



Bright Ideas for Better Margins

How APSP members are reversing shrinking margins and positioning their businesses for growth.

by Robert Lerosé



The shaky economic recovery is a mixed bag for the pool and spa industry. On the positive side, according to APSP Industry Summit speaker Alan Beaulieu, president of New Hampshire-based economic research and consulting firm ITR Economics:

- Slowly rising housing prices are prompting homeowners to install pools and spas.
- Banks are eager to lend, and consumers are more likely to borrow money to finance these new additions, due to low interest rates.
- Homeowners are taking advantage of reduced inflation to upgrade their existing facilities.

And the negative forces that might adversely affect this sector?

"You're likely to see the FICA tax go back up, which will actually weigh more on people in the second half of 2013 than in the first half," Beaulieu says, eating up about \$1,000 more from each family's budget and impacting their buying decisions going forward. "We also think energy prices are going to heat up. As consumers are paying more at the pump, it certainly becomes discouraging for them to put money into their backyards."

From trimming overhead to expanding their product lines and finding surprising sources of revenue, APSP members are taking command to counter shrinking margins and keep their operations competitive.

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At the three Valley Pool & Spa stores in suburban Pittsburgh, customers are showing more hesitation buying things, so the sales team is trained to spell out the risks of cutting corners in their purchases. "It's really important that the staff understand all of the products we sell and do a sales presentation in 30 seconds or less for everything the customer needs at the counter," says Corinne Kraft, owner of Valley Pool & Spa.

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*Corinne Kraft,
Valley Pool & Spa*

While it's hard to make a good margin on common items such as shock, Kraft reports that they can rake in margins of 60 percent to 80 percent on ancillary items, like an enzyme product for treating water. "We sell thousands of bottles of our Enzyme Magic because this is not something they're looking for online or walking into a big box store for."

Other retailers cavalierly dismiss some products on the water analysis report as optional. However Kraft puts every item that the report calls for on the counter to give the customer ownership over those products—both the lower and higher margin items—and boost sales.

In conjunction with special store events throughout the year, Kraft issues a book of coupons denominated in dollars—not percentages—to better control margins. "Keep the margins boosted as high as you can on the items that are not popular that people are shopping for," she advises. From 2010 to 2011, Kraft saw a 6 percent margin increase in total sales, with a healthy rise projected for 2012.



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A Focus on Customer Service

Redlands Pool & Spa Center in Redlands, Calif., has seen their margins retreat most acutely in “whole good” products, such as pumps, filters, heaters and pool cleaners. While online sellers have eaten into those sales, Redlands has fought back by building up its service division. “The Internet can’t sell labor,” says Cal Boothby, president and CEO. “You can still survive by servicing your customer, and we do.”

For the fiscal year ending September 30, Redlands’ retail sales and maintenance service departments were up 19 percent. They service 520 pools weekly, pulling in annual revenues of \$750,000. Over-the-counter sales are approximately \$900,000. Boothby developed a new spa sales team to introduce the Hot Spring Spas Collection in January 2011. Spa sales jumped 69 percent by 2012, hitting \$174,181.

Instead of waging a price war with Internet sellers, Redlands has found a sweet spot with exceptional face-to-face service. For example, the store installs pumps for customers even if they were bought online. “I want my staff in their backyard, profiling their pool, knowing what type of equipment they have, and then putting it into our computer database for future use,” Boothby says.

Acting as a warranty service station for manufacturers like Pentair is another source of revenue for products that were bought online. Redlands collects a tidy \$75 trip fee whenever they visit a customer. Everything else—the on-site labor, the replacement parts—is covered under warranty by Pentair.

Redlands uses Constant Contact to regularly send email promotions, such as discounts on purchases over a certain price. They recently started experimenting with sending out personalized first-class mailings through an online greeting card company to current and lapsed customers. “Being helpful is what drives our business,” Boothby says.

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*Cal Boothby,
Redlands Pool & Spa Center*

New Revenue Sources

Aqua Quip, a 53-year-old pool and hot tub retailer in the Northwest with nine locations, has found new sources of revenue by looking for other product lines to supplement their core business. “We brought in Regency Fireplaces about four years ago,” says Kathleen Carlson, senior vice president of sales and marketing. “It was counter-cyclical, so we were able to pick up business in our slow months and saw some substantial growth.”

Working with manufacturers who “channel differentiate”—putting products in specialty retailers that are slightly different or branded differently than their online counterparts—has helped Aqua Quip maintain their margins. “Weber is a great example of a company that is very, very specific on how it’s marketed,”



“Make sure the service you provide makes you stand out.”

Kathleen Carlson, Aqua Quip

Carlson says. "In the last year, Weber grill sales have almost doubled for us. Specialty retailers are thriving with their product."

Rather than try to compete on products that can be bought cheaply anywhere, such as 3-inch pucks, Carlson finds items that stand apart in the same product category and charges more for them. Differentiating themselves from online sellers—even with little things—is key to Aqua Quip's success.

"Sometimes you're afraid of the small transaction right in front of you and don't realize the big transaction you're missing," she says. "Make sure the service you provide makes you stand out." To further ride the economic recovery, they lowered their overhead by moving a store into one of their warehouses.

Added Value

Even though Contemporary Watercrafters was not drastically affected by the sagging economy because of their proximity to the affluent Washington, D.C., metro area, they are feeling more pressure from customers on pricing.



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“We have people going to the Internet to look at prices and then coming back to us with a request to decrease our prices,” says Howard Weiss, Contemporary’s president.

To help with product differentiation, Contemporary has gotten some manufacturers to provide a two-year warranty for products bought from a brick-and-mortar retailer, compared to a one-year warranty available through the Internet. Contemporary has also instituted a travel charge whenever they have a warranty service call for a product that they didn’t sell.

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“In the past, the manufacturer’s reimbursement has been below what we would expect,” Weiss says. “The travel charge has given us the ability to get some additional dollars and also help differentiate our offering to the consumer.”

Weiss admits that their sales have been generally flat for the last three years, but good enough. Items that can easily be bought over the Internet have taken the biggest hit. To counter that, they’re considering a pricing structure for installation of products bought elsewhere.

Contemporary doesn’t sell hot tubs, but Weiss has heard that dealers have started offering orientation training for consumers as a service to recoup some of the profit lost to online sales.

Challenges for pool and spa businesses remain. But as ITR’s Beaulieu predicts, “Use the time now to get ready for 2015, 2016, and 2017, which are going to be busy years.” //



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