

Reducing Personnel Expenses to Increase Dealership Profitability

Controlling expenses is essential to sustained profitability

One of the key contributors to successful expense reduction is the use of a performance management solution that enables dealers to organize, analyze, and drill down into their expenses. Targeted goals can be derived from a variety of sources: Crowe Navigator, the National Automobile Dealers Association, 20 Groups, and Auto Team America.

Productivity Matters

Employee productivity has a significant impact on the profitability of a dealership. The first step to increasing employee productivity is to examine ratios of certain groups of dealership employees and review the overall employee structure.

Dealers should also analyze their ratio of service advisers to technicians. Effective dealerships strive to achieve a ratio of one service adviser to every four or five technicians. Dealers can use other readily available data to determine their personnel needs and refine their cost structures. A dealer, along with the department managers, should review the organizational chart, in conjunction with the employees' annual salaries, for unnecessary positions and disproportionate compensation. Dealers should pay particular attention to the employees who in terms of compensation are in the top third.

Another way to review a dealership's personnel cost structure is through review of payroll data. A dealer, along with the department managers, should sort the paychecks by department and review each employee's role in the dealership. Setting aside the paychecks for positions that are unquestionably necessary will leave those positions/people that merit further discussion. Often this exercise leads to the discovery of opportunities for expense reduction, particularly in large dealerships where personnel can build up unnecessarily over time. Paycheck remittances can reveal other critical data, such as overtime incurred and unapplied labor time, that serve as a means for identifying further expense reduction opportunities. (An additional benefit of this exercise is the opportunity for the dealer or managers to distribute paychecks to the employees and to thank them personally for their contributions to the dealership.)

Controlling Turnover

Employee turnover has been a chronic problem for many dealerships. Turnover rates in fixed operations are usually relatively stable, but the sales department can experience turnover rates of 100 percent or more. The rates for accounting and administrative personnel tend to fall between those.

High employee turnover is more than just frustrating – it's also costly. A conservative estimate puts the cost of each bad hire at \$10,000 to \$15,000, including lost productivity, lost sales, lost repeat sales, advertising costs, training costs, and interviewing time. But some turnover can be a good thing, particularly planned turnover. When an employee leaves the dealership, the dealer should ask if the vacant position is relevant and necessary to refill. Some of the productivity analysis described above can help answer this question.

Dealers should consider implementing an employee referral program to cut recruitment costs. Typically, these programs involve offering employees a bonus – maybe \$500 – if a referred “hire” is still with the dealership after 30 or 60 days. Such a program can produce significant savings by eliminating the need for advertising. It also helps expedite the hiring process, as candidates have been “prescreened” by the referring employee.

Evaluating Compensation

Compensation is a large component of personnel costs and therefore should be scrutinized closely. It may be advisable to restructure compensation plans. In an environment of decreasing sales, a dealer may be able to leverage the new-car and truck managers. Many dealers are consolidating these responsibilities into the single position of new-vehicle manager, thereby reducing the overall supervision expense for the new-vehicle department.

As part of the process of assessing compensation for salespeople, dealers should focus on spiffs (bonuses paid on a specific type of sale). Any spiff should be directly connected to a specific objective, like moving certain models or aged inventory. Ideally, dealerships should work toward eliminating the need for spiffs, which generally result from excess inventory and issues related to inventory mix. If inventory is managed properly, the need for spiffs will decrease.

Smarter Benefits

Employee benefits represent another opportunity for expense reduction. Given the amount of expense involved, it makes sense to determine whether the cost of benefits packages can be reduced while still retaining the major benefits that are attractive to desired employees.

Health Plans

Dealers typically use one of the following types of health plans: fully insured (also known as guaranteed costs) partially funded or administrative services only (ASO) plans. Under a partially funded plan, the dealer assumes an increased risk by taking a higher claim deductible in exchange for lower premiums. Under an ASO plan, the dealer retains an insurance company to handle the administrative tasks for the employees but acts in a self-insured role, making it responsible for any claim payments to employees.

Workers' Comp

Don't overlook the role played by workers' compensation insurance. A dealer has several choices for structuring the premiums for workers' compensation. Moving along the spectrum from programs with less risk to those with more risk, they include:

- Fully insured (guaranteed cost) dividend programs
- Incurred-loss retrospectively rated programs
- Paid-loss retrospectively rated programs
- Deductible programs and self-insured programs

A guaranteed-cost program has a definite cost: You pay the premium and transfer the risk. On the other hand, incurred-loss and paid-loss retrospectively rated programs allow an insured company to share in the rewards of good claims experience. As you take on more risk and consider deductible programs, you will find that fixed costs are lower but variable costs increase as claims increase.

Determine the insurer's "rating basis" and how it is calculated, including the effect of full-time and part-time employees. Understanding the rating basis helps a dealer provide the information relevant to obtaining the most cost-effective computation and coverage.

Jodi Kippe is an executive specializing in audit, financial advisory, and consulting services for retail dealers with [Crowe Horwath LLC](#). She can be reached at 954.489.4742 or email jkippe@crowehorwath.com.