Do your managers and staff think like owners?

By KELLY MATHISON

AT A DEALERSHIP, just like any business, there are two critical things required to survive:

1. turn a profit
2. generate cash

Yes, many other things are important, including customer experience, employee morale, safety, marketing, and branding, to name a few. However, you can have the best quality and the best customer service, but if the business cannot generate the cash to pay the bills and turn a profit, it will eventually fail.

In today's multilocation equipment dealerships, the owner(s) may not be present in each store. **Instead, many organizations are counting on the frontline staff or mid-level managers to make decisions and "think like an owner."**

Many parts, service, sales, and branch managers have been promoted through the ranks. They are often dedicated and talented people. They have strong technical, product or sales skills but often lack the basic financial training to truly manage the business. This is not their fault.

Promoting a seasoned technician because he's able to trouble shoot complex machine issues over the phone or coach a younger technician on how to overhaul a transmission doesn't mean this person is able to read and analyze a departmental financial statement. Most will require training and ongoing support to develop their business and financial skills.

In many of our Dealer Institute modules, we spend time helping these people understand basic business and departmental financials. The most common feedback we get is, "Wow, I had no idea how my decisions impact the bottom line." Or, "Now that I have a better understanding of the numbers, I will make better decisions."

Numbers don't lie, but are they the right numbers?

Example: A young technician is working on a customer's machine. The customer asks the tech if he could install a bracket in the cab that would hold his various displays and monitors. The technician goes to the parts department and discovers a genuine bracket costs over $150.

The technician tells the customer he may be able to save him money by making a bracket for him. He goes to the metal scrap bin, finds some angle iron, cuts it, bends it, drills and taps holes, paints it and installs it. He's proud of his work. The job takes him 2.5 hours at a shop rate of $120 per hour. The service manager looks at the work order and thinks the customer will never pay $300 in labor, so he writes off two hours and charges the customer $60.

When questioned about it, the service manager may justify it by saying, "Well, he is a junior tech and we only pay him $21 an hour, so at least we recovered our costs and made a little bit of money."

What he didn't fully understand is the fixed overhead to operate the shop is about $70/hr., which does not include the tech's wages.

The basic financials on this transaction would look like this *(see table below)*:

Not only did these decisions have an effect on profitability, they also had an effect on cash flow, as shop expenses continued to accumulate every minute of every day.

Unfortunately, neither the service manager nor the technician had received training on the true operating costs of the department. The service manager assumed that if his shop rate was $120 per hour and he was paying his techs between $20 an hour and $35 an hour, he was automatically making money. The technician had saved the customer by not using the $150 bracket but didn't understand the impact on the department's bottom line.

If you expect your people to "think like an owner," you must ensure, NOT ASSUME, they fully understand business. We work with managers that get monthly financial reports but have little idea how to interpret them. What's worse is, they are often afraid to ask their supervisor or boss to explain those reports.

Test your team's financial knowledge

At your next staff meeting ask these two questions:

1. From every dollar of stuff you sell, how much does the dealership make in Net Profit? *(See table page 17.)*

Write down their answers on a whiteboard. You may get answers ranging from 65 cents to 5 cents profit on every dollar sold.

Labor Sale	0.5 hours @ $120 an hour	$60.00	
Cost of Sale	2.5 hours @ $21 an hour	$52.50	(tech wages)
Gross Margin Dollars		$7.50	
Overhead Expenses	2.5 hours @ $70 an hour	$175.00	
Net Profit (loss)		($167.50)	

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Total Profit from Operations		
	Profit from Operations	Profit Margin as Percent of Revenue
2018	114,618	1.1%
2017	77,516	0.6%
2016	180,463	1.3%
2015	327,662	2.3%
2014	419,813	2.9%
2013	436,813	2.9%

Source: WEDA Cost of Doing Business Study of North American dealer locations, 2013 -2018

Many will be surprised to know that on average, most dealerships are under 5 cents net profit for every dollar's worth of revenue. In fact, the WEDA *Cost of Doing Business Study* showed over the last six years, the average North American ag dealership had a net return on revenue of under 2 percent.

2. Based on a return on revenue of 2 percent, how many dollars of stuff does the dealership have to sell to recover:

a. $1.50 worth of wasted postage?
b. $200 worth of excess mobile data charges due to personal cell phone use?
c. $3,000 worth of parts that just "go missing" over the course of the year?

Again, write down their responses. To get the answers, take the controllable expense and divide it by the Net Profit percentage.

a. $1.50 ÷ 2 percent = $75
b. $200 ÷ 2 percent = $10,000
c. $3,000 ÷ 2 percent = $150,000

By using these basic examples, you can demonstrate how even minor expenses have a huge impact on the bottom line and the sales required to recover those costs.

The point is, many expenses may be within your people's control to reduce or even eliminate.

A true success story

We recently had a dealer make an investment to send 12 employees to one of our Dealer Institute parts training programs. We covered the basic financials: understanding gross margins, cost of sales, department expenses, and department net income. We also discussed ways they could increase margins, reduce the cost of sales and control expenses to improve the bottom line.

One parts manager had a "light bulb moment." Upon returning to his branch, he took the initiative to renegotiate with one of their parts suppliers. The dealer reported back that this saving in one store alone covered the cost of sending all 12 employees to the program. Talk about a return on investment, not to mention the pride the manager had in truly improving the bottom line.

If you want people to take charge, you must invest the time and educate them about how business truly works. Once they understand how every decision they make can have an effect on the dealership, you will see them making better decisions and begin to "think like an owner." WED

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HERE'S WHAT YOU SOLD – Equipment Retail Sales in Units

U.S. – November 2018 Ag Tractor and Combine Report	November			Y-T-D November			November 2018
	2018	2017	% Chg	2018	2017	% Chg	Beginning Inventory
2WD < 40 HP	7,225	7,085	2.0	144,544	132,188	9.3	77,526
2WD 40 < 100 HP	3,138	3,404	-7.8	54,217	53,488	1.4	32,729
2WD 100+ HP	714	684	4.4	16,246	15,396	5.5	7,870
Total 2WD Farm Tractors	11,007	11,173	14.4	215,007	201,072	6.9	118,125
Total 4WD Farm Tractors	172	107	-0.9	2,484	2,144	15.9	856
Total Farm Tractors	11,249	11,280	-0.3	217,491	203,216	7.0	118,981
Self-Propelled Combines	214	196	9.2	4,233	3,629	16.6	717

Data provided by the Association of Equipment Manufacturers (AEM).