

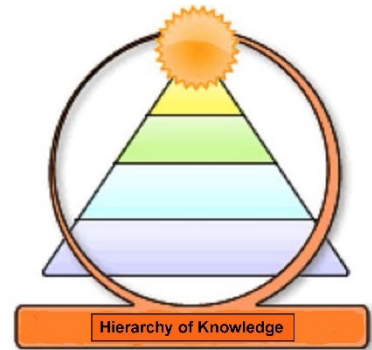
# Hierarchy of Dealer Knowledge

On Becoming a More Effective Dealer Manager

By Walter J. McDonald

## I -- The Transaction Level

Why do so many dealer sales and operations managers appear to be stuck at the transaction level? They may be caught up in a whirlwind of activities, chasing back orders, struggling with rework, running after sales or rental deals. They may be constantly reacting to emergencies, never getting ahead of the curve. Every day is a frustrating firefight.



Successful completion of transactions is important to the dealership. But in the midst of the fray, it is often extremely difficult to see how these problems can be solved more efficiently, at less cost and in a more customer-friendly manner.

Unless the manager can step back, gain some perspective and get a look at the Big Picture, he/she will be forever bogged down, reacting and firefighting.

If we move up the “Hierarchy of Dealer Knowledge” from the “Transaction Level” we can begin to identify causes of problems. And, we can start to structure proper Corrective Action.

## II -- Fundamental Operations Competency Level

From this next step to a higher perspective, we can identify two of the fundamental, pivotal causes of frustration and heartburn in the business, keeping everyone in a reacting mode.

### Parts

What do back orders, service labor inefficiency, delayed repair order completion, angry customers and hostility between parts and service and rentals and sales all have in common? Lousy immediate off-shelf parts fill rate to the Service Department!

Excellence in off-shelf parts availability of regular stock items for your primary lines is essential to eliminating a large source of problems and frustrations across the dealership. If the technician can't get the part for a customer's machine that's down, bad things almost always happen. No one is happy.

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The first and most important proactive step to break out of the firefighting transaction mode is to improve off-shelf parts availability to the service department for your primary lines. Your target is over 95% line item availability. If your Parts Manager is competently managing your parts inventory and stock status report, there are only four reasons why you should be out of a stocking item: 1) Strike at factory, 2) UPS/parcel delivery services on strike, 3) No dealer replenishment purchases, 4) the Parts Manager is asleep.

### Service

Another cause of disruptions and heartburn in the dealership is emergency breakdowns of customer machinery. This results in immediate scramble for a technician who may or may not have the right parts on arrival. Again, this forces the dealership to be in a reactive firefighting mode, at the mercy of random events that cause havoc on day-to-day operations.



After parts availability, the second most important proactive step to break out of this firefighting transaction mode is to initiate customer-wide machine inspection and scheduled maintenance service. Both Caterpillar and Komatsu found that over 85% of emergency machinery breakdowns can be prevented through “fix before fail” maintenance programs.

Implementing a comprehensive machine inspection program means that customers will suffer far fewer unexpected breakdowns. The dealership will be able to schedule these maintenance procedures at their pleasure, when convenient to both the customer and the dealership. Result: greatly reduced dealer heartburn and much happier customers.

## **III -- Revenue and Profit Level**

At this next level up the Hierarchy of Dealer Knowledge, dealer managers begin to understand they are managing a business. In addition to managing Transactions, managers take the first step to better understand and control the drivers of Revenue and Profit.



Business financial operations are tracked and illustrated by Departmental Sales, Gross Profit, Departmental Expenses and Profit After Direct Expenses (PADE).

At this level, successful dealer managers work toward improving sales volume with higher margins. They are also charged with properly managing the assets under their control.

### Parts

As much as 53-55% of dealership parts sales can be driven by Repair Orders. And, machine inspections are, by far, the most important driver of Repair Order sales. Parts sold on Repair Orders initiated by machine inspections are usually sold at or near undiscounted list price. These parts sales are the result of Second Segment Work identified in machine inspections. Therefore, an effective machine inspection program directly benefits incremental parts sales and improved profitability.

In terms of asset management, parts managers must balance inventory stocking levels essential to providing high fill rates with adequate inventory turns. Gross Turns should be in the range of 4.8 to 5.0. And, the biggest obstacle to an acceptable turn score is parts obsolescence. Obsolescence must be kept to under 9-10% of inventory value.

### Service

If managed properly, service generates the highest gross profit margins in the business. And, the key driver of service profitability is labor productivity, the ratio of hours billed to hours available. Anything that contributes to higher service labor productivity and profitability should be examined. An extremely valuable amount of billable service labor hours appear each morning at the start of the working day. The very best dealers are able to utilize and charge out at least 90% of those available hours. If these hours are not captured and billed through real work each day, they are lost forever.



Clearly, the number one contributor to improved labor productivity is off-shelf parts fill rate to the service department. If the technician can access the right part exactly when he needs it, he can complete the job efficiently and move on to the next one. If he has to wait for a part, he has to stop the work, move on to something else and start over later. A tremendous distraction and cause of very costly inefficiencies!

Service labor volume is best driven through machine inspections. No other activity has more immediate impact on building service department sales.

The biggest asset the service manager controls is the shop floor space. What is the weekly productivity of each service bay? What is the actual percentage of time billed against total potential for your service bays? Are you billing out 90% of the available time to work in each bay? Or, are you using empty bays to store old used equipment?

### Rentals

Rental business management includes understanding the drivers of profitability. The big controllable rental cost is maintenance which should be kept under 20% of rental revenue on each unit. Maintenance cost and repair decisions must be monitored monthly on a unit by unit basis.

Gross profit margins are vastly different for end user rentals vs. wholesale rentals. In building profit improvement business strategy for the rental department, dealer management must determine the proper mix of end user to wholesale rentals. Many high-profit dealers work toward getting at least 60% of their rental revenue from end user customers.

Rental assets are managed through monitoring utilization for each unit. Time utilization is the percent of days on rent vs. available. Dollar utilization is actual revenue per month vs. potential revenue per month based on full rental at end user rental rate. The ideal target is to achieve at least 75% time utilization with 75% dollar utilization.

## IV -- Teamwork and Collaboration Level

The most successful and profitable machinery dealers recognize the mutual interdependency of service, parts, rentals and sales. These dealers recognize the Service Department as the backbone of any highly profitable, customer driven dealership. And, the Parts Department is the ultimate support department of the Service Department. These management teams do everything possible to support the whole organization with customer friendly excellence in delivering top notch service.



### High-Performance Metrics

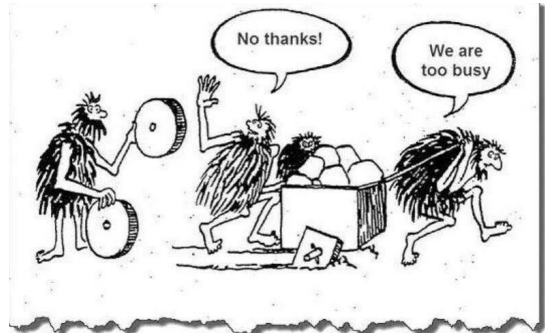
In addition to fostering team play, these dealerships measure and monitor Key Performance Indicators designed to enhance the efficiency of their operations and improve the customer experience with their dealerships. Some of the performance metrics they measure and monitor are:

- Off-shelf fill rate to be over 93% for stocking items.
- Inventory accuracy through cycle count to achieve < 1% item count variance.
- Cause and effect of emergency backorders and efficiency in expediting emergency backorders.
- Technician Productivity to over 90%.
- Service Department Recovery Rate to over 75%.
- Increase Customer Labor Rate Multiple to over 3.1.
- Reducing Unacceptable Unapplied Time to under 4%.

## V -- Change Management Level

In order for a dealership to grow and prosper, it must change and adopt improved processes, systems, management tools and controls. Competitive pressures and industry trends today require the dealership to either grow or go.

Dealer management teams who refuse to take advantage of new and better information technology quickly lose competitive advantages because competitors are able to make better, quicker decisions at lower cost. Competitive pressures require lean distribution management, doing more with less. This means simplifying processes through automation, utilizing assets more effectively to produce higher margin transactions, improving communications with customers and team members, and responding more appropriately to OEM requirements.



All of this requires change. Change in management attitudes. Change in organizational culture. Change in how problems are diagnosed and solved. Change in what management tools are used and how they can be applied more effectively.

The biggest obstacle to successful implementation of this process is the whirlwind of activities surrounding completion of day-to-day tasks.

Dealer managers who are able to break through and achieve great success have several things in common:

1. They focus on only one or two really big opportunities for improvement that will have dramatic positive impact on financial results.
2. They identify, track and monitor the essential quantitative performance metrics most relevant to exploiting those opportunities.
3. The progress scores are published within the team.
4. The management team is accountable for the success of the Remedial Action Plan. And, progress is reviewed frequently by the team.

The challenge for dealer managers is discovering ways to implement required Action Plans when under pressure while not falling back to the transaction Level and succumb to the windstorm of crises and emergencies of the day.

The Hierarchy of Dealer Knowledge for the effective manager, demonstrates the necessity of focusing on “the Really Important,” structuring appropriate Action Plans, monitoring progress, tracking results and maintaining commitment within the organization to make it happen.

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