Prospering with three equipment turns – *yeah, right*

By TRENT HUMMEL

Well, I did it again. I got worked up and shot off my mouth. Let me explain as I apologize.

At the Omaha Dealer Minds Summit in August, our panel discussed various wholegoods commission structures, which are driving used equipment sales and increasing turns. We were the last group to speak at the two-day event hosted by *Farm Equipment* magazine.

Over the two days, there is always lots of time to visit with old and new friends. In the course of my career, I have attended many manufacturer and dealer events with owners and employees and most are willing to share their issues. These are not only used inventory issues but issues throughout the dealership.

Two days of hearing the same stories about the same problems can grind on a guy. These are the same things I heard a few years ago and, in some cases, a decade ago. My first mistake was asking, "What are you changing in order to get a different result?"

The most common response was, "Nothing to different, would not want to shake up the store too much. What we are doing has allowed us to survive." You can imagine the bubbling point that brought me to.

If we've learned anything about the used iron game in recent years, we've learned that change is a must in order to survive and just maybe we might prosper in the years ahead. Status quo is not going to move our dealerships ahead.

On the surface, the comments made in my presentation may have appeared to be aggressive – and likely they were aggressive. However, how are we going to drive home the message to stop sitting on your hands.

My intention was not to slam but to challenge everyone to ***think differently*** and to change in order to improve.

As dealership owners, my partners and I were not any smarter than anyone else in the industry. We've experienced cash flow issues and were forced into ***thinking differently*** about used equipment. As youngsters, we'd been brainwashed from hearing "too much used iron for too long will drive a dealership to bankruptcy."

Here's the challenge we are giving dealerships. Double the dealership's used equipment turnover rate in the next three to five years. The starting number should be based on the 10-year average used equipment turnover measurement.

Why is it based on a 10-year average? It's because over the last two or three years the new and used equipment turnover rates may have been distorted. I think we can all agree that wholegoods sales have not been normal the last few years. What is normal? We need to adapt to whatever the market throws at us.

Many dealerships are running an average used equipment turnover rate under two and many under one.

By 2021 or 2025, will dealerships survive with a used equipment turnover rate of two?

The cash flow focus

Year after year, cash flow demands do not seem to diminish. If anything, we will either need more working capital to maintain our current level of wholegoods sales or we could use our working capital more efficiently.

Across the board, whether you are a single-store or multi-store location, cash flow needs will increase. Likewise, as equipment costs increase, cash flow needs will increase. Survival at any dealership size will be about cash flow management.

We have worked with a 10-location dealership that began ***thinking differently***. The dealership chose not to have its department managers focused on either the income statement or the balance sheet.

Within that dealership, senior and department managers focused on the monthly department cash flow analysis. For the company, ***thinking differently*** started with needing cash flow for healthy, sustainable growth.

The dealership had 10 locations with three departments in each, totaling 30 departments. Historically, senior managers reviewed the monthly cash flow of the company as a whole.

Many times during the year cash was scarce. Realizing cash flow comes from the departments, a more direct focus on the departments was needed to produce positive cash flow each month. A cash flow objective needed to be developed and put into place.

Each department manager was approached with a department cash flow analysis. Senior management simply asked, "Are you or are you not going to generate positive cash flow for the company this month?"

You can guess how well that approach went over. You guessed it – not worth a tinker's damn. The idea was still good but the approach was not. Senior management tried a second run at establishing a cash flow objective.

Senior managers, along with department managers, conducted monthly in-depth reviews of each department's balance sheet, income statement and cash flow analysis.

Most would think, backed with all of this information, that any department manager should quickly understand the senior manager's push for cash flow. This was open-book management at its finest.

Why did this not reinforce the objective of increasing cash flow? Senior managers discovered their department managers did not understand financial numbers and measurements as well as they thought.

The in-depth reviews of the balance sheet, income statement and cash flow analysis were over the department managers' heads. Their bodies were in the boardroom but their minds were overloaded resulting in another failed approach.

The idea of having each department focused on cash flow management was still a valid and sol-

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id objective, but with the "three strikes and you're out rule," senior managers were down to their last attempt to hit it out of the park.

Let's review why this objective had not taken hold. The first attempt was by force. They jammed the idea down the throats of department managers. They learned you cannot manage people this way.

The second attempt was to provide extensive reports about each department's metrics and numbers. Employees were overwhelmed with information, equaling no positive results.

In polling department managers throughout North America, we found that more than half did not understand financials to a level where they could make operational changes based on the department's metrics.

In sales and marketing, less is more. Isn't that what they needed to do? Sell the idea to the department managers. They didn't follow the "less is more rule" and they missed their mark. They provided too much financial data.

Senior managers needed their department managers to get engaged in the cash flow objective. To ***think differently*** at the department level required the senior people to also ***think differently***.

What, why and how

We developed the "what, why and how approach" to selling an idea to any employee. This management formula has worked for many managers selling ideas to employees about anything.

The goal should always be to get the team engaged in an idea or objective. The more people focus on the same objective, the more ideas that will be produced. From those ideas, there will be results.

Step 1 – What is the objective? Explain it.

For example, we wish more of our employees understood the targeted objective. What are the numbers that go into the objective's formula?

Empower, or at least include, the employees in setting the target. In reality, employees or department teams are the driving force in a department's objective.

Often employees will shoot for the stars in selecting a targeted objective number. They have no idea how far they can or can't go. Who are we to quash their high targets?

Take ambition over education on any given day. We have no idea of how far employees can go with ambition. Employees have no idea how far they can go with ambition.

If the team does not believe the target can be met, as a manager and coach, you may need to lower the target. Remember, objectives need to be attainable for the team to buy in to the idea.

Step 2 – Why and what is the concept behind the objective?

This is likely the biggest step to gaining employee buy-in when selling an idea. Get the team engaged. If employees do not understand, their initial thoughts might be "Looks like more work for me so management can make more money."

A big part of a manager's role is coaching and we need to get better at it. If we intend to sell our ideas, we need to research and study other industries that use similar objectives. Being a student is the best training for being an A+ coach.

Step 3 – How are we going to meet or exceed the objective?

There are a variety of methods for hitting the target. There are dealerships that will dictate the "how to" to the department team and have some success if the training is thorough on why the objective is needed.

However, the most-widely used method for obtaining the objective is for the manager to participate in the discussions regarding ideas on "how to" hit the target.

This seems sensible but managers often find it difficult to draw "how to" ideas out of employees. It may be because they have not fostered a collaborative management style.

Another possibility is that employees present ideas but are not acknowledged for them. It's even worse if their ideas are quashed as fast as they are spoken. Are the employees given credit for their ideas?

By giving credit to employees for ideas, this method can be successful when the manager facilitates a meeting versus leading a meeting. Managers should be the ones writing everyone's ideas on the whiteboard.

The best managers share just enough of their experiences and knowledge to draw out everyone's ideas. They should be greasing the wheels and allow the creative energy to flow.

One highly effective but seldom used method of getting "how to" ideas generated from employees is for managers to not be present for the creative process at all.

In this scenario, managers should explain Step 1 and Step 2 and then ask, "How are we going to meet or exceed objectives?" and leave the room.

By leaving the room, employees will feel comfortable discussing the "how to." You will discover your next leaders from their contributions and leadership. The manager may not be in the room but will hear who the rock stars are.

With this approach, no employees feel judged by the manager as they share their thoughts with the others. Ultimately, all ideas are presented as a team and together they move to the "how to" and activity.

Now, just to let you know how that 10-location dealership made out. Its senior management sold the idea of the increasing cash flow objective to its department managers.

The department managers took on a challenge – to never have a negative cash flow month. This challenge has become a friendly bragging rights competition among the department managers. No manager or employee wants to be working in the department that loses money.

An added benefit is that departments share their best practices with each other. Among the department managers, there is a sense to assist other departments in attaining a monthly positive cash flow. There is now a team focus throughout the company.

Sticking to the same old ways of thinking produces the same old results. In order for these departments to hit their objectives of positive cash flow, ***thinking differently*** was their "top of mind" thinking.

There were some creative and crazy ideas. All were tried. Some worked. Some needed molding. Some were thrown out. But when the focus is on cash flow and employees are allowed to participate, it makes life as a manager so much easier and it's just good business. WED

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