Financial Management and High Performance

By GORD THOMPSON

"A successful dealership is like a successful sports team – not only should the manager be keeping his/her eye on the ball, but so should each team member."

The above is from Kelly Mathison's article in the 2018 spring edition of *Western Equipment Dealer* and it's worth reemphasizing. Dealers and management will create high performance teams when they have everyone on their team fully engaged in their goals.

Let's begin by reviewing where we are at in our industry. The latest WEDA *Cost of Doing Business Study* (CODBS) shows results that definitely are not high performance *(see opposite)*.

These are not results to be content with. The long-term survival of our dealerships depends on significantly improving these results. How do we get every team member's eye on the ball so we can move to high performance and acceptable results?

The long-term survival of our dealerships depends on significantly improving the latest WEDA *Cost of Doing Business Study* results:

Return on Assets	2.6 percent
Return on Equity	8.6 percent
Net Income Before Taxes	1.3 percent
Aftermarket Absorption	61 percent

Educate your team

Many dealers follow the age-old path of training employees to execute their jobs without ever helping them understand departmental, store or dealer complex targets and goals. High performance is only possible with a highly motivated team. High motivation happens when you have the right people in place and they buy into the plan. Employee buy-in happens when they understand where you are and where you are going. There are no shortcuts to this.

If we expect the parts department to improve its parts turnover, everyone in the department must know all the things that affect parts turnover – and the key people within the department need to be able to calculate it. These are complex issues that are not easily understood.

A significant majority of dealership staff have never had training on dealership financials.

Help them understand why your goals must exceed the CODBS results in order for them to have greater opportunities. Explain to them what it allows your organization to do when you achieve 100 percent-plus absorption. Show the team what happens to cash flow when you sell new equipment and take trades. It is critical to explain the difference and importance between profit and cash flow.

Show your team your situation

Allow your team to see your numbers. Work through your results with them, show them your team's key percentages and ratios, and compare these to the CODBS results. Let your team critically review your results. Help them understand what 10 more points of absorption would mean… or if inventory turnovers could be enhanced. When they understand the urgency of these issues, they then comprehend how much the dealership's other departments affect their own department's results. For example, when service writers understand how much equipment turnovers matter, they realize how significantly their actions affect those results. They control how fast reconditioning happens to allow resale.

Often, at this stage the team is very surprised by two things:

1. how little return is being generated on the dealership's investment, and
2. just how much money is required in working capital to operate a store.

These aren't bad things to have happen. Good people are ready to dig in and contribute when they understand the circumstances.

GORD THOMPSON is a former dealer and current trainer and consultant for the Western Equipment Dealers Association's Dealer Institute.

Involve your team in your goal setting

The CODBS has shown that over the past four years Profit from Operations has decreased $340,000. This is due to Total Gross Margins declining $40,000 and Total Expenses rising $300,000. Does this surprise you?

You might have assumed declining margins were the biggest problem, but that's not what the study tells us. Now it would be easy to conclude we need to significantly cut expenses, and there may well be opportunities to save here.

Look at your dealership's results and understand what your results are. If you are involving your team in setting your goals, you may need to provide guidance in this area. It's interesting to see what they think is possible – again, good people want to succeed for you. Help them work through the possibilities and understand the implications of all ideas in terms of profit and cash flow. A large wholegoods sales increase won't help if you can't cash flow the growth.

If your results are similar to the CODBS, and you have seen expenses increase, evaluate what you're seeing in detail. Virtually all dealers have experienced tightening wholegoods margins and declining wholegoods turns in the past four years. Enhancement of your wholegoods results ought to be part of your plan. But, ask yourself how much you can realistically achieve here? If your combined new/used equipment margin and turnovers are at industry averages of 5 percent and 2x, you need to improve this a whole bunch to make meaningful gains in your financial results.

Going back to the $300,000 expense increase, a more sustainable plan is likely to improve your absorption ratio through growth in parts and service. Refer back to Kelly Mathison's article in the 2018 spring issue of this magazine about how to accomplish this. It well may be a multiyear process but it's well worth it.

These departments add immediate bottom line cash flow when compared to the sales department. As Kelly suggested, it can be a three- to five-year plan and it likely involves adding service technicians. If this is a major change for your organization, that's all the more reason to have those departments understand where you must get to and when. Given the choice, wouldn't you grow your business to cover your expenses rather than just cut expenses? If you do achieve a meaningful increase in absorption it means your aftermarket departments have raised their performance. You might then discover that having high performing aftermarket departments drives the sales department up.

Simply put – execute your plan. WED

GORD THOMPSON is a former dealer and current trainer and consultant for the Western Equipment Dealers Association's Dealer Institute. Thompson specializes in parts, service and aftermarket training. Please send questions and/or comments to gordthompson@sasktel.net.

Top Metrics to Watch is an ongoing feature brought to you by the association's **Dealer Institute** to help dealers better understand key performance indicators and industry metrics to effectively manage their businesses.