

A White Paper from:

The background of the entire page is a faded, red-tinted image of the front of a classic car, likely a Cadillac, showing the grille, headlights, and hood.

OCD

CONSULTING, LLC

Serving the Nation's Retail Automotive Industry

Strategic Compensation Plans

***Aligning Sales Management Compensation
with Corporate Strategies***

Published January 2006

© OCD CONSULTING, LLC
Quincy, Massachusetts

Aligning Sales Management Compensation with Corporate Strategies
A White Paper from OCD Consulting, LLC
January 2006

The Problem: Many of our clients have become increasingly frustrated with the ineffectiveness of their sales management compensation plans. The source of this frustration is twofold: The first is a growing sense of inequity. As margins have diminished, compensation plans that are too heavily weighed toward the salary component have resulted in supervision expenses that are out of line with gross production. Dealers interpret this as a lack of initiative and lost productivity. The second is a realization that all too often, managers are unwilling to modify their behaviors and fail to embrace the dealership's strategic initiatives. Typically, these managers are skilled and loyal employees who would be difficult to replace which, of course, only adds to a dealer's frustrations. These manifestations are symptomatic of organizations where a manager's personal interests and financial stake are not aligned with the company's strategic initiatives.

The Solution: Devise sales management compensation plans that address fairness by more directly rewarding individual achievement; address productivity by more heavily weighing and accelerating the variable portion of compensation package, and address issues of strategic execution by aligning the interests of the individual to the strategic initiatives of the corporation.

The Approach: First, identify and prioritize those strategic initiatives the company wants to promote and accomplish during the next fiscal period. Then quantify and communicate to the entire sales organization the goals of each initiative. Where appropriate these goals can be directly negotiated with sales management. Finally, incorporate the attainment of these goals into the management compensation plan.

The Components of a Compensation Plan: The compensation plans devised under this premise have three components; fixed, variable, and bonus points for the accomplishment of strategic objectives. The fixed portion or salary should not comprise more than 40% of the entire compensation package. The variable portion should be an accelerating percentage of a designated pay line. Pay lines could be total gross, variable gross, (gross less variable selling expenses), departmental operating profit, (variable gross less personnel and semi-fixed expenses) or departmental net.

Incentive pay plans are most productive when employees believe they can actually influence the outcome; therefore, pay lines should be reflective of the manager's authority and job description. A sales manager, for

Aligning Sales Management Compensation with Corporate Strategies
A White Paper from OCD Consulting, LLC
January 2006

example, who makes no decisions about inventory and advertising, would be most appropriately paid on variable gross. A general sales manager who has control of the entire sales operation would be paid on departmental operating profit. Variable compensation plans are also more effective when negotiated and, the employee believes the incentive levels to be realistic and fair.

The third component of this compensation plan allows managers to increase the variable portion of their earnings by achieving specific goals directly related to the company's strategic initiatives. This third component should not be viewed as an add-on or frosting on the cake. In order to achieve reasonable levels of compensation, managers should have to attain the majority of their strategic objectives.

Finally, the bonus level for each month will be determined by the manager's previous month's performance. This feature increases effort because managers know what needs to be achieved to reach their own monthly earnings objectives. It also levels out production and improves performance levels because managers know exactly what areas they need to improve to attain additional bonus points.

Identifying Strategic Initiatives: The following is an example of how strategic initiatives might be developed and how the related goals might be established and used in a strategy based compensation plan.

Strategies for Increasing Market Share and Gross Profit.

Strategic Goals: (Examples)

1. Attain sales of 125% of market registrations.
2. Achieve gross profit margins of at least 8% on sales.
3. Realize F&I income of not less than \$750 PVR.
4. Maintain new vehicle inventories at a forward looking 60 days supply and no more than 10% of units over 120 days old.
5. Maintain used vehicle inventory at no more than a forward-looking 50 days supply and no units over 90 days old.

Aligning Sales Management Compensation with Corporate Strategies
A White Paper from OCD Consulting, LLC
January 2006

Strategy 1: Implement and utilize Business Development Center, Customer Relations Management System, and Contact Management Systems.

- a. Establish call center for all incoming sales calls, internet leads, and sales lead follow-up calls.
- b. Utilize CRM system to build repeat and referral business.
- c. Utilize CMS to assure complete processing of all consumer contacts, floor ups, phone ups, internet leads.
- d. Utilize appointment management system to promote and monitor sales appointments.

Strategy 2: Assure competency and consistent utilization of sales and desk management systems.

Strategy 3: Maintain sales organization competency in the following areas:

- a. Product knowledge
- b. Customer service
- c. Selling skills

Strategy 4: Ensure accomplishment of F&I objectives by assuring proper turnover procedures and menu selling process.

Strategy 5: Implement aggressive vehicle inventory management systems, policies, and controls.

Strategy 6: Utilize aggressive advertising campaigns and promotions to build floor traffic, internet traffic, and corporate image.

Strategies for Managing Expenses

Strategic Goals: (Examples)

1. Maintain variable selling expenses at no more than 25% of gross profits.
2. Maintain total personnel expense at or below budget.

Aligning Sales Management Compensation with Corporate Strategies
A White Paper from OCD Consulting, LLC
January 2006

3. Maintain semi-fixed expenses at or below budget.

Strategy 1: Implement expense budgeting and management process assigning an account manager for each departmental expense account.

- a. Ownership
- b. Authority
- c. Accountability

Strategy 2: Aggressively enforce vehicle inventory management controls, policies and procedures. Policies should include:

- a. Forward-looking stocking plans
- b. Turnover objectives
- c. Aging objectives
- d. Write down procedures for used vehicles, demos, and alternate transportation vehicles.

Strategies for Managing Human Capital

Strategic Goals: (Examples)

- 1. Attain monthly gross per employee of \$45,000.
- 2. Keep annual employee turnover rate to less than 75%.
- 3. Maintain total personnel expense at or below budget.

Strategy 1: Implement screening, testing, and interview processes to promote recruitment and hiring of quality individuals who are capable and willing to embrace corporate culture and goals.

Strategy 2: Implement orientation and re-orientation programs that communicate to the employees company policies, principles, and objectives.

Strategy 3: Establish training objectives and implement mentoring programs.

Strategy 4: Establish individual monthly performance objectives and evaluations.

Aligning Sales Management Compensation with Corporate Strategies
A White Paper from OCD Consulting, LLC
January 2006

Strategy 5: Offer competitive compensation packages that reward superior performance and attract and retain quality individuals.

Strategy 6: Maintain a working environment that is challenging, rewarding, and inviting.

Bonus Point Criteria: In our example, managers could increase the variable portion of their compensation by up to 50% by achieving their specific strategic goals. These objectives can not be subjective. They must be clearly defined, negotiated with individual managers, and demonstratively measurable.

The following is an example of a bonus point grid. The assigned percentages are multiples of the variable compensation in dollars.

<u>Attained Bonus Point Criteria</u>	<u>Percent of Variable Comp</u>
1. Quarterly sales objective	8%
2. Gross profit objective	8%
3. CSI objective	8%
4. Inventory management objective	8%
5. Staffing objective	5%
6. Training objective	5%
7. Expense control objective	4%
8. Customer processing objective	4%
Total Bonus Rewards Potential	50%

Aligning Sales Management Compensation with Corporate Strategies
A White Paper from OCD Consulting, LLC
January 2006

The Summary: In this competitive and uncertain marketplace, the achievement of sales and profit goals can not be left to chance. Sales organizations must be committed to the relentless execution of the dealership's sales and marketing strategic initiatives. To accomplish this goal, the company must have the total commitment of its general and sales management staff. This can only be achieved when compensation plans provide managers with both a personal and a financial stake in an outcome that is directly aligned with the execution of corporate initiatives and objectives.

About the Author: Michael McKean, (mmckean@ocd.com) President of OCD Consulting, LLC, developed his dealership management skills during fifteen years of service with the Ford Motor Dealer Development organization. As a dealer and consultant, working with some of the largest and most successful dealer groups in the country, Mr. McKean created and refined the Customer Based Management System, which is the Company's hallmark solution for achieving superior sales and profit performance.

About the Company: OCD Consulting, LLC was created by retail automotive professionals to help its clients survive and succeed in the ever changing and demanding automotive retail environment. The Company is a joint venture partner of O'Connor & Drew P.C., one of the country's most recognized automotive accounting firms.

OUR MISSION IS:

To give to our clients . . .

The vision with which to see the future . . .

The courage to break through the barriers of change . . .

The knowledge and skills required for superior performance.

OCD

CONSULTING, LLC

Serving the Nation's Retail Automotive Industry

Client Services

Virtual Board Member Programs

Management Training and Development

Strategic & Business Planning

Sales & Acquisitions

Accredited Business Valuations

Litigation Support

OCD Consulting, LLC

1515 Hancock Street

Quincy, MA 02169

Telephone: 1-617-471-5855

Facsimile: 1-617-472-7560

www.ocdconsulting.com