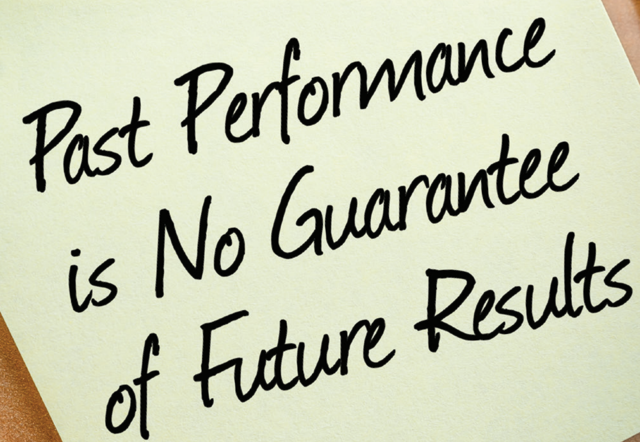
Past Performance is No Guarantee of Future Results



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Past Performance is No Guarantee of Future Results

Technology as an expense is an approach that evaluates technology decisions by looking back to a benchmark of spending no more in the IT budget this year than last.

Past performance is no guarantee of future results. Sound familiar? It's the standard disclaimer on any type of financial investment literature. That same disclaimer should also apply to dealers purchasing technology.

When you buy dealership technology and software, you're making an investment in the future for the dealership. And what you've spent in the past on technology is of little use as a benchmark on what to spend or expect for a future benefit.

Looking back won't help you look ahead. Yet that's a benchmark often used in decisions on dealership technology.

Here's a way to illustrate with a well-known consumer example.

When the iPhone was introduced, there were some consumers who looked at that product and said, "I'm not paying *that* for a new cell phone." Those consumers only saw a cell phone and weren't able to look beyond their current technology and costs to see the iPhone's capabilities and how the device could change what consumers do – and how they do it.

At the same time, consumers already were paying for separate devices – a cell phone, iPod, video player, camera, and computer for email and web access. The devices weren't connected to each other, and their separate functions and costs largely defined how each device would be valued and used in the future. The current cost for each device dictated the budget – and the potential – for the future.

Technology as an Expense

Not looking beyond the iPhone's high price tag to the broader benefits of the technology illustrates an approach of "technology as an expense." In business, it's an approach that evaluates technology decisions by looking back to a benchmark of spending no more in the IT budget this year than last.

When businesses – including dealerships – view technology as an expense, comparing this year's costs against last year's costs, the assumption is there's no reason to pay for anything more than *adequate* technology; it functions *adequately* and delivers *adequate* business benefits. In this mindset, as long as the costs remain reasonably low year over year, then "adequate" technology and systems are a reasonable tradeoff.

Technology viewed this way is like a utility: Electricity keeps the lights on and is necessary for the business; adequate is good enough, expenses are kept low, and there is no expectation that technology will help the business grow.

Technology often is the key ingredient to growing a business.

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Yet, technology often is the key ingredient to growing a business. That takes investment – an investment dealers are frequently reticent to make.

And that's the Catch-22.

While automobile *sales* have improved steadily for the past seven years, dealerships continue to feel the pressures of lower profit margins, more regulation, and higher costs.

For the average dealership, based on NADA data:

- Gross profit as a percent of sales has declined for the past five years.
- Net profit as a percent of sales has been stagnant over the past four years.
- Net profit from Service and Parts has risen since 2012 but is still slightly below 2009 levels.
- And, last year, dealership employment bounced back from the recession and once again hit 1.1 million – about where it was a few years before the recession.

By default, it appears that many dealers simply hired back people after the recession as the industry improved. It was the path of least resistance.

The increase in hiring has helped dealers effectively handle increased sales and customer throughput, but it's also hidden three problems for dealerships.

First, after the recession, there are some 4,000 fewer dealerships to handle the industry's sales volume. The remaining dealerships now often have more employees than they had before the recession; however, with stagnant or declining profit ratios, dealers generally are operating less efficiently than they were prior to the recession, with lower profit-per-customer throughput.

Second, with the steady increase in hiring in dealerships since the recession, employee compensation has moved up in lock step with employment levels in most dealerships, outpacing average compensation increases for businesses overall. And all of this is playing out against a backdrop of average dealership employee turnover hitting nearly 40 percent, which adds a hidden but real ongoing expense.

Third, during the same time of recovery from the recession, many dealers also under-invested in technology. By focusing on low or even reduced IT costs, some dealerships did their bottom line further damage by having to add employees (and the associated costs) to manage processes underserved by their current "cost-effective" technologies.

Technology as an Investment

Now, faced with an impending sales plateau, dealers are taking a more serious look at where they should invest to improve their operating efficiency and control employment costs, as well as how to drive profitability in each transaction.

Like the example of the iPhone, dealers are asking are there other ways to look at how dealership technology can change the way work is accomplished? Is there a way to look at technology differently – not simply as an expense – but as an investment that can pay the business back in operating efficiency and productivity, in better employee retention and customer satisfaction, and in better growth and profit?

When dealers approach technology as an investment, rather than purely as an expense, then the mindset changes and the expectation for a *return on investment* for the business becomes the focus.

Approached this way, technology is no longer seen as a utility, but as a strategic platform on which to grow the business and achieve better results.

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Case Study #1:

The F&I Staffing Dilemma Solved with an Expense Approach

Smith Motors sells 900 vehicles a year, and it employs three F&I managers with an average salary of $135,000, plus benefits that equal roughly 25 percent of salary. The total cost for each employee is around $168,000, making the employee costs in F&I slightly more than $500,000.

Add to that the hidden "turnover tax" the Department of Labor estimates to be nearly 30 percent of an individual's annual salary, and the total, ongoing cost for each F&I manager is just over $200,000. With NADA indicating that average turnover in F&I departments is 38 percent, the annual cost elasticity in F&I stretches from $550,000 to more than $600,000 depending on turnover rates.

Over the past several years as industry sales increased, the F&I office at Smith Motors handled a high volume of deals and the three managers were stretched to cover the workload. As a result, the dealer was contemplating adding another F&I manager – and another $168,000 in salary and benefits – as the answer to handling work demands in the department.

That's when turnover hit. One of the F&I managers left the dealership. That meant the dealer now was short-staffed for the volume. The dealer also faced a loss of F&I dealership knowledge, lower revenues from being down one F&I manager, and a performance gap until the next F&I manager hit full stride.

Case Study #2:
The F&I Staffing Dilemma Solved with an Investment Approach

At Jones Motors, the situation is similar. Same F&I staffing levels and compensation; same number of vehicles sold. The past several years have also been strong for vehicle sales and F&I results. However, facing the same staffing dilemma as Smith Motors, the dealer chose to invest in F&I technology as the way to relieve the pressure in the department and increase profit-per-customer throughput.

The return on that investment yielded on average an additional $250 in PVR, measurable gains in efficiency and productivity to handle the customer throughput, built-in assistance with compliance, and, with newer technology, improved the likelihood of retaining the three managers already in the department.

The F&I managers have repeatedly told the dealer they prefer working in a store with the latest technology tools and processes for F&I.

Plus, in the dealer's 20 Group, several presentations have pointed to compelling evidence that better technology leads to better employee retention, and better employee retention leads to better business performance.

The technology investment at Jones Motors? Less than 10 percent of the total monthly personnel costs of running the department – and far less than hiring another F&I manager.

Rather than creating another annual expense of more than $168,000 (plus the hidden "turnover tax"), the dealer invested in technology that actually added more than $225,000 in revenue, a swing of nearly half-a-million dollars in expense avoided and revenue added.

Additionally, the new technology platform at Jones Motors also facilitated the electronic flow of documents throughout the dealership. The 30-plus paper-based forms in F&I now are electronic forms, readily available to lenders, aftermarket providers, and the dealership's accounting and business office immediately from F&I. No documents in transit. No business tied up in FedEx packages. All of which can create efficiency and productivity gains throughout the dealership at every step in the buying transaction.

Seeing the Future

As dealers look to the future and ask how to grow their business and improve their profit ratios, one approach is to buy technology that's merely *adequate*, an expense like any other in running a business, and hope for other ways to grow the business and alleviate the profit squeeze.

The other approach is to invest in the *right* technology that will help the dealership operate more efficiently and effectively so that dealership personnel are able to serve more customers, deliver a better retail experience for every customer, and, ultimately, deliver better business and financial performance for the dealership.

That *right* investment in technology is about looking ahead, without looking back.

Because past performance *is* no guarantee of future results.

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Acknowledgements:
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(Note: The case studies are for illustration purposes only.)

Ron Lamb is president of The Reynolds and Reynolds Company. He was named to that position in October 2010. Prior to being named president, Lamb was senior vice president of Sales and responsible for all sales of Reynolds systems and related applications in the United States. Throughout his career at Reynolds, Lamb has held a variety of leadership positions in sales and marketing. Lamb holds a bachelor's degree in politics from Princeton University and a master's in business administration from Loyola University in Baltimore.

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