



# Profitability

## Get the Most Profit From Your Dealership

**With proper benchmarking, you can determine where profit lies — and where it doesn't. You might be surprised at what you find.**

By George Keen

Every dealership utilizes some form of benchmarking. However, many traditional methods don't often identify "the good, the bad and the ugly" of where profitability truly lies and where it doesn't. This knowledge is essential to making your dealership as profitable as it can be.

Dealers have basic software that groups their revenue, cost of goods, expenses and other miscellaneous activity by account. The output or reports for the company owner are then a listing of revenue accounts, sometimes with no organization other than when you created the first account, second and so forth.

We have found that organizing the accounts by revenue type or product type aids in analyzing performance.

Right now, your list of accounts might say:

- **Brand A Equipment**
- **Brand A Parts**
- **Brand B Equipment**
- **Brand B Parts**
- **Revenue**

This is boring and not very informative. Listing alphabetically or by brand doesn't allow for you to analyze the information properly. Instead, you should be categorizing by type rather than by brand or account.

Revenue	Cost of Goods	Inventory
• Equipment	• Equipment	• Equipment
• Rentals	• Rentals	• Rentals
• Parts	• Parts	• Parts
• Service	• Service	• Service (WIP)
• Other	• Other	• Other

With this simple organization (and it could be improved by grouping the account numbers in this fashion also) we may now identify the profitability of each revenue category and the inventory turns for them.

Many dealers carry more than one manufacturer's products. With this organizational format, we now first look at how the category is performing. It may be helpful to then group activity within the group by brand.

But you probably carry some brands to create traffic and others for their quality and profitability; therefore you should be looking to see if the total mix of business is working for you before being excited about one brand's performance over another.

You might wish to break each of the revenue/cost categories down in to sub-sections such as New Equipment, Used Equipment, or Wheeled Goods, Hand-Held Units, or in Parts Sold Over the Counter or through Service.

Many computer programs then list the accounts alphabetically. Your list of accounts might look like this:

- **Advertising**
- **Commissions**
- **Communications**
- **Data Processing**
- **Depreciation**
- **Payroll Taxes**
- **Rent**
- **Salaries**
- **Personnel**

This is again not only boring, but it does not tell you where your expense issues are and what related accounts are doing. There is a much better way of organizing your list of accounts.

## Personnel

- Salaries
- Commissions
- Bonuses
- Payroll Taxes
- Benefits/401
- Workman's Comp
- Other

## Operating

- Advertising
- Travel & Meals
- Vehicles/Freight
- Depreciation
- Communications
- Supplies & service
- Data Processing
- Warranty Expense
- Interest Expense
- Other

## Occupancy

- Rent
- Building Maintenance
- Building Insurance
- Utilities
- Other



See how making it simple has just given us the ability to analyze expense categories? Is your problem that you pay too much for your building? Generally, this is not an issue for most dealers. Is your problem then one of personnel expense or operating expenses? By grouping expenses into the illustrated accounts, we can also look at what is causing the problem in one of these categories.

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We generally find that personnel taxes, benefits and fringe expenses are 20% of the basic wages. Notice how much simpler it is to now go check on that simple rule of thumb. This won't hold for all dealers, but it begins to give you something to watch.

### Revenue and profits

Each dealer will have a different mix of equipment sales and aftermarket. You should be doing what you need in your business. Some dealers are working on creating more market share while others are increasing their aftermarket business.

In this article we will simply talk about your gross profit margins. Working with over 450 dealers each year and in more than 10 different industries, we have seen that while dealers will each achieve different levels of profit in equipment sales, most dealers can target gross profit benchmarks in the aftermarket departments of Parts, Service and Rental.

The target benchmarks for these three departments are:

- **Parts Department can and should achieve 35% gross profit**
- **Rental Department (true Rent-to-Rent) strives for 45% gross profit**
- **Service Department (only on labor sales) achieves 65% gross profit**

### Expense benchmarks

Should you staff your parts department like your sales department? Of course not! That would be silly! So we don't expect that the expense benchmarks for each department would be the same, either.

We have organized expense benchmarks for each department based on years of experience, industry knowledge, best practicing dealerships, and employee productivity guidelines. So there are different expectations in the parts department than there are in service, and neither of those are the benchmarks for the sales department.

### Employee productivity

All employees are not the same, both in productivity and in the way their time should be expensed. Here are several benchmarks to use when analyzing your profitability.

**Salespeople.** Simply put, good sales people develop good profit volume, and bad sales people don't. We've done extensive compensation design and surveys. Our experience tells us that a productive salesperson will deliver \$240,000 of gross profit each year in equipment sales.

**Parts Employees.** While we would like to say just being busy is enough, most owners like to make profits. So in order to afford good people we have found that you must have productive people. Since you only have 8% of parts sales for wages, this means that a parts person making \$40,000 must be handling \$500,000 a year. This will hold for parts managers, shipping and receiving staff and counter personnel.

**Service technicians.** Each technician must bill a portion of their time. We expect them to bill 85% of their paid hours each year. Also, we allow 10% of their time for vacations, holidays, sick time, jury duty and so forth. The other 5% is for meetings, training, and rework (which you can't bill). The technician is involved with your service manager in getting productivity to this level.

But service management and ownership needs to also establish the service rate to customers at the correct level to achieve 65% gross profit. Generally we find that if a technician is paid \$15 an hour, then the dealership needs to be collecting \$52.50 an hour from the customers. If the technicians are paid \$20 an hour then your rate needs to be \$70 an hour. This is 3.5 times that "average technician's wage rate."

	Equipment		Rental		Parts		Service		G & A		Totals	
<b>Sales</b>	\$3,000,000		\$750,000	100%	\$1,275,000	100%	\$850,000	100%			\$5,875,000	100%
<b>COGS</b>	\$2,400,000		\$412,500	55.0%	\$828,750	65.0%	\$297,500	35.0%			\$3,938,750	67.0%
<b>Gross Profit</b>	\$600,000	100%	\$337,500	45.0%	\$446,250	35.0%	\$552,500	65.0%			\$1,936,250	33.0%
<b>Wages</b>	\$199,800	33.3%	\$60,000	8.0%	\$102,000	8.0%	\$93,500	11.0%	\$115,000	4.0%	\$570,300	9.7%
<b>Benefits &amp; Taxes</b>	\$40,200	6.7%	\$15,000	2.0%	\$25,500	2.0%	\$76,500	9.0%	\$28,750	1.0%	\$185,950	3.2%
<b>Personnel</b>	\$240,000	40.0%	\$75,000	10.0%	\$127,500	10.0%	\$170,000	20.0%	\$143,750	5.0%	\$756,250	12.9%
<b>Operating</b>	\$150,000	25.0%	\$52,500	7.0%	\$38,250	3.0%	\$85,000	10.0%	\$86,250	3.0%	\$412,000	7.0%
<b>Occupancy</b>	\$30,000	5.0%	\$22,500	3.0%	\$25,500	2.0%	\$42,500	5.0%	\$57,500	2.0%	\$178,000	3.0%
<b>Total Expenses</b>	\$420,000	70.0%	\$150,000	20.0%	\$191,250	15.0%	\$297,500	35.0%	\$287,500	10.0%	\$1,346,250	22.9%
<b>Net profit</b>	\$180,000	30.0%	\$187,500	25.0%	\$255,000	20.0%	\$255,000	30.0%	\$287,500	-10.0%	\$590,000	10.0%

### Benchmarks for equipment sales

Knowing that each dealer is unique we know that you will have different gross profits based on your brand and product mixes, also based on your market, and the mix of new and used equipment you handle.

But whatever the gross profit on equipment is, you must survive on it, which is all you can afford to spend. So expenses are expressed as a percentage of the total gross profit in this department only.

**Service technicians should bill 85% of their paid hours each year. Also, we allow 10% of their time for vacations, holidays, sick time, jury duty and so forth. The other 5% is for meetings, training, and rework (which you can't bill).**

### Aftermarket benchmarks

The departments of Rental, Parts and Service are all illustrated with the benchmark performance we discussed earlier for gross profit. In Rental, we expect the cost of goods is depreciation, interest and equipment maintenance.

In Parts, we only have a cost of the parts from inventory. For Service, the cost of goods for labor sales is the actual payroll for technicians for all paid hours.

In the service department (in our financial model here) all taxes, fringes and benefits for technicians and overhead staff are included in the personnel expense, and not in cost of goods.

One of the largest expense items you will obviously notice in many dealerships is the vehicle and freight accounts. We are showing those in the "operating expense" area and any "recovery" of that expense in vehicle of freight billing to customers is shown as an "off-setting" entry in the expenses and not in revenue.

### General and Administrative benchmarks

Each dealership has expenses that do not apply merely to one department, sometimes these are the legal and outside accounting, or donations. There are also expenses involved with sending invoices, collecting money and preparing financial reports. We group all of these into a section called G&A. This also includes the executive management functions for ownership, vendor relationships and finance negotiations with the bank.

Since the parts manager, sales manager or any "department manager" cannot fire the accountant/financial person or make some decisions about these "G&A" expenses, we group this off to the side and don't allocate it to their department expenses.

The benchmark levels for G&A are a percentage of the after-market revenue (Rental, Parts & Service).

### Getting more profit from your business

The first step is caring about improving and having a vision of the future for your business. Next you need to have some expectations of what you should be doing through this benchmarking process. I've provided some very basic benchmarks that you can begin to adopt.

Armed with the knowledge you learn from going through this process, your next step should be to begin holding your people accountable to your expectations.

Some dealers are achieving good profits before tax and should be working on increasing their sales market share. Other dealers are not receiving from their company the returns that dealers following best practice benchmarks are seeing each year.

These dealers should contact someone whom they trust and who understands their business. This could be an accountant, a trade association, the dealer development staff at one of the manufacturers, or a consulting company that has worked in your industry. Whomever you choose, don't delay. Your actions today will mean profits tomorrow!

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