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By Carl Davidson & Ric Harry

Do You Want to be Doing Demos When You're 90?

Dealers may have to sell more now to be able to retire comfortably

In traveling to seminars and meeting various dealers and sales staff, we are often surprised at where many people set their goals. We think goals should be set high—at least high enough to see that your family will be looked after when you retire. Many salespeople and dealers are happy if they have a newer vehicle and enough money to pay the bills, but in this article we will discuss why you need to sell more today to make sure you can afford tomorrow—and that you won't be needing to do demos when you're 90 years old.

This business is somewhat physical. There will come a day for all of us when digging holes, delivering salt, crawling under sinks and even doing demos will be more than our bodies can take every day. You may already have creaky bones and a sore back at the end of the day. Let's take a look at the common mistakes dealers make when they don't think about the future.

Saving for Retirement

The first step in planning your retirement is acknowledging that it is going to happen some day. We wish all our readers excellent health, but someday, selling and installing will become a burden to us all.

Let's assume that you would like to retire when you are 65. Let's also assume that you are 40 now. You can adjust the numbers to suit your situation.

According to a *New York Times* article from Jan. 27, 2007, Fidelity says the average American has only \$62,000 in his/her 401K at retirement and negative savings—so if you are behind where you should be in savings, you are not alone.

Let's take an example. Fred has been a dealer for seven years. He sells a good brand in a mid-size market. He makes enough to pay the bills and has a new truck. He lives the good life but hasn't saved much. He has a nice home and has paid for about half of it. He has a credit card balance in the thousands, but he is hoping to pay it off. Fred is a successful dealer who sells about 15 systems per month by himself and has no sales staff.

Fred currently makes about \$6,000 per month and has not thought a lot about the future as everything is going well.

To retire with 75% of his current income (which is a financial industry rule of thumb), assuming a rate of return of 7% (based on the stock market at a 10% average and CDs at a 5% average return), Fred will need savings of \$857,000 when he is 65 years old. Factoring in Social Security could reduce this number to about \$550,000.

The good news for Fred is that he has time to save because he is only 40 years old. Saving only about \$1,000 before taxes every month at a rate of 7% will build savings of about \$550,000 in 25 years. The bad news is that if you factor in inflation of just 3.1%, his \$550,000 will only have a buying power of \$256,387 when he retires. This means that Fred should probably start saving \$2,000 each month immediately if he wants a comfortable retirement.

There are a lot of factors that affect this calculation such as taxes, rates of return, inflation, etc., so dealers should do their own calculation with a financial planner to fit their situation. The overall conclusion is that in order to save \$2,000 per month, Fred's business needs to sell a lot more. Average water equipment dealers net 4% of sales. That means Fred will need to increase his sales by \$50,000 per month each and every month for 25 years

to achieve a reasonable retirement. The only way to accomplish sales of this magnitude is to add salespeople and make them successful, since few of us could sell an additional 10 to 15 systems per month by ourselves each month. The extra salesperson selling now is allowing Fred to retire in the future.

Business Equity

Many dealers expect their business to be worth money and expect to sell it when they retire. Realize that your business is only worth money to someone else if it has real estate or reoccurring revenue from rentals or service. If your company only sells or has little reoccurring revenue when

you retire, it will have very little worth.

One way water equipment dealers can save for retirement is by building rentals. If you can put out four systems per month at a fee of \$30 per month, then in 10 years you will have 480 systems rented out. We will use the number 400 to account for cancellations, moving, etc. Four-hundred rental units at \$30 per month will bring in \$12,000 per month in gross revenue, and renting units is a lot easier than saving. That recurring revenue will be worth money if the company is sold. The best way to put out rentals is to have a sales staff that sells and rents every month.

Real Estate Equity

Many dealers feel their home may provide retirement money; however, all markets have their ups and down and there is no way to predict real estate values 10 or 15 years from now. How will global warming, earthquakes, hurricanes and markets affect you?

In addition, you have to live somewhere. If you sell your home to raise money, your costs for rent and other things may be far higher than you'd think after retirement. Inflation will increase rental costs every year as well. We do not suggest relying on your home to retire.

Dangerous Savings

One area you should not cut to save more is health insurance. We are always surprised when dealers tell us they have no health insurance or are relying on benefits through a spouse. Spousal benefits can disappear quickly if the spouse is fired, their company goes under, or your spouse dies or leaves. Everyone in our business needs good health insurance. Remember that no matter how much you have saved, a heart bypass can be \$150,000 to \$250,000 and can wipe out years of savings in an instant.

All of the above may be a bit depressing if you are behind in what you should have saved. The good news is that we are in a great industry. You can catch up and plan for a great retirement by realizing the problem and taking steps now to hire a successful sales staff and increase your sales and rentals—so none of us will be doing demos at the age of 90. *wqp*

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