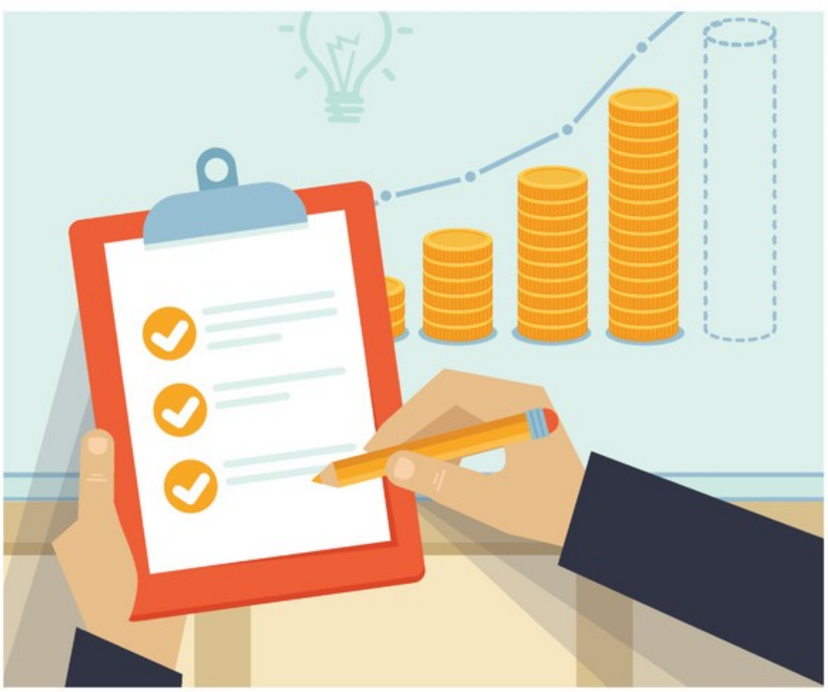
By Doug Austin

Develop an Aggressive Expense Plan for 2017

// In less than 90 days, we will enter a new year. 2017 will be a new business year with a list of opportunities and challenges…some of which we did not complete or take advantage of in 2016 that will carry over. There will certainly be other initiatives that take center stage given the economy and business conditions. Businesses all over the country are beginning to think about 2017 in terms of growth opportunities, space requirements, business objectives, staffing levels, sales objectives, expense objectives and much more.

I am sure we all know by now that performance improvements (sales, profitability, etc.) do not occur as a result of hoping or wishing for some improvement. Material or significant improvements in your operation is based on developing objectives, breaking down the objectives into achievable steps and managing performance against plan. So…where are we going in 2017? Where do we want to go?



SMAART OBJECTIVES TO HELP IN YOUR PLANNING

I learned long ago that there is an art and a science to crafting objectives that have a high probability of being accomplished. I was introduced to the concept of SMAART Objectives many years ago and have relied on that approach ever since as the process if followed, will help you achieve the objectives you established.

SMAART objectives are nothing more than using established criteria when developing objectives. The thought being that if the critical elements have not been considered or thought through on the front end, that the likelihood of achieving that objective goes down dramatically. Conversely, if the objective is written using the SMAART criteria and the process is followed, that the likelihood of accomplishing that objective improves dramatically.

SMAART Criteria

S – SPECIFIC – all objectives should be written with a specified end result. We do not want to be general in describing what we expect to achieve.

M – MEASURABLE – the objective must have metrics or performance

AREA OF FOCUS	2016 ACTUAL RESULTS	2017 OBJECTIVE
Expense categories sourced, quoted or negotiated		
Annual hard dollar cost savings achieved		
Two year cost savings achieved		
Three year cost savings achieved		
Active supplier count		
Actual expense categories in use		
# of preferred suppliers (contracted pricing/terms)		

measures attached, both starting metrics and end state metrics. Remember…if it can't be measured, it cannot be improved.

A – ACTION ORIENTED – the objective must require an action to be accomplished...meaning, the accomplishment of the objective cannot happen on its own.

A – ATTAINABLE – the objective must be considered attainable by those assigned to the task…it does no good to set objectives or stretch goals so high if those objectives cannot be reasonably accomplished.

R – RESULTS ORIENTED – the objective should clearly define the desired end result that is to be achieved.

T – TIME PHASED – the objective should have specific timing attached to starting and ending phases of the objective.

Sample - Spend Management Objectives Using SMAART Criteria

1. COST REDUCTION - We will reduce indirect costs by $500,000 over 2016 levels by June 30, 2017. We will accomplish this objective by building a sourcing plan, prioritizing our largest expenditures and then quoting or renegotiating new improved rates on selected expense categories to achieve these savings.

2. SUPPLY BASE REDUCTIONS – We will reduce our active supplier base from 600 suppliers to 500 active suppliers by December 31, 2017. This supplier reduction will reduce our back office costs, improve efficiency and help us achieve better supplier pricing and leverage to achieve other objectives. We will accomplish this objective by designating a Preferred Supplier and Approved (back-up) supplier in each expense category.

Establishing 2017 Areas of Focus

So where do you go in 2017? Did you hit it out of the park on expenses this year? Is your gross climbing faster than your net? If so…you might want to be focusing in other areas of the business. However, if the following are true of your business, you should spend some time on developing solutions for 2017:

1. Expenses growing faster than top line sales
2. No definitive sourcing plan developed for 2017
3. Supplier base greater than 300 active suppliers
4. Frequent supplier price increase notices
5. Do not have access to supplier contracts
6. Many long-term, comfortable supplier relationships not challenged
7. Frustration with the supplier management process

SPEND MANAGEMENT FACTS TO ASSIST IN PLANNING

As you consider your plan and the potential benefits, you should have a good grasp of the facts and benchmarks based on years of research.

▸ **PURCHASING** Departments – Over 90% of mid to large U.S. businesses have a defined group or purchasing function to manage the purchase of supplies and services. Only 5% of dealerships have an established purchasing function.

▸ **EXPENSE CATEGORIES** – There are at least 130 expense categories of supplies and services consumed by dealerships. Each of those categories need to have their products/services defined/pricing quoted or negotiated periodically/invoices audited and the supplier managed.

▸ **SAVINGS POTENTIAL** – Supplier Overcharges of 25% – Research says that if you centralize your purchasing function (plan, quote, negotiate) you will reduce costs by 25%. StrategicSource typically averages 24-25% across all categories...meaning that the research is correct and that suppliers are charging too much. You can use 15% to 25% as a good target for your own cost reduction efforts.

▸ **SUPPLIER REDUCTION OPPORTUNITIES** – Most dealerships can reduce their supplier base by 35% or more. For the average single point dealerships that means reducing over 100 suppliers. For small groups, a 35% reduction

Continued on pg. 16

Continued from pg. 15

can mean 200-400 suppliers. All suppliers need to meet with your staff periodically, take time over the phone, send invoices that need to be reviewed and approved and then need to be paid. Costs of at least $600 per year per supplier is not out of the ordinary…so reducing the supplier base is a great way to drive efficiency and reduce internal administrative costs.

- **ANNUAL SPEND** – the smallest of dealerships will spend 9% of their top-line revenue on the purchase of supplies and services in those 130 categories. Groups with revenues north of $1B annually will spend about 4.5% of revenues on supplies and services. Stores with $100MM in sales will spend roughly 6%.

SUGGESTED OBJECTIVES FOR 2017

As you think about 2017, consider the following areas that currently have a large impact on your expense structure. Gather your 2016 actuals...then plot your improvement or your objectives for 2017.

NEXT STEPS

Complete the exercise above by plugging your actual and your 2017 objectives. In the next issue I will discuss how to turn this set of objectives into an actionable plan that includes the following:

- Organization Structure
- Team
- Final Objectives
- Sourcing Plan
- Related Performance Measures
- Policies / Controls
- Execution
- Management

SUMMARY

2017 is almost upon us. Now is the time to begin laying the foundation for our plans and objectives for the coming year. We talked about the importance of setting objectives. We walked through the SMAART Objective process as a very effective tool or criteria for setting objectives, and provided a couple of draft objectives for your consideration. Based on our extensive experience in spend management and the dealership space, we suggested some areas to focus on in 2017, and then provided some benchmarks to assist in your planning. Finally, we gave you a template (above) to complete that will outline key areas of focus for 2017.

Feel free to contact me at: Daustin@dealer-communications.com if you have any questions.

***DOUG AUSTIN** is the founder and President of StrategicSource, Inc., the leading provider of Spend Management Services(strategy, spend mapping, sourcing, process improvement and audit) for the automotive and truck dealerships, and various other vertical markets. Doug is a veteran of the U.S. Marine Corps, a graduate of the University of St. Thomas, and a speaker at various conferences and 20 Groups. Doug has acquired over 30 years of line, staff and executive experience in Spend Management and Supply Chain Management in various vertical markets. Doug is also a trainer, speaker and consultant on the Spend Management, Supply Chain and Procurement disciplines.*
***EMAIL:** Daustin@dealer-communications.com*