

DEALER BUSINESS BRIEFING

Best practices for dealerships CFOs, Controllers and Office Managers

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Critical analysis helps pump up dealers' purchasing power

Many auto dealerships make costly spending mistakes due to disorganized purchasing practices – including too many buyers and vendors and over-reliance on spot buying. Centralizing purchasing can help. More dealers are also drilling down deeper into expenses with assistance from purchasing experts.

Reigning in purchasing costs is nothing new for CFO Gary Fentiman of the Phil Long Dealerships. When he joined the Colorado-based group nearly 18 years ago, he centralized its purchasing function and limited its number of vendors – enabling the then six-store group to cut expenses by \$1 million in the first year.

“The very first year is probably the easiest – we had no synergy,” says Gary. Consolidating also helped them take advantage of volume discounts.

But clamping down on costs got increasingly challenging over time, says Gary, who also spent many years as a general manager with the auto group before returning to the role of CFO last summer.

“As we grew, it got tougher to get our arms around 17 stores,” Gary tells *Dealer Business Briefing*. “We were pretty good at negotiating but we didn’t have data on what competitive pricing should be.” So the auto group took another step.

Last year, it hooked up with Performance Management Group (PMG), a purchasing service provider headquartered in Bloomington, Minnesota. PMG, whose ap-

proximately 40 purchasing associates have purchasing expertise in more than 60 expense categories, had two advantages that appealed to Gary.

First, the firm has insight into cost structure and a database it uses to source and compare current prices. Second, PMG’s auditing system sweeps through Phil Long’s DMS to see if vendor pricing is in line with its agreed-upon pricing.

PMG’s target was to save the Phil Long Dealerships \$300,000 gross over a year, says Gary. “I challenged them to get us to \$700,000 and I think they’ll crack \$800,000 before our contract year is up the end of May,” he says.

For starters, PMG has been able to negotiate bigger discounts than the auto group was able to on its own. “We negotiated a 30 percent discount with a national office supply chain – they got us another 38 percent discount. If we buy the same items as last year, we’ll save \$115,000,” says Gary.

PMG also helped his group save another 11 percent (\$58,000) on credit card processing fees and an additional 32 percent (\$85,000) on cell

phones. “We thought we had negotiated our best deal,” he says.

PMG is helping Phil Long bid its oil and lender fees and is working on tires. It is also helping consolidate 200 similar forms among the auto group’s 800 to 900 forms. “It’s a win-win – it’s not just a push; the vendors get more volume,” says Gary.

PMG also discovered that one vendor had overcharged Phil Long about \$30,000 for uniforms over a four month period. “The vendor was very open when we found out about it and we think it was an honest mistake (inputting the wrong pricing), but we didn’t catch it – PMG did,” says Gary. PMG also found that vendors didn’t charge the agreed-upon price for paper forms (it’s helping recoup a \$13,000 overage that occurred over six months) and cell phones.

The auto group lets PMG know which expense areas it wants to target. “We point them and they shoot,” says Gary. Separately, Phil Long is also working to keep costs down. It self-insures its insurance and has an investment relationship with its ad company.

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Balancing priorities

Whether you've got a simple or sophisticated purchasing process in place, there is almost always room for improvement. Assessing your current purchasing environment is a good first step.

Dave Roen, general manager of Saturn of St. Paul (Minnesota), realized his four stores could do better at managing their multitude of expenses. While he sat down with his controller, fixed operations manager and general sales manager for big purchasing decisions such as computers upgrades and phones, "semi-fixed expenses sometimes got a little lost through the cracks – uniforms, file drawers, credit card processing," he told *DBB*.

"Although we tried to minimize the number of vendors, we sometimes

strayed. I didn't have the time or expertise to check it out or conduct an audit," he says. With some expenses, "we kind of did it on a handshake and didn't look at it for another year."

Saturn of St. Paul became PMG's first automotive client five years ago. "I was hesitant to begin the process but it was the best decision I ever made," Dave tells *DBB*. PMG has helped his organization – part of the 60+ store Rydell Group – save several hundred thousand dollars with measurable cost reductions of 21 percent. It has also reduced its supplier base by 40 percent.

"They do the work none of us would want to do. It lets me focus on selling and servicing cars, figuring out how to keep employees and customers happy, and growing the business," says Dave.

PMG has renegotiated Saturn of St. Paul's credit card fees for the third time in three years. When it needed 10 filing cabinets, PMG found an office that was closing and made the connection. "We spent \$1,500 instead of \$800 apiece if they were new. I just had to send our parts man to pick them up," says Dave. PMG has also helped bring his group's liability and worker's comp insurance to the market.

To simplify its relationship with vendors, Saturn of St. Paul is using PMG's new software that lets it do online ordering and check prices. It is password protected, which limits who can place orders.

The bottom line

Whether you do it yourself or rely on an outsider, someone should scrutinize every dealership expense. ❖

Dealer's chief purchasing blunders – and how to avoid them

James Williams, vice president of business development for Performance Management Group, tells *DBB* that the biggest purchasing mistakes auto dealers typically make are: failure to have a process in place to secure three independent quotes and keep records, failure to check that they're paying what they negotiated (which often results in price escalation), and failure to keep contracts centralized.

"It's typically like an Easter egg hunt... We call it the purchasing black hole," says Mr. Williams, who notes that giving too many people purchasing authority and using too many suppliers are common dealership mistakes.

Last year, PMG (www.pmgpurchasing.com) helped its 50+ auto dealer clients obtain

actual savings of 22.6 percent across 60 expense areas – a 100 percent drop to the bottom line in dollars. While its purchasing associates have more time and expertise in this arena than the typical dealership CFO, "what we do is really pretty straight forward," notes Mr. Williams. His basic suggestions for dealers:

- Analyze your practices. PMG asks clients a number of questions, including: Do you set goals to reduce expenses? Do you track expense savings? Do you quote what you're currently paying? How many suppliers are you using? It also benchmarks dealers against best purchasing practices.
- Centralize your purchasing function – between multiple stores and even among dif-

ferent departments in a single location.

- Drill down into expense categories. PMG pulls invoices to see how much dealer clients are paying over the market price – be it local (e.g., waste), regional (e.g., telecom), or national (e.g., uniforms). Belong to a 20 group? Ask your co-members what they're paying, he says.

Mr. Williams invites DealersEdge subscribers to complete a complimentary purchase assessment (click on Free Stuff at www.dealersedge.com). Learn more about what you can do for yourself to improve purchasing during his May 10 DealersEdge audioconference. For details and registration, visit our website or call 800-321-5312.