

// Dealership Management

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Year-End Spend Management Assessment – Setting Up for a Successful 2018

// December is here and it is time to wrap up the year and begin planning for 2018 if you haven't already done so. As business owners, the one performance metric that is top of mind is total top-line sales by month and for the year. Every business owner of top executive will know exactly where you stand on revenue metrics. One of the other important metrics is profitability, which some would argue is even more important than the sales metric. The goal for a for profit organization is to make a profit...as much profit as possible. Profits are the lifeblood of an organization and allows the organization to survive, grow and move forward.

The spend management space is focused on the management of critical corporate resources... supporting the organization with competent and

competitive suppliers, the commitment of company funds in a controlled environment, minimizing expenses, enhancing profitability and increasing cash.

As we look back in 2017 to assess our organization performance, we usually make these assessments by reviewing overall organization performance. Did we achieve our objectives? Where did we miss? We also assess performance at the functional or departmental level. How well did our operating units perform? Did they achieve their functional objectives, did they contribute to our overall success...or did they hold us back from achieving our company objectives?

In the spirit of looking back to improve what we do going forward, I thought it might be an appropriate time to take a few minutes and review

the condition of your spend management function in 2017. If you have access to the right data, have the correct plans in place, are employing the correct tools and controls across an organization... you are probably throwing off a decent level of profit for the year.

If your organization is not generating the profits you needed or expected, then it is probably time to assess where you are in preparation for some focused change.

The following assessment is broken out by the significant components within spend management. Spend a few minutes to walk through this exercise to see where you are strong and no improvements are needed, and to determine where the gaps are that need to be plugged.

If your answer to many of the questions is "no" or that you "don't know"

you probably have some challenges to address near term.

The best plan of attack to get the spend management function under control is to centralize the function. By that I mean, pull back all purchasing and commitment authority that employees have. Do not allow anyone to make a supplier selection or a supplier commitment until spend management is centralized.

WHAT CENTRALIZATION MEANS

I would recommend that spend management be centralized under the finance department and the CFO. If your organization does not have a CFO, then I would recommend that the dealer principal or president retain full control of spend management. Authority can be delegated and should be...but controlled from a central point. Centralization of spend management should include the following:

- 1. PLANNING** - Sourcing of the 130 expense categories is planned from the top.
- 2. POLICIES** - Purchasing policies are in place and apply to all staff and all suppliers.
- 3. COMMITMENT AUTHORITY** - the ability to execute a purchase order, contract or approve an invoice is limited to only those titles outlined in the purchasing policy.
- 4. SUPPLIER MANAGE-**

MENT - New suppliers must be vetted and only added with senior management approval and then to fill a need in the preferred supplier list.

5. OBJECTIVES - An annual cost reduction objective expressed in dollars is established, implemented and measured monthly to track against the plan.

6. AUDITS - Supplier audits are planned, executed and the compliance results are reported across the organization.

OPPORTUNITY

Since profits are the lifeblood of any organization, keep in mind that the spend management function can either erode your levels of profitability with too much expense...or it can enhance your level of profitability by reducing the level of expenses. Some metrics to keep in mind as you plan for 2018:

- ▶ Annual spend for supplies and services – 6% of total sales on average (\$100MM in sales = \$6MM in spend)

- ▶ Expense categories to manage – 130 total...most dealers managing 95 on average

- ▶ Cost reduction opportunity – 25% of spend if spend management is centralized (25% of \$6MM = \$1.5M)

- ▶ New Profits - \$1.5MM

SUMMARY

As year-end is approaching, it is a good time to step back and review overall company performance. Did the organization achieve all of the early objectives? If profitability levels were not met, it might be a good time to review your spend management function. The Spend Management Assessment can help you

SPEND MANAGEMENT ASSESSMENT

Item	Area	Question	Yes/No/Comment
1.	Spend	How much did the company spend on supplies and services in 2017?	
2.	Spend	How did that amount change over 2016? Increase or decrease?	
3.	Spend	What is the explanation for the change?	
4.	Spend	What is your forecasted spend for 2018?	
5.	Spend	Out of a potential of 130, how many expense categories did your organization spend money in this year?	
6.	Suppliers	How many "active suppliers" are in your payables files?	
7.	Suppliers	How many more suppliers are active in your files vs. expense categories you purchase in? (i.e. 400 suppliers – 100 expense categories)	
8.	Suppliers	How many new suppliers did you add in 2017?	
9.	Suppliers	How many suppliers did you drop in 2017?	
10.	Suppliers	What is the explanation for the difference?	
11.	Controls	Are written purchasing policies in place throughout the organization and followed?	
12.	Controls	Does your staff have a list of your "preferred" or designated suppliers in each expense category?	
13.	Controls	Are your suppliers locking their pricing for 12-24 months consistently when you quote or negotiate pricing?	
14.	Controls	Are supplier contracts and agreements tracked by due date to prevent auto renewals?	
15.	Controls	Are supplier audits conducted on your biggest suppliers?	
16.	Staff	Is your staff creating a prioritized sourcing plan for 2018?	
17.	Staff	Is your staff developing a core list (broad list of items that you purchase) for quoting or is your team sourcing items separately?	
18.	Staff	Is your sourcing staff obtaining three quotes on repetitive and/or spot buys before making supplier selections?	
19.	Staff	Does your staff vet and qualify suppliers before adding them to your approved supplier list?	
20.	Staff	Does your organization have guidelines in place pertaining to that which an employee can accept from a supplier (gifts, cash, entertainment)?	
21.	Results	How many of the 130 expense categories were quoted and pricing renegotiated this year?	
22.	Results	How much did you earn this year in cash-back rewards using a credit card to pay suppliers?	
23.	Results	How often did your management team review progress on expense reductions during the year?	
24.	Results	What was the total annual cost savings achieved this year through new quoting and renegotiation?	
25.	Results	What kind of expense reductions or new profits do you expect from sourcing activities in 2018?	

pinpoint the gaps in your policies, processes and controls and help you get those on track for 2018. Remember, centralization, taking control of the commitment process is key to regaining control across an organization. Once that control is centralized and plans are established and executed, a new source

of profitability will be achieved setting you up for a better 2018.

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