The Auto Dealer's Original Fixed Operations Resource

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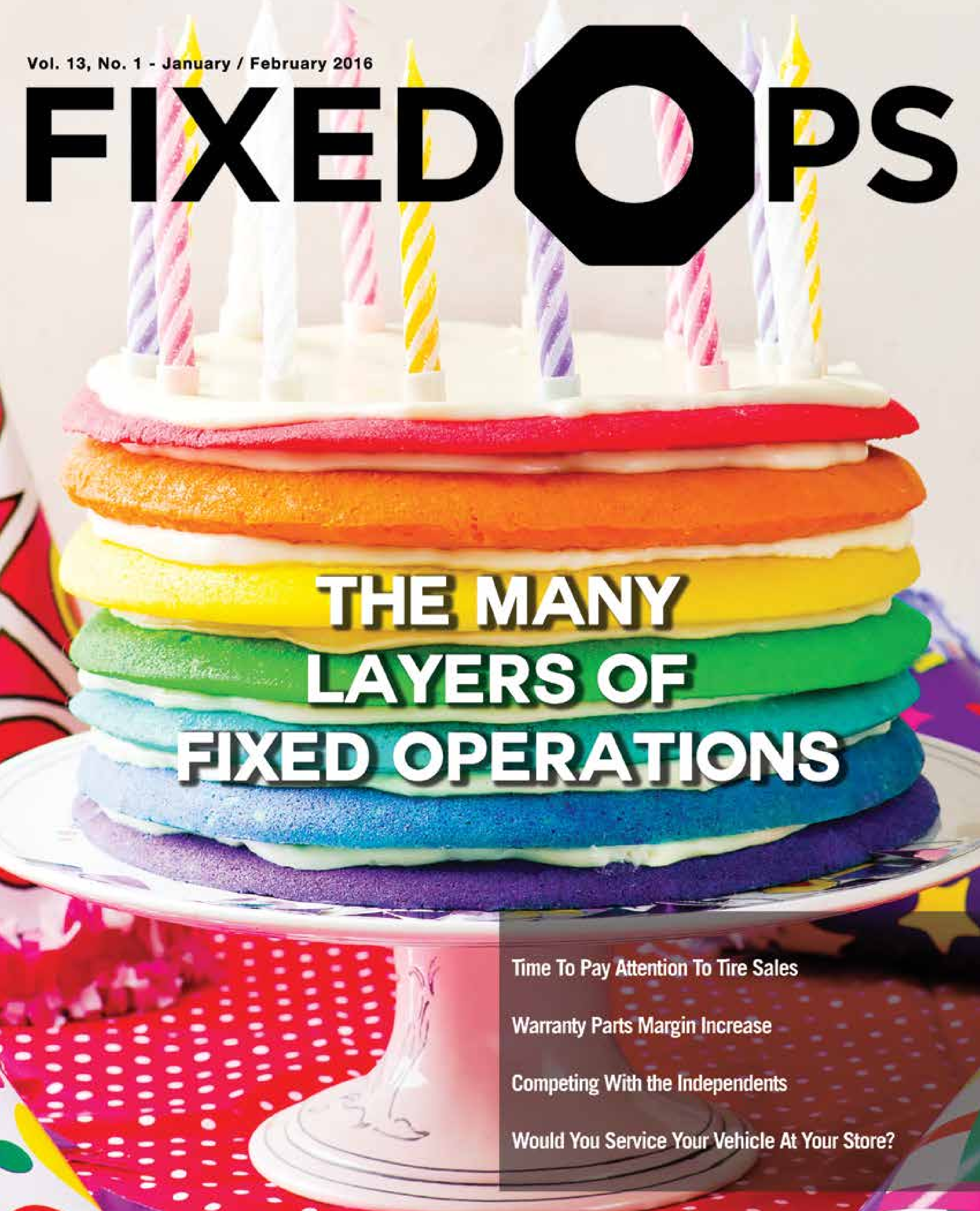
# FIXED OPS



# THE MANY LAYERS OF FIXED OPERATIONS

# ARE YOU LEAVING MONEY ON THE TABLE?

## SALES PROGRAM INCENTIVE FUNDS PROVIDE FINANCIAL REWARDS

**BY SEAN UGRIN**

Original Equipment Manufacturers (OEMs) and vendors allocate incentive funds to promote sales of parts, products and services they provide to your dealership and Service drive. A large percentage of these funds go unused. The question is…why? What decisions do you have to make regarding this incentive money and how can you benefit?


The unused portion of a sales program incentive fund (SPIFF) is referred to by Sales and Marketing as “breakage.” That breakage can be good or bad.

**Positive breakage:** You hit your sales target and save money because the breakage was planned. You count on it. Breakage was factored into your program as X percent.

**Negative breakage:** Your allocated funds did not get put to work and you missed your targeted sales volume. You needed to spend all the money to succeed.

Let's look at examples of good and bad breakage:

• You budget $1,000 for a 15-day "fast start" program that focuses on tires. Your people build up momentum quickly but they are only fast enough to claim $600 of the total SPIFF budget of $1,000. However, the momentum they built carries past the 15th day and continues for the rest of the month. The $400 breakage is positive breakage because it is viewed as savings that protect margin.

• You budget $1,000 to target alignments. Your goal is to sell 100 customer pay alignments. You put a $10 SPIFF on each ALIGN4 sold and run the program for 30 days. The scenario is the same: $600 of the budget has been claimed. This time the breakage is negative and the "savings" are detrimental. The goal was to sell 100 alignments and you missed that goal by 40 percent.

**What Breakage Means to OEMs and Vendors**

OEMs and vendors are looking to minimize bad breakage. They are calculating how much money they want to allocate to a SPIFF to move a specific amount of products or services. Once that money is allocated, they don't want it back; they want it put to work. This is where the dealership and Service Department come in. There is available money coming from various sources. How do you access it, deploy it and claim it?

Where do you look for these third-party funds? Some examples include:

• Factory programs
• Fluid programs
• Tire programs
• Parts programs

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If there's a consumer-facing marketing campaign or consumer incentive on an item ("the pull") then there is a good chance there is also a SPIFF available behind the scenes to increase program conversion ("the push").

If an item is a commodity, then there is also a good chance there is a SPIFF available. The vendor or OEM is looking to drive volume and when there are two similar products available, they want to win "top of mind" with Service Advisors. For example, fluid exchange systems are really fluid consumption systems. Pushing fluid is the name of the game. All the major players offer an incentive.

We know OEMs want to sell genuine Parts and they often negotiate tire programs with specific brands. It's the brakes, batteries and tires program.

**Leaving Money on the Table**

So why do these programs experience a large percentage of breakage, with the dealership leaving money on the table? Mainly it has to do with challenges, priorities and philosophy. Some common scenarios, with the problem and a potential solution:

MAKE IT A GOAL TO LEARN WHAT MONEY IS AVAILABLE AND WORK IT INTO YOUR STRATEGY AND ROUTINE. GOING A STEP FURTHER, YOU MAY BE ABLE TO NEGOTIATE VOLUME REBATES AND / OR DISCOUNTS WITH YOUR VENDORS.

1. The SPIFF claim process can be cumbersome and opaque. Redemption of claims is viewed as "work".

* The answer is to centralize and automate your programs, reconciling and reporting. Timely reporting allows for timely fulfillment. Your command of your programs will be noticed.

2. Managers may not be aware of all the money available because it's coming from various sources.

* Make it a goal to learn what money is available and work it into your strategy and routine. Going a step further, you may be able to negotiate volume rebates and / or discounts with your vendors. Remember that for them, breakage tends to be negative, not positive. Volume and velocity are the name of the game.

3. Sometimes managers are out of the chain of communication. In other words, the incentive money is going around them and therefore they can't leverage it.

* This often occurs with OEM programs. OEMs have the authorization to go directly to your staff. It can be a point of contention but it is not going away. That said, there is nothing stopping a Service Manager from learning what is on SPIFF and then tracking repair orders (ROs) and staff performance.

By being engaged, you become part of the equation. Please note that vendors should not be allowed to go directly to your staff without your knowledge and approval. It's preferred that the Service Manager should be the hub. The program and the money should flow through them.

4. Philosophy also plays a part. Some believe that incentive programs disrupt pay plan and therefore should not be allowed. Or that the house earns and owns the SPIFF.

* Whether the money is for your staff or for the house, it exists and should be viewed as "found money." To claim it, your people still need to drive specific products and services. You can align strategy and pay plan so that you hit volume goals and you can factor that SPIFF money into your bottom line. As stated before, holding incentive funds for the house can create contention with an OEM or vendors (the reason OEMs tend to go direct). One way to avoid conflict is to support the initiative by running a points program rather than a cash program. Set aside a small fund to purchase merchandise or to pay for one of your Advisors to attend a seminar. Get creative. Motivation and focus are the goal. Recognition is powerful.

**Final Thoughts on Incentive Money**

Service Advisors are salespeople.

There's a lot of incentive money available and a large percentage of it goes unused. If you take time to understand the goals of your OEMs and vendors, you can use their money to drive increased volume and profitability. As you increase your volume, you are increasing your leverage and negotiating power with your vendors or OEM.

To quote a dealership General Manager from Denver: "My job is to find all the money that's available for my people. That's a combination of pay plan, factory SPIFFs and vendor SPIFFs. I make sure I'm aware and informed as to who is providing that money and who is receiving it. I am investing in my team in a measureable way that is meaningful to them. Take home pay matters. When they believe they are pursuing a rewarding career, employee retention improves."

OEM and vendor incentives will always exist. It's up to you to decide how and if to leverage those incentives. The key is to be engaged and figure out how to use the funds to your advantage to create a win for the department and for your dealership. You'll also be creating a win for your OEM and vendor partners. That's good business.

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