By Doug Austin

// Dealership Management

Tighten Key Processes and Controls Now to Prepare for Tomorrow

// As we look around the country, it appears that the auto sales are strong in many areas and are continuing to set records. Dealer acquisitions continue at a fast pace, suggesting a high level of confidence in the future of automotive retailing. The consolidation of dealerships also suggests something else, an increasing awareness of the need to leverage expenses across more stores in a very low margin business.

Consolidation of automotive suppliers is also occurring at a rapid pace. For those of you at NADA this year, did you notice how elaborate and large some of the supplier tradeshow spaces are now? When suppliers get larger, consolidate and absorb more of their smaller competitors, prices tend to increase and your profitability becomes strained yet again.

Finally, Dealers all over the country are reporting that their gross is growing, but expenses are growing at a faster rate, a message we have been hearing for a couple of years now. We have seen outward signs of dealerships tightening their belts for six months or more now. Interestingly enough…we are seeing clients in other industries tighten up too…manufacturing is down, so freight transportation is down, therefore, sales of heavy trucks in many markets are also slowing

So what are these signs telling us if anything? Many businesses know a downturn or a slowdown is coming, it is part of the natural business cycle, but the question is when?

"IMPLEMENTING A FEW KEY BEST PRACTICES IN THE SPEND MANAGEMENT AREA NOW COULD HELP YOU WEATHER SOME ECONOMIC STORMS DOWN THE ROAD."

Proactive Management Teams Act Now

Management needs to be aware of the signs around them and be thinking about the future. Someday, and that day may be soon, generating a respectable profit might entail more than selling a few more cars…management of both the top line and the bottom line will be required. It might take more than selling a few more cars to improve the bottom line...an offensive and defensive approach will be required.

Defensive Strategy – Spend Management Best Practices

Best Practices in various functional areas are designed to help the users cut through the clutter and move right to the most effective, efficient and controlled process or Best Practices that will yield superior results consistently.

Implementing a few key Best Practices in the Send Management area now could help you weather some economic storms down the road. If those storms don't materialize, the worst result is that you tightened up controls and drove some new efficiencies across the organization.

In the interest of time and space, I won't articulate all of the Spend Management Best Practices, but rather those that will provide the most protection and controls for your organization.

1. SPEND MAP FOR PLANNING, SCHEDULING AND REPORTING – A spend map is both a critical diagnostic, but also a key planning and management tool on the expense side of the business. All dealerships or dealership groups have 100-130 expense categories to manage…these are expenses that require your funds going out the door each and every month. These expenses impact your profit in a negative way. Your organization must have a proactive approach to sourcing and negotiating these categories in a methodical, scheduled way. Anything less is poor management, pure and simple...you are ignoring the obvious. Build a spend map today.

2. POLICIES AND APPROVAL LEVELS – In any well managed organization, a team needs to know what authority they have with respect to company expenses….how much they can spend, expense categories they are allowed to make commitments for, etc. Employees need to know if they have the ability to bring new suppliers in to the organization(adding cost and work to your staff). Employees need to know who buys or commits to what, what levels of approval everyone has, what the process is and who executes that process.

Purchasing and Approval Level Policies can be a simple document that provides answers and guidance to the employers on what they can do… and what they cannot do. When employees enjoy carte blanche to add suppliers to any category, confusion begins and added costs and expenses start to add up. It costs money to add suppliers… meetings, invoice reviews, accounts payable, loss of leverage and more. The fewer the suppliers the better. The Purchasing policies if developed and implemented will provide the controls you will need for today and tomorrow.

3. CONTRACT TRACKER – Have you ever gotten that sinking feeling in the pit of your stomach when you learn that a bad supplier contract has auto-renewed for another three years, knowing this problem could have been avoided if managed proactively? You were going to take care of it but forgot to do so. A contract tracker is a required spend management tool in any organization…profit or non-profit. We are all too busy to think that we will remember to keep track of all supplier commitments without some sort of tickler or tracking device.

A good contract tracker will notify you well in advance of a pending contract due date so that action can commence and supplier contract surprises become a distant memory.

4. PREFERRED SUPPLIER PROGRAM

Your dealership has between 100 and 130 expense categories in place today. There is no good reason to have 400+ active suppliers in your payables system. Too many suppliers create the following:

- Added Administrative Costs – 1099's, invoice approvals, check processing, management meetings
- Loss of Leverage – spreading your dollars around to too many suppliers raises your cost due to lost leverage
- Employee Chaos and Confusion – You owe it to your employees to select a Preferred and a back-up supplier in each expense category, and then publish that list across your organization. If your employees know that they need to follow your supplier program, they won't make the rules up as they go, saving you headaches and dollars.

Most executives know they need a Preferred Supplier program, and understand the inherent benefit to employees and to the organization, so not a lot of sales pressure is needed here…just action. Hint…a spend map becomes an ideal template for creating the Preferred Supplier Program.

SUMMARY

All indications are that auto sales are still strong and will remain strong for a period of time. While dealerships sales are strong, there are activities going on behind the scenes that indicate big groups are positioning themselves to grow even more through acquisitions…preparing themselves to weather any downturn by leveraging their expenses. Supplier consolidations are occurring and when that happens, your services options are typically reduced and your prices increase. Two big segments seem to be preparing themselves for the future.

What is your organization doing to prepare for tomorrow beyond keeping up with the firefighting of today? Implementation of Spend Management Best Practices would be a good idea to improve controls, drive new efficiencies and effectiveness at any time in your business. Implementing basic common sense controls or Best Practices today will not only help your operations today, but help you weather the economic slowdown that will certainly occur at some point.

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