

Four Dimensions of Dealer Development

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Dealer Principals aspiring to be a top 10% performer in their class must look beyond the historical scoreboards of the P&L and Balance Sheet to optimize their business.

In order to optimize dealership performance and achieve financial prosperity, highly successful dealers are exploiting the Four Dimensions of Dealer Development: **Markets, Customers, Operations** and **Management**.

Markets

Most OEMs provide market penetration data in terms of whole goods units. But what about Parts and Service? To clearly define aftermarket/after-sales opportunity, we look at Parts and Service Consumption Factors. The heavy duty truck industry has utilized parts consumption factors to project parts usage by Class 7 and 8 trucks for several decades. Truck dealers using this technique can project market size for major component areas such as electrical, drive train and truck body. Research has tracked the average annual consumption of parts in each category. And, by multiplying the relevant consumption factor by the number of units the dealer is servicing, total sales potential and percent of available business attained can be determined.

For most dealer equipment and machinery industries, developing Consumption Factors for product categories is fairly easy to do. Customers with excellent service maintenance records by unit, such as public utilities can help you develop the information. For example, in 2016-2017, skid steer loaders had an annual average Parts Consumption Factor of about \$5,000 per unit. Wheel Loaders over 100 HP about \$11,200. And, in both these product categories the ratio of parts to labor was about \$1.00 to \$1.00. So, the market size for parts is roughly equivalent to the market size for labor in those product categories. In material handling machinery, Forklift Class II Narrow Aisle product requires about \$1,200 parts per year on average over life of equipment.

Your next step is to define the Parts Consumption factor for the product categories you sell. Then, investigate and project the Ratio of Parts to Labor on the typical Repair Order for that category of equipment.

Finally, look at your Area of Responsibility. Based on the number of units in each product category your dealership has delivered, what is the Market Potential for Parts and Service? What is your current Market Share? What would be the value to moving up to 75-80%? What would be the incremental Profit After Direct Expense in Parts and in Labor Sales at, say 75%?

You should also project Parts and Service Market Potentials. Here is how to do it: Create a "Customer Ranking Report by Aftermarket Sales Opportunity." This highly useful data will help define and prioritize your aftermarket sales strategy.

Customer Ranking Report by Aftermarket Sales Opportunity



Customer	City	Number Units in Fleet by Category	P&S Consumption Factor \$ by Category	Annual P&S \$ Sales Potential	Current Dealer P&S \$ Sales	% of Potential	P&S \$ Sales Opportunity
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RANK this customer list by “P&S Sales Opportunity \$.” This new list will illustrate current accounts that deserve closer attention. There may be “leakage” because they have another supplier or they might not be doing required scheduled maintenance. Either way you need to know.

Are you really getting as much of their after-sales business as you thought? For a more detailed explanation of how to obtain and utilize Parts and Service Consumption Factors and develop the Aftermarket Sales Opportunity Analysis, please refer to my text, [*Achieving Excellence in Dealer/Distributor Performance*](#).

Customers

The three most underutilized tools for improving the “Customer Dimension” in Dealer Development include formal Key Account Management, Profitability Analysis and Cluster Marketing.

Your formal Key Account Program, at minimum, must include a comprehensive account profile, analysis of customer roles and degrees of influence, strategies to improve relationships and block competition, relevant diagnostic interview results and information to help your Key Account Team sell contacts the way they want to be sold.

The **Customer Profitability Analysis** is based on a customer profitability report by Sales, Parts and Service Labor Revenue Centers. If you offer short-term rentals, add that as a Revenue Center.

Each Revenue Center Customer Profitability Report should include the following information for all customers sold in the past year:

Customer Profitability Analysis

Customer	City	YTD \$ Sales	YTD Gross Profit \$	YTD Gross Margin %
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Next, RANK each customer in that Revenue Center by Gross Profit \$. Then, create a second report in which you RANK each customer by Gross Margin %.

Here are questions to be answered based on these reports for your PARTS Revenue Center:

1. Who are the top 25 Gross Profit \$ accounts in the Parts Revenue Center?
2. What Parts Key Account Development Program should be in place for these customers?
3. What is the MEDIAN Parts Customer Gross Profit Margin %?
4. What steps can be taken to move accounts paying less than the MEDIAN Gross Profit Margin up above that level? Are there any strange, obsolete discounts in your pricing matrix? Why are some of the larger accounts below the line in exactly the same businesses as some similar large accounts above the line paying far less?

Repeat this analysis for Service Labor Customers and Equipment/Machinery Customers and Rental Customers (if you have them).

Operations

In the early 1900's Sir William Kelvin, developer of the first trans-Atlantic cable, said,

Unless you can measure what you are talking about and attach some numbers to it, your knowledge is of a meager and unsatisfactory kind.

The monthly financial statements are historical score boards. Important, but they need to be supported by ACTIONABLE OPERATIONS PERFORMANCE DATA that can be addressed day to day, week to week before the month is closed. My overall favorites are the Sweet 16:

Sweet Sixteen Operations Metrics

Sales Mix	Service Department Recovery Rate
Absorption Rate	Individual Technician Productivity
Gross Profit Margin by Revenue Center	Weekly Technician \$ Billing
Profit After Direct Expense	Rental Time and Dollar Utilization
Days in receivables	Rental Maintenance as % of Revenue
Off-Shelf Parts Fill Rate to Service	Used Equipment Turns
Parts Inventory Turns	Return on Sales Rep Compensation
Parts Obsolescence	Customer "Touches" per Month per Rep

If you have a particularly astute information systems manager, request and review a Daily Flash Report. Included should be data illustrating **Profitability, Cash Management, Service Operations** and **Absorption Rate**.

Daily Flash Report

Profitability Parts Front Counter to Customers Parts Back Counter to Shop Service Labor Sales New Equipment/Machinery Sales Used Equipment Sales Rental Sales Total Dealership	Cash Management Bank Balance Float Book Balance Line of Credit Max Line of Credit Outstanding Line of Credit Available
Service Operations Shop Recovery Rate MTD Hours Billed MTD Hours Paid % Hours Billed Field Service Recover Rate MTD Hours Billed MTD Hours Paid % Hours Billed Average Billing \$/ Hour Shop Labor Field Service Labor	Absorption Rate MTD, YTD Total Gross Profit MTD Total Expenses MTD Absorption Rate % MTD Total Gross Profit YTD Total Expenses YTD Absorption Rate % YTD You may also wish to include information On Work in Process.

To me, these are the essential Operations Metrics. Complete definitions and formulas as well as the Daily Flash Report are illustrated in [**Achieving Excellence in Dealer/Distributor Performance**](#).

In addition to these “Critical Profit Variables,” you could also examine and assess your utilization of “Best Industry Practices.” In [Strategies, Tactics, Operations for Achieving Dealer Excellence](#), over 600 “Best Practices” across all Dealer Revenue Centers are identified and explained.

Management

Each Dealer Revenue Center must be led by a competent Bus Driver. Bus Drivers must be willing and able to lead their team at an adequate pace toward the Strategic Targets set by Ownership. Not only must the Dealership have competent Bus Drivers, but each team member must be in the right seat.

Two tools are proving highly useful to Dealer Principals: Employee Testing and In-Company Collaborative Dealer Operations Management Workshop.

Employee Testing

Over the past four decades there has been an exponential increase in the accuracy and comprehensiveness of employee assessment tools. In my opinion, these tools will never replace good judgment. However, they can surely provide insight and assist with good decision making in both your recruiting and management team building efforts.

Two stand-out professional resources in this area favored by high-performance dealers include

Employee Assessment Resources

Culture Index www.cindexinc.com Contact: Matt White 205/908-9553 <i>“Making Executives Effective”</i>	Criteria Corp. www.criteriacorp.com Contact: Sabrina Baseman 310/278-8649 x 183 <i>Our aptitude, personality and skills test provide relevant, objective data to help you make more informed hiring decisions.</i>
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In-Company Collaborative Dealer Operations Management Workshop

In over 2,650 Dealer Management Workshops over the past 40 years I have observed a dramatic and almost inspirational benefit of these programs to participating Dealer Principals. As Revenue Center Managers and other Dealer leadership benchmark dealer performance against their high-profit peers, review and discuss “Best Industry Practices” and structure and present Remedial Action Plans for each Revenue Center, several dynamics becomes very clear.

1. Team members rapidly move out of their silos, collaborate and work together toward the common purpose of improving overall dealership profitability, cash flow and market share.
2. Relative strengths of each manager become very clear, providing Ownership the opportunity to identify future coaching and training needs.
3. At the conclusion of the program, with Action Plans in hand, the entire leadership is on the same page, understanding the same vocabulary, and focusing on priorities that will make real differences in the fortunes of the Dealership.

My [Master’s Program in Dealer Management](#) is designed to accomplish exactly this. For complete details, just drop me an eMail: Walt@McDonaldGroupInc.com.