

Planning for profit

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Now that the Y2K bug has come and gone, rental store owners must focus on ways to make their businesses successful in the coming year. At ALERT-IMS, I have been working with ALERT EasyPro users to accomplish this goal, and my research has shown that developing an effective profit plan begins with utilizing the information in your computer system.

Marketing Intelligence

In the past, I have written about the role of your computer in building marketing intelligence (see Rental Management, February 1998). In that article, I defined marketing intelligence as the gathering “facts about what is happening in your business and then analyzing those facts so that you can make decisions that are most profitable for your business.” In this article, I want to share how I have gathered marketing intelligence with ALERT EasyPro users and used this intelligence to develop effective profit plans.

Table 1: Results of ALERT-IMS Research with Four Rental Stores

Type of Store	Year Started on ALERT EasyPro	% of AR Business from Charge Customers Set up Prior to 1996	Yearly Average Business per Charge Customer	Average Number of New Charge Customers per Year	Average First Year Business per Cash Customer	Average Second Year Business per Cash Customer
Party	1993	37%	\$700	250	\$200	NA
Mixed	1993	73%	\$1,500	30	\$175	20
Party	1995	65%	\$1,700	50	\$370	80
Mixed	1995	66%	\$900	150	\$90	20

Table 1 shows some of the marketing intelligence I developed with four rental stores. These stores all have over \$1 million in annual rental revenue, 50% of which is generated from accounts receivable (AR) customers. From the data listed in the table, I drew three important conclusions, and my on-going research with other rental stores has reinforced these findings.

First, with the exception of the first party store shown in the table, the vast majority of these stores’ accounts receivable business is coming from customers who first rented with the store in 1996 or earlier. In other words, a store’s oldest customers represent an extremely important part of its annual income, and customer retention is critical.

Second, charge customers are a continual stream of revenue for a rental store. Most of the revenue from a cash customer, on the other hand, is captured within the first year in which they rent from your store. As the last column in Table 1 shows, during the second year after a cash customer has rented from your store, they average only \$20-\$80 for the

entire year, compared to \$90-\$370 in the first year. This decrease in the average does not represent a decrease in the value of a cash ticket. Rather, it simply reflects the fact that most cash customers do not come back in the following year. Thus, the overall value of cash customers established in a given year is significantly lower the following year. I have discussed the difficulty of getting cash customers to return to your store in previous articles, and there are a number of marketing programs designed to alleviate this problem (see Rental Management, February 1998). While I do not mean to underrate the importance of programs tailored to increasing repeat cash customers, this data ultimately shows that AR customers are much more valuable to your business than cash customers. Not only do your older AR customers tend to stick with your store and therefore serve as a continual revenue stream, they also generate much higher dollar volume than even those cash customers which rent frequently. Growing your AR customer base is therefore critical.

Finally, my research with these stores showed that those with the highest annual volume per customer also have the lowest number of new customers and are more reluctant to extend credit to new accounts. I have frequently noted that the rental industry is a high fixed cost business. This means that increasing equipment utilization by only 10% can more than double profits. How do you increase utilization? One possible solution is to offer credit to more customers. If credit can be extended to more customers without increasing bad debt write-offs, new AR customers might rent more frequently and therefore increase utilization.

From Marketing Intelligence to Profitability

The above discussion illustrates the type of conclusions you can draw by using your computer system to build marketing intelligence. How do you turn this intelligence into a profit plan? For the above rental stores, the marketing intelligence I found all point to the overwhelming importance of charge customers. This conclusion is common to the vast majority of stores I have examined. Moreover, the number of new charge customers added each year at most rental stores I have talked with has been decreasing. Given these facts, a successful profit plan must include a way to increase your number of new AR customers.

Using a Report Writer and Third Party Databases

In talking with rental stores, I have found that there are generally two explanations for the fall in new AR customers. First, some stores have been so busy with expanding business that they have not had the resources to build their AR customer base. Second, rental stores have traditionally found new AR customers through the yellow pages or their physical location. In other words, new charge customers came to them. With consolidation, however, there are now many sophisticated corporations offering rental services. These corporations tend to have sales teams devoted to finding new charge accounts. This means there are fewer businesses actively searching for a rental store; rather the stores are coming to them, and traditional methods such as the yellow pages are

no longer effective. The key to overcoming these challenges is to use a report writer with your computer system and available third party databases.

Using a report writer is key to creating an effective profit plan. Specifically, your profit plan needs to identify attractive market segments and particular customers to target. To do this, you will first need to review your customer volume report. This report will tell you which customer segments are currently growing and which are shrinking for your business. Additionally, using a report writer, you should review customer frequency reports which show the amount of volume generated by customers according to the year in which they were established. A sample frequency report created with a report writer is shown in Table 2.

Table 2: Sample Customer Frequency Report

Set Up Year	AR (YTD \$Volume)	Cash (YTD \$ Volume)
1993 or Prior	\$388,984	\$55,810
1994	\$102,098	\$19,748
1995	\$47,280	\$56,879
1996	\$52,067	\$87,474
1997	\$77,740	\$55,083
1998	\$75,838	\$199,873
1999	\$83,856	\$1,001,643
Total	\$827,863	\$1,476,510

The type of report shown in Table 2 can then be run for specific industries to help you better understand which segments represent the most profitable customers in the long run. Once you are armed with this knowledge, you can purchase third party databases (such as CD ROM listings) which provide contact information about businesses by industry and zip code. You then have a quick and easy way to identify specific customer prospects in your target segments. The next step is to develop marketing programs which include personal contact and mailings to attract these customers. Your profit plan should also include means to measure the effectiveness of the programs and a plan to expand the most successful endeavors.

This article has discussed just one of the ways in which the information in your computer system can provide you with marketing intelligence from which to develop a profit plan. The last decade of the 20th century brought tremendous change in the rental industry. The rate of change is unlikely to slow in the next millennium, and the successful rental store must continue to monitor its market position and develop profit plans which proactively adapt to these changes.