

How to explain basic financials to new managers

By GORD THOMPSON

UNDERSTANDING BASIC FINANCIALS is a common challenge faced by newly hired managers, whether you promote from within the dealership or bring in a new person from the outside.

How do you prioritize the immediate training they will need to succeed in their new position? Naturally, priority is given to training specific to their department's primary job skill sets. The lesser but still important duties are the associated skills they'll need when all elements of a plan are considered.

Primary responsibilities

Two of the primary responsibilities of managers are to create and manage budgets. Outside of our accounting departments, accounting or financial training is rare for the people we normally have running a dealer's sales, parts or service departments. In addition to the department-related skills that earned them the position in management, new managers will require financial management skills. Unfortunately, our industry has relied mainly on the "learning through osmosis" method to convey that knowledge.

It's the only way to explain what we encounter when we survey middle managers about their level of financial understanding at any of the dealer training courses offered by the association's Dealer Institute. Typically, the level of understanding on a scale of zero to 5, with five being the best, averages between a 1 and 2. This is not their fault.

WEDA's Dealer Institute offers great introductory financial training as part of its Dealer Management training program. In the meantime, a rudimentary internal training session could pay big dividends.

Internal training steps

STEP 1

Step one is explaining the Income Statement. We can use something as simple as a lemonade stand to illustrate. Emphasize that an Income Statement covers a defined period of time, whether a day, a week, a month or a year. Go over the structure of it, as follows, including numbers:

For the Period Ending 12/31/18

\$	Sales	Lemonade Sales	\$15
- \$	Cost of Goods Sold	Lemons, sugar and cup costs	\$ 8
= \$	Gross Margin	Gross Margin	\$ 7
- \$	Operating Expenses	Advertising signs and stand repair	\$ 4
= \$	Operating Income	Operating Income	\$ 3
+/-	Adds and Deducts	Tips	\$ 2
\$	Net Income	Net Income	\$ 5

There you have the fundamentals of an Income Statement, which is simple to grasp and translate into a dealership application.

STEP 2

Step two is explaining the Balance Sheet. An easy example is to create a balance sheet for someone's half-ton truck. Balance Sheets are for a specific date in time.

Assets – items of value used by a business:

- **Current assets – cash or should become cash within one year:**
 - cash, accounts receivables and inventories
- **Fixed or long-term assets – kept for more than one year:**
 - land and buildings
 - furniture, computers, tools, vehicles

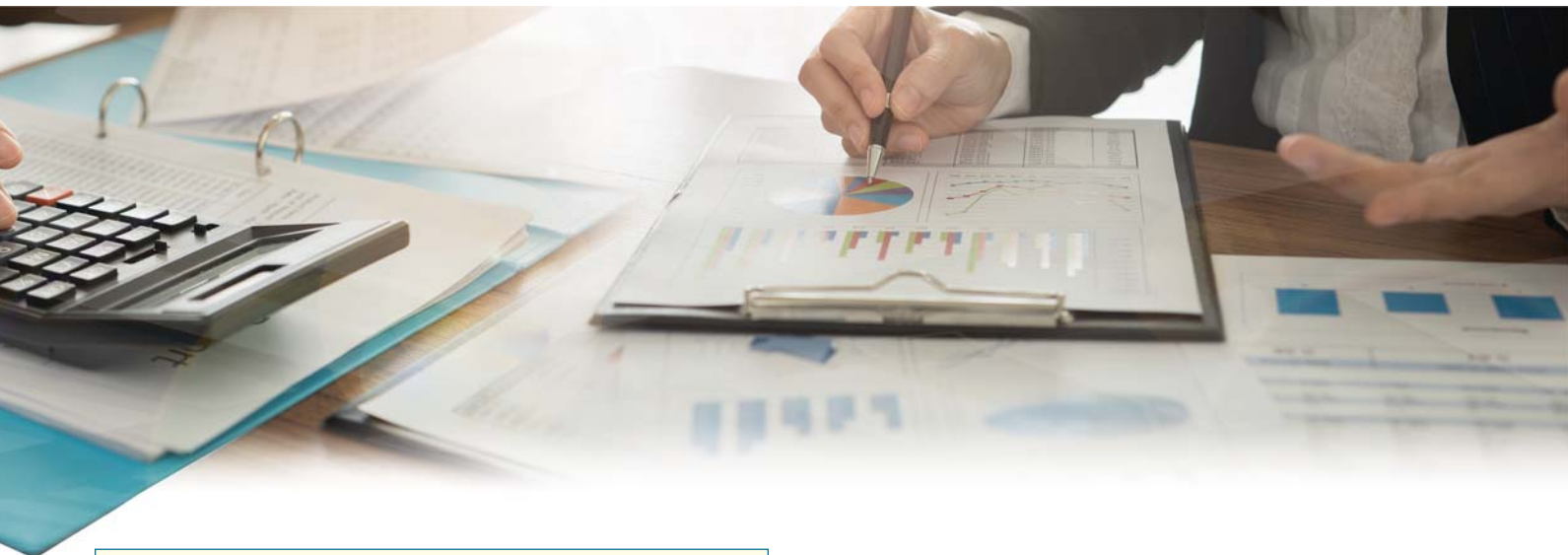
Liabilities – what is owed on the assets:

- **Current liabilities – due within one year:**
 - accounts payable
 - customer deposits
 - accrued taxes and expenses
 - equipment floorplan and short-term notes
 - the portion of long-term loans due within one year
- **Long-term liabilities – due in more than one year:**
 - long-term loan payments due beyond more than one year

Owners' Equity (or net worth) – investment by owners:

- inventory (initial investment)
- retained earnings (earnings left in the business)





Half-ton example

Pete has a half-ton truck he bought two years ago for \$40,000. Today, it's worth \$30,000 and he still owes \$18,000 against it (\$6,000/year for three years).

As of 12/31/18

Assets

• Current assets	\$ 0
• Long-term assets – half-ton truck	\$ 30,000
Total Assets	\$ 30,000

Liabilities

• Current liabilities – current year payment	\$ 6,000
• Long-term liabilities – payments for years 2 and 3	\$ 12,000
Total Liabilities	\$ 18,000

Owner's Equity – paid for equity in half-ton truck	\$ 12,000
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And there you have it – Financials 101 for your new managers in an hour or less. **WED**

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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.

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

U.S. – February 2019 Ag Tractor and Combine Report	February			Y-T-D February			February 2019
	2019	2018	% Chg	2019	2018	% Chg	Beginning Inventory
2WD < 40 HP	8,148	6,538	24.6	15,348	12,869	19.3	93,008
2WD 40 < 100 HP	3,173	2,963	7.1	6,609	6,639	-0.5	35,467
2WD 100+ HP	880	900	-2.2	2,017	2,078	-2.9	8,593
Total 2WD Farm Tractors	12,201	10,401	17.3	23,974	21,586	11.1	137,068
Total 4WD Farm Tractors	167	129	29.5	348	260	33.8	944
Total Farm Tractors	12,368	10,530	17.5	24,322	21,846	11.3	138,012
Self-Propelled Combines	305	251	21.5	566	479	18.2	925

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