SELLING SMART

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Profit Drivers

Understanding What Really Brings Value to Your Business

In my previous "Selling Smart" column (see the September 2018 issue of Tire Review, page 62), I wrote about how discounting damages the profitability of your tire business and why sales associates routinely do it anyways. In this article, I'll detail the profit drivers of your business and what your sales team needs to do to create the value that drives profitable sales.

When I train tire business sales associates how to create and sell value, I transition from understanding the business implications of discounting to what the top three drivers of profitability actually are. Predictably, many (if not most) sales associates will say "sales," often in the No. 1 position no less. I then remind them of a key point I referenced in that previous article, "Sales gets nobody paid!" That, and the fact that there are countless companies with sales in excess of $100 million that are in debt, realizing zero profitability.

This routine response validates a critical point that all tire business owners and managers reading this must know – the average employee simply doesn't understand what the primary drivers of your business' profitability are. Consequently, their ability to do something to support it are severely compromised.

Profits 101

To oversimplify, profitability is the result of what's left from sales after expenses. Those expenses consist of fixed costs (rent, utilities, insurance, etc.) and variable costs (billable labor, sales commissions, inventory).

There are several basic drivers of profitability that apply to most businesses. Sales (driving revenues up) and reducing expenses (lowering costs) are obvious factors.

However, above these and often overlooked, as the No. 1 driver of profitability is price. Simply put, a business produces or purchases a product for X and sells it for Y. The gap in between X and Y is your gross profit margin. The higher the price, the more you will cover those fixed and variable costs and ultimately end up with a greater net profit.

The most profitable company on our planet is Apple. The average Apple store generates an astounding $5,500 in sales per square foot! That sales figure, and ultimately their profitability, is driven by the price of the products. In a nutshell, you can buy a cheaper computer, smartphone or tablet device from everyone else. More on Apple shortly.

Driving Price

So, if price is the No. 1 driver of profitability, what drives price? Like profits, there are a few primary factors that drive how the price is set.

Quality

One of the primary drivers of price is the quality of the product. Aldo Gucci, the eldest son of the founder and chairman of Gucci Shops Inc. from 1953 to 1986, once said "Quality is remembered long after price is forgotten." Anyone who owns a Gucci luxury handbag can tell you it was certainly not cheap. Aldo wanted to make it clear that customers are paying that premium for the quality of their products.

Same goes for Apple. They arguably have the highest quality products of any company they compete against in the market segments they serve. With over 1.3 billion devices sold to date, clearly Apple has found legions of customers willing to pay a premium for the quality of their products.

So let's look at quality as it relates to your tire business. You may be saying, "Hold on a minute... we carry top tier premium brands that are highly rated and worth more." I hear you. While that's likely true, the problem is your business doesn't manufacture the products it sells. When a prospective customer calls your store, you cannot inform them, "Good news! Our tires are better than our competitors products because we have a superior production facility and manufacturing process." No, you don't. Your tire products are not just similar to your competition, they're identical. So quality is the same whether the customer buys the tires from you or somewhere else.

Scarcity

Another primary factor that drives price is exclusivity or scarcity. From wine, coins, jewels and classic cars, the rarest items are always more valuable than ordinary ones. In August, a Mickey Mantle jersey from the 1964 World Series sold at auction for $1.32 million. You will not find another one. If you were the sole source of bottled water in the desert, you could charge 10 times the average retail price and people would still pay it because of scarcity and the influence afforded by supply and demand.

So, like we did with quality, let's look at scarcity as it relates to your tire business. As you're no doubt well aware, your many competitors either carry the same brands of tires you do or, if not, they can get them should a prospective customer request them. Compound that with the sheer number of competitors you have (other independents, national chains, big box retailers, new vehicle dealerships, etc.) and your tire business is in a land far, far way from benefitting from scarcity.

Experience

According to leading market research firm Harris Interactive, 86% of consumers will pay more for a product or service if it was delivered with a better customer experience. How much more? There are plenty of studies on this and the consensus of all the research is 20-30%. With quality and scarcity rendered non-factors, that 25% more (on average) that a customer is willing to pay is the primary driver of your businesses profitability.

While a 25% price premium is a very compelling statistic, for that to materialize for your business, customers must sense the added value in their experience. When the customer can see, feel and experience the value of doing business with you versus your many competitors, they're far more willing to pay more for it – increasing your profitability potential.

This perception of increased value will not happen by accident. You must plan and train your staff to create those superior customer experiences. That means paying attention and preparing for every touchpoint customers have with your business, not only post-sale after they have purchased tires but also pre-sale when they're shopping at your business for them.

As Steve Jobs, former CEO and co-founder of Apple Inc., once said, "You've got to start with the customer experience and work backwards to the technology."

In my Pinnacle Performance Training, what to do (the behaviors) and how best to do it (execution) – from a customer's initial phone call to their in-store experience to when they pickup their vehicle after service – is embedded into the sales process. All customer-facing associates are trained to ensure the customer senses increased value through the way they're being treated and the quality of their overall experience.

When you don't create a positive distinction between your business and its many competitors, you commoditize sales interactions (make them all about price) and that works against profitability, which leads to the discounting dilemma I detailed in my previous article.

So, if you want increased profitability, focus on providing an experience that customers feel is worth more. TR

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