You survived... Now what?

Avoid these six mistakes as you put the recession behind you

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It has been a tough two years for anyone selling tires. Chaos in Washington, high unemployment and a faltering economy has kept everyone in the retail business scrambling to keep the bottom line in the black.

In our business, motorists put off buying tires until the last minute. Thankfully, the service side of the business remained strong, as customers maintained their aging vehicles.

Finally, we are seeing some bright spots on the horizon. Pent-up tire demand finally kicked in and the economy seems to be stabilizing.

Typically, independent tire dealers are optimistic, enthusiastic entrepreneurs expecting good things to happen. So, once you see a glimmer of hope, you immediately start thinking about hiring... expanding... buying. Time to hire those techs that you've been needing; buy that equipment you've been deferring; take the family on a long, overdue vacation; give your employees the bonuses that you couldn't afford; improve your benefits for your hard-working employees. The list of things you could do goes on and on.

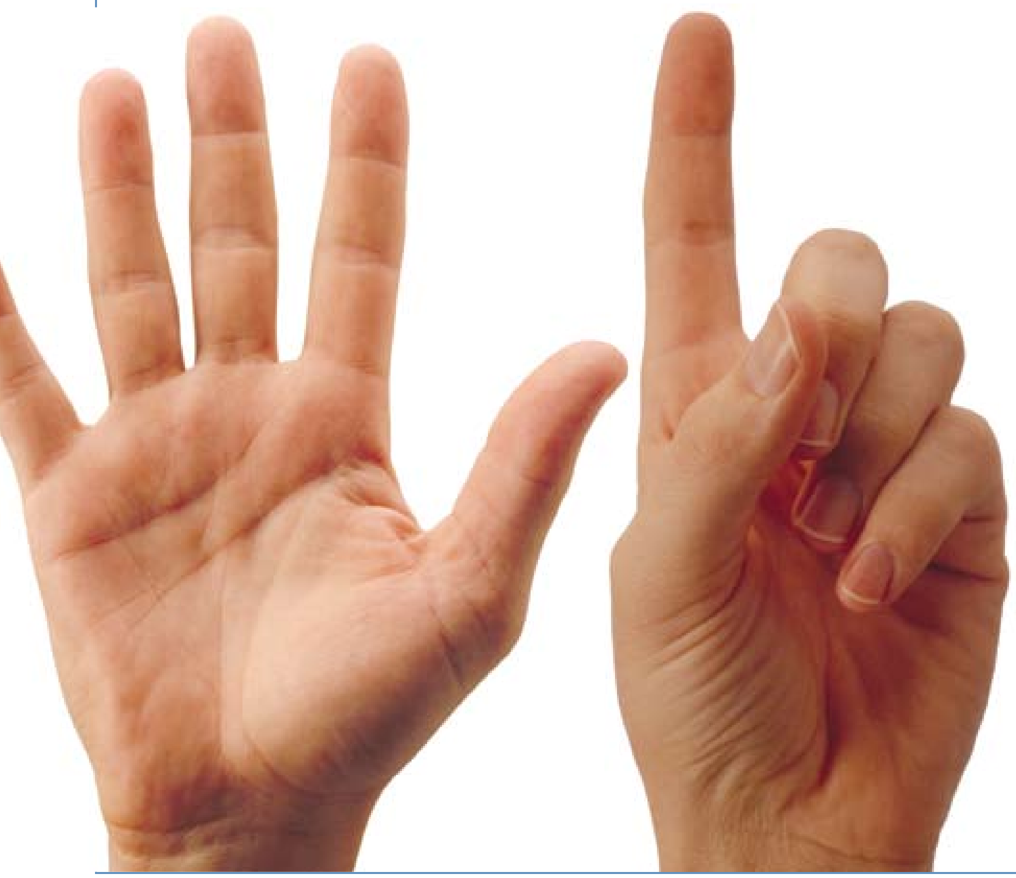
Stop. Before you make any grand changes in your business, consider these common mistakes that might be premature moves in our still fragile economy.

If payroll runs higher than 45% of your gross profit, it will be tough to reach a 10% net profit.

Mistake #1: Hire additional employees. Now that business is better, some think they should hire more people because most dealers believe it will get even busier and they don't want to miss sales. Always try to run lean and mean and show the profits before you consider hiring more people.

As you look at your financial results, payroll should never be more than 45% of your gross profit. In our analysis, payroll includes all salaries: owner, store manager, outside sales, service manager, service techs, tire techs, bookkeeper, office, etc. If it runs higher than 45% of your gross profit, it will be tough to reach a 10% net profit for your business, and that should be everyone's minimum goal.

On the other hand, there might be quality people out there still hungry for work, and you should always think about replacing marginal employees with better skilled workers.



Mistake #2: Take time off. With the increase in sales, the owner now thinks he can take more time off since the sales are up. This often leads to the employees slacking off and not paying attention to the business. Oftentimes, the employees feel that if the owner can slack off, why can't they?

If you do take some much deserved time off, make sure that you have controls in place to monitor your business in your absence, such as security cameras, mystery shoppers, daily sales reports, etc.

Mistake #3: Increase em-

ployee benefits. Now that sales have come back, some dealers think they can afford to pay more benefits, vacation, sick pay, bonuses and health insurance. Frequently, however, the increase in sales and gross profit are not enough to consider these additional expenses.

The dealer should wait until he has four solid months of increases in sales and gross profit and wait until he gets his profit and loss statement (P&L) to see if the company can afford more expenses. If the company's profits are considerably higher, the dealer can then decide how much he can increase the benefits to the employees.

In our 20 groups, we have a goal of at least 10% net profit in a retail tire and service business, and many of our dealers are making much higher profits.

The employee benefits have a great impact on the bottom line. In our "Ideal Tire Store," expenses (including benefits) should be no more than 23% to 25% of sales. Before you make any changes in your payroll or benefits, store owners should complete an analysis of their P&L and only make changes that are necessary and sustainable.

If you are good at communicating with your employees (and you should be), they will understand that a stable employer is much better than a pay increase that cannot be sustained.

Mistake #4: Purchase a new vehicle or equipment. Many times, the dealer is justifying the need for a new vehicle even though he knows he still can't afford it. A shiny new truck is fun to buy, and you can't beat that new car smell!

Always wait until you can verify that the new profits will afford this new purchase. You should do a careful analysis of how much it would cost to repair a vehicle or refurbish equipment before you buy.

Do a "payback analysis" to determine exactly how much you will be saving by replacing old equipment with newer models. If your equipment is working fine, don't change it. If it needs repair, look at the cost versus the lifetime of the equipment. Get your accountant involved in these important decisions.

If you discount products and labor and don't reduce your expenses, you will only cut your bottom-line profits.

Mistake #5: Offer more discounts. In order to get out of the recession faster or gain quick market share, some dealers may try to discount their products and labor. If you do this and don't reduce your expenses, you will only cut your bottom-line profits.

Don't discount. If you are having problems, now may be the time to try to reduce overtime pay and cut other expenses.

We recommend that dealers use a standard mark-up matrix for parts and tires and minimize "wheeling and dealing" at the counter. There will always be a cheaper place to buy parts or tires, but your customers are paying for your expertise and guarantee of satisfaction.

Saving a few pennies now may cost them a breakdown on the road. You should explain your "customer satisfaction" policy and stick to your mark-up matrix.

Mistake #6: Buying a competitor. Many dealers who run profitable operations may think this is the best time to purchase a competitor. Oftentimes, dealers are losing money and want to sell their business.

You may think that when you buy a company that is losing money, you can turn it around and make the same profits you make at your store. So often, however, you find out that its people are not as good as yours, the store has a bad reputation in the market, its products are old and obsolete, etc.

Our experience shows that if you purchase a business like this, you will take three years or more before you start to see the fruits of your labor. Be careful. If you are going to buy another tire store, be sure to purchase one that is well run and has a good name in the market. Use a business broker to help analyze the business cash flow and understand how much goodwill the business provides.

Consider this reality: If you make 5% net profit in your business, for every \$20 you spend on anything — benefits, vacations, bonuses, more people — you need to sell \$400 in merchandise to break even on the spending. Do the math and carefully analyze your need and the opportunity before you plunge ahead and make decisions that might cost you in the end. ■

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