



PSA News

The Association for Service Professionals

Prepare Yourselves... Call Brokering is Here to Stay

By Randy Carney-Executive Director- PSA

Recently, word reached us that a manufacturer had initiated a program to broker out of warranty calls to service companies within their network for a fee. This announcement has been less than popular within the appliance service industry, as, traditionally, the out of warranty referrals had been made available to authorized service providers within a given service network. In a market with ever-tightening margins, it's not surprising that this news was not exactly welcome.

This is not all that surprising, however. Various third-party administrators have been doling out calls at a cost for some time, and it was really only a matter of time that manufacturers did the same. In their eyes, the call was received through their service organization; therefore, they "own" the call and the right to sell that call to a service provider to recoup some of their expenses incurred in running a service organization. Whether we in the service industry want to admit it or not, service support at the manufacturer's levels are being squeezed, also, so it's likely that we expect more of this in the future. We may not like it (and we don't), but we need to understand it and prepare to deal with it professionally and effectively.

The question becomes what you, as the service professional, can do about it. This is not a case where the calls are being forced on the service network- participation is voluntary and you have the right to not take part. It becomes crucial for you to take a look at your business model and decide if this is something you can or want to do. Is it possible to add the call fee to your base rate and still be competitive in your market? It might be tough to slip in, along with fuel surcharges and the like, but it may be necessary to keep your cash call business as profitable as it has been. Another thing to consider is whether or not paperwork needs to be filed with the manufacturer on an out of warranty call- this adds to your office expense and needs to be studied. These are just a couple items that you, as the business owner, need to be aware of.

By studying your cost of doing business model, you can make informed decisions on whether the call brokering model makes sense for you or not. In fact, it is a very good idea to take a regular look at your business model so that you can adjust it to better reflect the realities that you are dealing with daily. PSA can assist you by providing software to assist you in doing this analysis if necessary. Take a look at our "Member Tools" section of www.psaworld.com if you feel that this program would be helpful to you.

There is another option- work to capture the loyalty of this consumer yourself. If the manufacturer never receives the call for out of warranty service, they can't sell the call. If the customer has called you directly, you are now the "owner" of that call. In order to put yourself in that position, you need to be proactive in how you have managed the customer relationship in the past... if you were ever out to the home on a warranty call, you have had a direct path to building rapport with that consumer. Did you repair the product quickly and efficiently? Did you maintain a professional and courteous image? Did you leave something for the customer, like a refrigerator magnet or a similar item that had your name and phone number on it for future reference by the customer? And, maybe most important, did you leave that consumer with the friendly advice to make sure that, if any future assistance is necessary, that they call you directly for the quickest and most efficient service support?

In short, the best way to offset call brokering programs is to beat the manufacturer to the punch and take ownership of the customer. This will require work on your part in advertising your services locally, but the payoff comes in being able to better deflect programs like call brokering and develop that direct linkage with the customer. By letting them know that YOU are their best service support option locally, you stand a good chance of eliminating that call to the manufacturer's customer service line, taking ownership of the customer relationship locally, and thus be able to maintain your normal cash call rates.

It does take some effort, but that's why you do what you do better than anyone else- supply quality local service support at a reasonable price. Take some time to review and perhaps tweak your business model, and whatever HQ programs come down the pike, you'll be prepared to deal with it!

What is My Business Worth?

Some Factors to Consider...

By Steven Friedman

As a former CFO, and CFO Consultant, I have been asked many times my opinion on what a business is worth.

The answer is that it depends on what someone is willing to pay, and what terms you are prepared to offer them. The ability for someone to pay over time increases the pool of purchasers for your business increasing the purchase price. The risk you take is if they can't run your business you may be left holding a worthless note.

However, there are many factors that go into valuing a business: Size, Profits, revenue streams, management, customer base, marketability etc... All influence the price you can get for your business. In addition, the easier it is for someone to take over your business the more you will get for your business.

If you have a Lifestyle business try and change it.

A lifestyle business provides the owners with a living. It typically does not create ongoing value if you stop working in your business, the income stops.

Many appliance repair operations fall into this category, the owner, you, run the business on a day to day basis, perhaps doing scheduling, triage or even running calls, perhaps you have your spouse or family member working with you in the business. This will harm the value of your business, because a new owner needs to replace all these functions.

Also, do you run personal expenses out of your business? Do you minimize taxes? If so these expenses, need to be added back into your profits for a potential buyer, you will be asked to justify why are these add backs to a stranger. Try and eliminate these at least 2 years before you are ready to sell. It will maximize your business and make the selling process easier.

So what is your Value worth?

A typical valuation takes the profits you make and applies a multiple, in a business doing less than \$1,000,000 a year the multiple would probably be around 2. But this is based on normal profits.

Do you pay yourself? If not a buyer will deduct a salary from income.

Let's take a repair operation that generates \$100,000 in income and a husband and wife running the inside operations. If you contacted a business broker he would tell you your business may be worth \$250,000, 2 1/2 times that number. But wait a minute, a buyer needs to replace you. Let's assume he/she can replace you (and your wife) for \$60,000, then a buyer looks at your business and says it is worth \$100,000, because it only earns \$40,000.

Not only does it impact your profits, but it also means someone has to be trained and hired to replace your functions. This will eliminate many potential buyers.

What can you do? Ensure that there are people in your organization who would remain and can perform the functions you and your family members are doing. If the function you are doing can be absorbed by existing staff it will increase the value of your business.

Revenue Streams

Where does your revenue come from? Does it come from consumers, OEM, Commercial? Is it concentrated in a particular area or product line? Is there any recurring revenue?

This is very critical; if your revenue is generated from relatively few customers your company is vulnerable to losing that customer. For example if you worked for a particular OEM or Extended warranty provider, your business will be negatively impacted by such a high concentration.

Even a business generating hundreds of thousands of dollars (or even millions) of profits due to one or two OEM's will not be valued too highly do to this risk. Qualified buyers will severely discount the value of your company for this reason (50%/60%).

Recurring revenue is great. Just imagine starting the month off every month with revenue, think about the phone company or cable company, every month no matter what you pay your bill. Does this mean that you have to generate recurring revenue, no but if you have an opportunity to create some it will help in creating more value for your business.

What else can you do?

Implement some of these steps will increase the value of your business, even if you do not want to sell, some day you will.

- Run your business like a business, pay yourself a salary for the work you are doing, don't run personal expenses. Maximize your tax profits.
- Hire management or train personnel in your company that can do the tasks you are doing.
- Diversify your revenue streams, add OEM's, warranty service companies, out or warranty work, service contracts.
- Create a partnership with another organization share expenses.

So what is your business worth?

Depending on some of these factors, it could be worth 1 to 4 times historical profits. So if your normal profits our \$250,000 but you have diverse revenue stream and management in place, you will probably be closer to the 4 than the 1. But keep in mind when selling a business size matters, the larger your size the more valuable it is to a buyer. So the same business generating \$50,000 a year may be worth only \$100,000 (2 times).

Do you have a questions, please feel free to email me confidentially at sfriedman@varesourcing.com or call me at 561.307.4970.

About Steven Friedman - Currently Mr. Friedman is a Senior Director for Veteran's Alliance Resourcing, where he helps businesses in the supply chain obtain customers and resources. In addition, Mr. Friedman is working with some smaller appliance and CE repair operations expanding their customer base and streamlining their processes. Prior to that Mr. Friedman spent 17 years as the CFO for Stainsafe, during this time they acquired many companies, obtained credit lines and work with private equity companies. He also spent 3 1/2 years as a CFO consultant helping small and medium size businesses, and 3 1/2 years as a CPA working with small, medium and large size businesses.

Samsung Announces Partnership with Assurant for Service Contract Support

Samsung Electronics America has announced that they are partnering with Assurant Solutions to handle all of their Home Entertainment and Home Appliance extended service contract offerings.

As a result, there will be a change in how extended service call claims will be processed. Authorized service providers will receive extended warranty calls as they do currently; directly from Samsung via GSPN. Upon completion of these service calls, however, the service provider will submit claims to Assurant Solutions through the Service Power platform.

Samsung asks all service providers to note that if they are not currently an authorized service provider for Assurant Solutions, they will be contacted by Assurant Solutions in the coming weeks to sign up as an authorized service provider. The launch of this program is scheduled for July 2014. Authorized Samsung service providers should sign up with Assurant Solutions when contacted if they are interested in receiving future extended warranty service calls.

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Technical Matters-

By Jim Campbell- MCAP, CSM



Greetings, all! I hope everyone has a productive and pleasant summer. Now, it's time to buckle down and get ready for the fall holiday season. What better way to start than by catching up on the latest service updates from our OEM's.

This month's update concerns the following ranges:



MODELS:

**EI30EF35JS
FGEF3055M**

**FGIF3061NF
FPEF3081MFD**

LGEF3045KF

CONDITION:

Spontaneous Control Reset and Inaccurate Time Display

SOLUTION:



Spontaneous Control reset and inaccurate time display are due to line noise interference from the house power supply to the Oven Control. Order and replace the Oven Control listed in the Parts Manual. The Affected Oven Controls will come as a kit that includes the Oven Control, noise suppression filter, ground screw, and instruction sheet.

Noise Suppression Filter Kit

Thoughts from the Executive Director

By Randy Carney, PSA Executive Director

Hope that you have had a great June! If you are like most appliance service companies, business has picked up and you're probably working some long hours, so take a few minutes and get a good read in of this month's PSA News- we have some great information available in this issue for you, so kick back and take a look. As always, we invite your comments and input for future articles- just drop me a note at rcarney@psaworld.com, or call me at 319-540-2521.



- This month's cover article deals with call brokering, or paying for out of warranty service calls to be released to your company. This can get to be an emotional issue- traditionally, service providers support manufacturers in the warranty period in order to gain the calls that are generated after the warranty expires. The call brokering model treats the call as property of the manufacturer, because they received it, so they ask you to pay for the "right" to run the call.

We are not real thrilled with this move... it adds cost to the service provider and the customer, and tends to insulate the manufacturer from any criticisms from the customer. You, as the service provider, will be in the middle of this issue, so you need to make an informed decision concerning your participation in any program like this. And this is likely not the end of this type of program- others will likely initiate similar programs, so take a good hard look at your business model And determine if this is something you can take part in. In any event, it is probably going to require a change in your business practices to better promote your company so that you can grab your share of the cash business.

- Over the past few weeks, we've noticed some chatter on PSANet related to delays and problems encountered with warranty payments through LG. We have approached LG for their input on this matter, however, as of press time, we haven't had a response yet. We'll continue to push the matter and will respond via PSANet and in next month's PSA News. If you experience any additional issues, let us know and we'll do what we can to get a response to your concerns!
- With summer comes wild weather (as if last winter wasn't bad enough!). The upper Midwest has been hit with a lot of rain and many areas in Minnesota, Iowa, Wisconsin and South Dakota are fighting flooding. Also, areas in the south have been hit with high water. Our thoughts go out to them as they face this struggle. It's yet another good reason to develop a disaster plan- if you were at NASC 2014 in Nashville, I hope that you took time to attend Ralph Wolff's excellent session on this subject. If not, plan to take it in at NASC 2015 in Orlando- it's worth the time!

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