How to Manage a Change in Sales Mix

Is Your Ship Taking On Water?

By Bruce McConnell

Like it or not, your sales mix has probably changed a great deal over the past year or two. The change may have come from the drop in overall new construction activity in your market, an increase in your competitor's efforts, or the pressures that steel and fuel continue to put on the prices charged to customers.

More than likely, however, a combination of these and several other factors made 2008 one of the more challenging times for dealers to stay on track. It's likely that 2009 will continue to present challenges for your sales mix.

A Shift to Service

For example, most of you have already seen the shift from fewer installations to more service work. Although service work offers a much higher gross margin percentage, it is quite challenging to generate enough service activity and dollar amounts to cover your overhead. This shows how a shift in sales mix can hurt.

As a result of this change in mix, many of you have seen lower sales revenue and lower gross profit dollar levels. These continue to whittle away at your net profit, especially as many of your expenses are also on the rise.

When faced with a changing mix like this, I recommend that you take the time to project the growth of your various business segments in the year ahead. Until recently, you could use your historic trends and current market conditions to do this. A dramatic shift in sales mix makes these projections more challenging, but even more important.

Here's How

Here's how to do it. Start by identifying the quantities and changes already seen in both 2008 sales activity and gross profit dollars generated by each department.

Keep in mind that last year's industry-wide price increases sparked an average 10 to 12 percent "artificial" increase in revenue. Even though revenue may have been higher, it is highly probable that fewer units were actually sold.

After you have a better handle on where your volume and mix will most likely be headed this year, you will then need to calculate the approximate gross profit dollars that this new mix should generate for you. This should be based on the current pricing and margin levels that you feel you can sustain throughout the year.

With your first good glance at your projected gross profit, you will now be able to see whether it will be enough to cover your overhead or meet your profit objective. If it does not, then you will need to roll up your sleeves to assess the key components of your income statement. Focus on the following areas.

Ideas: Pricing and Margins

- Raise prices on as many products, parts, and service rates as possible.
- Tweak your price formulas to increase per-door profit by $10-$20 or more.
- Selectively reduce prices only on highly competitive products.
- Involve vendors to help keep your material costs as low as possible.
- Focus on alternative product lines and/or models that help you get the job.

Ideas: Reduce Labor Costs

- Eliminate poor-performing technicians.
- Reduce technician workweek to 32-36 hours; stagger workdays for full coverage.
- Eliminate overtime — no exceptions!
- Increase your monitoring of daily technician output.
- Fill your technicians' days with work or send them home.

Ideas: Reduce Expenses

- Reduce employees' personal use of company vehicles.
- Tweak your advertising strategy to maximize proven results at a lower cost.
- Reduce insurance costs by increasing deductibles and/or employee contributions.
- Implement office/sales/officer wage reductions of 10-15 percent across the board.
- Reduce office staffing and/or hours worked.
- Eliminate non-productive luxuries and perks.

Remember that there is no single and easy fix out there, so making small improvements in many areas is your best bet for success.

In short, you need to see how the change in sales mix is affecting your bottom line. This tells you if your ship is taking on water.

If so, develop a plan of action to plug the holes and stop the leaks. This process will not only keep your ship afloat, but it will also be leaner, faster, and headed in the right direction. When the economy improves, you'll be ready to go full speed ahead. ■

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