Compensation Planning and Control in the Dealership Environment

With
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Executive Editor, DealersEdge
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Mike Bowers earned a bachelors degree from the University of Pennsylvania and holds an MBA from Widener University.
Compensation Planning & Control in a Dealership Environment

(What Works and What Doesn’t)
“If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability.”

Henry Ford
**Definition of “What’s Working”**

Performance meets or exceeds expectations AND employees earn approximately what the dealer/owner thinks the job is worth.
Therefore, when employees start earning “too much,” the pay plan has stopped working.
The Human Resources Cycle

• Recruiting, selection, and hiring
• Compensation (and benefits)
• Training and development
• Evaluation
• More training and development
• Remediation/termination
The Myth of the $250,000-a-year Service Advisor

Sounds nice – “The more my employees make, the more I make.”

Reality bites – Staffing templates, operating guides and the job isn’t worth $250K.

Dictates compensation levels and pay plans
Staffing Templates and the 50 Guides

**Service department Guide:**
One supervisor for every three technicians.
Service advisors and shop foremen are considered supervisors in this scheme.

**Small shop**
6 technicians
1 service advisor
1 service manager

**Medium shop**
12 technicians
3 service advisors
1 service manager

**Larger shop**
18 technicians
4 service advisors
1 shop foreman
1 service manager
Or by gross profit production

Gross – average month $185,000

Guide – Gross per employee 6,000

Number of employees per guide 31*

*From financial statement
So ….

- A service advisor working with 5 technicians will write 20-25 repair orders per day.
- At 2.5 FRH per RO and a $70 ELR that’s $4375 in labor sales and $3062 in parts sales per day.
- If we do that every working day 250 days a year, that’s $1,859,250 in revenue from that advisor.
- At a standard 5% of sales, that’s $93,000 a year in compensation. A long way from $250,000.
Is Money a Motivator?

Motivation

Vs.

Job Satisfaction
The 2009 Dealership Pay Plan Survey

1. Managers – How to pay in a tough market?

2. Higher guarantees/draws

3. More complicated – a bad sign
2009 Dealership Pay Plan Survey

For service advisors, a new focus on the process

For technicians, a move away from the old Flat Rate system.
What makes a pay plan work?

Pay for the position not the person

• Define the job and have written job descriptions

• For the truly ambitious, create a professional compensation system
Pay Plans That Work

Pay for the position not the person

• Define the job
• Job Description/Definitions
• Evaluate the Job
  – Skills/education
  – Level of decision making
  – Impact on results
  – Human interaction
The Job Description Questionnaire

• Reporting relationships

• Purpose of the job!!

• Essential elements in order of priority

• Peer group (FLSA considerations)

• Training needed

• Level of authority
Dealership Compensation Policy

A. Basis for pay increase:

Employees of this dealership will receive increases in compensation for the following reasons only:

- Promotion
- Merited increase within the established range
- Reclassification of position

2. All increases will comply with our established job classifications and pay ranges. All changes involving increases in compensation will be one of the foregoing reasons and will be so indicated. All proposed and actual increase will be fully documented and supported by valid reasons.

B. Control of compensation:

No promise, commitment, or statement will be made to any employee regarding a change in compensation or the effective date of any increase until notice has been given by his/her supervisor that such an increase has been approved and authorized. All increases will be effective at the beginning of the next pay period.

C. Merit increases

1. A merit increase is an increase in an employee’s base compensation made as a reward for improved job performance.

2. Merit increases will be granted, when earned, to employees on the basis of formal job performance reviews. Merit increases shall be given only within the compensation range established for the job. It is recommended that a minimum and maximum percentage of an employee’s present compensation be a guide when granting a merit increase.

The dealership pay grade sheet gives the compensation range for all jobs in the dealership. These ranges were established on the basis of:

- Evaluation of each job within the plan;
- Analysis of the dealership’s existing compensation practices;
- External comparisons with the prevailing average salary practices within the surrounding area.

3. All personnel decisions must be approved by the supervisor of the individual who is recommending action involving an employee who is under his/her supervision. Merit increase will be given only within the compensation range established for the job. The compensation range establishes the minimum compensation, the rate for 100% adequate performance and the rate for employees performing at exceptional levels.
What works – Answer two questions

• How much is the job worth in the marketplace?

• How should the employee earn the $$$?
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Keep it Simple

• If an employee’s spouse needs more than a two-minute explanation to understand the pay check, it is too complicated.
The importance of the “Target Income” level

No matter what they say, most dealers have some target income in mind when they develop a pay plan.
Building a pay plan

- Decide on a target income
- How much salary?
- How to earn incentives?
- Performance hurdles
- Do the math, then do it again
How much is enough?

• Exit interviews – turnover due to money
• Industry surveys/benchmarks
• Employee opinion surveys
What’s working in dealership pay plans

• Technicians

• Service advisors

• Support staff
What’s not working

- 100% commission for managers
- Mistaking money for motivation
- Ignoring the operating guides
General Manager

• What’s working:
• $1,000 per week salary
• 10% of dealership net profit
• 1 demo

$152,000 to run a $1 million/year store
General Manager

• What’s not working
$300/week salary
15% of net dealership profits
1 demo

$165,000 for running a $1 million/year store
but what happens in unusual years?
General Manager

- What’s new?

Equity
How much?
Buy-in?

What if the GM is already a “partner?”
General Sales Manager

• What’s working:

$75,000 salary
10% of net vehicle selling gross after controllable expenses

Target income - $100,000 in a 150/unit/month store
General Sales Manager

• What’s not working

$300/week salary

5% of new and used car gross including F & I

Get ready to change the pay plan
F & I Managers

What’s working:

$500/week salary
5% of net F & I income

Target income is $85,000.
F & I Managers

• What’s not working:

$0 salary
7% finance reserve income; 12% oil plan income;
10% credit insurance; 12% security systems;
12% service contracts; 12% chemical protection;
12% GAP/leasing products

$4,000 monthly guarantee

Why 12%? Why so complicated? Don’t use pay plans to micromanage.
F & I Managers

• What’s new:

Keep finance reserve below 50% of net F & I income; skew pay in favor of non-finance products.
Controllers

- What works:
  
  $85,000 salary
  1% of dealership net income paid quarterly
Controllers

• What’s weird:

$4,250/month salary
1.2% of selling gross from parts and service (Ford store)
Annual discretionary bonus

What’s the dealer trying to accomplish?
Service Manager

• What doesn’t work:
  • $500/week salary = 34% of total pay
  • 4% of service gross less policy
  • 1% of body shop gross less policy
  • 4% of rental department gross

• Stand by for the next pay plan change
Parts Manager

• What works:
  • $660/week salary (71% of total pay)
  • 2 ½% of combined parts and service gross

Good idea to tie the parts and service managers together
Body Shop Manager

• What doesn’t make sense:

$750/week salary (77% of total pay)
12.5% of B/S gross over $25,000
5% of B/S net profit; 2% of parts department gross

Don’t pay on both the gross and net profits!
Salesperson

• What’s working:
  $100/week salary
  Stair-step commission:
  0 – 10 units 20% of commissionable gross
  11-15 units 25% of commissionable gross
  16+ units 30% of commissionable gross
  Applied to next month’s sales.

  Demo for 16+ units
  Spiffs/spot bonuses
Salesperson

- What’s not working
- $0 salary
- 20% of commissionable gross
- $25 for F & I referral; $10 for service contract; $15 for alarm system; $15 for tire upgrade, etc.
Salesperson

• What’s new:

To encourage college graduates:
$3,000/month salary for first 12 months;
  option to go to commission plan after 90 days.

Demo program
Service advisors

• What works:

$300/week salary
$1.50/FRH turned by team
$135 - $260 for team efficiency
$125 - $200 for ELR
$50 - $150 for FRH/RO
Service advisors

- What doesn’t work:
  $300/week salary
Commission based on:
1. $ sales
2. FRH sold
3. FRH/RO
4. ELR
5. Parts/labor sales ratio
Service advisors

• Commission continued:
  6. # ROs written
  7. Menu sales closing ratio
  8. CSI

Modifiers:
Spiffs, write-offs, open ROs.
Service advisors

• How much to pay?

5% - 6% of labor and parts sales
10% - 12% of gross
Central FL - $mid 60s
Michigan - $50K
North Jersey - $75K
South Carolina - $40K to $70K
Northern Colorado - $55K to $98K
Rural - $35K to $50K
Technicians

The future of Flat Rate

- Variable pay schemes
- Started in body shops
- Lean production methods
- Influence of service menus
- Guess what – It’s working!
For a copy of the slides plus the 50 Operating Guides

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