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GET WHAT YOU PAY FOR!
THE QUEST FOR THE PERFECT PAY PLAN!

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There is an expression that has been used for years in reference to buying quality products and services; "You get what you pay for", naturally implying the more you pay, the more you can expect.

That same expression can be applied to fixed operations pay plans as well, and from a Dealer perspective it is vitally important to understand the meaning here. I am not implying that the more you pay the more you can expect, although that should be true; I am however implying that the manner in which you structure you're various pay plans will determine the results you can expect.

First and foremost, let's determine Management pay plan structures. As the Dealer you expect many things from your Fixed Operations Directors & Managers that have nothing to do with the actual departmental financial results, and for these functions, and these functions alone you determine the appropriate salary. This salary should be commensurate with experience and knowledge; it is however, this experience and knowledge that you are employing to bring about specific results. Without the results, all of the experience and knowledge have no benefit whatsoever, so be cautious to ensure that the salary and the performance factors of any pay plan are balanced appropriately. Not to say that they should be 50/50, they should represent the position responsibilities and level of autonomy to affect the expected results.

Once you've determined the salary, you must determine the performance-based element, which should be kept simple and to the point. If you're Manager is responsible for the 'net' of the department, than pay based on the net. Understand though if you expect your Manager/Director to improve/maintain the net results, than he/she must have the authority to affect change to every single expense that affects net profit.

A real world example of this was a Service Manager that was paid his commission on net profit. This dealer himself also owned a car rental franchise, and as such the service department was forced to rent all of their vehicles from this rental car franchise and a rate that was considerably higher than that of all of the other competitors. This fact was frustrating for the Manager as his rental expenses could have been dramatically reduced improving his departmental net profit. It also represents a great example of a dealer not actually allowing his manager to control his own destiny (net). If there are specific expenses that the Manager has no power to control, they should not affect his pay plan.

Be careful not to go the other way either, by paying only on gross profit, realize that you're gross will definitely go up, and likely, so will your expenses; again, you get what you pay for.

The best pay plan for a Manager/Director would be a percentage of adjusted gross. Total gross profit, less the 'controllable' expenses is best as it avoids the above issues. After all, the profitability of your holding companies, by jacking up the rent is beyond his control.

From a Service Consultant perspective, again keep it simple, and realize as always, you will get what you pay for. So what do you want to get? You need your advisors to ensure satisfied customers and to increase service sales. Is one more important than the other?

With respect to sales, don't lose sight of the fact that it doesn't really matter what an advisor/consultant sells for you. Whether she/he sells oil changes, flushes, brakes or transmissions, the most important factor is how much they sell for you. Pay on the totals they generate. Many dealerships pay on the total hours written, which is extremely effective as it ensures the advisors continually chase more hours, regardless of the type of hours they are.

Paying on Hours per RO, far too popular lately is a recipe for disaster – it teaches advisors that a waiting customer for an oil change only, pays nothing, so why bother.

If you pay on hours per RO, realize you'll get what you want (higher Hrs/RO, but at what cost?) How many oil change customers will be turned away because they hurt the hours per RO number?

Avoid paying on individual services sold, because fortunately and unfortunately, this works extremely well, and in turn you put your Advisor is in an awkward position to make a decision when there are two services that need to be sold, realize that the service with the incentive is the one that will be sold, regardless of how much or little that service is in comparison to the other, or without respect to the importance to the customer's vehicle.

A great example is "flushes" which are probably the services carrying the most incentives these days. A vehicle is checked and it is determined that it needs ball joints, and alignment and a transmission flush. Even though the ball joints and the alignment will net more to the dealership, you can almost count on only the flush being sold, if the customer even hints that they can't get it all done.

What you really need is for them to make an effort to sell all or as many as they can, there are always more hours attached to more work.

Remember too with CSI – you get what you pay for…. keep it separate from the sales objectives; don't tie one to the other. Not that CSI is un-important, but you don't want a service advisor to make the decision to not offer a customer the services they need because they believe it could potentially be a CSI concern later.

With respect to incentives, bonuses and pay plans for other service personnel, remember, only pay for what they can control and have an impact on. I've actually met warranty administrators who got a bonus on the net of the department. Although warranty has an impact, this was money poorly spent as the warranty administrator has little if any impact on anything other than warranty.

So if you thought you would come across the perfect pay plan by the end of this article, realize you did. This best pay plans are the ones that are simple and easy to understand without loopholes that adversely affect any other part of your operation.

Remember there is no perfect pay plan that will do everything - Hrs/RO, Effective Rate, Gross Profit, Productivity, warranty costs and CSI survey retention, like everything else must be MANAGED. Really though - if a Pay plan could actually do it all for you, why would we need Managers?