Adopting Dealership Best Practices = *PROFIT!*

By: Keith Ely

The informative NADA study, "Dealer Guide to Driving Dealership Performance" (2010) indicated four key areas where dealership management can be strengthened to increase ***PROFIT.*** These actions differentiate high-performers from average dealerships. This article tracks activities and results of four KEA customers who were each focused on improving one of the key areas.

Finding #1: Operational Best Practices

The foundation of KEA Advisors, building efficient, streamlined processes and practices, is highlighted in the NADA study. The study found that operational best practices are the single biggest ***PROFIT*** differentiator between average performance and breakthrough performance. If operations are consistent with best practices, net profit can increase by upwards of 2.3% points, regardless of size, location, or brand.

KEA worked with a Parts Department to develop and implement operational best practices. It was a strong department, but the dealership wanted to improve its inventory performance and profitability.

Actions Taken:

- Daily demand management and accountability
- Daily on-hand accuracy verification
- Daily review of pricing and credit
- Strategic pricing
- Strategic stocking criteria
- Monthly GL to physical reconciliation

Actual Results:

- 2 point increase in gross profit
- $85,000 increase in monthly gross profit
- 8 point increase in fill rate
- True turn increase of ½ turn
- $40,000 monthly net profit increase
- Reconciliation accuracy +/- .5%

Finding #2: Personnel Management

It is understood that good management is distinguished by a dealership's attention to attracting, developing, and retaining employees. The NADA study found that high-performing dealers have 25% lower turnover in the sales department, and 15% lower turnover among service technicians. Top dealers manage their employees at all stages of employment, beginning with recruitment. They standardize their interview process for hiring. Targets and performance are consistent because they set clear goals and have frequent performance reviews. They have established, communicated, and enforced consequences for lack of performance. High performing dealerships develop employees with training and coaching, and they manage employee retention with incentive programs.

Over the past 15 years KEA has worked with a Leadership Team from a dealership group to improve their personal management. This dealership has grown from a two store business to over 15 rooftops. Personnel management has been at the core of their profitable growth.

Actions Taken:

- Effective goal setting with financial measures
- Daily reporting of leading indicators
- Daily accounting reporting
- Targeted education
- Incentive programs targeted on individual and departmental performance

Actual Results:

- Statement closing reduced to 5 working days
- All current asset and liability accounts reconciled monthly
- All balance sheet accounts internally audited four times per year
- Cash conversion efficiency significantly increased
- Profitability doubled

Finding #3: Policies and Processes

The best operations attract and retain customers by utilizing strict processes to provide an exceptional customer experience. These processes are built to improve employee efficiency, customer interaction, quality, etc.

KEA worked with a Service Department to improve its policies and internal processes. This service department wanted to improve its customer service and throughput.

Actions Taken:

- Focus on 6 minute bites
- Implementing a strong triage process
- Utilizing standardized labor ops
- All repair orders have authorized and itemized estimate before RO is dispatched
- Market based pricing
- Hours assigned to RO lines for techs prior to dispatched
- Hourly management of working RO and RO updated – keep it “live”
- Build and measure a repair order process/flow at all phases of the flow

Actual Results:

- Proficiency increased 30 points (66% to 96%)
- Customer Effective Rate increased $5 per hour
- WIP decreased $25k
- Profitability increased significantly

Finding #4: OEM Relationship

Top performing dealerships have a positive perception of their OEMs because they have invested in fostering the relationship with the OEM. They communicate their business needs to their OEM field rep, which drives the OEM to cooperate closer with the dealer on value-added activities.

KEA worked with a New Truck Sales Department to optimize the OEM relationship.

Actions Taken:

- Determined the attainable market share with OE
- Developed marketing plans for major accounts with OE
- Developed a call system with OE to include OE sales reps
- Developed a measuring system with OE for sales personnel
- With OE developed a customized demo program for AOR

Actual Results:

- Unit sales increased by 25%
- Customer base increased by 25%
- Gross profit per unit increased
- Inventory days supply decreased
- Increased new customers and new prospects

Industry studies like this show that dealerships that effectively implement the above methods increase their business performance. Improving practices and being consistent at all levels of an organization is a challenge. With the right guidance and discipline, the dealership as a whole can define and transition to using these best practices, with the reward of improved, measurable results.