



Decision Making

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Decision making is the heart and soul of the management process. Managers are paid to make decisions, both hard and easy ones. The ability of a manager to both make a decision and then to make the right decision is what sets the performance of one dealership apart from another.

It is also important that decisions become as replicable as possible. The more replicable a good decision, the better a dealership will operate.

Dealerships should be managed to create and maximize the wealth of the owners of the business. In order for the dealership to be a good investment for the owner, wealth creation and maximization must be the focus of all management. However, too many dealership managers and owners focus simply on sales and net profit, not on wealth generation. This is not because they do not want to increase wealth, but because they do not know how to measure and thus increase wealth.

The measurement of wealth creation in a business is simple. The Dealership **PROFIT** formula is the easiest and best method to calculate whether or not a dealership produces or consumes wealth. Dealership **PROFIT** is defined as follows:

$$\begin{aligned} &\text{Operating profit} \\ &- \text{Cost of Capital} \\ &= \text{Dealership } \mathbf{PROFIT} \end{aligned}$$

Once calculated, decisions to increase Dealership **PROFIT** can then be made.

Wealth creation is impacted by three areas. These are assets, gross profit and expenses. Typically, the better the asset performs, the better the gross profit (% and volume). The better the gross profit is, the more in-line expenses become. Our experience has demonstrated that expenses are usually not too high. Typically, gross profit is too low (below guide).

Asset and gross profit management are driven by two main factors, processes and DMS utilization. Everything in the dealership is involved in a process, from a payroll check to ordering/stocking parts. The better designed and functioning a process is, with fewer deviations from the process, the better the performance of the dealership. A better process also leads to increased replicable decision making.

It is imperative that processes be streamlined and controlled. The fewer steps a process has, the more efficient the process and personnel involved in the process will be. The more controlled the process is (fewer deviations from the standard process), the more predictable the results of the process will be, which leads to better performance and improved efficiency.

Streamlined and controlled processes that are effective will lead to better managed assets, increased gross profit and lower expenses.

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In addition, decision making will become easier for managers. The more predictable the performance of a process, the fewer easy decisions a manager will have to make. The easy decisions are made by the function of the process and are thus replicable. The better process, the better the decisions. The hard, uncommon decisions, those that fall out of bounds of the process, are then the main decisions that a manager makes.

Processes will lead to better decision making by managers. A process, if designed correctly, will lead to improved wealth for the dealer. However, processes are just one-half of designing replicable decision making. The second part is DMS utilization.