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## REPORTING IN THE EQUIPMENT DISTRIBUTOR SPACE:

### Using technology to increase benchmarking analytics for higher profits.

“Reports and data are interesting, what we need is to see if we are making improvements; if that is what is reported then it has value.”

*-George Keen, Currie Management Consultants, Inc.,  
[www.CurrieManagement.com](http://www.CurrieManagement.com)*

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## ■ WHY INTEGRATE?

Every dealership uses some form of benchmarking, but the problem is that traditional methods don't always identify where profitability lies and where it doesn't. However, you need to have this information in order to make your dealership as profitable as it can be. With proper benchmarking, you can determine where profit lies—and where it doesn't.

Dealers use basic software to group their revenue, cost of goods, expenses and other miscellaneous activity by account. The output or the reports generated for the business are just a listing of revenue accounts that are not very organized except maybe by the date you created the first account, the second and so on.

Organizing the accounts by revenue type or product type helps you to analyze performance.

Right now, your accounts may be listed this way:

- Brand A Equipment
- Brand A Parts
- Brand B Equipment
- Brand B Parts
- Revenue

But that's not very informative. Listing alphabetically or by brand doesn't allow for you to analyze the information properly. Rather categorize the accounts by type not by brand or account. For example:

<b>Revenue</b>	<b>Cost of Goods</b>	<b>Inventory</b>
• Equipment	• Equipment	• Equipment
• Rental	• Rental	• Rental
• Parts	• Parts	• Parts
• Service	• Service	• Service/WIP
• Other	• Other	• Other

If you organize the accounts in this manner you'll be able to identify the profitability of each revenue category and their inventory turns.

Many dealers carry more than one manufacturer's products. If you use this organizational format, you can look at how the category is performing. You can still group activity within the category by brand.

Most likely you carry some brands to create traffic and others for their quality and profitability; that means you should be looking to see if the total mix of business is right for you before you get excited about one brand's performance over another. If you want you can break each of the revenue/cost categories down into subsections such as New Equipment, Used Equipment, Wheeled Goods, Hand-Held Units, or in Parts Sold Over the Counter or through Service.

Many computer programs then list the expense accounts alphabetically. Your list of accounts might look like this:

- Advertising
- Commissions
- Communications
- Data Processing
- Depreciation
- Payroll Taxes
- Rent
- Salaries
- Personnel

But that doesn't tell you where your expense issues are and how related accounts are performing. There is a much better way of organizing your list of accounts. For example:

**Personnel**

- Salaries
- Commissions
- Bonuses
- Payroll Taxes
- Benefits/401(k)
- Workman's Comp
- Other

**Operating**

- Advertising
- Travel & Meals
- Vehicles/Freight
- Depreciation
- Communications
- Supplies & Service
- Data Processing
- Warranty Expense
- Interest Expense
- Other

**Occupancy**

- Rent
- Building Maintenance
- Building Insurance
- Utilities
- Other

By making it simple you have the ability to analyze expense categories. For instance, is your problem that you're paying too much for your building? Typically, this isn't an issue for most dealers. Is your problem one of personnel expenses or operating expenses? By grouping expenses into the accounts noted above, you can also look at what's causing the problem in any of these categories.

Generally, personnel taxes, benefits and fringe expenses are 20% of the basic wages. That makes it much simpler to now check on that simple rule of thumb. This won't hold for all dealers, but it begins to give you something to watch.

## ■ REVENUE AND PROFITS

Each dealer will have a different mix of equipment and aftermarket sales. Some dealers are working on creating more market share while others are increasing their aftermarket businesses.

In this whitepaper, we'll just talk about your gross profit margins. While each dealer will achieve different levels of profit in equipment sales, most dealers can target gross profit benchmarks in the aftermarket departments of parts, service and rental.

The target benchmarks for these three departments are:

- Parts department can and should achieve 35% gross profit
- Rental Department (true rent-to-rent) strives for 45% gross profit
- Service Department (only on labor sales) achieves 65% gross profit

## ■ EXPENSE BENCHMARKS

It's important to note that the expense benchmark for each department will be different.

We have organized the expense benchmarks for each department based on years of experience, industry knowledge, best practicing dealerships, and employee productivity guidelines. So there are different expectations in the parts department than there are in service, and neither of those are the benchmarks for the sales department.

## EMPLOYEE PRODUCTIVITY

All employees are not the same, either in productivity or in the way their time should be expensed.

Here are several benchmarks to use when analyzing your profitability:

- Salespeople. The fact is good salespeople develop good profit volume, and bad salespeople don't. Typically a productive salesperson will deliver \$240,000 of gross profit dollars each year in equipment sales.
- Parts Employees. To afford good people you must have productive people. Since you only have 8% of parts sales for wages, this means that a parts person making \$50,000 must be handling \$600,000 a year. This is also true for parts managers, shipping and receiving staff and counter personnel.
- Service technicians. Each technician must bill a portion of his time. They should bill 85% of their paid hours each year. Also, allow 10% of their time for vacations, holidays, sick time, jury duty and so forth. The other 5% is for meetings, training, and rework (which you can't bill). The technician is involved with your service manager in getting productivity to this level.
- Service management and ownership must establish the service rate to customers at the correct level to achieve 65% gross profit. Generally if a technician is paid \$15 an hour, then the dealership must collect \$52.50 an hour from the customers. If the technicians are paid \$20 an hour then that rate must be \$70 an hour. This effective customer billing rate is 3.5 times that of "the average technician's wage rate."

	Equipment		Rental		Parts		Service		G&A		Total	
Sales	\$ 3,000,000		\$ 750,000	100%	\$ 1,275,000	100%	\$ 850,000	100%			\$ 5,875,000	100%
COGS	\$ 2,400,000		\$ 412,500	55%	\$ 828,750	65%	\$ 297,500	35%	(% of Rental, Service & Parts Revenue)		\$ 3,938,750	67%
Gross Profit	\$ 600,000	100%	\$ 337,500	45%	\$ 446,250	35%	\$ 552,500	65%			\$ 1,936,250	33%
Wages	\$ 240,000	40%	\$ 60,000	8%	\$ 102,000	8%	\$ 93,500	11%	\$ 115,000	4%	\$ 610,500	10%
Benefits & Taxes	\$ 60,000	10%	\$ 15,000	2%	\$ 25,500	2%	\$ 76,500	9%	\$ 28,750	1%	\$ 205,750	4%
Personnel	\$ 300,000	50%	\$ 75,000	10%	\$ 127,500	10%	\$ 170,000	20%	\$ 143,750	5%	\$ 816,250	14%
Operating	\$ 150,000	25%	\$ 52,500	7%	\$ 38,250	3%	\$ 85,000	10%	\$ 86,250	3%	\$ 412,000	7%
Occupancy	\$ 60,000	10%	\$ 22,500	3%	\$ 25,500	2%	\$ 42,500	5%	\$ 57,500	2%	\$ 208,000	4%
Total Expenses	\$ 510,000	85%	\$ 150,000	20%	\$ 191,250	15%	\$ 297,500	35%	\$ 287,500	10%	\$ 1,436,250	24%
Operating Profit	\$ 90,000	15%	\$ 187,500	25%	\$ 255,000	20%	\$ 255,000	30%	\$ (287,500)	-10%	\$ 500,000	9%

Table 1 - The expense percentages are based on sales, except in the equipment department where they are based on gross profit.

## ■ BENCHMARK FOR EQUIPMENT SALES

Because each dealer is unique, you will have different gross profits based on your brand and product mixes as well as on your market, and the mix of new and used equipment you handle. But whatever the gross profit on equipment is, you must survive on it, which is all you can afford to spend. So equipment sales department expenses are expressed as a percentage of the total gross profit in this department only.

## ■ AFTERMARKET BENCHMARKS

In the rental department the cost of goods is depreciation, interest and equipment maintenance. In parts, you have a cost of the parts from inventory. For service, the cost of goods for labor sales is the actual payroll for technicians for all paid hours. In the service department (in the financial model) all the taxes, fringes and benefits for technicians and overhead staff are included in the personnel expense, and not in cost of goods.

One of the largest expense items in many dealerships is the vehicle and freight accounts. In the model above those are listed in the “operating expense” area and any “recovery” of that expense in vehicle or freight billing to customers is shown as an “off-setting” entry in the expenses and not in revenue.

## ■ GENERAL AND ADMINISTRATIVE BENCHMARKS

Each dealership has expenses like legal and outside accounting that don't just apply to one department. There are also expenses involved with sending invoices, collecting money and preparing financial reports. Those, as well as the executive management functions for ownership, vendor relationships and finance negotiations with the bank, are all grouped into the section called G&A.

Since the parts manager, sales manager or any “department manager” can't fire the accountant/financial person or make some decisions about these “G&A” expenses, that section is grouped off to the side and isn't allocated to their department expenses.

The benchmark levels for G&A are a percentage of the aftermarket revenue (rental, parts and service).

## ■ **GETTING MORE PROFIT FROM YOUR BUSINESS**

If you want to reap more profits you have to care about improving your business and you have to have a vision for the future. Then you have to develop some expectations of what you should be doing through this benchmarking process. Armed with the knowledge you've gained from going through this process, you should begin to hold your people accountable to achieve those expectations.

Some dealers are realizing good profits before tax and should be working on increasing their sales market share. Other dealers are not seeing the returns that dealers following best practice benchmarks are seeing each year. These dealers should contact someone they trust and who understands their business. For instance, reach out to an accountant, a trade association, the dealer development staff at one of the manufacturers, or a consulting company that has worked in your industry. But don't delay. Your actions today will mean more profits tomorrow.

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## SPECIAL THANKS TO OUR INDUSTRY EXPERT!



**George Keen** is known as an operational business strategist, retreat facilitator, guest speaker, magazine author, and the editor of the “Achieving Profit Series.” He brings to his clients more than thirty years experience in organizational development. He has conducted seminars on equipment sales, account management and consults on operational improvements and implementation; especially in service, parts, and rental departments.

He designs performance management, compensation, incentive, employee productivity, and company turnaround plans and works with dealer principals and department managers in Dealer 20 Groups (Best Practice Meetings).

George joined Currie Management Consultants, Inc. in 1996 and was made partner in 2001. Prior to joining Currie Management Consultants, Inc., he spent eight years managing retail stores and ten years with a software company in installation and sales. He was national sales manager for North America.

George was a pioneer in the use of computers in accounting helping to move small business operations to computer systems in the 1960s and 1970s.

Mr. Keen has been a guest speaker for conventions and workshops for AED, MHEDA, NAEDA, Yale, Vermeer, Husqvarna and many other manufacturers.



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