Commission plans to drive retail sales

By TRENT HUMMEL

For every 100 dealerships, there are 200 commission structures. We work with dealerships that have a different compensation structure for each salesperson. If it works, don't fix it. But is your compensation plan generating the results you desire or just the results you have come to accept?

There is a saying we've used over the years that, "decisions we make in the good times carry us through the bad times." Currently, there are many senior managers echoing the following "the decisions we made in the bad times have kept us alive" And, in some cases, thriving.

Depending on the products you offer, the markets you serve and, most of all, the actions you've taken in the last few years, your dealership might be in a great position or you could still be hoping for better days. Regardless, change is the key to getting different results.

Having worked with hundreds of dealerships, we can safely say there is room for improvement on retailing aging new inventory and reducing the number of days used equipment is in inventory. Everyone desires a new trade to be sold as soon as possible without giving up margin dollars.

As an owner or sales manager, to achieve this alone is nearly impossible. Unless you are a one-person sales force, you will need all the horses (salespeople) pulling in the same direction in order to get meaningful results. Imagine, everyone in the sales force exhibiting the behavior you desire regarding wholegoods inventory management. Oh, what can't be accomplished when a team puts its mind to it?

Is the target wrong?

As outlined in Western Equipment Dealers Association's *Cost of Doing Business* study and noted in other dealership financial reports, the target percent of aged wholegoods units is stated as "zero units over 12 months old." We believe that target is outdated. We do not know of any dealership that is ordering units with intent to retail the unit 11 months after arrival.

We might be ordering new units more than 12 months ahead of the planned retail month but more than likely the plan is to not have units in the yard for nine, 10 or 11 months before they are sold. New units age by just sitting outside.

Used equipment is even worse. There are too many external factors that can adjust a unit's value over a 12-month period. We have all bought a trade at $50,000 with intent to sell it in the mid $50,000s. At the time we bought the trade, mid $50,000s was the right retail number. Twelve months later, however, the right retail number might be $45,000. Values are constantly changing. Therefore, the sooner we get units sold the better off we are.

In the previous example, how many dealerships have had to pay a spiff in order to get a salesperson to sell a unit at zero margin or a loss? Disregard the fact that the department paid full commission on the deal that generated the trade. Dealerships are asked to pony up more money in order to get a trade sold, which either was bought wrong in the first place or did not get sold before the market value adjusted. Either way, we end up paying more of our gross margin dollars in commissions.

Changing sales force behavior

Following is a list of behaviors dealerships should encourage their salespeople to adopt:

1. Urgency to sell fresh inventory
2. Avoid taking the hard-to-sell trades
3. Target potential trades that are desirable in your market
4. Presell trades as often as possible
5. Improve used marketing skills to complement selling skills
6. Quickly sell trade mistakes without salespeople complaining about making no commissions
7. Reduce number of trades in a series
8. Accept commissions paid from actual gross margins
9. Understand that every new and used unit in a series of trades is equally important
10. Have a healthy appreciation for all the negatives that aging new and used inventory has on the cash flow of the dealership

There has always been a manager's hope that by presenting and explaining these 10 issues, salespeople will change their behaviors. The reality is behaviors seldom change until an individual hits rock bottom.

The proven and effective method to change a behavior is to change a policy/procedure, which, in turn, will drive the desired behavioral change – but it's easier said than done. Many managers will share experiences of a procedural change that produced results far greater than expected.

Let's get into a commission structure that has produced results for a number of wholegoods departments.

CONVENTIONAL DEALS AND COMMISSION PLANS

DEAL 1 in a series of deals

New unit cost of sale	$100,000
Trade wholesale value	($60 000)
Breakeven	$40,000
Gross margin (GM) 10%	$10,000
Customer difference	$50,000
Deal 1 commission	25% or $2,500

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DEAL 2

1st trade cost of sale	$60,000
2nd trade wholesale value	$20,000
Breakeven	$40,000
GM 10%	$ 6,000
Customer difference	$46,000
Deal 2 commission	25% or $1,500

DEAL 3

2nd trade cost of sale	$20,000
GM 10%	$ 2,000
Customer cash price	$22,000
Deal 3 commission	25% or $500

BACK-LOAD ALL GROSS MARGIN TO THE LAST TRADE

DEAL 1 in a series of deals

New unit cost of sale	$100,000
Trade wholesale value	($60,000)
Breakeven	$40,000
GM 10%	$10,000
Customer difference	$50,000
Reduce trade wholesale value by GM to $50,000	
Deal 1 commission	$0

DEAL 2

1st trade cost of sale	$50,000
2nd trade wholesale value	$20,000
Breakeven	$30,000
GM	$16,000
Customer difference	$46,000
Reduce trade by GM to	$ 4,000
Deal 2 commission	$0

DEAL 3

2nd trade cost of sale	$ 4,000
GM	$18,000
Customer cash price	$22,000
Deal 3 commission	25% or $4,500

In both the conventional and back-loaded series, the customer paid the same amount. In both series, the GM (gross margin) expected is the same – the only difference is the dealership and salesperson did not realize the GM until the last trade was sold.

From the list of behaviors previously listed, let's examine how this back-loading procedure changes sales staff behaviors.

To clarify, the 3rd deal has $18,000 GM and $4,500 commission, not all of which is paid to the salesperson who closed the 3rd deal. The total commission is evenly split between every salesperson who closed one of deals. For example, if Tom closed the first deal, Dick closed the second deal and Harry closed the third deal, the $4,500 commission would be an even split of $1,500 each.

If Tom closed two of the three deals, he would get two-thirds of the commission with the remainder being paid to the salesperson who closed the remaining deal. Let's suggest that the 2nd trade is not desirable and we did not make 10 percent GM and we had to sell. We sold it at $20,000. This leaves $16,000 GM in the total series. The split is based on the actual gross margin earned on this series. The dealership does not have to pay a spiff to retail the undesirable trade.

Salespeople do not want to share commissions. Most salespeople soon figure out when they presell the trade, the whole deal is their deal and no sharing. If a salesman is having difficulty selling a trade, he is helpful to another salesperson to get his trade sold. His commission is tied up until the trade sells.

There is a huge dealership benefit for the used deal to be turned in along with the new deal. There will be no trade to floor plan and no risk in used value corrections.

In the series above, the 2nd trade was undesirable. In the back-loaded scenario, the salesperson closing the 2nd deal will do everything to talk the customer out of trading the undesirable unit. The fewer deals in a series of trades reduces the chance of having to share. If the 2nd trade was a cherry and the salesperson could make good money on it, the salesperson will go after that trade.

When salespeople start to think like a wholesaler, they will go after the cherries and get away from the loser trades. Having a yard full of cherry trades will increase the speed at which used equipment sells. The after effect of this is improved gross margins, increased equipment turnover and a reputation of having desirable trades.

The secret to preselling a trade is to have the right type of trade. Ambitious salespeople comb the countryside looking for the trades that are selling well – or trades the market is demanding. These salespeople master the technique at logging a used equipment lead, find the unit being sought after and then get it on trade in order to presell it. This creates discipline for the sales staff to go after the right trades. Finding buyers, remembering leads and leaving no stone unturned is the nature of making money in all this.

Manufacturer sales staff bonuses have long been a hot topic among dealer principals, sales managers and salespeople. Why do manufacturers offer sales bonuses? It's simple, bonuses drive results. My position on this is as follows: Let the salespeople collect all the bonuses but in return they must agree to sell the no margin units.

I have worked with a few dealerships that have imitated this structure. One dealership only applied it to their planting equipment. This resulted in the salespeople finding presell buyers and staying away from bad trades.

Another company is using this in its power sports division. The company had a history of taking worn out quads and the trades would sit until the owner hauled them to auction where he took a loss. Now, the salespeople seem to buy the trades right along with having a buyer in mind long before the first deal is signed. They get their money when the last trade is sold, which drives good behaviors.

I have used this method in everything from combines to lawn mowers. Without a miss, every time this has been implemented, turnover has increased, aging is reduced, interest expenses are decreased, and paid inventory is reduced – results that are important to management. On the other hand and more importantly, the salespeople sell more units and make more money and this is what keeps it going.

Please note the structure outlined may not work for you exactly as stated but a similar version could cleanup many of your past and current wholegoods issues. In an industry that takes as many high and low dollar trades as we do, we need to dump out the box of old ideas and get a structure that will work for both the dealership and salespeople because it's just good business. WED

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