



By Doug Austin

// Ownership

Strategic Planning – Using Scale and Leverage to Drive Growth

Things You Can Do Right Now To Make 2016 Your Best Year Ever

// The Auto Dealership landscape is changing as we all know. A number of Dealer principals are selling their stores, and/or their family members have decided it is time to make an exit. While this activity is taking place, there are a number of groups large and small that have a desire to grow and many are in acquisition mode. In the past twelve months I have had numerous conversations with Dealer principals, their family members and or the CFO's who are planning to grow and grow aggressively. We are all familiar with the mega groups with seemingly unlimited cash at their disposal seeking to make large acquisitions. But there are many 4-12 store groups out there that plan to grow as well, only their approach might be somewhat different.

There are plenty of qualified experts out there that understand the nuances of buying and selling of dealerships, so we don't get involved in that space, but my business does put me in front of Executive Management teams, owners, family members and CFO's regularly. In those conversations they tend to who lay out there visions, articulate their objectives and include us in the planning and execution of many of their business strategies. Because of that dynamic, I can share some observations:

Size of Group Dictates Differences in Strategies in many cases

Of the many groups we have talked with, I would say that there are distinct differences in growth and profitability strategies based on size or annual revenues of the groups. My unscientific analysis of those differences are as

follows;

Groups with Revenue Greater than \$1B annually

- ▶ Profitable
- ▶ Access to capital for expansion
- ▶ If an increase in profitability is desired, the first strategy is to focus on top line or the selling of more vehicles
- ▶ They know that greater economies and operational efficiencies are available through scale, but a focus on internal efficiencies and leverage may not be a priority right now – a tactical approach.

Groups with Revenue less than \$1B annually, seeking to grow

- ▶ Profitable
- ▶ Access to capital for expansion
- ▶ Know that a downturn is coming, and plan to drive new efficiencies now to take advantage of their scale
- ▶ Seek to generate new profitability through new sales and through

cost reductions

- ▶ Hope to fund part of their expansion with new found cash flow

Using Your Scale and Leverage to Drive Growth – What Growing Groups Hope to Achieve

Groups on the rise, those seeking to grow by taking advantage of the inherent efficiencies their scale provides are looking for sustainable improvements. All business owners and executive teams fully expect to realize the many economies and efficiencies that comes with scale. Centralized accounting, reduced supplier base, fewer personnel, use of leverage driving lower prices with suppliers..... are objectives that all businesses aspire to achieve.....the question is when will it be accomplished, and to what extent?

The many dealer groups I have talked with this year have articulated the following objectives to me in our assessment process, now that they have grown and reached a scale that is greater than just a few years ago:

- ▶ Seeking standardization of processes and controls
- ▶ Improvement in the routine – repeatable processes that consume so much employee time
- ▶ Develop greater labor efficiencies (back office support, management, etc.)

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▶ Automation where it makes sense to drive new efficiencies (centralization – scanning)

▶ Improved leverage with suppliers (greater purchasing power – lower prices)

▶ Fewer suppliers to support the operation (simplification and leverage)

▶ Standardized pricing with controls (predictability)

▶ New, sustainable cost savings that come from scale (enhanced bottom line – building a war chest)

▶ New profitability to help fund growth (thinking big....changing the paradigms of what can be achieved)

▶ Improve controls to mitigate risk (approval levels, auditing)

Strategic Planning to Drive and Prepare for Growth

As you look at your organization, where do you find yourself right now.... thinking strategic....or thinking tactical?

▶ Will your organization grow efficiently, leveraging best practices and internal efficiencies and keeping your costs low, giving you a competitive advantage?

▶ Or will your organization grow with inconsistent processes and controls, a large supplier base, large back office teams– fighting fires, solving the same problems countless times over, and wearing your team out?

Every organization is faced each year, each month, each day with a multitude of projects or competing priorities that are designed to satisfy an organizational need. Facility upgrades, IT

infrastructure projects, HR development programs, and all of this needs to be accomplished while keeping the lights on or running the business. Having a strategic plan is a tool that needs to be in place for any business, but especially those that seek growth. A long list of tactical projects is very important to the sustainability of the business... but are they the right projects with the right level of priority? Determining where an organization focuses their efforts must start at the top. That is the fundamental job of leaders....to define where the organization is heading long term and short term.

“TIME TO SAY ‘SO LONG’ TO THE STATUS QUO.”

Once the path is charted, bringing in the right people to develop the culture and achieve that vision, mission and plan is key.

Preparing the organization for growth and realizing the economies and efficiencies that are available to the organization is not going to happen by accident. I suppose an organization can focus on a new process or new control every year or so with the expectation that in five years they might be more efficient than today, but that is a long process and “hope is not a strategy” as they say. Many business organizations, dealerships included, are okay to stay in “tactical” or “firefighting” mode.... doing the same thing year in and year out. It is sometimes easier than thinking, leading and making tough

choices. I have been guilty of this in my own business. So how does a growing organization with big, audacious growth goals go about achieving that vision?

Strategic Planning Imperative

Most large and successful organizations spend some dedicated time each year to strategic planning with their Executive Management Teams. Strategic plans are normally five years out, but can go out as far as ten or fifteen years in some organizations. Planning sessions can be quite formal with the development of vision, mission, SWOT analy-

ships may be acquired to add to the overall revenue or size of the group, but without a well-developed strategic plan, the same inefficiencies, the same levels of profit, the same control issues, the same problems will be dealt with in the future, but on a larger scale.

Suggested Next Steps – Leading from the Front with a Strategic Plan

If you plan to grow your organization and grow efficiently, being even more effective and more profitable five years from now than you are today, it will happen, but you will need a strategic plan. Your management team was hired because they are the bright, talented, hard working executives, but they will continue to nibble at the edges of organizational improvement unless you provide the fundamental ingredient.... leadership and vision. Your leadership is absolutely vital to creating the vision, refining that vision with your team, setting strategies and objectives, and getting everyone rowing in the same direction. You probably have the size, revenues, scale and leverage to grow your organization very effectively over the next few years. Will you? Will you grow the organization efficiently, and more profitably than it is today? The tools are there....you have the building blocks, the musicians if you will..... the question is whether you will lead the orchestra or be content to sit in the audience and watch the performance.

Ten(10) Key Elements of a Strategic Plan

There are 50 or more different versions of what a strategic plan could/ should look like out there for your consideration, but there are common elements in each that should be foundational in your strategic planning.

▶ COLLECT INPUTS –

Financial and operational performance metrics, customer metrics, market data, etc. are gathered together to help assess the organization and create a baseline.

▶ SWOT ANALYSIS –

An honest look at internal and external aspects of your business.... strengths, weaknesses, opportunities and threats.

▶ VISION – What will your organization be? What will it become? How large will it be? This can often be expressed in an executive summary format, culminating with a vision statement.

▶ MISSION – Who do you serve? How do you serve them? What products and services will you provide? What is your competitive advantage that keeps customers coming back? Mission statements illuminate for your team how you will go to market and exceed customer expectations.

▶ DEFINING VALUE DRIVERS –

There are probably 30 or more different aspects of your business that drive the value of your business, some that you control and some that you do not control. Those value drivers need to be defined and understood as you set your strategies and objectives and attempt to

“ THE TIME IS RIGHT TO ASSEMBLE YOUR TEAM AND DEVELOP YOUR STRATEGIC PLAN.

optimize the business.

▶ SETTING LONG TERM STRATEGIES –

Now that we are armed with a complete understanding of where we want to go, how we will serve our customers, strengths, weaknesses, it is time to lay out our long term strategies that will help us arrive at our destination. This includes financial, operational, marketing, sales, service, IT and the HR aspects of the business.

▶ ORGANIZATION PLAN – What does our organization need to look like to support our vision, mission and help us achieve our strategies and objectives? What does the organization structure look like, and what skills and expertise do our employees need to be successful?

▶ BUSINESS OBJECTIVES – The tactical or short term business objectives need to be developed to support the larger long term strategies at this point. I am a fan of using the SMAART format for objective setting at the Department level across the organization. This approach has been covered in earlier articles.

▶ PERFORMANCE METRICS – Progress with the desired strategies and objectives can and should be measured. Dealerships already have a plethora of metrics at the financial and operational levels, but those tend to be short term and

tactical in nature. Performance metrics should be established and reported in a scorecard format across departments to ensure regular progress toward the desired strategies.

▶ STRATEGIC MANAGEMENT REVIEWS – Again, Dealerships do a great job of reviewing financial results across the group each month, but I would argue that those reviews are short term or tactical in nature. Successful organizations tend to review progress against strategic plans quarterly or twice a year at minimum. If progress is delayed, or tweaks to the original plan need to occur, this frequent review process will allow enough time to react and also serve as a valuable communication tool internally.

Summary

If your organization is in growth mode or even in improvement mode, attempting to realize the benefits of the scale that you expected or are expecting, you should seriously consider the development of a strategic plan. A military leader would not go into a war or even a battle without an overall strategic plan, and most business organizations spend considerable time mapping out their future and contingency plans to ensure growth and to prevent surprises. A well developed

strategic plan can help the organization drive new efficiencies, greater effectiveness and greater profitability that can be used to finance expansion or growth. The size and scale of your group should improve the financial and purchasing leverage available to you, and that leverage could be instrumental in creating new flexibility, driving down your costs, and improving your profitability.

The development of a thoughtful strategic plan can only be initiated by the Executive Management team... a leadership function. The output or the direction that the plan articulates will help ensure that the team is rowing in the right direction, and improves the likelihood of achieving the desired strategies and business objectives. The time is right to assemble your team and develop your strategic plan.

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