Focus on Increasing Dealer Wealth

By: Keith Ely

In James Collins' book "Good to Great", it is explained that companies perform best when managers are guided by a single-minded purpose. This is referred to as the Hedgehog concept:

"Those who built the good-to-great companies were, to one degree or another, hedgehogs. They used their hedgehog nature to drive toward what we came to call a Hedgehog Concept for their companies. Those who led the comparison companies tended to be foxes, never gaining the clarifying advantage of a Hedgehog Concept, being instead scattered, diffused and inconcissten."

This central vision is defined by the answers to 3 questions

1. What can we do the best in the world?
2. What stirs our passion?
3. What can we be paid well for doing?

Focused Financial Management

It is clear that those who focus like hedgehogs make the best business leaders and those companies create the most value. As Collins says in "Good to Great" "…all the good-to-great companies attained a very simple concept that they used as a framework of reference for all their decisions, and this understanding coincided with breakthrough results." That is why one overall measure for dealership performance and management that is referred to as Dealer **PROFIT** is advantageous.

Ask yourself basic questions about your dealership:

- Do you use a variety of measures for management and compensation purposes?
- Do you track a wide range of measures to determine dealership/department performance and not sum them into an overall measure?
- How do you sort through the mountain of data to identify those measures that are critical to your dealership?
- Do you lack a common, overachieving financial goal to bond and simplify management and decision-making among the departments of the dealership and owner(s) of the company?

If you answered yes to all 4 questions, you do not practice hedgehog financial management and this puts you at a significant disadvantage to those dealers who practice focused financial management.

Financial management is not the task-based functions of the accounting office of the dealership. It is the policies, procedures, and measures used by the management team to guide, control and drive dealership operations. The financial management system can be evaluated based upon the following questions:

- What kinds of goals are set for the performance of the dealership and how are targets established?
- What are the priorities and tradeoffs when financial goals and business goals conflict?

- How are financial goals presented, measured, and reviewed toward achievement with the management team and employees?
- What procedures are used to identify the best business strategies?
- How are alternatives evaluated?
- How is risk measured?
- How do managers make management decisions that involve tradeoffs, such as lowering price to increase market share and selling to customers that will have extended collection periods and increased customer service needs?
- How is performance measured to track results and highlight successes and failures?
- How is dealership/departmental performance measured and rewarded?
- How is compensation aligned with increasing the wealth of the dealer?

Many dealers use a complex web of measures, methods, and messages such as market share measures, CSI rankings, profit/loss report, 20 group comparisons, etc. While these are all necessary, they do not provide that single, main measure of total dealership/department performance.

With an unfocused financial management system, many unfortunate things can occur. The first is the lack of accountability. Another is sufficient cooperation among the management team of the dealership. A third is the tentative decision-making of managers. Many dealership managers can shift accountability for poor performance away from themselves. Poor cooperation among department managers most usually results from inadequate measures for success and the compensation package by which these managers are paid. Third, managers don't want to make tough decisions because of the first two items.

Business Planning

Business planning is different for dealerships using Dealer **PROFIT**. If a dealership does typical planning, the process consumes an enormous amount of time and produces reams of data, but rarely does it drive management's decisions or overall strategy. Successful dealerships are guided by the maximization of dealership and dealer wealth.

Why? The typical planning model is not well-aligned with the way executives and managers make decisions. Most business planning is a "batch" process-market. It usually takes place annually in strict accordance with a predetermined planning calendar. Strategic decisions, by contrast, happen continuously – often driven by an immediate need for action – and do not conform easily to a pre-set schedule.

Planning cannot have an impact if it does not drive decision-making. It cannot drive decision-making as long as it is periodic, and calendar based. The only way to make business-planning matter is to change its basic model. Continuous planning and execution makes strategic planning matter.

The typical model has two main flaws, time, and timing. Typically, the business planning process – if done at all - doesn't give enough time to address all of the issues and opportunities that affect performance. Many issues – those that cross departmental boundaries, computer issues, and customer issues – cannot be effectively dealt with in a 3 to 4-month planning window. Customers have problems, new competitors enter the market, OEMs change policies, products change, regulations come into play. Many other issues that affect the operation of the business occur daily, not just during the planning process. Dealers and managers cannot wait until the next planning cycle; these issues must be addressed now, and time is of the essence. How can managers act and react daily rather than waiting?

The biggest difference between the typical model and continuous planning and execution is the output. The typical plan output has been a written document. Under continuous planning, the strategy isn't a "plan" or document; it is a direction and agenda of issues and opportunities for the dealership. It focuses management on what matters most – the direction of the dealership – and allows the managers to make decisions that optimize the direction. What is needed is direction, a strategy not a plan.

If the strategy is to increase new vehicle sales market share while growing new vehicle Dealer **PROFIT**, the sales manager can be evaluated and held accountable for the success of achieving this strategy. At the end of the year, if an issue remains on the dealerships agency (no action has taken place to resolve the issue), the dealer can incorporate this into the appropriate manager's performance. Because accountabilities are clearer under a continual strategy and planning process, the speed of decision-making and implementation is increased, encouraging growth and Dealer **PROFIT**.

Keys to Dealer PROFIT Success

If Dealer **PROFIT** and continual planning and addressing of issues and opportunities are to be implemented into a dealership, management must have the tools to perform the job. The strategy must be clearly communicated to the management team and on an ongoing basis. Management must make an explicit commitment to Dealer **PROFIT** if Dealer **PROFIT** is central to the strategy and management of the dealership.

Managing for value is 20% about numbers and 80% about the people because people create value. Education must be provided in order to give employees and management the knowledge to convince them that managing to increase Dealer **PROFIT** is the right thing to do.

Everyone must have ownership in the dealership. Not actual stock ownership, but they need to be compensated based upon improvement in Dealer **PROFIT**. Management must be give the authority to increase Dealer **PROFIT**, as indicated in the above discussion on business planning. The authority to make management decisions, and to be held accountable for decisions and execution that increase Dealer **PROFIT** are essential.

Finally, processes and procedures within the dealership must be streamlined to increase Dealer PROFIT. These are not merely accounting issues, but operational processes as well. This includes avoiding accounting complexity. Identifying the drivers of increasing value in each department and maximizing the use of Dealership Management Systems.

The best dealerships consistently deliver superior returns to their owners while developing a virtuous circle of improvement. Beating the ATD average is not in itself superior performance. Creating and increasing wealth and value for the owner(s) means posting returns in the top quartile of the industry year after year. This typically requires a doubling of Dealer PROFIT every 5 to 7 years. Therefore, it is important to focus on management on the truest measure of dealership performance, increasing Dealer PROFIT.