Fixed Department Management Pay Plans That Get Results

Manager Pay Plans should be designed to deliver desired results, however we find more often than not that the managers pay plans are not tied to the dealer's desired results for the Service Department.

Example;
The Service Manager is paid on department gross (only) plus a salary. When conducting our analysis of the Service Department we discovered that the Lube Technicians were all charged to other salaries & wages. Our Consultant noticed this when he looked at the financial statement and observed that the Quick Lube labor sales showed 90% gross profit. The dealer was overpaying the Service Manager by thousands of dollars each year. Who decided that Quick Lube salaries should be charged to other salaries and wages you ask? Guess what, NO ONE KNOWS who did this!

The Collision Manager was paid on department gross plus a salary. The manufacturer statement for this Dealer gives all of the parts gross profit on Collision Repair Sales to the Parts Department. The Collision Manager instructed his Estimators to charge all salvage, LKQ and other make parts to the Collision Sublet account. We discovered this when our consultant observed that sublet gross was 25% versus our guide of 5%. Not only does this improperly inflate Collision Department gross, the dealership loses control over Parts Gross on these items. No one knows for sure if these parts were purchased at a cost that provides the dealership with maximum gross profit retention on these parts. All they cared about was increasing their own pay check.

Shop Supplies is another item we find being abused all the time. Service Consultants giving away Shop Supplies (i.e. taking them off the r/o) is something we encounter in just about every dealership we visit. Every time we observe this we discover that the Service Consultant was not paid on shop supplies.

If the consultant is paid on "Sales" taking Shop Supply charges off of the r/o and giving Shop Supply charges to the customer instead of charging them for it does not take away from the Service Consultants pay. Since the consultant does not get penalized for giving shop supplies away they choose to give it away. So why then does the manager choose to ignore the consultants giving away shop supplies? Most likely, the manager is paid on department gross with no incentive to control expenses. Shop Supply charges go into an expense account so the manger does not care if the dealer is getting this money either!

While there is no "perfect" pay plan (if there was we would all be using it) following is the pay plan that E&A recommends as a good base line plan for Service, Parts and Collision Managers.

Edwards & Associates Suggested Service, Parts, and Collision Manager Pay Plan

Base Salary: (suggest 50% of desired total pay for the manager)

<u>PLUS Commission on Service Department Net Contributions</u>: Net profit Contributions equal Department Gross Profit Less Department Expenses the Manager has Direct Control over for example;

- Service Salaries
  - Consultants
  - Clerical
  - Benefits
  - Other Service Salaries
  - Employer portion of taxes
- Service Advertising
- Shop Supplies / Tools
- Service Policy
- Service Training
- Legal & Auditing
- Service Equipment Repairs / Maintenance
- Depreciation

Department Gross Minus these items equals Service Net Contribution

<u>Plus CSI Reward / Penalty</u>: Commission is reduced by 5% for every basis point below regional average.

Example; if regional average is 92.1 and dealership is 91.8 the difference is 3 basis points x 5% each = 15% reduction in net contribution percentage.

If net contribution percentage was 20% (example) then 15% of 20% = 3%
20% base commission minus 3% penalty = 17% commission for this month.

E&A Formula for calculating Commission Percentage:

Annual Service Gross Profit (pervious YTD or current projected)
Minus YTD Controllable Expenses (see list above)
Equals Service Net Contribution

Net Contribution ÷ 50% of desired total pay = % of net Contribution paid

Sample Pay Plan:

- Desired Earnings $80,000 annually
  - 50% of desired as Salary = $40,000 Salary plus $40,000 Commissions

    - Previous year's net profit contributions (gross minus controllable expenses) = $1,373,500
    - $40,000 (Commissions) ÷ $1,373,500 (net contributions Gross minus controllable expenses)= 2.9% Commission
- Double check your calculations
    - $1,373,500 x 2.9% = $39,831.50
    - Plus salary of $40,000 = total pay of $79,831.50

This plan rewards the manager for items they have direct control over and punishes them when they fail to control these items.

Note: if you wanted to pay the Service Manager, Parts Manager and Collision Manager on total fixed you simply combine both (or all three) department(s) gross profit and controllable expense items together and use the same calculations I have listed above.

Since the desired total compensation for the different fixed department managers might be different your base salary and your commission percentages might be different numbers but the objectives will all be the same. Increase gross, control expenses they have the most influence over and keep customers happy!

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