale items can represent a reasonable volume with higher gross profits than new lift trucks. These sales will be very inefficient if the salesperson has to process the order, contact the vendor, arrange logistics, and so on. The way to maximize efficiency and profit on catalog items is to have the order and logistic processes handled by sales administration.

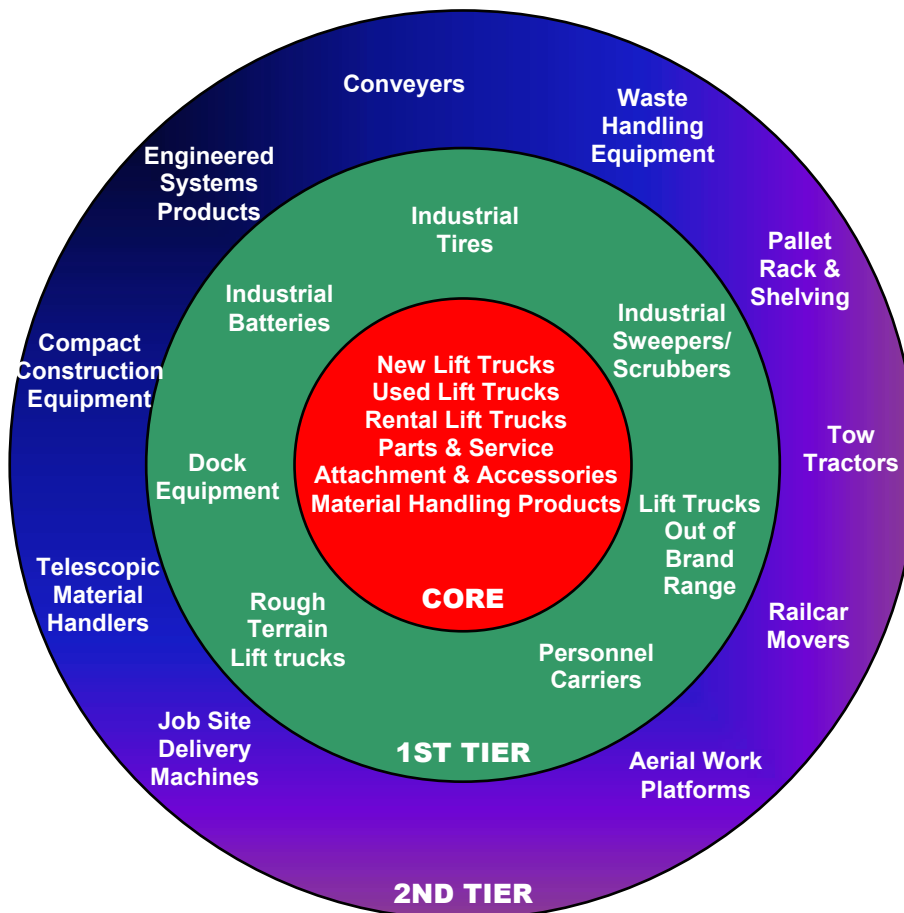
SALES DEPARTMENT CRITICAL VARIABLES

IV. CORE COMPETENCIES AND ALLIED LINES

The Retail Vision Statement highlights the intent that dealers distribute more than lift trucks through their dealership:

“Our vision is to distribute Material Handling Products through large dealerships focused primarily on our brand.”

What are these products? The following grouping by core products, and ones farther from the core, shows lines complimentary to the idea of serving customer needs within a traditional lift truck user group. Priorities of what to add for lines and become proficient with follow the tier placements.



SALES DEPARTMENT

CRITICAL VARIABLES

V. AMERICA'S TARGET FOR MARKET SHARE IS 15% IN ALL FIVE CLASSES

Market share is defined as orders received divided by industry orders; and shipments divided by industry shipments. An alternative way to discuss market share is by comparing the amount of business a dealer or an individual salesperson handles and quotes (participation), to the percent of deals quoted where they are successful (closure). In this terminology the formula for market share can be defined as follows:

$$\begin{array}{rcl} \text{Participation} \times \text{Closure Rate} & = & \text{Market Share} \\ 60\% \text{ Goal} \times 33\% \text{ Goal} & = & 20\% \end{array}$$

The term Awareness is often confused with Participation. Awareness can mean knowing about a deal but not being involved in it. Using Participation will focus attention on the concept of being involved in a deal, and not just knowing about it.

VI. TARGET PARTICIPATION IS 60%

The true test of involvement in a territory is the amount of deals actually quoted on, and not just aware of. Now this is not to say that 100% participation is possible or even desirable.

Why not have 100% participation as the goal? Because the industry consists of segments that are unreachable. Examples include competitive dealer rental fleets, presently untouchable accounts because of agreements with competitors, or buying done outside of the sales area.

Participation is directly effected by:

- Coverage (number of sales people in the territory)
- The number of accounts assigned to each salesperson
- The number of calls made per day
 - Hustle factor (or how hard they work)
 - The complexity of the customer's environment, and potential
- The effort expended on the typical 20-30% of accounts in a territory that represent 70-80% of the opportunity

SALES DEPARTMENT CRITICAL VARIABLES

<i>Example of a Typical Dealer Territory</i>			
Account Classification	Number of Lift Trucks In Fleet	Percent of Industry Truck Population in Category	Percent of Total Accounts In Territory
A Account	26+	40%	10%
B Account	11-25	30%	15%
C Account	4-10	20%	25%
D Account	1-3	10%	50%
		100%	100%

Unless well directed and very disciplined, salespeople tend to migrate to C and D account coverage because of the sheer number of accounts. Management attention and coverage plans should be directed to ensuring A and B accounts coverage by field salespeople, with telemarketing and direct mail coverage of C and D accounts.

$$\text{Summary:} \quad \text{Participation} \quad = \quad \frac{\text{Sold} + \text{Lost}}{\text{Industry}}$$

VII. TARGET CLOSURE RATE IS 33% OR HIGHER

Closure means winning an order that was quoted. New sales people will be lucky to achieve closure rates of 20% or more, while experienced ones may approach 70% or higher. Note that high closure rates can also mean selective decision making on who to quote to, and not much effort spent on accounts with low chance of success or that require a lot of work.

$$\text{Summary:} \quad \text{Closure} \quad = \quad \frac{\text{Sold}}{\text{Sold} + \text{Lost}}$$

SALES DEPARTMENT CRITICAL VARIABLES

VIII. USE PARTICIPATION, CLOSURE, AND MARKET SHARE TO COMPARE SALES PERFORMANCE

Look at all three ratios to fully appreciate how a group of salespeople are performing. With this data, there is much information to help management direct activities and training for higher performance. The following example illustrates the need to look at all three ratios.

	<u>Participation</u>		<u>Closure</u>		<u>Market Share</u>
Salesperson A	30%	X	50%	=	15.00%
Salesperson B	75%	X	20%	=	15.00%

Salesperson A is not in on enough of the business. The questions become how to get Salesperson A in on more business, or how to cover the accounts being missed. This can lead to a reassignment of accounts not being covered if volume and compensation are otherwise acceptable to both management and the salesperson.

Salesperson B is very much in on the business, but struggles with closing the deal. Sales training with an emphasis on closing may well be in order for this salesperson.

IX. TARGETS FOR PRODUCTIVITY

Target is four new and two used units to be sold each month per salesperson. (Do not count manual pallet jacks or manual transpallets for these targets.)

Four new x 12 months = 48, divided by 250 industry recommendation per person, approximately equals the target market share of 20 percent.

Target \$15,000 to \$20,000 gross profit contributions per salesperson per month.

Four new trucks, average sell price \$20,000 each, 10% gross profit = \$ 8,000

Two used trucks, average sell price \$12,500 each, 25% gross profit = \$ 6,250

Minimum contribution from Rentals, Allied & Maintenance contracts = \$ 1,000

Total Gross Profit (without considering other categories): \$15,250

SALES DEPARTMENT CRITICAL VARIABLES

X. SALES COMPENSATION PLAN

This subject is covered extensively and competently in *“Professional Sales Management Program,”* and straight commission plans for sales are shown. As further justification for this type of plan, the following information comes from *Material Handling Equipment Distributors Association (MHEDA)* data for 1996.

- 55.9% of dealers pay straight commission on gross profit. Average total cash compensation was highest for these sales people. Most importantly, the average billing per salesperson was highest in this group, and more than 50% higher than salary plus commission plans.

What this suggests is that the goal should be to aim for straight commission plans and perhaps phase them in gradually, while giving existing employees the option to choose. Compare achievement results to what they would have received under the alternate plan. Having some amount of draw against commission available to even out the peaks and valleys of sales income can increase confidence in a straight commission plan.

The Sales Model calls for 29% of gross profit to be allocated for compensation. Using the Productivity example in Sales VIII, 29% of \$15,250 is \$4,423 monthly or \$53,076 annually. Total gross profit of \$20,000 per month equates to \$69,600 total compensation per year.

When hiring new salespeople, or converting competitive dealers to HYSTER product, extraordinary plans are expected to allow reasonable incomes during transition periods until the person or brand can become established. Too little compensation for the first year to eighteen months will lead to excessive turnover, and in the tight labor markets around the world good prospects are too hard to come by to allow this to happen.

SALES DEPARTMENT CRITICAL VARIABLES

XI. FIX PRODUCTIVITY RESTRAINTS

Productivity problems can stem from inadequate skill sets, account identification and penetration, territory sizing and inventory practices. Each of these areas are explored in the remainder of this section.

A. Skill Sets: Knowledge and use of sales leveraging tools

- Are finance packages available? Do sales people understand them?
- Are long-term rental, lease with maintenance and basic maintenance numbers included with every proposal?
- Are application surveys completed on every proposal?
- Product knowledge – How was it gained? Trained in factory or local schools? Or by hard knocks and personal interpretation?
- Knowledge of effective territory coverage disciplines, and dealer management commitment to these principals?
- An excellent guide to follow is the “*Professional Sales Management Program*,” available from your dealer development contacts.
- The following chart emphasizes the long-term processes of building a winning team of sales professionals.

Salesperson Type	Account Maturity		
	Low	Medium	High
	3	2	1
Senior A	\$ 150	\$ 240	\$ 300
Average B	\$ 120	\$ 150	\$ 240
Junior C	\$ 90	\$ 120	\$ 150

(Gross profit in \$ thousands per year.)

SALES DEPARTMENT

CRITICAL VARIABLES

Account maturity refers to the level of business the salesperson captures at an account. High maturity means getting all or most of the potential business.

Use training and coaching to move a salesperson from C3 to A1. An example is to use the factory offerings of sales schools to expand knowledge. In the first year, attend the basic sales school, and then in years two and three use the advanced and professional sales schools as long as the student is progressing. *"Dimensions of Professional Selling,"* an Hyster offered training program, can be included at any time along the way.

If progress stops below A1, but at a management acceptable level of performance, and the salesperson is at an acceptable comfort level of income and work ethic, start shrinking the territory in order to give more prospects to others. This is the scenario most typical of Salesperson A in Sales VII.

B. Account Identification and Penetration

This subject is covered extensively and competently in *"Professional Sales Management Program."* Time and territory management is included, as well as database marketing, roles of direct mail, telemarketing, and management responsibilities.

C. Territory Sizing

- Target 250-350 HYSTER Type Lift Truck Bookings / Salesperson / Year

The range recognizes differences that come if several dealers are headquartered in the area and therefore have large rental bookings in the area: major accounts that represent large bookings, but are presently inaccessible are in the area; and finally the best reason, a salesperson with extraordinary capability that can handle the higher level.

D. Inventory Dollar Turnover Targets on a Yearly Basis

- New Units 6 turns; or 2 month sales average in stock
- Used Units 6 turns; or 2 month's sales average stocked
- Have no inventory over 12 months old whether new or used

SALES DEPARTMENT CRITICAL VARIABLES

Pipeline management of additional inventory on order assumes one to two additional months' requirements on order.

Set a plan for what should be kept in stock in new inventory using the quote and closure analysis, and historical knowledge. Manage by taking into account lead times, seasonal fluctuations, and visibility of what is in-house and what is in the pipeline.

The only way to manage inventory is to have regular reviews of requirements and then to take action accordingly. Once the stock requirements are decided upon, reorders can become routine and take into account sales rates, freight consolidation opportunities, full container incentives, and other considerations.

Used inventory can be managed similarly, supplemented with used equipment purchased from customers to fill orders, and sourced from the rental fleet. These practices can reduce the absolute amount of used inventory required, while helping place more new equipment in the field.

XII. TARGETS FOR SALES REPRESENTATIVES TO ADMINISTRATION RATIOS

The following pages build target headcount relationships in the Sales Department.

**SALES DEPARTMENT
CRITICAL VARIABLES**

<u>Position</u>	<u>Reporting Relationship</u>	<u>Staffing Ratio</u>	<u>Territory Size</u>
Sales Manager	V.P. of Sales or General Manager		2,500-3,500
Sales Rep	Sales Manager	10:1 Sales Rep: Sales Manager	250-350 trucks Approx. 15% are A & B accounts. Approx. 85 % are C & D accounts.
SALES SUPPORT FUNCTIONS			
Telemarketing Rep (Inside Sales)	Sales Manager (Could have a lead Telemarketer.)	5:1 Sales Rep: Telemarketer	2,500-3,500
Sales Facilitator	Sales Manager	Total market	
New Truck Coordinator	Sales Facilitator	10:1 Sales Rep: N.T. Coordinator	2,500-3,500
Sales Secretary	Sales Facilitator	10:1 Sales Rep: Sales Secretary	2,500-3,500
Allied Coordinator	Sales Facilitator	10:1 Sales Rep: Allied Coordinator	2,500-3,500
Note that this position's function would be absorbed by new truck coordinator until enough Allied volume was generated to justify an Allied Coordinator.			

SALES DEPARTMENT CRITICAL VARIABLES

<u>Primary Responsibilities</u>	<u>Structure Advantages</u>
Plan, review and training of reps. Recruiting. Developing large sales presentations. Direct and review support personnel. Identify opportunity & develop strategy.	Focus on managing and developing. Not deal makers - this is rep's responsibility. Primary emphasis is recruiting and training.
Execute sales calls - A & B accounts. Call on leads from TM reps, all accounts. Territory and itinerary planning. Follow up action from leads. Participate in training & review process.	Focused on top accounts. Allows for most productive use of time. More time for networking at accounts. Directed activity to highest potential accounts or those where action imminent.
Qualifies and generates sales leads. Distribute target mailings to accounts. Qualify leads by calling them. Helps manage sales reps itinerary.	Keeps rep focused on selling. Removes administrative function from sales.
Gatekeeper of communication between sales reps and vendors/manufacturers. Review all quotes and orders from reps. Monitor inventory. Maintain all sales reports.	One point of contact between sales and vendors/manufacturers.
Order entry new and allied products. Communication with manufacturer. Coordinate and document receipt of trucks. Track and manage special pricing.	Keeps sales rep focused on selling. Support sales for routine non-selling tasks.
Develops proposals. Entry, pricing and distribution of quotes.	Keeps sales rep focused on selling. Support sales for routine non-selling tasks.
Develops allied product proposals. Orders allied products. Write quotes.	One person specializing in allied lines. One point of communication. Keeps sales rep focused on selling.

SALES DEPARTMENT CRITICAL VARIABLES

Here are several organization structures based on the above chart to show how the headcount might look with various size groups. Note that telemarketers here are counted as sales for their contribution to coverage.

<u>Sales Positions</u>	<u>Headcount</u>	<u>Headcount</u>	<u>Headcount</u>
Sales Representatives	10	20	30
Telemarketers	<u>2</u>	<u>4</u>	<u>6</u>
Total:	12	24	36
 <u>Administration</u>			
VP Sales	--	--	1
Sales Manager	1	2	3
Facilitator	--	1	1
Sales Coordinator	1	1	2
Sales Secretary	1	2	3
Allied Coordinator	<u>1</u>	<u>2</u>	<u>2</u>
Total Administration:	4	8	12
 Sales to Administration Ratio	 3	 3	 3

How the specific Administration categories are filled within a particular dealer will vary based on the types of business done, and how far along the allied product chart they are. The important point is to target the ratio of sales people including telemarketers to administrative positions at a 3-to-1 ratio. This thinking should help target the headcount to go along with sizing the department based upon Gross Profit, as discussed in Sales II.

USED EQUIPMENT CRITICAL VARIABLES

I. ESTABLISH SALES & WARRANTY CATEGORIES, WITH DEFINITIONS FOR EACH

- Set minimum dollar value and year of trucks to be sold to end users in keeping with the desired dealer perception in the marketplace. Then establish categories that will help determine how a machine will be sold even prior to acquiring it. This has to be known to determine if the machine will be sold to an end user or a reseller. If to an end user, what level of repairs will be needed? Maintain a balance of sales of 75% end user and 25% reseller.

Example categories:

- Without warranty
 - Buy and try
 - 30, 60, or 90 day warranty, or some other time frame
-
- If warranty claim amounts exceed 5%, it is an indication that machines are being under repaired.
 - Claim amounts of 1% or less indicate either over repairing or a very frugal warranty policy or used equipment manager.
 - **Any truck to be retailed has to have all safety features functioning properly to include at least the following:**
 - Horn
 - Audible or visual warning devices if so equipped
 - Brakes
 - Capacity plate and warning labels

USED EQUIPMENT

CRITICAL VARIABLES

II. SET INVENTORY GOALS FOR BOTH A MIX & BALANCE OF MACHINE TYPES

- % of each Class of Lift Truck, and any other category of used equipment
- % of Capacity for each Class
- % Gas, LP, Diesel, or Electric voltage
- % to consist of Competitive makes

Target inventory turnover at six (6) times per year on both dollars and units.

III. INVENTORY AGING TARGETS

- At least 70% of units in inventory less than six (6) months
- No more than 20% of units 6-9 months
- No more than 10% of units 9-12 months
- No units more than one year old

Write-downs of used equipment should begin at six months, with a 10% write-down to put emphasis on the need to move the equipment. Continue the 10% write down every six months until disposed of. This action will also ensure that aged inventory is not over valued. The write-downs should be based on the acquisition cost. Of course if market value is lower than even the written down value, then the value should be adjusted to market.

USED EQUIPMENT

CRITICAL VARIABLES

IV. ACQUISITION PRICE TARGETS

Target acquisition price of used equipment to be sold to an end user at 45-60% of used sales price.

Target acquisition price of used equipment to be sold to a reseller at 85-95% of used sales price. Only by checking reseller prices with multiple contacts will a realistic reseller price be established. Accurate trade-in evaluations, pictures, and a reputation for honest dealings will bring the highest bids from resellers.

- Consistent acquisition below these targets may indicate a lack of aggressive trade-in values
- Acquisition above these targets will be difficult to make a good margin on after repair and fix-up costs

V. COST OF REPAIRS TO END USER SELL PRICE TARGET

Target repairs at no more than 15-30% of the end user sell price. More than this suggests the machine should have been wholesaled because it needed too many repairs. This does depend upon the level of repair, warranty, control of repair expenses, and the ultimate value of the machine. Track to know how effective used equipment policies are, and also track pre and post repair estimates to correct any persistent problems.

- Target pre-trade inspections to come within + 15% of actual repairs
- Target post-trade inspections to be within + 5% of actual repairs

**USED EQUIPMENT
CRITICAL VARIABLES**

VI. GROSS PROFIT TARGETS ON USED TRUCKS

Category	Targets
Trucks sold to resellers	5-15%
Trucks sold to End Users	20-30%
Sales from rental fleet when based on book value,	40-60%
OR	
Sales from rental fleet when based on lease returns at fair market value.	20-30%

The model assumes all transfers of equipment internally to be at cost. When sold, rental trucks are to be accounted for as used equipment sales. The exception is trucks that go out on a rental purchase option contract and convert to sales through the option clause. Run these through rental.

VII. TIME STANDARD FOR REPAIRS

Used equipment sitting around grows costs and ties up capital. To minimize these negatives, do something with the equipment quickly.

- | | |
|----------------------------|---------|
| A. Time to shop | 1 week |
| B. Time in shop (maximum) | 2 weeks |
| C. Number of trips to shop | 1 trip |

USED EQUIPMENT

CRITICAL VARIABLES

VIII. TARGET 66% OF USED UNITS READY FOR SALE

The majority of used truck buyers inspect the truck prior to purchase. 66% of the units in inventory should be ready for sales. Have a ready line program to highlight the trucks ready for sale.

- Steam clean
- Sheet metal straightened, replace badly worn tires
- Have in running condition with new battery
- Paint – If no major repairs are required
- New seat cushion installed
- Display in specific area where trucks are easy to find
- **Any truck to be sold to an end user has to have all safety features functioning properly**

IX. AGGRESSIVE PROMOTION

- Include used equipment promotions with pictures on the dealer WEBSITE; use pictures from a digital camera with a PC software package
- Develop a used equipment flyer for both direct mail and handout use
- Send flyers out at least three times each year; spring, summer, and fall
- 1-2% of sales dollar volume should be allocated for advertising
- Use co-op dollars where available
- Have before and after refurbishment pictures to show what machines will look like after the process

USED EQUIPMENT

CRITICAL VARIABLES

X. TARGET COMMISSION AMOUNT ON END USER SALES COMPARABLE TO NEW MACHINE SALES COMMISSION AMOUNT

- Set used truck commission dollars to be competitive with new truck commissions
- Offer special commissions for slow moving trucks
- Offer bonus levels for performance above standards
- Use sales contests for sales people and used equipment manager
- Establish the maximum amount of oversell, or selling above asking price, a salesperson can do. This will help prevent the tendency to represent a truck to be better than it really is, leading to customer dissatisfaction and excessive warranty or policy repairs.

XI. SALES VOLUME TARGETS

- The model is for four new lift trucks and two used lift trucks to be sold per month. This is based on a new market share of 20% in a 250 industry size territory
- In higher market share areas, the ratio will probably be four new to one used as the salesperson is kept busy with new machines
- In a low market share area of 10% or less, one new to two used may be the key to a salesperson's survival and profit contribution to the dealer
- These same factors make selling used equipment a must and not an option

USED EQUIPMENT CRITICAL VARIABLES

XII. BENCHMARKING USED EQUIPMENT VOLUMES TO INDUSTRY

Comparing end user sales to new industry activity is a valid way to benchmark used sales. This measure diverges from the traditional look at used sales compared to what the salesperson is doing in new, and makes it possible to independently target volume based on industry size. For example, end user units divided by new industry equaling 10% or more is good, and activity higher than 15-20% of industry is excellent for both a dealer in total or for a salesperson.

***RENTAL DEPARTMENT
CRITICAL VARIABLES***

**RENTAL DEPARTMENT
CRITICAL VARIABLES**

Note: All table information in this section can be modified for local conditions by using the Excel spreadsheets contained on the enclosed diskette.

See the following pages.

RENTAL DEPARTMENT CRITICAL VARIABLES

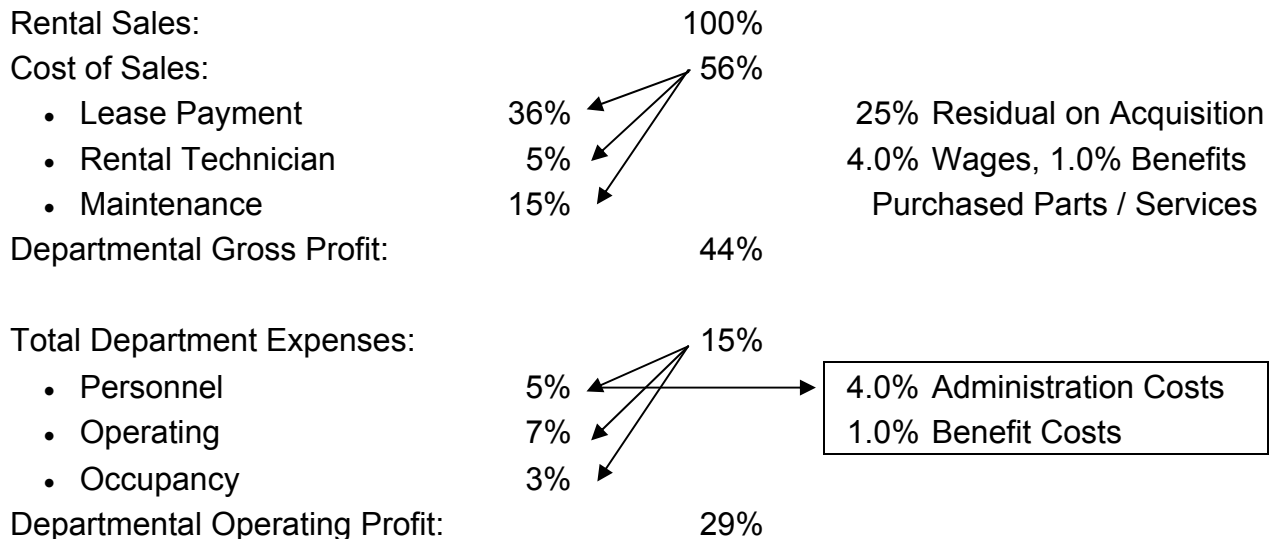
I. SHORT TERM RENTAL DEPARTMENT FINANCIAL MODEL

Leased Fleet Example:

The following model assumes a fleet that is leased. Some trucks would have higher residuals than shown, and some lower. For all of the examples in the Rental Section, on balance sheet residual lease numbers are used for simple calculation. Off balance sheet funding can provide even lower payments, and thus higher gross profits.

A second assumption is that rental technicians are assigned to and paid for by the rental department at their wage and benefit cost.

Rental Table 1



Twenty-five percent residual lease on balance sheet is for ease of illustration only. Typical residuals range from 0% for electric truck batteries/chargers and used trucks, 15-20% for electric trucks, and up to 45% or more for I.C.E. product after five years.

RENTAL DEPARTMENT CRITICAL VARIABLES

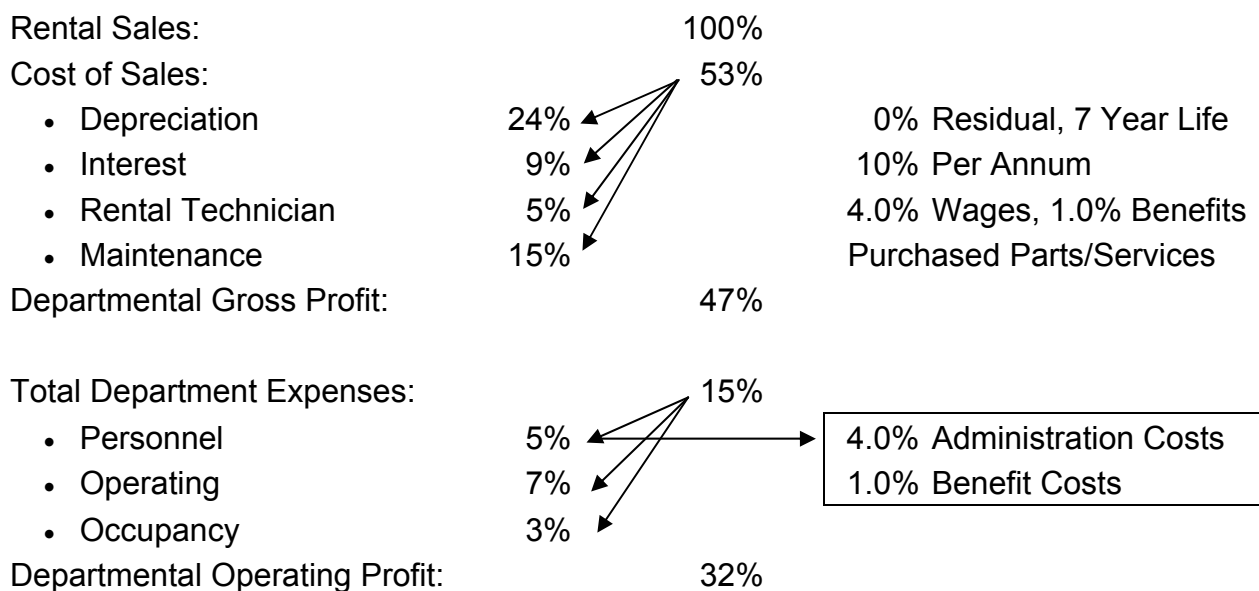
Maintenance expenses include parts purchased from the parts department at cost plus 25% gross profit (cost/0.75 or cost x 1.33). Service department labor purchased by rental is discounted at normal customer sell price less 20 percent.

Rentals provided to service department for use with service work, or sales department for use as demo, loaner or reduced rate rentals in conjunction with sales are to be discounted at list less 20 percent.

Owned Fleet Example:

There are and will be occasions where leasing may not be feasible or attractive at a given point in time. The following table shows the relative difference of depreciation and interest treatment compared to a lease. The discussion will point out standard depreciation guidelines that have been selected.

Rental Table 2



Nothing is implied by the slightly different profit assumptions in the two models. They arise because seven year depreciation to zero residual, results in a slightly lower payment than the assumed lease payment used in Table 1.

RENTAL DEPARTMENT

CRITICAL VARIABLES

Assumptions for depreciation schedules are as follows:

Big Truck > 7.5 tons	120-month depreciation to 0 residual
Allied Product > \$50,000	120-month depreciation to 0 residual
All other lift truck product	84-month depreciation to 0 residual
Allied Product < \$50,000	84-month depreciation to 0 residual
Used trucks and powered walkie product	48-month depreciation to 0 residual

For consistent evaluations of existing rental fleets upon acquisition of a dealer or rental company, guidelines similar to the following example are to be used.

PROPERTY, PLANT & EQUIPMENT (Used $\geq$ 1 yr old)		
Category of Asset	Remaining Life in Years	Annual Percent
Used Rental Fleet		
Big Truck Fleet (> 7.5 tons)		
1-3 years old	7	10.71% *
4-5 years old	5	13.33% *
6 or more years old	3	16.67% *
Used Rental Trucks ($\leq$ 7.5 tons)		
1-2 years old	5	17.33% **
2-3 years old	4	20.80% **
4 or more years old	3	25.00% **
Used Motorized Hand Trucks		
1-2 years old	2.5	40.00%
2-3 years old	1.5	66.67%
4 or more years old	Do not capitalize	
Used Allied Rental Fleet		
FMV < \$50,000		
1-3 years old	5	20.00%
4 or more years old	3	33.33%
FMV > \$50,000		
1-3 years old	7	14.29%
4 or more years old	5	20.00%
Used Buildings	20	5.00%

* Annual percent is developed to impute a salvage value approximating 20% of original cost.

** Annual percent is developed to impute a salvage value approximating 10% of original cost.

RENTAL DEPARTMENT CRITICAL VARIABLES

II. TARGET 20% FOR SHORT TERM RENTAL MARKET SHARE

High performing dealers typically have rental market share at or above new machine share. The 20% target is consistent with new machine sales share target.

Industry short-term rental fleet size in a particular territory is estimated using five years of data on industry shipments. Averaging multiple years on a rolling basis smoothes yearly fluctuation in industry size. Each class of truck is weighted based upon its historical national representation in short-term rental. In the U.S. this information comes from Industrial Truck Association data on shipments into dealer rental fleets, Standard Industrial Classification Code 7700. The following table shows the methodology used.

Rental Table 3

Truck Type	Estimated Percent of Shipments into Rental Fleet	5 Year Territory Shipments	Estimated Territory Rental Industry	Example Dealer Fleet Size	Example Market Share
	A	B	A x B = C	D	D ÷ C
Class I CBR Electric	7%	2250	158	32	20%
Class II Narrow Aisle	8%	1500	120	25	21%
Class III Powered Walkies	4%	2750	110	21	19%
Class IV ICE Cushion Tire	15%	3500	525	105	20%
Class V ICE Pneumatic Tire	14%	3250	455	91	20%
		13,250	1368	274	20%

CBR = Counterbalance Rider. Narrow aisle includes order selectors, reach trucks and VNA product. Powered walkies includes not only walkies, but also walkie stackers and tow tractors. I.C.E. = Internal Combustion Engine.

RENTAL DEPARTMENT

CRITICAL VARIABLES

To be more accurate in the market share estimate, a survey of all rental competitor's fleet size is recommended. Pay particular attention to independent rental companies, as they are a growing influence. In the U.S. large national rental companies are consolidating and growing rapidly.

III. DEFINITIONS OF RENTAL MONTHS, WEEKS, DAYS, AND RATES FOR EACH

A. Definitions

A rental month is defined as four weeks, not a calendar month. There are 13 rental months, or periods, in a year. Thirteen periods, times four weeks equals 52 weeks. Reasons to have a 13 period year include maximizing billing potential of the fleet, and to eliminate the variation in length of calendar months.

How many days are in a week? Five. A Friday through Sunday rental with usage on Saturday and/or Sunday is a three day rental. A Monday-Friday rental that sits over the weekend is a five-day rental. Fifty-two weeks, times five workdays, equals 260 rental workdays in a year. The real equalizer with machines out calendar weeks or months is service meter hour usage. Usage over 40 hours in a "week," or 160 hours in a "month" will incur overtime charges.

B. Period Rates

The monthly rate is the basis for the weekly and daily rental rates. A week rental is priced at one third of a month; a day rental is priced at one third of a week.

C. Machine usage hours allowed in rental periods and example rate setting:

	Allowed Hours	Example Rate	Overtime Per Hour
4 Week Month	160	\$ 1,092	\$ 7
5-7 Day Week	40	\$ 364	\$ 7
Each Day	8	\$ 121	\$ 7

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The example overtime rate is the monthly rate divided by 160 hours. This rate will be subject to local conditions and customs, and the actual amount is not as important as billing overtime consistently. To do this, hour meters have to work, and hours must be recorded at delivery and pick up times. Only by tracking overtime hours will the characteristics of the local market be known. Absolutely charge the overtime rate when the allowed hours are exceeded.

IV. TARGET FLEET UTILIZATION AT 70% DOLLAR UTILIZATION, 80% TIME UTILIZATION

A. Dollar Utilization

Calculated by dividing actual rental billings by the potential rental billings for the entire fleet. Potential billings are the realistic or expected monthly rental rate of each model multiplied by the number of trucks of each model in the fleet.

For example: The List Price rate can be \$1,000, but if you truly expect on average to rent the machine for \$900, then \$900 should be used as the potential number. Utilization should be further broken down by each model family type within the fleet, and then by individual machines. This will help pinpoint both problems and opportunities.

Dollar utilization is impacted by rental rates, and how aggressively the rates are set at a list price number. The list monthly rate for a given machine can vary by hundreds of dollars depending upon the philosophy used in setting the rates. Is a high rate desired that may have to be discounted? Is a competitive rate, not intended for discount, better for local conditions?

B. Time Utilization

Calculated by dividing actual days on rent, versus the available days in the period. A snapshot look is how many trucks are on rent compared to the total fleet size. In a four (4) week month, how many weeks or days is the machine on rent? Out of 260 workdays in a year, 100% time utilization means on rent 260 days.

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Time utilization is the true measure of how much the fleet is working, whether on rent, used as a free loaner, or used as a demonstration machine to a customer.

A dealer should also have a reporting method for those machines that are not available for rent because of needed repairs, and how long they have been that way. Machine downtime can become an issue, especially if repairs are not made in a timely fashion. What are the reasons for extended open repair orders?

C. Why Compare Dollar to Time Utilization?

Dollar utilization higher than time utilization (good!) means renting for more than list price, or more realistically renting for days or weeks of usage at higher rates.

If Time utilization is higher than Dollar utilization (most typical), this suggests all of the following: discounting, free loaners or demos, or not renting daily or weekly. Tracking time utilization is important to both document the impact of discounting, as well as to make decisions on fleet size.

D. Recommendations Based on Utilization

- At 80% or higher time utilization, there will probably be missed rental opportunities. If dollar utilization is providing an adequate return, consider adding more trucks to the fleet.
- Between 60-70% time utilization consider marketing rental more or move machines to other locations where demand is higher.
- Below 60% time utilization, shrink the fleet unless there is a seasonal influence, or marketing push coming that will bring up the utilization. Of course, if rates are set high enough to still provide an acceptable return at these low time utilization rates it may be fine to leave fleet size alone. The question to ask in this case is how much more rental business would be available if the rates were lower?

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V. SIX PERCENT PRICE FACTOR TARGET TO SET RENTAL RATES

What should the rental rate for a truck be? First apply a 6% factor to the acquisition cost of a new truck, or a weighted average cost of like models with somewhat different specifications. Other variables that will impact the actual rate are competition, desired utilization and market share targets. These other factors may allow either a higher or lower number. The only way to know is to keep abreast of actual competitive rates that end users are paying. Most competitors have rate sheets that are helpful in evaluating what their list price rates are.

How realistic is the 6% factor? It will be in line or at the high end of rates in the U.S. depending upon the location.

Example Use of the Price Factor

Acquisition	\$18,200	Approximate dealer cost of a 5,000 lb.
Pricing Factor	6%	I.C.E. pneumatic
Rental Rate	\$ 1,092	

Both competitive factors and what the local market will bear for rates play roles in actual rate setting. Keep the following in mind, to be as competitive as possible while maximizing the return on investment.

1. Take advantage of special programs to lower acquisition costs.
2. Add a portion of late model HYSTER used equipment to lower fleet acquisition costs and balance fleet age. HYSTER product is smart to promote because a rental serves as a paid demonstration of the truck. An example to illustrate the point would be to add two new trucks at \$18,200 each, plus one used one at \$10,000. The average acquisition would be \$15,467; times 6% price factor equals \$928 for a suggested list price rate vs. \$1,092 above.
3. Make it clear to those who take rental calls just what guidelines they are to use and when to offer discounts, if at all.

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4. Offer less feature-oriented, lower horsepower or performance models that have a lower acquisition cost. Keep some high performance, four-way hydraulic equipped trucks for special applications. The majority of a fleet does not need to be for special applications. Check out your local independent rental companies and you will probably find few high performance models.
5. Keep trucks in the fleet longer based on hour usage and condition, rather than age. Are current models capable of 8-10,000 hours or more of well-maintained usage before having excessively high repair costs? Most customers want machines that work with little downtime, and we want to have machines that represent us well. Neither of these wants precludes having older machines in the fleet, as long as the functionality and appearance are kept up.
6. Demand the highest realistic residuals on leased rental trucks that you would be willing to pay in the future to reacquire the machine for used equipment sales. Realize the profit potential on the later sale may be lower than the traditional amount on retired rental equipment. Also realize that the leasing company's comfort with high residuals is directly tied to your history of buying back trucks at the end of the lease. This process is definitely a two-way street.
7. Where you have specialty product that no one else has or competition is very limited, charge more than the 6% suggested price factor.

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VI. TARGET CALENDAR MONTH SALES AT 5% OF ORIGINAL ACQUISITION COST

Don't confuse the 6% price factor used for setting rates with the 5% sales per calendar month target. Our target return for the fleet is based on sales equaling 5% of the acquisition cost of the fleet each month over the rental life.

Four-week rental periods do not equal a calendar month, but a calendar month is used for all financial comparisons. The following example converts four-week rental periods to calendar month numbers, then solves for various sales per month percents. The purpose is to show break-even and loss points based on sales per month.

Rental Table 4

4-Week Rental Periods/Year Potential	A B AxB=C	\$ 1,092 13 \$14,196	From 6% price factor above 52 Weeks divided by 4 weeks per period			
			Calendar Months	Divide Year F by 12 months	Original Acquisition	Month Sales/ Acquisition
Target Utilization	D	80%		F/12=G	H	G/H=I
Year Sales	CxD=F	\$ 11,357	12	\$ 946	\$ 18,200	5.2%
Now work from right to left to arrive at sales from various factors:						
Sales Generated With Various Multipliers	L x M = N	M	J x K = L	K	J	
	\$ 10,920	12	\$ 910	\$ 18,200	5.0%	
	\$ 8,736	12	\$ 728	\$ 18,200	4.0%	
	\$ 6,552	12	\$ 546	\$ 18,200	3.0%	

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The following model is a costing exercise for each year at various sales multipliers, showing the impact on profit that each multiplier has.

Rental Table 5

Years of Depreciation	Interest Rate	Hours per Year	Maintenance Percent Sales
5	10%	1000 (1)	20%
	@ 5% Sales Multiplier	@ 4% Sales Multiplier	@ 3% Sales Multiplier
Sales per year, <u>Table 4</u>	\$ 10,920	\$ 8,736	\$ 6,552
Lease payment (2)	\$ 3,935	\$ 3,935	\$ 3,935
Maintenance per year (3)	\$ 2,184	\$ 2,184	\$ 2,184
Total Cost per Year	\$ 6,119	\$ 6,119	\$ 6,119
Gross Profit per Year	\$ 4,801	\$ 2,617	\$ 433
Gross Profit Percent	44%	30%	7%
Total Expenses / Model	15%	15%	15%
G&A Allocation / Model	10%	10%	10%
Profit Contribution	19%	5%	-18%
	At Model Target	Close to Breakeven	Definite Loss

- (1) Assume 1,000 hours per year. Using 260 rental workdays as 100% utilization, 80% utilization is 208 days. One thousand (1,000) hours divided by 208 days equals 4.8 hours per day rented. Tracking hour usage over time will tell what the territory experience really is.
- (2) Twenty-five (25) percent residual lease on balance sheet for ease of illustration only. Typical residuals range from 0% for electric truck batteries/chargers and used trucks, 15-20% for electric trucks, and up to 45% or more for I.C.E. product after 5 years.
- (3) Costs factored for 1,000 hour per year assumption. Twenty percent consists of 5% for rental technician, and 15% allowed for parts and service labor purchases. Held constant over different sales multiples because maintenance will be required independent of sales multiple. Twenty percent may be too high, especially if rental technicians are charged at cost rate and do most (if not all) the maintenance.

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VII. PERIOD MIX CRITICAL TO RAISING SALES MULTIPLE, RENT DAILY & WEEKLY

Period mix takes into account the effects of renting weekly or daily at the higher rates per period, as discussed in Rental III, B, and C above.

Rental Table 6

Acquisition from above:	\$ 18,200	Days on Rent	Days in a Period	Number Periods	Rental Sales
Utilization Assumed (fill in):	80%				
260 Days x Utilization	208	208			
Month Rent-Percent of Time	40%	83	20	4	\$ 4,543
Week Rent-Percent of Time	30%	62	5	12	\$ 4,538
Day Rent-Percent of Time	30%	62	1	62	\$ 7,756
Solve for the Sales Multiplier now:		Total Year Sales:			\$ 16,637
		Divide Sales by 12			\$ 1,386
		Divide by Acquisition			\$ 18,200
		Sales Multiplier			7.6%

The point is to be geared for daily and weekly rentals. They are more work, but the higher per period rental rate more than pays for the extra work. Remember that the customer pays the drayage. Ensure that people who take rental calls understand this concept. Otherwise, what *will* happen is that a three-day rental will become a week, and a three-week rental will become a month. The conversation will go like this: "Oh, you might as well keep the truck the extra days (or weeks), because our rate is the same either way."

Having the truck back means it is more likely to rent again, or at least not be incurring extra use that is not actually bringing in more sales volume.

Rental houses are geared for daily rentals. Perhaps an alliance with a rental house can be a way to increase daily rentals for your fleet.

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VIII. TARGET STAFF IS ONE ADMINISTRATIVE PERSON AND ONE RENTAL TECHNICIAN PER 100 RENTAL TRUCKS IN A LOCATION

Size rental staff cost structure based on fleet size and expected sales. One hundred trucks should represent about a million dollars a year in sales, and this sales volume can be used interchangeably with 100 trucks in the model. Rental service technicians have wages and benefits paid by the rental department at cost. Any sales commissions or rental management costs come out of the administrative allowance. Fleets smaller than 100 trucks may not be able to support full time positions assigned to them exclusively. In this scenario, more labor would be purchased from the service department at interdepartmental rates, and administration would be shared with another department.

The expected yearly sales using the 5% sales multiplier in Rental VI, \$10,920 is assumed to be the average for all trucks in the fleet. If this were true, the Financial Table 2 rental volume of \$3,300,000 would approximate 302 trucks in the fleet. The model allows up to three administrative positions (e.g., administrative, sales or management), and three rental technicians.

Rental Table 7

Use Table 7 to forecast people costs allowed at various assumptions for both fleet size and average billing. Dollars may be moved around within the model depending upon local wage rates and benefit experience.

Number of trucks in fleet	302
Average expected sales using 5% multiplier	\$ 10,920
Yearly sales of 302 trucks	\$ 3,297,840

The 5% people costs allowed in the financial model in Section I, are applied as follows:

	<u>Model %</u>	<u>Model \$</u>
Administration costs as % sales	4.0%	\$ 131,914
Benefit costs as % sales	<u>1.0%</u>	<u>\$ 32,978</u>
Total People Costs:	5.0%	\$ 164,892

RENTAL DEPARTMENT CRITICAL VARIABLES

IX. TARGET MAINTENANCE & REPAIR (M&R) COSTS AT 20% OF SALES

If the average fleet age is three years or less, and with rental technicians charged to rental, the numbers should be lower than the targets.

A. Assumptions

- Rental technicians perform duties in shop, and can perform PM and minor repairs in the field
- 1.5-3.0 ton capacity trucks, warehouse use, up to 1,000 hours/year
- Hour meters are working and hour information is captured and reviewed

The rental technician's wages and benefits are at cost, and included in cost of sales with parts and any service department purchased labor. The key reason for this recommendation is to ensure that the rental fleet is as competitive as possible against rental houses and others that bill internally at cost. Note that paying above cost for both parts and service labor is still a compromise position. Supervision of a rental technician's work will vary by dealer depending upon whom can best manage the work.

B. Examples of work typically done by a rental technician includes:

Check in and check out, swap forks, PM's, change lights, tune-ups, steam clean, and touch up. Any significant work should be tracked using the work order system to allow maintenance history to build for the truck. This also allows evaluation of the rental technician. Charge out rate for the rental technician is wage and benefit cost.

C. Examples of work done by either rental or service technicians, depending upon time available:

Brakes, tire changes, water pumps, radiators

D. Examples of work done by service technicians only:

Overhaul engine, transmission, steer axle, motors, swap counterweight. The rental technician can be subcontracted to the service department, if not 100% utilized in rental. The service department would pay the wages and benefits for hours worked in service, and bill the labor at normal sell rates.

RENTAL DEPARTMENT CRITICAL VARIABLES

X. THIRTY MONTH AVERAGE AGE TARGET WITH EVEN FLEET AGING

The rental fleet will typically be set-up on a five-year amortization schedule with aggressive residuals. This will keep fleet age below where labor and part costs greatly accelerate, keep the fleet modern, and roll new machines into the territory faster, building total HYSTER population.

Over time, the intent is to age the fleet evenly over the five years, to provide protection in case of an economic downturn.

Economic boom times cause large influxes of new equipment and downturns cause sell offs of the older equipment.

In a severe economic down turn (bust) rental usage will fall off. This may warrant selling off some portion of the fleet. One to three year old machines have book values that make them unattractive to sell in a depressed economy. It is for this reason that a fleet should be aged evenly by years, adding late model HYSTER equipment to help adjust the age mix.

In practice, fleet aging takes management attention.

The following illustrations may help visualize this process.

	Year 1	Year 2	Year 3	Year 4	Year 5
Ideal Fleet	20%	20%	20%	20%	20%
Boom Fleet	35%	30%	10%	10%	15%
New trucks added quickly, and old trucks kept in service to fill needs.					
Bust Fleet	50%	40%	10%		
All of the older fleet sold off and only high cost units remain.					

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XI. OTHER RENTAL DISCUSSION POINTS

- A. To assign a specific portion of the rental fleet to a branch is to ensure lower than possible utilization. Having multiple staging areas for the fleet is all right with the understanding that machines move to where they are needed and can be rented.
- B. With today's digital camera and software technology, why not take a before and after picture of each machine going on rental to document it's condition? This will take away a customer's pretexts for not paying for abuse of the machine. A picture could even become part of the rental contract. These pictures can help build a used equipment web site or be used for other promotions.
- C. Check-in of a machine coming off rental is where the emphasis has to be to catch abuse billing immediately. The idea is to have the transport driver take pictures of the machine and note any obvious malfunctions or damage right on the shipping document signed by the customer.
- D. Having an operation and maintenance guide with each rental machine is almost imperative today to limit dealer liability. Having the transport driver instruct user personnel in safe operating procedures, machine capacity limitations, and who to call if the machine needs service can go a long way to both lessen liability and increase the likelihood of customer satisfaction with the rental. The instruction does not have to take a long time, and should be paid for within the billing for the haul.
- E. Fuel charges are quite common with the customer charged for a full LP, gas or diesel tank. Fuel for trucks with high capacities can be charged on a usage basis; i.e., the tank is half full when the truck goes out and the customer is responsible for up to that amount when the truck returns.
- F. Each truck should have an identification plate, decal or painted number for easy reference. The dealer phone number to call for service should also be prominently displayed on the truck.

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- G. One dealer has found it effective to put the responsibility of tracking hour meter usage on the customer with a sticker that says: "Call for Service when meter reading is XXXX." This reduces the chance that the user will use the truck far more than anticipated in a given period without the truck being serviced. Without that safety net, the dealer could be totally responsible for an engine failure or other major repair that was the result of higher than expected usage between normal maintenance intervals.
- H. Rental contracts should spell out that the customer is responsible to have insurance for property damage and liability while the truck is in the customer's possession. Note that construction rental houses usually charge a 10-12% "damage waiver" if the customer does not supply evidence of insurance. This is important to know to be able to compare the total rate the customer is going to be charged. On the rental contract list the value of the machine as its list price replacement cost.
- I. To clarify who is responsible for damage to the truck while in the customer's possession, the rental agreement should spell out that customer is responsible to check engine oil, water and fuel daily. Customer responsible for all tire maintenance, fuel, missing parts and all damages other than normal wear and tear. Any damage resulting from improper care will be charged directly to the customer.
- J. All rental contracts should be billed at time of rental for one period, either number of days or weeks expected to be on rent, or one month. This will get sales dollars into the customer's accounts payable department and speed up payment. Early returns at times will cause credits to be issued, but the offset is the faster receipt of payment.
- K. All safety features the lift truck is equipped with should be verified to work prior to the truck being rented. Check-in of a truck returning from rental should verify all safety features work, or note them for repair prior to the next rental.
- L. The amount of time spent on checking in a rental should be commensurate with the amount of time the machine was out and the condition it came back in. It makes no sense to spend an hour or more with a machine rented for hours or a few days, unless there is obvious damage or abuse evident. Dedicated rental technicians with proper training can spend 10-15 minutes doing a proper check in documenting any damage or repairs needed prior to renting the machine again.
- M. *Ensure any repairs covered under warranty are actually billed to warranty!***

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XII. LONG-TERM RENTAL OR LEASE WITH MAINTENANCE CONSIDERATIONS

Common usage dictates that long-term rental contracts are written for twelve months or longer commitments (a five-year length is the norm). The customer is paying for usage with no ownership. The difference between a long-term rental and lease with maintenance is that in a rental, the dealer either owns the truck or sells it to a lease company, then leases it back before renting it to an end user. In a lease with maintenance, the dealer sells the truck to a leasing company who in turn writes a lease with an end user. Why one way versus the other?

Long-term rental allows more flexibility to swap trucks out early, or replace a machine with incorrect specifications with one more suited to the application. Customer's needs do change as well. If the dealer owns, or is leasing the truck, swapping it out at one location and putting it into another is easily possible. Profit in this scenario can include some up front profit if the machine is sold to the lease company, but most profit has to wait for the monthly payments to come in and the truck to be sold at the end.

Note: Accounting rules may dictate whether and how up front profit is recognized.

Where possible we want to use the lease with maintenance concept, because it removes assets from the balance sheet and may put profit up front upon the sale to the leasing company. Profit at the end can still come by repurchasing the truck from the leasing company at the end of the lease for fair market value, then reselling it as a used truck. Admittedly there can be less flexibility on swapping trucks out, or having as large a profit opportunity at the end. The trade off for up front profit and assets off the balance sheet better fits with HYSTER strategy at this time

In the following example, the customer has usage for 60 months at half the rate for short-term rental. The dealer has multiple profit opportunities, an on-going relationship with the customer and the best chance of continuing this relationship at the end of the term.

A. Lease with Maintenance Rate Setting Exercise Example

Consider selling a truck to a finance company, which in turn leases it to an end user for five years, and gives the dealer the first right of refusal to buy the truck at the end of the lease. This is not a tax-effected lease for this example, but a residual lease for simplicity in making the point. An off balance sheet tax effected lease would have somewhat lower payments.

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Rental Table 8

Acquisition from <u>Rental V.</u>		\$ 18,200
Sale @ Assumed Gross Profit	10%	\$ 20,222
Residual at assumed % Acquisition	25%	\$ 4,550
Sale less Residual		\$ 15,672
M&R Sales Rates (see below)		\$ 11,700
Interest Rate Assumed	10%	
Contract Length in Months	60	
Interest on Sell Price		\$ 4,307
Interest on Residual Amount		\$ 2,275
Total to Recover:		\$ 33,954
Payment per month for length of contract		\$ 565.91
Sales multiplier, payment/acquisition		3.1%

Parts and labor at sell rates, labor supplied by Service Department.

Labor hours per year, including lube	20
Sell rate for labor	\$ 72
Labor cost per year	\$ 1,440
Parts (\$900/year average)	\$ 900
Total Per Year:	\$ 2,340

Early profit from sale of machine to lease company at 10% G.P.	\$ 2,022
Service profit @ 29% operating profit (labor cost: 5 years x 29%)	\$ 2,088
Parts profit @ 15% operating profit (parts cost: 5 years x 15%)	<u>\$ 675</u>
Sub-Total:	\$ 4,785

Residual to recover at end of contract	\$ (4,550)	
Estimated fix up costs of tires, paint, repairs	<u>\$ (2,500)</u>	
Sub-Total:	\$ (7,050)	
Estimated sell price at 60% of new sell price above:	<u>\$ 12,133</u>	
Estimated late profit recognized at sale of used truck:	\$ 5,083	<u>\$ 5,083</u>
Profit over life of agreement		\$ 9,869

RENTAL DEPARTMENT CRITICAL VARIABLES

XIII. MARKETING SUCCESS FACTORS FOR RENTAL

The rental discussion you have been reading to this point has concentrated on finance, technical, control and other internal looking methodologies. Now it is time to look externally in the marketplace for other drivers of rental success. What else does it take to be successful in rental?

1. An understanding of what is available in the local rental market:
 - a. What types of customers are in the area, usage patterns, and industries?
 - b. What do competitors have in their fleet, what are their bread and butter?
 - c. What niche products can you supply that may be difficult for competitors, but would be used and appreciated by some customers?
 - d. What business trends can be identified in the area?
 - e. What industries are on the rise and others on the decline?
2. Employees must be of the mindset that taking care of rental customers is a priority. This is not meant for just the rental dispatcher taking the calls, but all dealer employees who touch on rental customers.
3. Good products in good shape that can reasonably be expected to perform without breaking down.
4. What do other suppliers have to offer you to get you in business with their product? Could it be niche products to offer along with lift trucks? What about financing, buy back provisions, and so forth?
5. If starting a new rental business, will need to have a business plan showing how you are going to address not only the four issues above, but also funding for the fleet.
6. Who can you partner with for re-rent or sub-rent business? Most lift truck dealers concentrate on weekly and monthly rental business, leaving daily rentals to rental yards. Business is to be had by partnering with rental yards for those rentals neither of you can fill at times.

AFTERMARKET SALES

CRITICAL VARIABLES

I. OVERVIEW

Note: All table information in this section can be modified for local conditions by using the Excel spreadsheets contained on the enclosed diskette.

Aftermarket Sales Representatives are an important component of the sales force. Success in Aftermarket Sales is a major part of growing a dealership's service business. The basis of successful sales is using proactive behavior to actively seek out new customers, and then using a customer-orientation to generate solutions to their material handling needs.

Proactive behavior is generated by breaking down the territory into sub-components and using a logical coverage plan to make the best use of time when seeing customers. Coordinating with machine sales representatives, technicians and inside sales staff further leverages the sales effort. Approaching sales in this fashion can allow the dealership to grow profitably.

A key for the dealership's aftermarket sales effort is to get a Planned Maintenance (PM) contract with customers. If the PM is secured, it generally allows the dealership to capture 85% of the additional aftermarket business available from the customer.

By using a systematic means of identifying customers and a common process of assessing their needs, the aftermarket sales representative can grow a base of profitable customer contracts.

II. MARKET AWARENESS

Awareness in this context means being aware of where potential business is located, and penetrating each customer as far as possible to capture the highest possible percentage of that business. The aftermarket sales representative is tasked to meet the customer's service and parts needs as closely as possible. In doing this the aftermarket representative also attempts to increase service and parts sales, and promote customer satisfaction and loyalty.

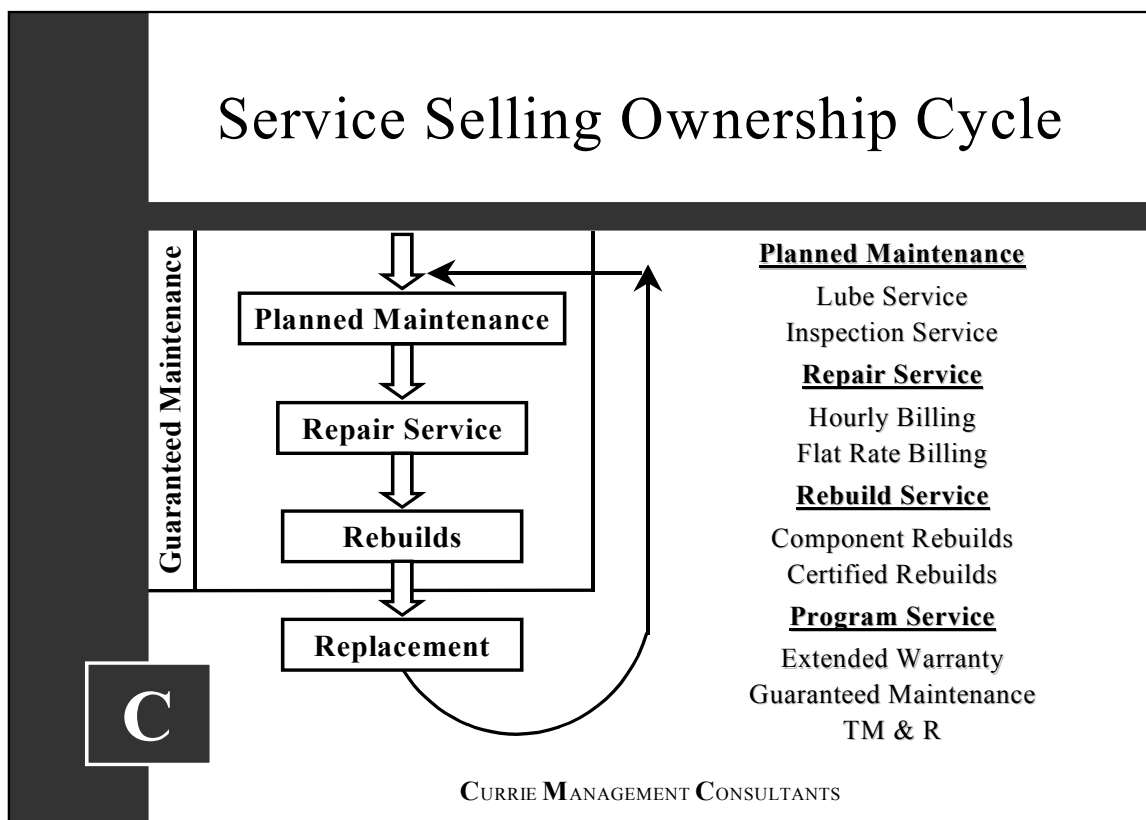
AFTERMARKET SALES

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In performing sales activity the aftermarket representative should coordinate fully with any direct marketing (inside sales representative) activity in their area. They need to work with this inside sales team to clean up the existing customer records, and build a base of current and potential customers in their area. The inside sales representatives will in return support the sales representative with leads and introductions to customers in their territory. They will generate direct mailings that are targeted to help get the representative in the door with potential customers. Finally, they will perform surveys on customer satisfaction, and conduct follow-up calls to determine the status of dead and lost quotes.

III. SERVICE SELLING OWNERSHIP CYCLE

The following diagram shows the revenue potential to the Service Department over the lifecycle of a forklift. The cycle starts by either: (1) the customer buying a truck from us and beginning service on it with us, *OR* (2) we succeed in picking up the service on a truck the customer already has.



AFTERMARKET SALES

CRITICAL VARIABLES

The goal of the Service Department is to get as much of the customer's potential business as possible. As we get the customer's confidence we will move from getting basic planned maintenance to repair service and rebuilds. If we do our job right, when it comes time for the customer to replace their vehicle we will get this business, and the cycle repeats itself.

IV. ROLE OF THE AFTERMARKET SALES REPRESENTATIVE

The role of the Aftermarket Sales Representative is often not well defined in this industry. This section is meant to ensure consistent understanding of the expectations that this role is intended to perform. Hyster dealers have available some of the most sophisticated tools for use by aftermarket sales people of any competitor, and they are only valuable if there are sales people correctly led and using the tools.

Aftermarket sales imply action and activity directed towards selling aftermarket components of Rental, Parts and Service. In addition to being the profit producing areas of a dealer, taking this opportunity away from competitors is a Hyster strategy to weaken the competition. This will be accomplished by aggressively pursuing competitive parts, service and rental business. The best way to do this is to properly structure and populate an aggressive aftermarket sales team.

Aftermarket representatives are a frequent point of contact with customers; because of this they can develop close relationships with their customers. Aftermarket representatives play many roles with customers, as they are a maintenance consultant to their customers, provide insight and assistance, know the basic safety rules, use inspections to identify opportunities, and gain customer confidence through frequent service and parts interaction. This allows the aftermarket representative to learn inside information about what the customer is doing in their operation.

Aftermarket representatives are successful when they meet or exceed the following measurements:

- Service (Agreements and Repair Jobs) Targets
- Parts (Company and All-Makes) Targets
- Allied Products and Accessories Sales Targets
- Submits regular Fork and Chain Inspection Reports
- Submits Customer Call Reports

AFTERMARKET SALES CRITICAL VARIABLES

V. WHAT ARE THE AFTERMARKET REPRESENTATIVES TO DO?

- Sell service contracts on HYSTER and competitive trucks
 - Planned maintenance (PM) contracts usually assure the dealer 85% or more of aftermarket purchases.
 - Full maintenance contracts guarantee the dealer 100% of the aftermarket business; customers are increasingly moving towards wanting use of equipment, rather than ownership. They accomplish this through long-term rental agreements, outsourcing of maintenance, or total fleet management agreements. Thus, getting planned and full maintenance contracts serves the customer's needs, and maximizes dealer sales and profits.
 - Aggressively solicit and sell both shop and field repairs.
 - Work as a team with machine sales counterpart(s) making joint calls, sharing information and swapping leads. Cooperation is critical on large accounts, and potential candidates for Hyster or dealer Fleet Management where maintenance tracking and management of the fleet come into play.
 - Target for PM sales is ten per month. In four years there should be about 400 trucks on contract in an Aftermarket sales territory. Many more than this and there will not be enough time to handle the business.
- Sell parts, especially Hyster and All-Makes parts to major parts users
 - Excellent pricing on Hyster parts even compared to will-fitters means opportunities even with volume buyers who may do their own repair work.
 - Good All-Makes coverage on popular brands, excellent pricing, and Hyster Co. field coverage to help with Target Account efforts, means huge potential in All-Makes.
 - Tires are an easy door opener to almost any forklift truck user.
 - Replacement industrial batteries represent twice the volume opportunity as batteries sold with new machines, and are also a very good door opener.
 - Follow-up and quote additional repairs or accessories as noted on PM checklists.
 - Be the lead-person to solicit and put together successful parts consignment business.
 - Sell accessories, catalog items and allied products (as appropriate).

AFTERMARKET SALES CRITICAL VARIABLES

- Sell training – Big business is available to dealers selling training, especially operator training. Aftermarket sales people are the natural sellers of training.
- Influence rental users to call the dealer for all rental needs.
 - Aftermarket representatives usually have much more reason to regularly call on accounts given the on-going nature of aftermarket. These on-going contacts can best identify short-term rental needs. Dealers with large seasonal rental (agriculture for example) may exclude from commissionable amounts those contracts that are negotiated yearly by the rental manager or coordinator.

VI. WHAT ARE THE AFTERMARKET SALES REPRESENTATIVES NOT TO DO?

- Chase details for the Sales department, instead be a partner with the machine counterpart.
- Deliver parts to any but high potential and high volume accounts.
- Spend inordinate amounts of time handholding customers to make up for lack of correct procedures or adherence to them from others in the organization. The rest of the organization has to do their jobs correctly.

VII. TERRITORY SIZING & NUMBER OF AFTERMARKET REPRESENTATIVES

Territory sizing is important for the aftermarket representative to be effective. There are literally thousands of potential customer contacts that could be called on to attempt selling parts and service, each and every day. It is therefore paramount that territories are created that make sense, and that representatives are deployed in a reasonable manner.

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Within a dealership's area, territories should be created based on the existing fleet of vehicles and technicians that the dealership has. The number of trucks should be broken down by region and divided into equal amounts. These territories should then be filled where the dealership is currently strong with a large number of vehicles under contract, or where it has the potential to be strong with underutilized technicians in an area. It does not make sense to deploy an aftermarket representative where we do not currently have technicians located, unless we are looking to expand into a region with good potential and have technicians available to deploy.

Sizing the Aftermarket Sales Force:

A. Compared to New Machine Sales Force

The Hyster Co. Retail goal is to have at least a 3-to-2 ratio between machine and aftermarket salespeople. Some dealers who realize the profit potential of the aftermarket actually have more aftermarket sales representatives than equipment sales.

B. Compared to Industry Size

Good coverage can be also be inferred from a ratio of industry size to number of salespeople. An example calculation will show the thinking.

$$\text{Coverage} = \frac{\text{Average Industry Retail Shipments 1996-2000}}{\text{Number of Aftermarket Salespeople}}$$

The goal for aftermarket sales is 375 - 500 shipments per person.

Using ten years of shipments to approximate the territory potential would yield 3,750 to 5,000 trucks. A goal of 10% market share of the population on contract would mean 375 to 500 trucks per aftermarket representative as a goal. Again, with a target of ten PM sales per month, this should be achieved in three to four years.

AFTERMARKET SALES

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C. Compared to Sales Volumes

A third way to calculate the number of reps is to divide volumes by expected sales per rep in the \$1,300,000 range, using the assumptions on costs contained below. To fill in local conditions, use the enclosed diskette (GDBM Aftermarket Excel spreadsheet).

Aftermarket Table 1

STEP 1: Fill in the variables

	Variables	
Target Compensation	\$ 45,000	\$ 45,000
Benefits as % of Compensation	25%	\$ 11,250
Car, Phone, Expense Book per Month	\$ 800	\$ 9,600
Total cost for Aftermarket Rep in Field		\$ 65,850 (A)
As a % of Total Parts and Service Sales		5% (B)
Parts and Service Sales per Aftermarket Rep (A / B)		\$ 1,317,000 (C)

STEP 2: Fill in today's volumes and growth targets

	Targets	
Parts Volume Today at Suggested Consumer List	\$ 7,260,000	
Parts Volume Growth Goal Targeted	10%	\$ 7,986,000 (D)
Service Volume Today		\$ 5,940,000
Service Volume Growth Goal Targeted	10%	\$ 6,534,000 (E)
Total Parts and Service Goal (D + E)		\$ 14,520,000 (F)
Parts and Service Sales per Aftermarket Rep		\$ 1,317,000 (C)
Number of Aftermarket Reps Required (F / C)		11.0

AFTERMARKET SALES

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VIII. TERRITORY PLANNING FOR CONCENTRATED EFFORT

Sound practice is to concentrate on areas where there is a low truck to technician ratio (areas where the dealership currently has a low population of trucks relative to the technicians that reside there). The aftermarket representative must create a call schedule that covers the territory, but emphasizes these high potential areas. In attempting to get into these customers, it can be helpful for the Sales representative to offer the following inspections:

1. Full Truck Inspection

- a. Formal and regularly scheduled inspections are the best.
- b. Once a year, legally required safety inspections can lead to added work.

2. Component Inspection

- a. Forks
- b. Lights
- c. Back-up Alarms
- d. Tires
- e. Engines
- f. Chain

Once this is accomplished, the sales representative will have a closer relationship with the customer. They can then sell something else that meets the customer's requirements, such as further truck inspections, operator training, PM agreements and/or full maintenance agreements. The key in all these activities is building relationships with potential customers.

AFTERMARKET SALES CRITICAL VARIABLES

IX. AFTERMARKET SALES REPRESENTATIVE FINANCIAL JUSTIFICATION

In thinking about adding aftermarket sales representatives, it is vital to know how much business the representative must generate to justify their presence. The following are reasonable goals for the aftermarket representatives to achieve:

- Ten PM sales per month
- \$25-30,000/month in revenue for the service shop
- Five 200-point inspections per month
- One certified rebuild per month
- Four component rebuilds per month
- GMA – Guaranteed Maintenance Agreement
- Extended warranties

Affording a full-time Service Salesperson means 3-4 additional technicians, or 150 to 200 additional units under maintenance contract to reach break-even on the costs. The GDBM target is six technicians for every Aftermarket Salesperson.

X. COMPENSATING THE AFTERMARKET SALES FORCE

Keeping in mind the sales role, commission plans should be structured to allow aftermarket representatives to earn comparable amounts to at least mid-level machine salespeople, and perhaps more. Aftermarket should not be viewed as a stepping-stone to equipment sales, but an integral part of the field sales team. The plan needs to emphasize what the representatives are expected to produce, and help direct their activities to the highest return potentials.

AFTERMARKET SALES

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Bonus amounts should be available for overall growth on an annual basis, and to keep focus on raising the bar on market share and penetration.

Typically, Parts and Service departments split the costs of aftermarket sales. If the representatives truly cover rental as well, it may make sense to split their costs three ways. This is a pure way to focus on the fact that these three departments should benefit most from the activity of the aftermarket sales representatives.

XI. WHO DOES THE AFTERMARKET SALES FORCE REPORT TO?

For 1-4 total aftermarket representatives, they should probably report to the Sales or General Manager. Sales Manager for the sales development, territory management and coaching role, but General Manager for their importance and influence in growing the critical aftermarket business. General Managers with these representatives reporting to them will be in the best possible position to have not only a finger, but also a whole hand on the pulse of the business.

Five or more representatives may justify an Aftermarket Sales Manager whose job it is to consistently promote effective marketing and sales of the dealer's aftermarket capabilities. The same amount of coaching, guidance, goal setting, measurement, reward, and discipline will need to be applied to effectively manage this sales team.

Just as in machine sales, about ten sales people are the maximum for one manager to handle effectively.

XII. THE REVIEW PROCESS

To get improvements from sales managers, it is vital to begin a continuous review of the plans and results of the sales manager. There is a section on coaching, in the *Professional Sales Management Process*, that defines the best way to review.

AFTERMARKET SALES CRITICAL VARIABLES

XIII. TARGET ACCOUNT DEVELOPMENT

It makes sense for the aftermarket representatives to have target accounts where they focus a coordinated effort in order to sell to potentially large customers. In selecting their target accounts, the aftermarket representative should pick large accounts where customers own their own trucks, or lease trucks but continue to do their own maintenance. If an outside provider does the maintenance, it should be a single point of supply for the service contracts.

Coordination between new and aftermarket sales representatives takes place at group planning meetings. At sales team meetings, each representative must present a target account, and get input and feedback from their associates. This ensures that a better plan is created through the group effort. The representatives should use interpersonal selling to develop their plan.

In developing relationships with large customers, the major customer concerns to be addressed are minimizing operating costs and improving equipment uptime. To do this the representative can use PM agreements, customized maintenance programs, parts consignments, parts deliveries, and guarantee availability.

XIV. CUSTOMER RETENTION

One useful strategy for aftermarket representatives is to use the three **R's**; these are useful to keep in mind for focusing the representative's effort.

Marketing using the three R's:

- **Retention** – Keeping market share of loyal customers already served.
- **Related Sales** – Developing and selling more related products and accessories.
- **Referrals** – Reliance on customer-to-customer referrals.

It means less “telling” and more “listening.” Distancing ourselves from the competition means using “new” marketing techniques by concentrating on profitable customers, realizing their lifetime value and managing customer loyalty through development of effective listening posts.

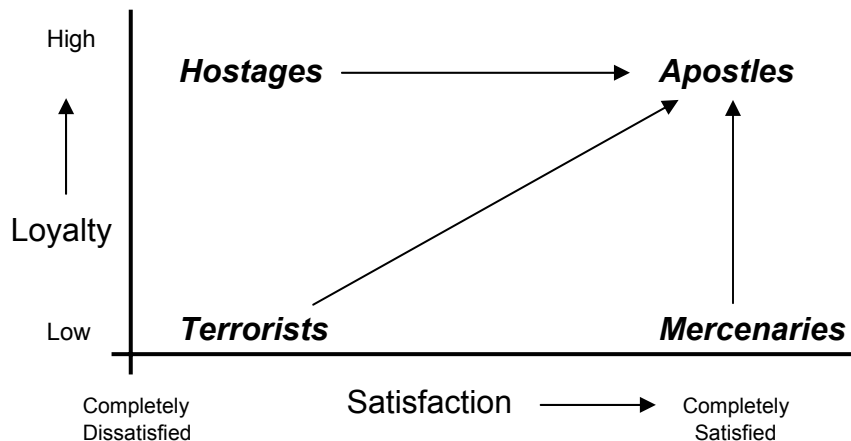
AFTERMARKET SALES

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XV. POSITIONING WITH CUSTOMERS

In thinking about getting more of our customer's business, it is useful to think about how we are positioned with them right now. How they think about us impacts how we can increase our activity with them. Based on two dimensions (loyalty and satisfaction) we can classify our customer's support of our services.

- **Apostles** – Those who support our business and feel they get value for the money from us.
- **Hostages** – Those who have no choice but to get us to service their machines.
- **Mercenaries** – Those who are satisfied with our service, but are not loyal and will always bargain on price.
- **Terrorists** – Those who are constantly not happy, not loyal, and always looking for the cheapest price.



The Service Department should be thinking about how to increase both of these dimensions. The aftermarket representative should try to get as many **Apostles** as possible. Through customer satisfaction loyalty is generated that leads to repeat sales, retention and profitability.

AFTERMARKET SALES CRITICAL VARIABLES

XVI. DEALING WITH DISSATISFIED CUSTOMERS

There are many strategies for handling customer complaints and a number of possible outcomes:

1. The customer suffers in silence.
2. The customer switches to another service provider in silence.
3. The customer tells business associates about his dissatisfaction.
4. The customer talks to third parties, e.g., solicitors.
5. The customer talks to you – THIS IS THE ONLY POSITIVE OUTCOME!!!

By using frequent contacts through territory planning and management, the representative can make sure that customers are not suffering in silence, and do not switch to competitors before we have had a chance to help solve their problems.

XVII. AVAILABLE AFTERMARKET TOOLS

The following tools are available for Hyster Aftermarket representatives by region:

	Americas
Marketing Estimation	FMEG
Service Quoting	Q2 Plus
Fleet Maintenance	HMAS
Fleet Management	HFS

PARTS DEPARTMENT CRITICAL VARIABLES

I. PARTS DEPARTMENT FINANCIAL MODEL AND TARGETS

Note: All table information in this section can be modified for local conditions by using the Excel spreadsheets contained on the enclosed diskette.

Parts Table 1

Net Sales:	100%	
Cost of Goods Sold:	70%	
Gross Profit Margin:	30%	
Expenses as % of Sales:		
• Personnel	10%	← 8.0% Personnel Wages 2.0% Personnel Benefits
• Operating	3%	
• Occupancy	2%	
Total Expenses:	15%	
Operating Profit:	15%	

Freight and emergency charges are expected to be recovered 100% and accounted for in Sales and Cost of Goods Sold.

Internal parts sales to be calculated at cost, plus a true 25% gross profit (cost divided by 0.75 or cost multiplied by 1.33). Parts department to have Sales and Cost of Goods Sold from parts sold through service work-orders.

PARTS DEPARTMENT

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II. CALCULATING PARTS MARKET SHARE AND MINING THE DATABASE

To evaluate dollar volume, first it is important to know what the opportunity is within a dealer's area. This comes from studying both the Hyster populations within the area as well as the industry population. Expected sales of parts by model class per year are then applied to the population figures to arrive at potential sales. Actual sales are then compared to potential sales to define the market share in the area.

A. Use actual dealer records of Hyster and competitive population

The ideal way to conduct this study is to use actual dealer records by customer on what trucks are in use. Actual and potential sales are calculated directly from the information. Ranking the accounts in descending order of potential gives a look at where the opportunity is. Ranking this same list in descending order of actual sales contrasts nicely with the potential list to point out opportunities. The following is an example of a report layout.

➤ Potential Sales Opportunity

- Customer Identification
- Number of Units and Type
- Parts consumption factor by type of truck (see factors below)
- Total potential sales, sorted in descending order
- Go down the list until 80% of the volume is listed

➤ Actual Sales by Account

- Customer Identification
- Number of Units and Type
- Parts consumption factor by type of truck
- Total potential sales, sorted in descending order
- Go down the list until 80% of the volume is listed

PARTS DEPARTMENT

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Example parts consumption factors per truck / per year at list price:

Class I	Class II	Class III	Class IV	Class V
CBR	Narrow	Powered	I.C.E.	I.C.E.
<u>Electric</u>	<u>Aisle</u>	<u>Walkies</u>	<u>Cushion Tire</u>	<u>Pneumatic Tire</u>
\$550-750	\$600-800	\$175-375	\$900-1200	\$1500-1800

Confirm the numbers being used by the Hyster contact group.

CBR = counterbalance rider. Narrow aisle includes order selectors, reach trucks and VNA product. Powered walkies includes not only walkies, but also walkie stackers and tow tractors. I.C.E. = Internal Combustion Engine.

B. Use Hyster and industry shipments data to approximate population and potential

The second way to calculate market share is to make an educated guess on the size of the industry and compare actual sales numbers to the derived opportunity number. This approach uses multiple years of shipments into an area to approximate the actual working or active lift truck population. Applying the above factors to the population yields potential sales. Actual sales are then compared to potentials. Work with the Hyster contact group to do the comparison.

➤ Specific areas to review include:

- Share of Hyster parts compared to Hyster population potential
- Share of competitive parts sold by dealer to non-Hyster population
- Share of total parts sold to total potential

All-Makes parts are to be the primary source for competitive parts. Augmenting them with other suppliers is acceptable for parts not available internally.

The share of total parts sold compared to total potential, should approximate the 20% target market share for new machine sales. Given the profit contribution available from the Parts Department, the higher the better. Stated another way, and dependent upon how the measurements are defined, the goal could be 100% of Hyster potential and 10% of all competitive parts potential.

PARTS DEPARTMENT CRITICAL VARIABLES

C. Use sales ranking reports to analyze your customer sales

By listing customers in a ranking report by sales volume, and tracking this information over time allows both knowing whom the top accounts are and if their buying patterns change significantly. This analysis can help rationalize or justify discount programs and special handling for select accounts.

For example, one dealer knows that one account represents 36% of their sales. It is critical to know everything about what this account is doing and thinking.

Another more typical dealer analyzes a ranking report and finds the following data to point them in the direction of who the most important accounts really are out of the many they deal with:

1,473 buy less than \$565 per year	82% of total parts customers
<u>327</u> buy more than \$565 per year	<u>18%</u> of total parts customers
1,800 parts customers in database	100% of total parts customers
116 represent 70% of business volume	6% of total parts customers
20 represent 44% of business volume	1% of total parts customers

Knowing the profile of the top 10% of the accounts you do business with will allow targeting of more accounts with a similar profile, and a thorough understanding of what it takes to keep this select group's business.

PARTS DEPARTMENT CRITICAL VARIABLES

III. BUILDING PARTS SALES

Are the sales, rental, and service departments using alternate vendors to the parts department to save a few dollars? To support a historical relationship? Or merely because they are not aware of what can be supplied internally? YES answers to any of these questions should be addressed. Hyster is the first source for all parts needs.

After internal needs are addressed, outward looking parts sales builders include the following ideas:

- A. The fastest and surest way to build parts sales are through planned maintenance programs and other inspection programs designed to bring in new business.
- B. Marketing to large parts accounts that do their own service is another way to rapidly grow parts sales. It will typically take a concentrated, knowledgeable sales effort, as well as aggressive discounting and/or a very high level of service to maintain the account. Enlist your Hyster parts contact group to establish key account identities and strategies.
- C. Tires are the single biggest item that a dealer can sell to dramatically effect parts sales. They provide aftermarket salespeople with a door opener to almost any account and once in with tires, all of the other dealer offerings are much easier to promote to an account. To do tires right, the dealer needs to be in the mobile tire press business.

Unless a mobile tire press is available through the dealer, an outside vendor is used to fill dealer sales and rental requirements for in the field tire changes. Most medium to large size dealers can justify a press and a press person within the parts department just to fill internal needs. A small dealer can be big in the tire business without a huge investment.

Setting up a tire press and tow vehicle does not have to be a large capital expenditure. New presses with all required equipment are available for less than \$18,000. An older, but still in good shape service truck, makes a low capital cost tow vehicle and inventory hauler for the mobile tire press business.

PARTS DEPARTMENT

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One dealer has been creative enough to become the Hyster tire supplier to the independent installation company they traditionally bought tires and installation services from. The independent agreed to install Hyster tires when available, and won agreement from the dealer to be the supplier for sizes not offered by Hyster.

- D. Second to tires, industrial batteries are the next biggest potential sales item for aftermarket sales and the parts department. Many dealers handle these batteries through the new machine sales department; however, twice as many batteries are sold as replacements than included with new machines. Aftermarket people have much better visibility on the huge replacement battery business. All-Makes Parts has an excellent vendor relationship with GNB and many dealers have profited from the huge potential.
- E. Consider opening low overhead, functional All-Makes Parts stores in remote but high potential sales areas. Field mechanics, customers and yes, competitive dealer or independent mechanics, can easily make a smart investment have a very high return.
- F. Cater to independent service companies for their parts business. All-Makes Parts' competitive pricing against OEM's and will-fit suppliers make the Hyster dealer a good potential supplier. The independent will buy parts somewhere, most dealers don't like to sell to them as a "competitor," and nobody caters to them. A barbecue and open house *for them* to show off what can be supplied *to them* would probably be the first time a dealer expressed an interest in their business.
- G. Charge a restocking fee for parts returned by customers; this is especially true for special ordered or non-stocked parts (special order and non-stocked parts should either be non-returnable or at a higher restocking charge – 40-50%). A 25% restocking fee is common.
- H. One dealer liberally allows parts consignment inventories at customer locations, but charges for parts the customer requested to be put into stock if they do not turn in six months.

PARTS DEPARTMENT

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IV. TARGET PARTS GROSS PROFIT AT 30%

Hyster parts are to be sold at no more than suggested consumer list price in keeping with the goal to have very high parts market share. Parts for like equipment should have similar margins regardless of the source. By part number, the range may be 5-50% gross profits, with an overall gross profit margin average of 30 percent.

Guard against selling parts from other vendors for less margin than Hyster parts are burdened with. This is typically done because the thought is that these parts are incremental; therefore, do not need as much burden on them. However, parts coming in outside of the normal supply chain may well have higher costs of ordering, shipping, handling, and returning. One exception to this guide is to not be embarrassed by charging too much for a part that had to be purchased from a competitive dealer.

An example may help here:

During a field repair call on a competitive make, the technician finds that what was thought to be just an ignition key problem really turns out to be a starter problem. The customer has to have the truck up the same day, and All-Makes Parts will be able to have one on site within 24 hours, but that is not good enough. The technician or a parts runner goes to the competitive dealer and buys the starter for installation the same day. While the time should be charged normally, putting your normal margin on top of the competitive dealer's list or bumped list price can lead to many disputes and lost accounts. The suggestion in a case like this is to use a lesser margin.

PARTS DEPARTMENT

CRITICAL VARIABLES

V. TARGET MONTHLY PARTS SALES PER PARTS EMPLOYEE AT \$35,000

This target includes parts management, inside sales, warehouse, administration, and aftermarket sales people.

- Inside sales means more knowledgeable parts person who is able to take, research and fill parts requests whether external or internal (do any job in parts).
- Support positions include warehouse, shipping, receiving, and clerk.
- Aftermarket sales are field sales responsible for finding new accounts and continuing to capture ever-larger market share at existing accounts. A fair split of aftermarket sales people costs between parts and service department is 50% to each department. If there is a large difference in volume for either department, direction and focus for the sales force is needed. Typically, service work orders will include a roughly even split between parts and service. The sales force should also solicit parts only accounts. (Parts only, meaning that the account does it's service work with it's own mechanics.)

If the aftermarket salespeople truly sell all the aftermarket products including rental, it might make sense to split their costs three ways between rental, parts and service.

PARTS DEPARTMENT CRITICAL VARIABLES

VI. TEMPLATE FOR PERSONNEL ASSUMPTIONS USING VARIOUS PARTS SALES AND COMPENSATION

The following template can be used to size a department or evaluate various wage, benefit, and staff assumptions.

Parts Table 2

	Monthly	Yearly
Sales/Month Assumption per person (fill in):	\$ 35,000	
Number of Staff Positions assumed (fill in):	17	
Monthly Parts Volume:	\$ 595,000	\$ 7,140,000

(Fill in number of people and wage % by area / total has to be 8.0%)

Target Model Costs:	Management	Inside Sales	Support	Aftermarket Sales	Yearly
Number of People					17
Wage % Sum to 8.0%					8.0%
Total wages in category					\$571,200
Wage/Person					
Benefits in category 2.0%					\$142,800
Total 10.0%					\$714,000

Move people and wage percent around, but keep the total to 8.0% wage percent total. If the local cost structure is higher than the model allows, higher per person sales is one way to correct the imbalance.

Benefits are assumed to cost the same per person.

PARTS DEPARTMENT

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VII. EXAMPLE OF WAGE NEGOTIATION USING \$35,000 PARTS SALES PER MONTH AS STANDARD

This is a way to take pay or effectiveness into account when negotiating wage or performance issues. It can help in goal setting or performance evaluations. May have to pay more than standard to get the right person, however more volume is needed to justify the higher pay. If going to have less than standard performance, then pay should be less than standard also.

Parts Table 3

	Standards	Highly Skilled Prospect	Trainee 70% Effective
Expected Sales/Month	\$ 35,000	\$ 40,250	\$ 24,500
Annualized	\$ 420,000	\$ 483,000	\$ 294,000
Wage	Standard	Standard+15%	Standard-30%

VIII. TARGET PARTS FREIGHT RECOVERY FROM CUSTOMERS AT 100%

Inventory control is critical to what is stocked and in what quantities. Customer satisfaction comes from having the majority of expected parts in stock. This also minimizes customer exposure to freight and emergency charges.

One-hundred percent freight recovery becomes possible in a perfect situation of:

- Stocking the correct mix of parts by movement characteristics.
- Providing high fill rates and customer service levels.

Efforts are underway that will rationalize dealer versus manufacturer stocking and make the need to charge for freight or emergency the exception and not the rule. In the meantime, recapturing 60-70% of freight and emergency charges is a reasonable goal to start with.

PARTS DEPARTMENT

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Stock parts come on stock orders with no freight charges, but there is a 1-2 week lead-time. For non-stock orders, give the customer the option of free freight on a stock order, or up charge for faster delivery.

Mark up each incoming or outgoing shipping document \$2-5, and don't have the U.P.S. machine print the actual amount on the label the customer sees. Or call the total charge shipping and handling to remove focus from the actual freight amount. Many dealers charge for delivering parts to customers with a parts runner either in scheduled runs or emergencies. These sales should be tracked against the cost of supplying the service.

Make sure the customer knows when you fill an order 100% out of stock. Stamp each part order filled 100% with a stamp that shouts that performance.

IX. TARGET FIVE TURNS ON PARTS INVENTORY, AND NON-MOVING INVENTORY < 5% OF TOTAL

These targets are future goals, but not likely found at most dealers today. They require careful attention to inventory control by both the dealer and supplier.

A. Definitions

- Parts turns are calculated by dividing the annualized cost of parts sales by average inventory cost
- Non-moving inventory is defined as no sales in twelve months
- Example categories of parts by demand and reorder rules for illustration:
 - A Items – sold once or more per month on average over a rolling 12-month period, reorder a month's supply.
 - B Items – sold once or more per quarter on average over a rolling 12-month period, reorder a quarter's supply.
 - C Items – sold two or more times per year on average over a rolling 12-month period, reorder a half-year's supply.
- Non-moving parts, reduce to < 5% of total inventory

PARTS DEPARTMENT CRITICAL VARIABLES

- B. Per \$100 of stock sales at cost, and using a less aggressive 12.5% non moving or dead inventory, expect the following:

	Sales	Reorder Rule	Sales / Reorders	Inventory Level	
A Items	\$ 60	12x/year	\$ 60/12	= \$ 5.00	
B Items	\$ 30	4x/year	\$ 30/4	= \$ 7.50	
C Items	\$ 10	2x/year	\$ 10/2	= \$ 5.00	Turnover
Stock Sales	\$ 100			\$ 17.50	5.7 times
Dead Inventory	No Sales			\$ 2.50	Note 1
Non-Stock Sales	\$ 25			\$ 0.00	Note 2
Total Inventory				\$ 20.00	5.00 times
Total Sales	\$ 125			\$ 20.00	6.25 times

Note 1: Represents 12.5% of sales in “dead” inventory (not usually this good).

Note 2: Non-stock sales assumed to follow 80/20 rule to stocked parts; \$100 in stock sales should mean \$25 in non-stock sales as well.

If in this example the dead inventory is changed to a more typical 30%, it will be valued at \$7.50 and total inventory goes to \$25. Inventory turns on stock sales drops to four times, \$100/\$25. Turn on total sales drop to five times, \$125/\$25. Before commenting on a dealer’s inventory turn ratio, it is important to take into account how much inventory has not moved in a year.

C. Non-Moving Inventory and What to Do With It

If unfortunately non-moving inventory is in the 30-50% range, it will include an accumulation of parts from several prior years. These may be carried on the books as valued assets when in fact they may have little or no value. The valuation process prior to acquisition of a dealer should catch this and value the parts correctly, but the question remains of what to do with the parts. Use the following suggestions:

1. Where the manufacturer offers parts return privileges, take maximum advantage of them. First, plan on returning all non-moving parts possible to be returned to each vendor at the next scheduled return. This step needs to become a routine followed religiously every year to keep from having the same scenario repeated.

PARTS DEPARTMENT

CRITICAL VARIABLES

2. Target customers who may need parts with special promotions.
3. Use ordered in error return privileges, even if there is a restock or freight charge. It is better than keeping the part hoping to some day sell a low demand part.
4. If supplier obsoletes parts and offers some level of return privilege, take it. It is better than keeping the part in stock when it probably has not moved for a considerable length of time anyway.
5. Call in a parts wholesaler for a bid on non-moving parts.
6. Post the parts on a clearinghouse service like *Source Line* to give visibility.
7. Trade information with other Hyster dealers.
8. Make a charitable contribution of dead stock, which can usually be written off at a sell price value not cost value.
9. After exhausting all of the above steps, for remaining parts make write downs a regular and expected procedure. Scrap the parts and free-up warehouse space usable for parts inventory.

D. Order Rules, or How Often to Replenish Stock

Parts order rules, or replenishment rules, should be designed to match the movement characteristics of the parts. In the example above, the assumption was that parts selling monthly should be ordered in an amount to equal a one-month demand. Sales of 30 per month, means a replenishment order of 30; which would be placed in time to receive the additional parts when the last stocked part is sold.

In an unmanaged inventory situation, it is typical to find A, B, and C parts all ordered without taking into account movement out of stock. The example of 30 per month might be ordered quarterly in a quantity of 90, which will over stock inventory. Conversely, trying to order weekly will increase handling costs, and may mean shortages of the part requiring both freight and emergency charges to apply.

PARTS DEPARTMENT CRITICAL VARIABLES

E. Other Parts Discussion Points

The ratio of competitive trucks worked on by service can have great impact on stock vs. non-stock if the same order rules are not used to bring in parts for competitive trucks. There may be reluctance to stock parts for competitive trucks, but there should not be if work is being done on competitive trucks. Of course, it is expected that all parts that can be obtained from Hyster sources will be the ones stocked.

Simple things like forward visibility of PM programs or pre-ordering parts for major service work can have a great impact on fill rates and freight costs. This idea means working towards just-in-time parts availability. An example of forward visibility is to look at the schedule for upcoming PM's, to leave enough time to bring in any needed parts on stock orders. This reduces freight and ensures having the parts in time, while minimizing the amount of stock needed and perhaps carried on vans.

Back to the example on competitive trucks (and to get a sense of the possible magnitude of this issue), ask how often basic PM parts have to be acquired from local dealers by an emergency trip to pick up the parts. If this situation is common, a better job can be done of pre-ordering parts from All-Makes Parts. If not a stocked part, make them aware of your needs. PM parts mean an ongoing demand.

Manage inventory by parts activity reports, run in descending order of activity. Will usually find 300-400 parts are 90% of the activity. Just analyzing the top 100 movers will usually allow significant improvements to be realized. If actively managed, most inventory and fill rate problems will go away.

Track inventory and sales by service van to zero in on correct parts to stock. Inventory the vans more than once per year and have the technicians accountable for discrepancies.

Hyster uses auditor-approved procedures for cycle counting inventory instead of annual inventories. This means much higher accuracy and control of inventory than a once a year, massive inventory of all parts. Cycle counting means verifying some part numbers every day and correcting discrepancies.

PARTS DEPARTMENT CRITICAL VARIABLES

X. TARGET FILL RATE AT 92% ON STOCKED PARTS

92% or higher on complete orders for stocked parts calculated as 100% line item fill on an order.

80% fill rate target on total demand for Hyster parts out of dealer stock. For example, in 2,000-3,000 line items, a dealer should be able to fill 80% of the orders at the dealer for the 100,000 plus total Hyster line items.

If the above targets are not being met, what and how much is stocked, demand patterns, and orders routines must be evaluated. Enlist your supplier's help in studying the parts parameters and suggested stock levels; this applies to all the parts sold, regardless of the source.

XI. PARTS OFFICE LAYOUT FOR HIGH PRODUCTIVITY

The typical front counter for outside customers and back counter in a separate area for all internal people is not the most efficient use of parts people.

A centralized area for all parts people works best to share duties and ensure the highest level of service to external and internal customers. Have the parts people in a common area, but with separate service areas for external and internal customers. This allows all parts sales people to help with all duties and means everyone takes care of customers.

The design may require a separate entrance for parts customers and may not be feasible in an existing structure; however, any new structures or facilities to be rebuilt should be designed this way.

SERVICE DEPARTMENT CRITICAL VARIABLES

I. SERVICE DEPARTMENT FINANCIAL MODEL

Note: All table information in this section can be modified for local conditions by using the Excel spreadsheets contained on the enclosed diskette. Also, see the *Global Dealer Service Model* for an even more in-depth discussion on sizing and running service departments.

Service Table 1

Net Sales:	100%	
Cost of Goods Sold:	43%	Technician Wages / Benefits
Gross Profit Margin:	57%	
Expenses as % of Sales:		
• Personnel	13%	← 10.4% Administrative Pay 2.6% Administrative Benefits
• Operating	10%	
• Occupancy	5%	
Total Expenses:	28%	
Operating Profit:	29%	

Assumptions: 25% of wage assumed for technician benefits in cost of goods sold.
A 3.2 times billing multiple from the service technician wage and benefits to the sell rate.
100% recovery of service van and shop supply costs.
Sales include labor sales, but not parts department supplied parts.
Sublet labor or parts have at least a 25-30% margin (1.33 to 1.43 mark-up).
A good benchmark is that 50% or more of total dealer employees are technicians.

SERVICE DEPARTMENT CRITICAL VARIABLES

II. CALCULATING SERVICE MARKET SHARE

To evaluate dollar volume, first it is important to know what the opportunity is within a dealer's area. This comes from studying both the Hyster population in the area as well as the industry population. Expected use of labor by model class per year is applied to the population figures to arrive at potential sales. Actual sales compared to potential sales define the market share in the area. Include STR/LTR trucks, warranty work, and travel time in both the potential and sold hours calculations.

A. Use actual dealer records where available

The ideal way to conduct this study is to use actual dealer records by customer on what trucks are in use. Actual and potential sales are calculated directly from the information. Ranking the accounts in descending order of potential gives a look at where the opportunity is. Ranking this same list in descending order of actual sales contrasts nicely with the potential list to point out opportunities. The following is an example of a report layout.

Potential Sales Opportunity:

- Customer Identification
- Number of units and type
- Labor hour consumption factor by type of truck (see below)
- Total potential sales, sorted in descending order
- Go down the list until 80% of the volume is listed

Actual Sales by Account:

- Customer identification
- Number of units and type
- Labor hour consumption factor by type of truck
- Total potential sales, sorted in descending order
- Go down the list until 80% of the volume is listed

SERVICE DEPARTMENT CRITICAL VARIABLES

B. Use Hyster and industry shipments data to approximate population and potential

The second way to calculate market share is to make an educated guess on the size of the industry and compare actual sales numbers to the derived opportunity number. This approach uses multiple years of shipments into an area to approximate the actual working or active lift truck population. Potential labor hours are calculated by using factors that vary by model family and the age of the machines.

Work with the Hyster contact group to develop specific information for a dealer territory. The following table is an example of various labor consumption estimates for each model family.

Truck Class		Industry Shipments 1991-2000
Class I	CBR Electric	22.50 Hours
Class II	Narrow Aisle	23.50 Hours
Class III	Powered Walkie	14.50 Hours
Class IV	I.C.E. Cushion Tire	26.00 Hours
Class V	I.C.E. Pneumatic Tire	28.00 Hours

CBR = counterbalance rider. Narrow aisle includes order selectors, reach trucks and VNA product. Powered walkies includes not only walkies but also walkie stackers and tow tractors. I.C.E. = Internal Combustion Engine.

C. Use sales ranking reports to analyze your customer sales

By listing customers in a ranking report by sales volume, and tracking this information over time allows both knowing whom the top accounts are and if their buying patterns change significantly. This analysis can help rationalize or justify discount programs and special handling for select accounts.

Knowing the profile of the top 10% of the accounts you do business with will allow targeting of more accounts with a similar profile, and a thorough understanding of what it takes to keep this select group's business.

SERVICE DEPARTMENT CRITICAL VARIABLES

III. TARGET BILLING MULTIPLE IS 3.2 TIMES TECHNICIAN WAGES AND BENEFITS

Service Table 2

The meaning of billing multiple is shown in the following example:

Technician Hourly Wage	Benefit Package % Of Wages	Benefit Costs	Total of Wages & Benefits	Billing Multiple	Sell Rate
\$14	25%	\$3.50	\$17.50	3.2	\$56
\$18	25%	\$4.50	\$22.50	3.2	\$72
\$20	25%	\$5.00	\$25.00	3.2	\$80

The benefit package includes at least some or all of the following:

Payroll Taxes	Medical/Dental/Vision
Profit Sharing/Pension	401K Match
Life Insurance	Long-Term Disability

Use of 25% for the benefit package cost in the U.S. is a conservative estimate that varies by region. In the U.S. wages include time paid for vacations and holidays.

The 25% does not include Holiday, Vacation, or Sick Pay. These additional benefits are accounted for separately in Application Rate, Section IV.

Specialty work should allow higher labor sell rates than the 3.2 multiplier implies. For example, using \$72/hour from the table as the guide, would \$95/hour or more be feasible for work on narrow aisle guidance systems? How about the following categories:

Certified welding	Electronic control work
Aerial work platform repairs	Trash compactor repairs
Hazardous environment work	Crane repairs

The point is that customers expect to pay for specialty work, and you don't have to be afraid to charge what the market will bear for quality work done right.

SERVICE DEPARTMENT CRITICAL VARIABLES

IV. TARGET AN 85% APPLICATION RATE

Application rate is the ratio of hours billed to hours paid to a service technician. If this ratio is managed to be 85%, almost all other efficiency problems in a service operation can be lived with. The following example shows how an application rate is calculated.

Service Table 3

	<u>Percent</u>	<u>Days Paid</u>	<u>8 Hour Days</u>
Paid Time = 5 Days x 52 Weeks (or 260 Days)	100%	260 Days	2,080 hours
Allowed Time = Vacation, Holidays, Sick Time	10%	26 Days	208 hours
Expense Hour = At Work, but not sales hours	5%	13 Days	104 hours
Examples include meetings, training, rework, non-billed paper work time, service van or building maintenance, non-billed travel time.			
Local Customs or Laws (to fit other countries)	<u>0%</u>	<u> </u>	<u> </u>
Applied Time = Paid-Allowed – Expense-Local	85%	221 Days	1,768 hours

The upper limit to applied time will be near 90%, just taking into account vacations and holidays. Service Departments that are struggling to be profitable are likely operating below a 70% application rate. Manage expense time well and good things will happen to applied time and profit.

The model assumes an 85% application rate in recommending a 3.2 billing multiple. If the application rate is either higher or lower than 85% due to circumstances out of dealer control (e.g., mandated vacation and holidays), then the true sell rate will come from factoring the model sell rate by the difference. The following example shows the concept.

SERVICE DEPARTMENT CRITICAL VARIABLES

Application <u>Standard</u>	<u>Actual</u>	<u>Percent Difference</u>	<u>Table Sell</u>	<u>Factored Sell</u>
85%	80%	94%	\$72	\$72/94% = \$77
85%	90%	106%	\$72	\$72/106% = \$68

What a dealer charges has to take into account both benefits and applied time to get the results contained in the model, and that is with rest of the operation running correctly.

Applying the sell rate and cost factors allows a model of expected sales and gross profit per technician on a yearly basis. Fill in the variables to change the model to fit local conditions.

Service Table 4

	Hours	X	Sell Rate	=	Annualized Amount	
Applied, Sales:	1,768		\$ 72		\$ 127,296	Sales Billing
Hours Paid, Cost:	2,080		\$ 18		\$ 37,440	Wage Component
Benefits % Wages			25%		\$ 9,360	Benefit Component
Cost of Goods Sold					\$ 46,800	Cost of Goods Sold
					\$ 80,496	Gross Profit Dollars
					63.2%	Gross Profit %

One way to focus attention on expense hours is to graph total department and individual retail, internal and expense hours on a monthly and year to date basis. This can be done easily on a spreadsheet and graphed.

Rework and policy decisions should be tracked and graphed as well. Holding total expense for these categories at less than 1% of total sales will dramatically contribute to department profit.

SERVICE DEPARTMENT CRITICAL VARIABLES

V. TARGET 100% EFFICIENCY RATE

A. Definition of Efficiency

Efficiency rate refers to being able to invoice the amount of hours it takes to complete a repair. This seems obvious until considering what happens when a job takes longer than it should, for whatever reason. There will be times when it is neither correct nor possible to invoice all the time the technician is paid for. The upper limit on efficiency is much higher than the application rate. It can be higher with training, use of flat rates, and motivated employees.

Departments that are struggling with profitability will probably have less than 100% efficiency. This can result from poorly trained, managed, or motivated technicians. It may just as well result from poor dispatching, poor parts stocking or lack of communication on what the goals are.

B. Example of 100% Efficiency

One hundred percent efficiency rate in a simple example is that it takes 10 legitimate, justifiable hours to complete a repair, and the customer is billed for 10 hours. Ten hours billed divided by 10 hours paid is 100 percent.

C. Examples of Less than 100% Efficiency

Suppose it takes an inexperienced technician 12 hours to do the above job that should take 10 hours. If the customer is not asked to pay for the extra hours, but the technician is paid for the work, then the efficiency rate would be 10 hours billed divided by 12 hours paid, or 83% efficiency.

When opening a branch in a new territory, there will be times when it is necessary to have technicians travel long distances between calls that cannot be billed to customers. These non-chargeable hours are additional examples of less than 100% efficiency.

SERVICE DEPARTMENT

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D. Example of Greater than 100% Efficiency

For the same 10 hour job, the fastest, most experienced technician is assigned the job and it gets done in eight hours. Since the customer was quoted the 10 hours it normally takes to do the job as a flat rate repair, bill 10 hours and pay the technician for eight. The efficiency is now 10 hours divided by eight hours, or 125 percent.

E. How to be Efficient?

1. By being able to beat flat rates, but it takes well trained and motivated technicians to do this. There also has to be an ability to quote flat rate repairs, and ones that are realistic. An ability to quote and realistic numbers are not the same thing. Use Hyster database programs and build dealer specific ones over time.
2. The PM program provides a perfect place to set realistic goals for performance and to communicate the standards. All territories have different geography, but efficient operations have technicians complete at least 6-8 PM's per day. Even discounted labor rates to do PM's will make money if enough are done in a day. However, the goal is not just to do quantities of PM's, but quality work that brings in additional revenue to the dealer for identified repairs or parts. Measure additional work generated by each PM technician to help have a balance between quantity and quality.
3. To have dedicated PM technicians or not?

PM's are pre-planned customer payments and need to be done on time to ensure both collecting the payment but, more importantly, to show the customer professionalism in being able to work to a schedule. As long as they are done on time, it doesn't matter whether technicians are dedicated to doing PM's. It is an issue when PM's are not done on time. This means it is important to know the status of the PM program and how current it is. Not getting to accounts consistently within 3-5 days of when they are due suggests something different needs to be done.
4. Use zone charges for travel time and mileage. For example, if a zone's charge to show up at an account is one hour of labor, but it only takes on average 30 minutes between calls, there are opportunities to pick up 30 minutes on each call. The more calls made in a day, the better chance to pick up time and help the efficiency rate.

SERVICE DEPARTMENT

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5. If road technicians take vans home at night without paying commute fees, and perhaps even if they do, they then have an obligation to give the dealer some amount of commute time at the beginning and end of each day. They do not get paid for commute time, but the dealer can bill a customer for the time. Sure signs of a struggling department are technicians not giving free hours for commute, and leaving jobs at the end of the day to arrive home at quitting time. Instead they should be on the job site until quitting time, and then drive home on their own time.
6. Carry proper parts stock on service vans to have the best chance of being able to complete common and repetitive repairs on the first visit. This is especially expected on Hyster product, and for commonly replaced parts. While a technician will want the whole parts inventory in the van, tracking parts sales by van helps pinpoint likely parts to stock on a van. A cross-functional team of parts, service and aftermarket sales people can come up with a very smart list of what should be the base stock on each van. This list can then be modified for the expertise of the technician or the particular territory they are in.
7. A key barometer on van stock is to measure the first call fix percent of parts out of van stock. Having to return for parts means the van did not have the part.
8. Have a parts runner carry parts to the service vans while the vans are on-site or en-route to a customer location. The parts runner can be billed out on the service job, but the customer will pay less than if the technician had to run around to get parts. Parts running can be a profitable service and not just a cost to the dealer. Three \$30 charges per day will pay the entire wage, benefit and truck expenses of a parts runner. The runner can be shared with Parts department and do regularly scheduled or emergency deliveries for Parts, too.
9. Add 15 minutes to every job to pay for administrative and supervisory time.
10. Ensure paperwork from technicians is turned in regularly, and be geared to automation in this area with laptops in vans, bar-coded time cards and other time saving tools. Use parts drops, and fax machines given to technicians to use from home to ensure daily flow of paperwork.
11. Ensure timely closing of jobs. This is an every day function and invoicing needs to be done the same way. A good goal to shoot for is closing all jobs within two days of last labor on a repair. Remove all the excuses why this is hard to make happen. Monitor and post visual results.

SERVICE DEPARTMENT CRITICAL VARIABLES

VI. THREADING WAGE, EFFICIENCY AND APPLICATION CONCEPTS TOGETHER

Service Technician Nomenclature

“A” level technicians are not only capable of fixing a problem, but can correctly diagnose a problem prior to replacing any parts.

“B” level technicians are technically competent, but not good at diagnosis.

“C” level technicians are either inexperienced or not very good, not highly technical, nor able to diagnose very well.

Using the B technician as the standard, fill in the wage, sell, application, and efficiency rates in the following table.

Service Table 5

		B Technician		
Wage Plus Benefits	Variable	A	\$ 22.50	A x 3.2
Sell Rate with 3.2 Multiple	Variable	B	\$ 72.00	
Application Rate	Variable	C	85%	
Efficiency Rate	Variable	D	100%	
Effective Rate/Hour	Calculated	E	\$ 61.20	B x C x D
Fixed Gross Profit Dollars:	Calculated	F	\$ 38.70	E - A
Gross Profit Percent:			54%	

“A” technicians command and are worth more pay, while “C” technicians are worth less. Fill in the wages to be paid to both and the application rate assumed for each in Service Table 6. The model will solve for the efficiency rate needed to hold gross profit dollars the same as the amount for the “B” level technician standard.

SERVICE DEPARTMENT CRITICAL VARIABLES

Service Table 6

		A Technician	C Technician
Wage Plus Benefits	Variable	\$ 25.00	\$ 15.00
Labor Hour Sell Rate	B above	\$ 72.00	\$ 72.00
Application Rate	Variable	87%	80%
Efficiency Rate Needed	Calculated	103%	91%
Effective Rate/Hour		\$ 62.64	\$ 57.60
Fixed Gross Profit Dollars:		\$ 38.70	\$ 38.70

The interplay of all the variables provides telling points. Paying more means higher expectations of application and efficiency rates. Paying less allows more hours for training or inefficiency.

VII. TARGET SERVICE DEPARTMENT STAFFING AT A 5-TO-1 TECHNICIAN TO "OTHER" RATIO

"Other" includes service management, dispatcher, supervisor, clerical, and aftermarket sales people. Aftermarket sales people are split with the Parts Department on a 50/50 cost ratio.

To put this theory into a practical application, use the model Financial Targets to build a Service Department from an estimated volume level.

SERVICE DEPARTMENT CRITICAL VARIABLES

- A. Step 1 – Calculates service sales, assumes 85% application, 100% efficiency

Service Table 7

Applied Hours per Year per Technician	Variable A	1,768
Number of Service Technicians	Variable B	47
Total Hours per Year to Bill	A x B = C	83,096
Sell Rate per Hour	Variable D	\$ 72
Total Sales:	C x D = F	\$5,982,912
Model Targets		
“Other” Pay % of Sales	10.4%	x F = \$ 622,223
Other Benefits % Sales	2.6%	x F = \$ 155,556
Total Personnel Costs:	13.0%	\$ 777,779

- B. Step 2 – Spreads the Costs over Staff Positions

The following model spreads out the people costs by position using a ratio of technicians to others by typical classifications. While not standards, the analysis puts into perspective what happens to staff levels when branch assignments of people and duties are made that duplicate functional efforts at each branch. Under utilization will harm the financial relationships that govern profitability in service.

- C. Assumptions

1. 70/30 split between field repair and shop repair technicians.
2. Separate PM technicians in ratio of 66/33 field repair to PM.
3. Costs of aftermarket sales will be split evenly with parts department.
4. One store assumed, additional branches would add people costs, unless the functions performed can be centralized.
5. 50% or more of shop supervisor time will be added to work-orders.

SERVICE DEPARTMENT CRITICAL VARIABLES

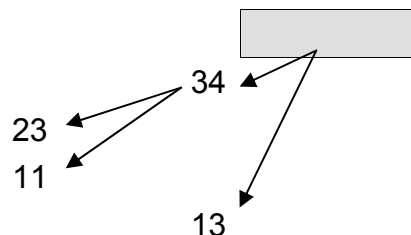
Service Table 8

Fill in total of technicians:

Estimated Field

- Field Repair
- Field PM

Estimated Shop



Other Staff Positions:

	Pay Each	Extended	Technician Ratios
1.0 Service Manager			
2.0 Dispatcher			15 Field / Dispatcher
1.0 PM Coordinator			10 PM / Coordinator
1.0 Shop Supervisor			10 Shop / Supervisor
4.0 Aftermarket Sales (1)			6 Techs / A.M. Sales
1.0 Administrative			
10.0 Pay @ 10.4% of Sales:		\$622,223	
Benefits @ 2.6% of Sales		\$155,556	
Total Personnel Costs:		\$777,779	

1. In this example, four more Aftermarket sales would be called for in Parts for a total of eight; only four would be charged to service.

SERVICE DEPARTMENT CRITICAL VARIABLES

VIII. TARGET 100% RECOVERY OF SERVICE VAN COSTS

Here are the costs of a typical Ford one ton van, gas engine, air conditioned equipped with the factory installed shelving system, and extras of other tooling, compressor, tanks, safety equipment. An on-balance sheet residual lease is used for simplicity. An off-balance sheet lease would produce slightly different numbers, but the point is the same.

Service Table 9

Acquisition of van and tooling		\$ 35,000
Residual percent, if any	20%	\$ (7,000)
Miles driven per year	30,000	150,000
Miles per gallon of fuel	12	
Cost of one gallon of fuel average	\$1.55	
Lease term months	60	
Interest cost over term @	10%	\$ 11,195
Fuel cost over term		\$ 19,375
Maintenance cost per year	\$625	\$ 3,125
Tires, two replacements at a cost each replacement of	\$600	\$ 1,200
Insurance cost per year	\$800	\$ 4,000
Registration cost per year	\$500	\$ 2,500
Total:	J	\$ 69,395
Total Miles	K	150,000
Cost per mile to operate	J/K=L	\$ 0.46
Cost per year to recover	J/5=M	\$ 13,879

New vans are good for 150,000 to 200,000 miles with proper maintenance. At 20,000 miles per year, keep seven years. At 30,000 miles per year, keep five years. Retired vans that have been maintained and look good should command \$7,000 or more in residual value, even at seven years of age. Check locally.

SERVICE DEPARTMENT CRITICAL VARIABLES

Four Ways to Recover the Van Cost:

- Add enough to labor rate to pay for truck
- Use a mileage charge – easier to administer if zone charges are used
- Use a zone charge for both labor and mileage
- Use a service call fee that is a flat rate to pay for all truck costs

1. Add Cost to Labor Rate

Service Table 10

Cost per year to recover	\$ 13,879
Sales billed hours/year	1,768
Divide cost by hours	\$ 7.85

The trouble with this method is that labor rates are sensitive, from a competitive standpoint. If competitors don't charge this way, the rate will look quite high. Other types of charges are much less visible.

2. Charge by Actual Miles Driven to Customer Location

Recognize that all miles are not going to be chargeable because of travel to the store, work on company owned vehicles, rework, warranty repairs, and other issues. What percent is likely to be billable and with how much work involved in tracking the mileage?

Service Table 11

Lifetime Miles to Recover	K – Table 9	150,000	
Lifetime Cost to Recover	J – Table 9	\$ 69,395	
If Charge per Mile is	\$1.00		
% Recovery of Total Miles	20%	\$ 30,000	<i>Lose money</i>
% Recovery of Total Miles	50%	\$ 75,000	<i>Break even</i>
% Recovery of Total Miles	80%	\$ 120,000	<i>Make money</i>

SERVICE DEPARTMENT CRITICAL VARIABLES

Ensuring the discipline to track and charge the miles is the big issue with this method. Gaining efficiency is not done as easily with this method as it is with zone charges.

3. Use Zone Charges for both Labor and Miles, To and From each Call

Service Table 12

Here is an example of setting up zones and charges:

Zone 1 10 mile radius from dealer (roundtrip is 20 miles)

Zone 2 20 mile radius from dealer (roundtrip is 40 miles)

	Labor Hours	Sell Rate	Miles to Charge	Dollar Per/Mile	Total Charge Labor + Miles
Zone 1	1	\$ 72	20	\$1.00	\$ 92.00
Zone 2	1.5	\$ 72	40	\$1.00	\$ 148.00

Zone charges become the way to gain efficiency. The more sales calls made in a day, the higher the truck recovery rate and hours billed. The idea is to minimize windshield time, maximize customer time, maximize calls completed per day, and maximize efficiency. Ways to maximize the calls per day can include:

- Schedule repairs by postal code to minimize windshield time.
- Use one of the currently available dispatching software packages that can pinpoint customer and van locations by global positioning systems or even radio towers. This type of technology can make centralized dispatching a reality, especially when combined with the high tech combination radio/telephone systems that have been available for several years.
- While a technician is in an area, the dispatcher should call customers to follow-up on known problems, on-going repairs, and likely stops. Again, the idea is to maximize the number of calls that can be done in close proximity.

SERVICE DEPARTMENT CRITICAL VARIABLES

4. Use a flat rate service call fee charging set amounts

Service Table 13

Cost per year to Recover	M (Table 9)	\$ 13,879
Work Days in year; 5 days x 52 weeks x 85% = N		221
Cost per Work Day to Recover	M/N=O	\$ 62.80
Average Revenue Calls/Days	= P	3
Cost per Average # of Calls	O/P=Q	\$ 20.93

This amount will cover the cost of service vans making service calls, but will not be enough to cover PM vans unless the same charge applies to a call on a PM account. However, PM pricing is very competitive so it is not likely to be able to charge a call fee. An exception to this is a customer who is not enrolled in a regularly scheduled PM program, or having PM's done less than three times per year. Will-call PM accounts, especially with little to no added service volumes, have to pay their way including van costs.

How much needs to be added to service call fees to cover PM vans?

Service Table 14

Percent of total service vans in PM	33%
Raise cost per call from above by the percent in PM service	\$ 20.93
Divide by (1 - % vans) in PM service	67%
Cost per average # of calls	\$ 31.24

Set somewhat higher, \$5-10 per sales call. Only charge one per visit to a customer location, even if working on more than one truck. A second visit to the same customer later the same day on a different truck or problem would incur an additional charge. Follow-up visits to continue repairs on a truck should not incur an additional fee.

A service call fee for van recovery can also be used in conjunction with a zone charge for labor cost recovery.

SERVICE DEPARTMENT CRITICAL VARIABLES

IX. TARGET 100% RECOVERY OF SHOP SUPPLIES & MISCELLANEOUS CHARGES

It is impractical to try and add actual use of shop supplies, fasteners, cleaners, rags and fluids to each work order. It is important however to recapture the costs. This is usually done by adding line items called miscellaneous, shop supplies, and/or environmental fees to an invoice as some percent of the total bill. Miscellaneous might be 1% of the total bill, and environmental another 0.5 percent. Many dealers use 5% of the total bill up to a maximum charge per invoice of \$50. Interestingly, customers seem to expect and accept these charges on shop repair jobs, especially when they are identified up front in a quote estimate and capped at a reasonable amount. On field repairs and PM's these items often turn out to be the biggest cause of customer dissatisfaction, complaints, and disputes.

A better way to handle this situation is to build these charges into other rates to keep them off the invoice as a line item. To calculate a per-repair or per-service call amount to be added, look at historical costs for these items and divide them by the number of customer invoices that were generated. This will give an approximate amount to add to all customer invoices to recapture the costs.

Service Table 15

Example Calculation:	Average	
	Per Month	Per Year
Shop Supplies Used	\$ 1,000	\$ 12,000
Lubricant, Misc. Fluids	\$ 500	\$ 6,000
Environmental Charges	\$ 1,000	\$ 12,000
Total Charges:	\$ 2,500	\$ 30,000
Customer Sales Jobs	300	3,600
Cost per Job to Add		\$ 8.33

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One way to add this amount to invoices without creating an additional line item is to combine it with the service call fee on field repairs.

Cost per Job to Add	\$ 8.33
Truck Cost from Above	<u>\$ 31.24</u>
Revised Service Call Fee	\$ 39.58

X. TEMPLATE FOR SELECTING DIESEL OR GAS POWERED SERVICE VANS

The following template may be helpful when selecting engine or other options to compare for their life cycles costs. It is not a recommendation except to compare options based on local conditions (same assumptions on van configuration as used above). Tune-up costs for a gas engine should be the only maintenance difference, if the years and mileage recommendations are followed.

Service Table 16

	Diesel	Gas
Lifetime Miles	150,000	150,000
Premium at Acquisition	\$ 4,000	---
Miles per Gallon	18	12
Tune-Ups	---	\$ 500
Fuel Cost per Gallon	\$ 1.45	\$ 1.55
Fuel Expense	\$ 12,083	\$ 19,375
Residual Difference	\$ (1,000)	
Total Cost:	\$ 15,083	\$ 19,375
Diesel or Gas Difference		\$ (4,292)

**SERVICE DEPARTMENT
CRITICAL VARIABLES**

XI. GUARANTEED MAINTENANCE CONTRACT BUDGET ALLOCATION SCHEDULE

Guaranteed maintenance contracts are usually written with a level payment to be made over the life of the contract. This makes the revenue stream out of cycle with the cost stream. Lower costs are expected in the first years (more revenue than cost), with higher costs than revenues expected in later years (less revenue than cost).

The recommended way to account for these contracts is to defer some of the revenue from the early years into accrual accounts, then draw down the accrual in later years when costs exceed revenue.

Controls are needed to assure that costs do come in as planned, or the reasons for higher than planned costs are known. Use the following table to calculate the budget amount of maintenance per year to allow to be spent by the Service Department.

Service Table 17

PERCENTAGE OF TOTAL MAINTENANCE COST

CONTRACT

<i>TERM</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Year 6</i>	<i>Year 7</i>	<i>Total</i>
2 Years	40%	60%						100%
3 Years	20%	35%	45%					100%
4 Years	16%	22%	28%	34%				100%
5 Years	12%	17%	20%	24%	27%			100%
6 Years	8%	12%	15%	19%	22%	24%		100%
7 Years	5%	8%	12%	16%	18%	20%	21%	100%

As an example, a 5-year contract calls for even payments of \$100/month. Total billings over the contract will be \$6,000. Year-1 revenue will be 12% of \$6,000, or \$720; \$480 will go to the deferral account. How much profit is achieved depends upon how much cost the Service Department incurs.

CUSTOMER SATISFACTION CODE OF CONDUCT

CUSTOMER AND EMPLOYEE SATISFACTION

How well employees and customers are satisfied with the work performed by a dealer will determine the long-term health, prosperity, growth, and reputation of a dealer. Each area of the dealer – Sales, Used, Rental, Parts, Service, and General & Administrative should have measurable means of determining both employee and customer levels of satisfaction.

High ratings are the goal to sustain long-term relationships with both employees and customers. Less than high ratings point to areas needing improvement, and that if improved can secure the essential long-term relationships.

A well-defined method of measuring and evaluating Customer Satisfaction already exists in the Customer Satisfaction Index guidebook. Use the information to establish measurement and corrective actions to increase both employee and customer satisfaction.
