

Special Order Sales:

Is Your Company Leaving
Money On The Table?

BY BILL LEE

Special orders are an integral part of the sales activity at most building supply businesses. No company — not even the box stores with thousands upon thousands of sku's on the showroom floor — can possibly afford to carry in stock every product that a customer may need. So special orders are necessary to satisfy the demands of a diverse customer base.

In surveys conducted among our client base, we have found that special orders represent 20 to 25 percent of a typical dealer's total sales, yet few dealers have developed a satisfactory system for pricing special order sales.

In your business, who prices special orders?

In some cases, I see salespeople taking responsibility for pricing and selling special orders, and buyer(s) making the vendor selection and actual purchasing decision. More typically, however, it's the inside and/or outside salespeople that handle the entire special order process.

Without pricing guidelines from management, however, the price the customer pays is almost invariably at the discretion of the salesperson. This is where I believe many dealers are leaving money on the table. After all, some salespeople are more astute than others when it comes to the gross margin they attempt to earn.

If a customer were to walk into your place of business and ask each of your salespeople to price a specific special order item, what would be the odds that any one of your salespeople would quote the same price?

When I ask this question in management or sales seminars, the typical answer is, "Slim to none."

When it comes to special order sales, the great majority of salespeople I interview are in a classic "mark-up rut." What's a mark-up rut? That's the term I use to describe the bad habit we have developed in our industry of using arbitrary mark-ups to price merchandise that has nothing to do with the price the market will bear.

Salespeople tell me that for years they have marked up a particular category, say, 25 percent. In other cases, the mark-up may be 30 percent or even 50 percent.

In my father's business, we were in a classic mark-up rut. Our favourite mark-ups were 100 percent, 50 percent, 33-1/3 percent and 25 percent. I don't believe we ever thought about trying mark-ups of, say, 78, 54, 47 or 29 percent. We were stuck in a rut.

Beware of even numbers such as 20, 25, 30, 33-1/3, 50 percent, etc. — they are almost always arrived at arbitrarily.

Recommendation: Do some research and identify the spe-



cific products that make up 80 percent of all special order sales. Once these products are identified, do some market research and issue pricing guidelines to the sales organization so everyone will quote the same price, at least initially. Depending on several factors, you can always deviate from these guidelines as circumstances dictate.

Some special order sales lend themselves to lower gross margins than others. Trusses, for example, are big-ticket items that many builders naturally shop in an attempt to get the best price and service available. Label-line windows are another, but there are hundreds of other products our industry sells every day as "special orders" that are not nearly so price sensitive.

Let's face it, lumber dealers have to look far and wide these days to find opportunities to earn a satisfactory gross margin and special order sales are some of the opportunities still available. Box stores claim to do a good job of providing special order services, but based on my experience, this particular claim is untrue. If you don't believe me, just walk into your nearest box store and try to buy a special order item.

Recommendation: Advertise your willingness to help customers find products that you don't carry in stock.

Put up a huge sign in your store: **SPECIAL ORDER DEPARTMENT.** Use direct mail to send flyers to your customers and prospects. Make the public aware that the special order business is a major part of your marketing effort.

Recommendation: Set up a category for special order sales and track this category monthly. It's a good idea to reward the top salespeople who generate the highest special order sales at the highest gross margin.

Another good idea is to rank your salespeople by the gross margin they achieve on special order sales. This practice helps bring out their competitive spirit.

Don't allow 20 to 25 percent of your business to have a mind of its own. Develop a plan to optimize the profitability of your special order sales.

Consider this realistic scenario: Imagine that special order sales make up 25 percent of your company's business. Next, consider that through your

efforts to optimize special order gross margin, you're able to raise the average margin you earn on special order sales by four percentage points.

If this were the case in your business, 100 percent of this margin improvement (on 25 percent of your sales) would fall directly to the protect line, resulting in one full additional point of protect margin.

Make improving the gross margin you earn on special order sales a top priority for your business. **C**

Bill Lee, author of Gross Margin: 26 Factors Affecting Your Bottom Line as well as author of 30 Ways Managers Shoot Themselves in the Foot, can be reached at 800-277-7888 or www.BillLeeOnLine.com

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