What Get's Measured Get's Done

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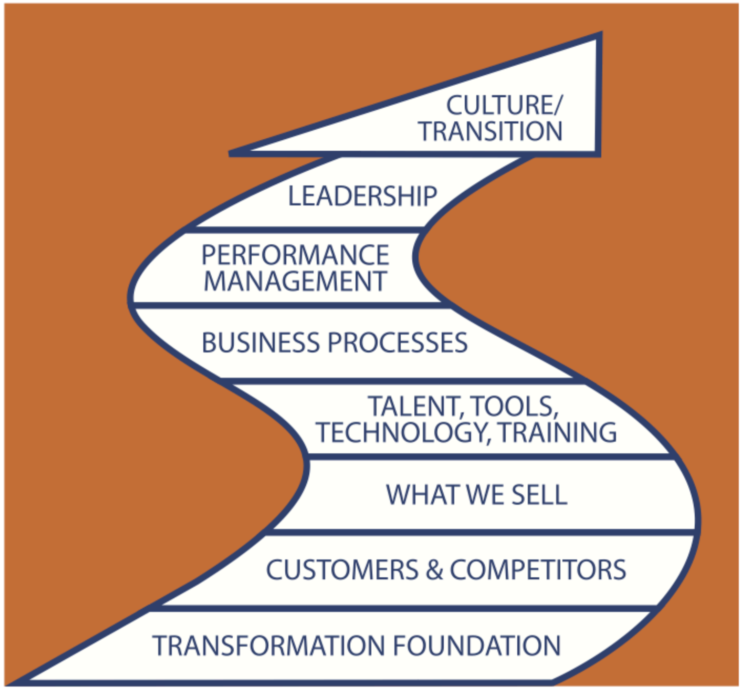
PREMIER TRUCK GROUP

Where Are You on the Transformation Path?



Current Market

The dealership industry is a mature industry

- Slow to no growth in real total market terms
- Buyers are experienced
- Pricing is competitive
- Products are not differentiated

• Success in a mature industry is based on cost structure and service

Michael Porter

Harvard Business School – Competitive Strategy

Purpose of a dealership

- Dealerships should be managed to maximize the wealth of the owners of the dealership
  - Choose better over bigger
  - Achieving “guide” lets you be average, at best
  - There is always a better way – always explore alternatives
  - Management is about decision making

Department Manager = Asset Manager

We believe the role of the manager is to manage the assets provided to him/her by the dealer in order to achieve the best return.

Strategy Definition

How you use your unique strengths to win and grow a profitable long-term position in the marketplace

Strengths (Internal)

Weaknesses (Internal)

Opportunities (External)

Threats (External)

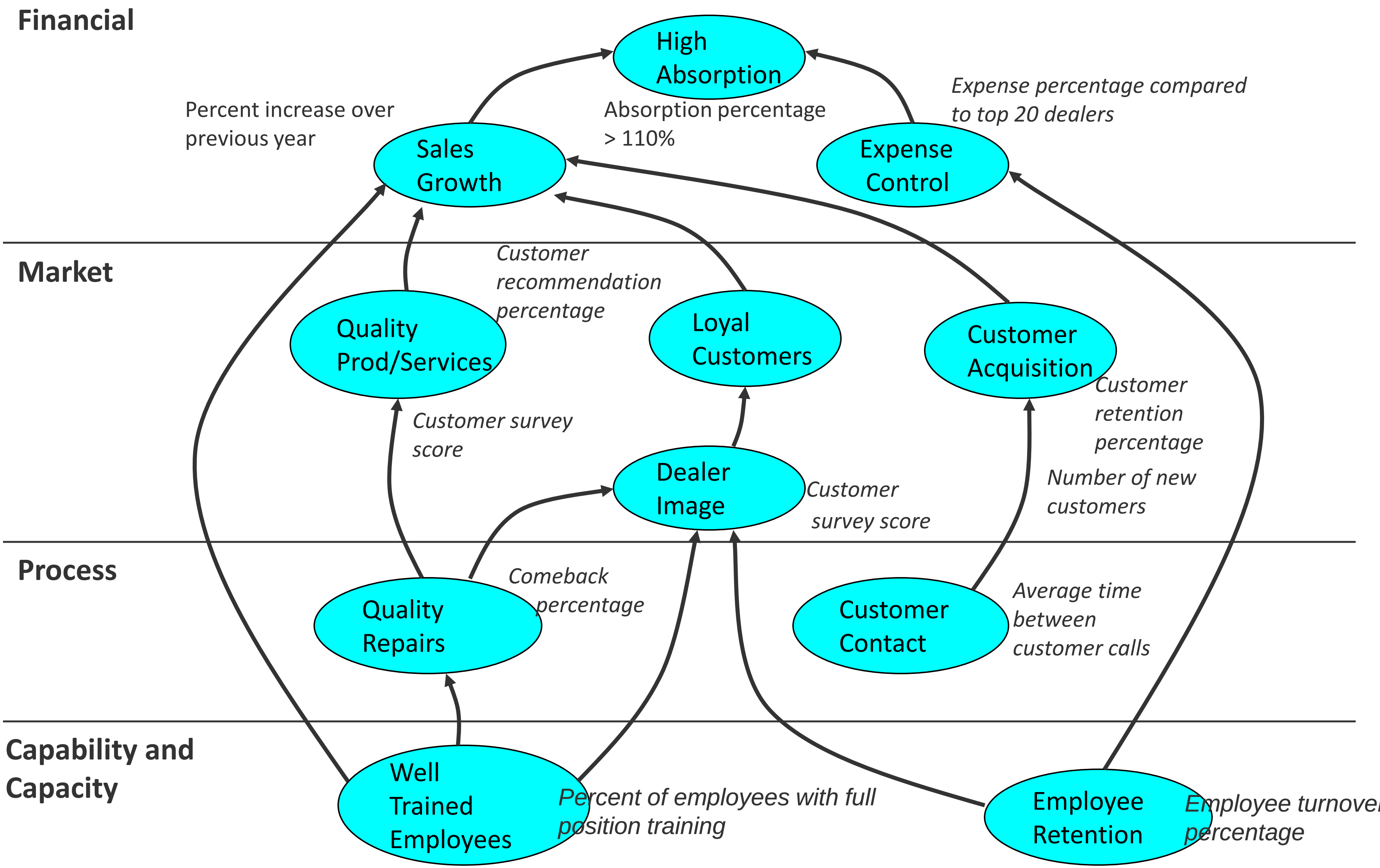
Value Proposition

It's what makes customers chose you, instead of your competition

What is your Value Proposition?

- What matters?
- What's missing?
- What's next?

Strategy Map



Strategy Definition

How you use your unique strengths to win and grow a profitable long-term position in the marketplace

What is Execution?

Execution is the discipline of getting the most important things done.

The 4 Breakdowns in Execution

1

DON'T KNOW THE GOAL

2

DON'T KNOW WHAT TO DO TO ACHIEVE THE GOAL

3

DON'T KEEP SCORE

4

ARE NOT HELD ACCOUNTABLE

Adopted from: The 4 Disciplines of Execution
McChesney, Covey, Huling
2012, Free Press

Root Causes of Weak Execution

1. Clarity of the objective
   – People didn't understand the goal they were simply supposed to execute
   – 1 in 7 (15%) could name only one of their organization's three goals their leaders had identified
   – 6 in 7 (85%) named what they thought was the goal but often it didn't remotely resemble what their leaders had said.
   – The further from the top – the less clear it was

Source: The 4 Disciplines of Execution

Root Causes of Weak Execution

2. Lack of Commitment to the Goal
   – 51% said they were passionate about the goal – leaving almost half of the people going through the motions.
   – How do you get commitment and buy-in?

Source: The 4 Disciplines of Execution

Root Causes of Weak Execution

3. Team and Individual Accountability
   - 81% of the people surveyed said they were not held accountable for regular progress on the goal
   - 87% had no clear idea what they should be doing to achieve the goal
   - What works? How do you hold your team accountable

Source: The 4 Disciplines of Execution

Subtle Causes of Weak Execution

- Trust
- Misaligned compensation systems
- Poorly developed process
- Poor decision making

Source: The 4 Disciplines of Execution

The real Enemy of Weak Execution

4. The Whirlwind - Your day Job!

Why?

– It takes a massive amount of energy to keep the day to day “URGENT” things (operations) going.
– Ironically – focused energy is also the very thing that makes it so hard to execute anything new.
– It robs you of the FOCUS REQUIRED to move strategy to execution

Source: The 4 Disciplines of Execution

Competing forces

Whirlwind

day job

URGENT
It Acts on you

Goals

new activities

IMPORTANT
You Act on it

Who Wins this Battle?

The real Enemy of Weak Execution

5. Inertia of – “THE WAY IT HAS ALWAYS BEEN”

Source: The 4 Disciplines of Execution

The Challenge is…

To Execute strategies and goals in the Midst of YOUR Whirlwind – YOUR day Job!

How?

Measure Everything You Do

~~Measure Everything You Do~~

Measure Everything That is Important to What You Want Done

You cannot improve what you cannot or do not measure

Lord Kelvin, British Scientist

How Do You Measure Performance?

What are you measuring?

Are you measuring what's important?

- Results or
- What drives results?

What You Measure is What You Get

- Traditional financial/accounting measures
  - Results measures

- Non-financial measures – less "traditional"
  - Performance measures

“Leading” and “Lagging” Measures

- Past measure (last week/last month)
- Current measure (yesterday’s or today’s activities)
- Future Measure (commitments made in the future)

Source: Robert S. Kaplan, Harvard Business School, and David P. Norton, The Palladium Group, 2012

Two Kinds of Measurements

Lag Measures

- Target measurements of objectives (results)
- Sales, Profit, Market Share, CSI. Patient survival rates
- Meaning – when you receive the results – the performance that drives them is already in the past… you can't fix it
- Spend most of our time

Lead Measures

- Measures activities you must do to reach the goal
- Measures new behavior to drive success of the goal
- Characteristics
  - Predictive for achieving goal
  - Influenced by the team

What You Measure is What You Get

- Leading – activities

- Lagging – results

Results Measures (Lagging Measures)

- Determines success
- Past performance
- Financial- or unit-based

Performance Measures (Leading Measures)

- Predictors of performance
- Activities
- Identify action required
- More than75 percent of the measurement system
- Small steps
- Measure 24/7 if you want to create change

Operations Measures Types and Mix

10/80/10 Rule (100 or less):	%/#	Frequency
• Key Results Measures (KRM)	≤10	
– Overview of past performance		Monthly/quarterly
• Results measures (RM) and		
– Summary on a specific area	~80	24/7, daily, weekly,
• Performance measures (PM)		monthly/quarterly
– Target measures identify action required		
• Key Performance Measures (KPM)	≤10	
– Tell staff what needs to be done to dramatically improve performance		24/7,daily, weekly

Measure 24/7, daily, weekly if you want to create change

Source: Robert S. Kaplan, Harvard Business School, and David P. Norton, The Palladium Group, 2012

Defining Key Performance Measures (KPM)

Seven characteristics of winning KPM:

1. Non financial measures
2. Measured frequently 24/7, daily, weekly
3. Acted on by CEO and senior leadership
4. Clearly indicate action required by staff
5. Tie responsibility down to a team
6. Significant impact on the organization and affect more than one ***PROFIT*** Navigator competency
7. Encourage appropriate action

Source: Chartered Global Management Accountants (CGMA), 2012

Measure What Matters

When we deal in generalities, we will seldom succeed; when we deal in specifics, we will seldom fail. When performance is measured, performance improves; *when performance is measured and reported, the rate of improvement accelerates.*

Thomas S. Monson

- What matters?
- What’s missing?
- What’s next?

- Quote - Dr. Deming – he told executives that managing a company by looking at financial data (lag measures) “is the equivalent of driving a car by looking in the rearview mirror.”

The Concept of Fixed Absorption

The ability of parts, service, and body shop operations to generate sufficient gross profit ***dollars*** to cover the total overhead expenses of the entire dealership

What Absorption Does *Not* Tell

- Dollars
- Cash position information
- Asset information

Dealership *PROFIT®*

- Which is the better operated dealer?
- 2% return on sales, total sales of $50m
- 1% return on sales, total sales of $100m

What Business Do You Want to Run?

- Which is the better operated dealer?

- 2% return on sales, total sales of $50m
  - $10 million in net assets

- 1% return on sales, total sales of $100m
  - $9 million in net assets

Our Results Measure

Dealership ***PROFIT***

"What we call profits, the money left to service equity, is usually not profit at all. ***Until a business returns a profit that is greater than the cost of capital, it operates at a loss.*** Never mind that it pays taxes as if it had a genuine profit. The enterprise still returns less to the economy than it devours in resources…Until then it does not create wealth, it destroys it."

Peter Drucker

The calculation:

Net income, annualized

- Cost of capital *= (Total operating assets, less cash, less floor plan liability) x risk premium (20% commercial)*

= Dealership ***PROFIT***

A positive dealership ***PROFIT*** creates wealth

What is Your Dealership *PROFIT*®?

Total Dealership Assets

Less:

Lease and Rental Assets

Non-operating Assets

Floorplan payable

Cash

= Adjusted Assets

Adjusted Assets x Required Return Interest Cost % = Required Return Interest Cost *(annualized)*

Total Net Income *(annualized)*

- Lease and rental income *(annualized)*

= Dealership Net Income *(annualized)*

Dealership Net Income *(annualized)* - Required Return Interest Cost *(annualized) =*

Dealership PROFIT

How Much Return Should the *Average* Dealer Expect?

- What is the appropriate return rate?

- What are the factors of the appropriate return?
  - Long term bond rate
  - 10-15% risk factor

- Current cost of capital is about 15%

- ATD guide for return on assets is 20%

Dealership *PROFIT*

- What drives dealership ***PROFIT***?
  - Variable ***PROFIT***
  - Parts ***PROFIT***
  - Service ***PROFIT***
  - Body Shop ***PROFIT***

Improving *PROFIT*

1. Reduce asset base
    1. Control receivables – do not allow to get old
    2. Have the right inventory (new, used, parts, labor) when it's needed – do not allow to get old

Improving *PROFIT*

2. Increase gross profit $
   a) Increase sales $
      1. Price
      2. Volume: what business are you ***really*** in?
         a) "Wallet share": sell more of existing products and services to existing customers
         b) New business opportunities
            1. Traditional
            2. Non-traditional
   b) Reduce/control cost
      a) OE/vendor control whole goods/parts
      b) "Market" controls labor/used inventory
      c) Dealership control
         a) Maximize buying power
         b) Minimize "waste"

Improving *PROFIT*

3. Control expenses

   a) Which ones?

Improving Variable *PROFIT*

- Traditional Results Measures (RM)
  - Balance sheet
    - Inventory turns/aging
    - Vehicle Receivables – days aging?
    - Contracts in Transit – days aging?
    - Floor plan trust position
  - Income statement
    - Unit and dollar sales
    - Gross profit percentage
    - Gross profit percentage/dollars per unit sold
    - Expenses as a percentage of gross profit dollars
    - Net income

Improving Variable *PROFIT*

- Performance Measures (PM)
  - Sales representative
    - Awareness rate
    - Participation rate
    - Close participation rate
    - Demand history, i.e., lost sales
    - Contacts to proposals

Improving Variable *PROFIT*

- Performance Measures (PM) - continued
  - Input – throughput – output cycle time
  - Estimated gross versus actual gross
  - Advertising dollars per number of contacts
  - Finance deals closed per finance proposals
  - Finance source performance
  - Finance proposals per unit sold by sales representative
  - Number of units financed versus liens recorded

Improving Variable *PROFIT*

- Performance Measures (PM) – used
  - Reconditioning cycle time
  - Gross profit and reconditioning dollars based on days in stock
  - Reconditioning dollars actual versus estimated
  - Number of used trucks acquired versus appraised

Improving Parts *PROFIT*

- Traditional Results Measures (RM)
  - Balance sheet
    - Receivables turns/aging
    - Inventory turns/aging
  - Income statement
    - Dollar sales
    - Dollar sales per person
    - Gross profit percentage
    - Expenses as a percentage of gross profit dollars
    - Freight expense?
    - Net income

Improving Parts *PROFIT*

- Performance Measures (PM)
  - True turns – stock
  - Order-acceptance rate
  - Part numbers with no demand and inventory quantity
  - Stock part number special-ordered
  - Cost of sales per person
  - Lost sales
  - Level of Service/First-time fill rate
  - Non-stocked parts numbers

Improving Service *PROFIT*

- Traditional Results Measures (RM)
  - Balance sheet
    - Receivables turns/aging
    - Work in process dollars/aging
  - Income statement
    - Dollar sales
    - Effective labor rate
    - Gross profit percentage
    - Lost and idle/non-productive dollars
    - Expenses as a percentage of gross profit dollars
      - Policy, shop supplies
    - Net income

Improving Service *PROFIT*

- Performance Measures (PM)
  - Up-front estimates
  - Single operation Repair Orders
  - Work mix:
    - Customer Pay
      - Competitive
      - Maintenance
      - Repair
    - Warranty
    - Internal

Improving Service *PROFIT*

- Performance Measures (PM)
  - Repair Order cycle time
  - Warranty performance
  - Technician proficiency
  - Return on technician investment
  - Facility utilization
  - Sublet gross as a percent of Sublet sales

Improving Body Shop *PROFIT*

- Traditional Results Measures (RM)
  - Balance sheet
    - Receivables turns/aging
    - Work in process dollars/aging
  - Income statement
    - Dollar sales
    - Effective labor rate
    - Gross profit percentage
    - Lost and idle/non-productive dollars
    - Expenses as a percentage of gross profit dollars
      - Policy, shop supplies
    - Net income

Improving Body Shop *PROFIT*

- Performance Measures (PM)
  - Estimate closed ratio
  - Supplemental dollars as a percentage of total
  - Paint and materials gross profit
  - Repair order cycle time
  - Warranty performance
  - Technician proficiency
  - Return on technician investment
  - Facility utilization

Driving Change

1. Objectives – the discipline of focus
2. Act on lead measures – the discipline of leverage
3. Keep a compelling scoreboard – the discipline of engagement
4. Create a Cadence of accountability – the money discipline

The 4 Disciplines of Execution (4DX)

- A proven set of practices for execution of most important strategies in the midst of whirlwind.
  - Simple
  - Measureable
  - Accountable
  - Repeatable
  - Sustainable
  - Can produce breakthrough results

Adopted from: The 4 Disciplines of Execution
McChesney, Covey, Huling
2012, Free Press

Discipline 1: Focus on the Wildly Important

Wildly Important Goals (WIGs) are the vital few goals that *must* be achieved to fulfill the purpose, or nothing else you achieve really matters much.

Pretty Important Goals (PIGs) are goals that represent the many good things you can do.

PIGs are the enemy of WIGs!

Adopted from: The 4 Disciplines of Execution
McChesney, Covey, Huling
2012, Free Press

The Power of Focus

Number of Goals	1–3	4–10	11–20
Goals Achieved With Excellence	1–3	1–2	0

Adopted from: The 4 Disciplines of Execution
McChesney, Covey, Huling
2012, Free Press

The 4 Disciplines of Execution (4DX)

- Wildly Important Goal (WIG)

  ________ ________ from this to that by when

- Measures (2)
  - Goal
  - Activities
- Compelling Scoreboard
- Commitment and Accountability (Personal)

Adopted from: The 4 Disciplines of Execution
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2012, Free Press

Wildly Important Goal

- Make it simple
- Make it action – A VERB
- Measure it – ***From this to that by when***
- ***What*** you are wanting to achieve, ***not how*** to achieve it
- It is achievable

Adopted from: The 4 Disciplines of Execution
McChesney, Covey, Huling
2012, Free Press

The 4 Disciplines of Execution (4DX)

- Wildly Important Goal (WIG)

_________ _________ from this to that by when

- Measures (2 types)
  - Goal
  - Activities

Adopted from: The 4 Disciplines of Execution
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What are the performance measures/Activities?

- Measured in smaller more frequent steps
- Behavior (activity) measures

Adopted from: The 4 Disciplines of Execution
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2012, Free Press

Measure What Matters

"When we deal in generalities, we will seldom succeed; when we deal in specifics, we will seldom fail. When performance is measured, performance improves; *when performance is measured and reported, the rate of improvement accelerates.*"

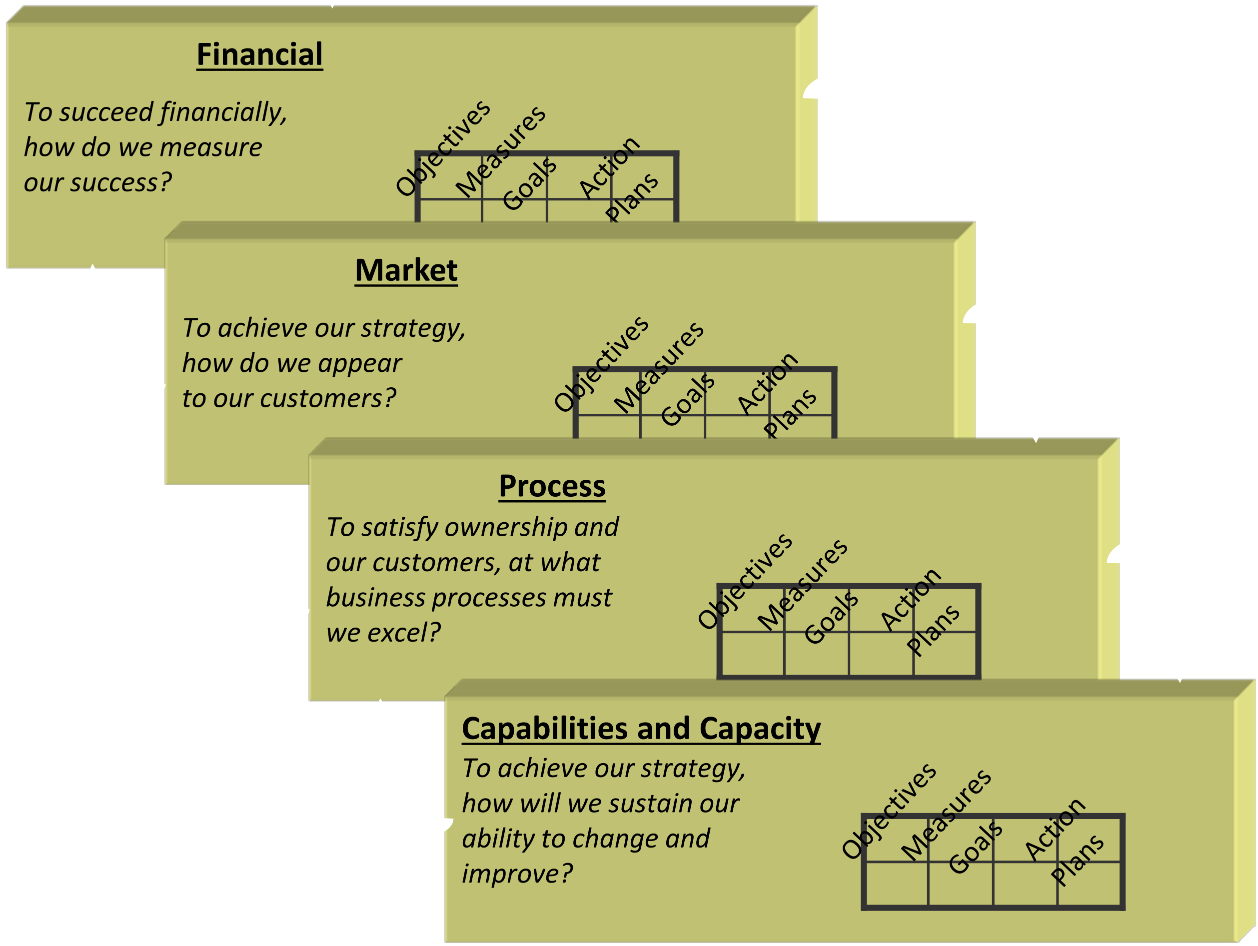
Thomas S. Monson

Investigate Process Breakdowns

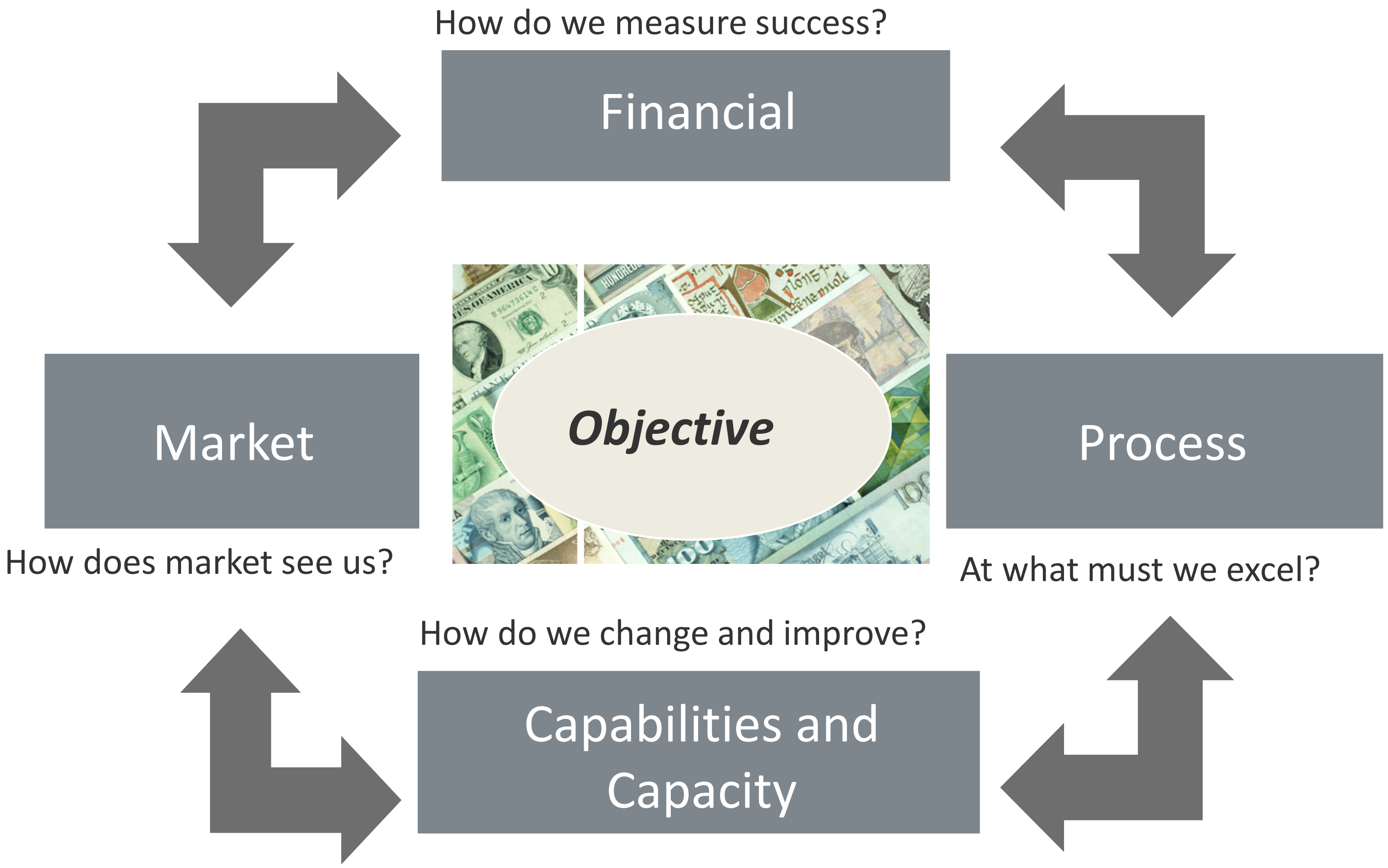
- Understand process and what is causing breakdown
- Measure in real time, not just at the end
- Measure the key activities and process steps and gaps
- Investigate breakdown’s occurrence by occurrence

Cascading the *PROFIT* Navigator

The Strategy



PROFIT Navigator



PROFIT Navigator – Financial

How do we measure success?

Financial

PROFIT Navigator – Market

How do we measure success?

Financial

Market

How does the market see us?

PROFIT Navigator – Process

How do we measure success?

Financial

Market

Process

How does the market see us?

At what must we excel?

PROFIT Navigator – Capabilities and Capacity

How do we measure success?

Financial

Market

Process

How does the market see us?

At what must we excel?

Capabilities and Capacity

How do we change and improve?

Financial

Increase service ***PROFIT*** from $400,000 annually to $1,100,000 by 6/30/2014

Improve service PROFIT

Financial

Increase service ***PROFIT*** from $400,000 annually to $1,100,000 by 6/30/2014

Market

Improve service PROFIT

- Increase market penetration on maintenance repairs
- Understand market’s pricing elasticity

Financial

Increase service ***PROFIT*** from $400,000 annually to $1,100,000 by 6/30/2014

Improve service PROFIT

Market

- Increase market penetration on maintenance repairs
- Understand market's pricing elasticity

Process

- Triage, estimate, and through-put measures in real time
- Daily capacity review
- Daily review of aged WIP
- Monthly reconciliation
- Install MBP in DMS

Financial

Increase service ***PROFIT*** from $400,000 annually to $1,100,000 by 6/30/2014

Improve service PROFIT

Market

- Increase market penetration on competitive items
- Increase market penetration on competitive items
- Understand market's pricing elasticity

Capabilities and capacity

- Train on objections
- Through-put and process education
- DMS utilization and estimating system education

Process

- Triage, estimate, and through-put measures in real time
- Daily capacity review
- Daily review of aged WIP
- Monthly reconciliation
- Install MBP in DMS

Results by 6/30/2014

Competitive sales by 20 percent

Gross profit dollars by $650,000, GP percentage by two points

Technician proficiency percentage by approximately 15 points

Over 60 W/R to $504, WIP days to 2.5 average

Results by 6/30/2014

Improved service ***PROFIT*** to $1,250,000 (goal was $1,100,000)

Customer loyalty

The 4 Disciplines of Execution (4DX)

- Wildly Important Goal (WIG)

__________ __________ from this to that by when

- Measures (2)
  - Goal
  - Activities
- Compelling Scoreboard

Adopted from: The 4 Disciplines of Execution
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Keep the Score

- Simple – keep score for the players
- Easily seen and understood
- Show results and performance measures
- Can tell at a glance if winning – personalize
- Update it
  - Easy
  - Frequency
  - Visibility

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The Three-Second Test

THE THREE-SECOND TEST

Can I tell within three seconds whether we are winning or losing?

Adopted from: The 4 Disciplines of Execution
McChesney, Covey, Huling
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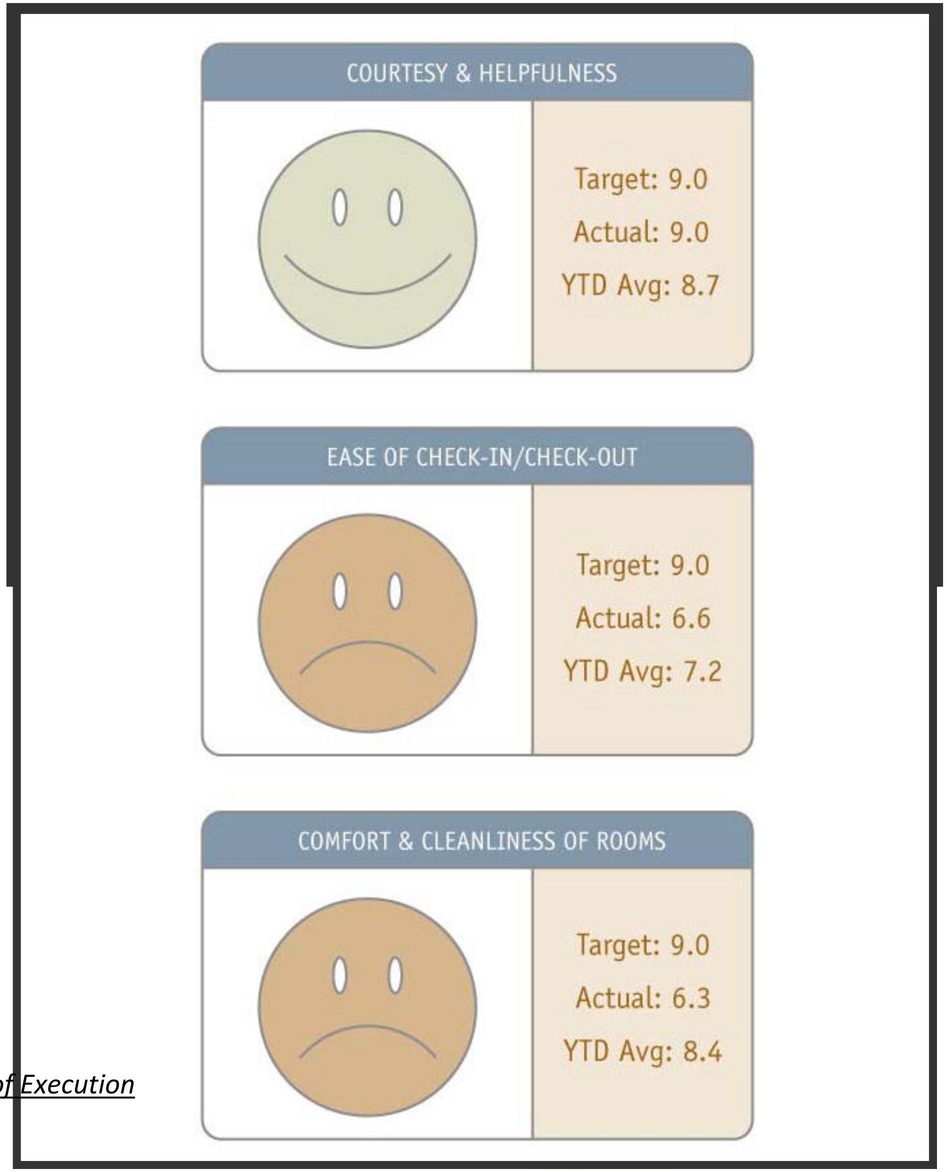
Sample Scoreboard—Hotel Guest Satisfaction



Adopted from: The 4 Disciplines of Execution
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Sample Scoreboard—Sales Revenue Goal

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The 4 Disciplines of Execution (4DX)

- Wildly Important Goal (WIG)

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  - Goal
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- Commitment and Accountability (Personal)

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2012, Free Press

Cadence of Accountability

- Frequency
- ***Account***: Report on prior day/week commitment
  - What worked
  - What didn't
  - What are the road blocks
- ***Review*** the scoreboard: Learn from success/failure
- ***Plan***: What is the commitment for the coming week
  - What will have the biggest impact
  - It's all about me
  - This week, not next

Adopted from: The 4 Disciplines of Execution
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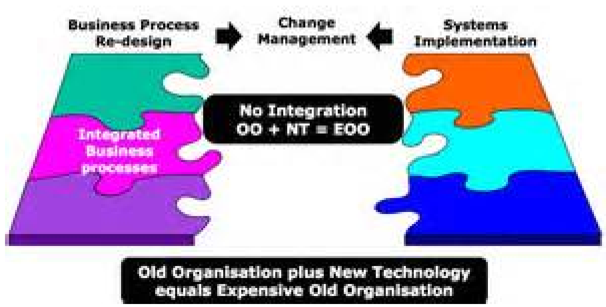
Other Examples

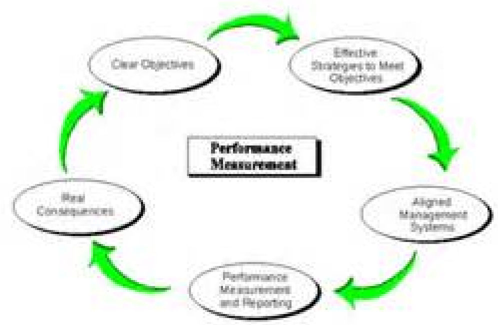


Transformation

The act or process of a complete or major change in something's character or condition.

1. Identify objectives
2. Develop measures

3. Develop measurement reporting
4. Develop accountability to achieve objectives

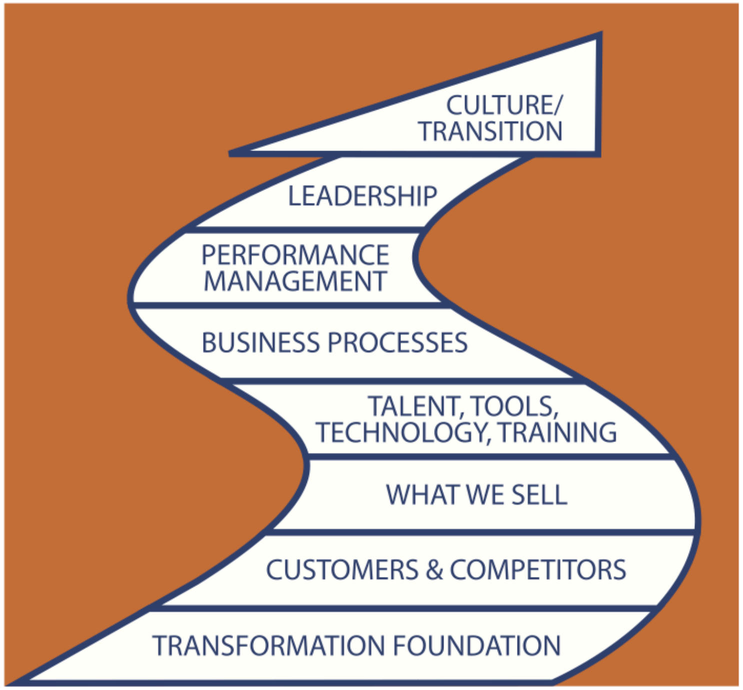


Insanity: doing the same thing over and over again and expecting different results.

Albert Einstein

Source: Brainy Quote

Where Are You on the Transformation Path?



Questions?

Questions?

NATIONAL AUTOMOBILE DEALERS ASSOCIATION