

1: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary
- Commission on adjusted parts department gross profit after controllable expenses
- Inventory turn bonus
- Personnel productivity bonus

PARTS MANAGER			
(1)	Salary		\$
(2)	Commission of 4.0% of adjusted gross (gross, less controllable expenses, including freight and selling expenses)	4.0%	\$
(3)	Bonus on parts inventory turn using the following table:	\$	\$
	<u>Inventory Turn</u>	<u>Bonus</u>	
	• 4.5 times per year	\$0	
	• 5.0 times per year	\$200	
	• 5.5 times per year	\$300	
	• 6.0 times per year	\$400	
(4)	Bonus of \$500 if sales per parts employee exceeds \$45K	\$500	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- The commission on gross profit after deducting the expenses the department can control is a good one. Also, I like having freight costs included in the deductible expenses.
- Inventory turn bonus acknowledges the importance of inventory management, although the monthly bonus amount is somewhat on the small side for such an important management responsibility and perhaps should represent a larger percentage of the total compensation package.
- The bonus of sales per parts employee is an interesting inclusion and I like it.

2: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary
- Commission on parts gross
- Obsolescence deduction
- Bonus on fixed gross, provided the gross this month has increased over the same period last year by a certain percentage
- Net department commission if it exceeds a certain threshold

PARTS MANAGER			
(1)	Salary		\$
(2)	Commission of 2.0% of the gross generated by the parts department	2.0%	\$
(3)	Obsolescence deduction of 10.0% of the total of the excess of all parts that are more than 9 months with no sale that exceeds \$15K	(10.0%)	(\$)
(4)	Bonus of \$400 if the fixed gross of the dealership is more than 10.0% higher than the same period last year	\$400	\$
(5)	Net profit commission: The manager will receive 5.0% of the net department profit if it exceeds \$75K	5.0%	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- The commission gross is a good idea and nicely coupled with the commission on net profit of the department after \$75,000.
- The obsolescence deduction of 10.0% is commendable. I would prefer having this '9 months no sale' to be a percentage of total inventory rather than a fixed amount therefore making it relative to the size of the inventory that is being carried. Presumably the parts manager has been there for some length of time and is accountable for the obsolescence build up that took place. If not, it would be unfair for the new manager to assume this pay plan deduction.
- I like the fixed gross component that ties the parts department in some way to the other fixed departments with the condition that the fixed gross must have increased by at least 10.0%. Prefer this to fixed coverage as the manager cannot influence the expense control of the other departments, which impacts absorption.

3: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary
- Various commissions on various parts sale classifications
- Bonus on annual physical inventory surplus
- Special order parts control element

PARTS MANAGER			
(1)	Salary		\$
(2)	Commission based percentages for the following sale types using the table below:	\$	\$
	<u>Sale Type</u>	<u>Commission %</u>	
	• Customer pay sales	5.0%	
	• Warranty pay sales	4.0%	
	• Internal parts sales	2.0%	
	• Wholesale sales	1.5%	
(3)	Bonus of \$500 if there is no annual physical inventory shortage	\$500	\$
(4)	Bonus of \$250 if there are less than 5 special order parts that have not been picked up after 30 days or that have a value of less than \$300 each	\$250	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- The payment of various commission levels based on the sale classification could be harmful and could possibly lead to different levels of service based on different sale types. For example, the above pay plan could lead to greater concentration on customer pay; leaving little incentive to address the parts required for reconditioning. I would prefer to see the commission based off the combined sales of the department.
- The bonus on the 'no shortage' in the physical inventory count is interesting, but there needs to be more information, such as the treatment of price increases, etc.
- Special ordered parts elements should help in keeping special ordered parts to a minimum. The bonus is on dollars or pieces. which makes sense.

4: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary and commission on gross, excluding parts price increases
- Annual commission on excess of the parts price increase less obsolescence, scrapping and physical inventory shortages
- Graduated bonus on labor hours produced

PARTS MANAGER			
(1)	Salary		\$
(2)	Commission of 2.0% of the gross profit of the department, excluding any price increase pick up to the gross profit	2.0%	\$
(3)	Annual commission of 5.0% on the accumulated parts price increase for the year, <u>less</u> a deduction for the amount of 'parts no sale in more than 12 months' and any parts shortage after taking physical inventory, and inventory that needs to be scrapped	5.0%	\$
(4)	Bonus on labor hours turned based on the following table:	\$	\$
	<u>Total hours produced</u>	<u>Bonus</u>	
	• Below 1,900 labor hours	\$0	
	• Above 1,900 labor hours	\$400	
	• Above 2,000 labor hours	\$600	
	• Above 2,100 labor hours	\$1,000	

ADDITIONAL COMMENTARY:

Comments & Observations:

- The treatment of the parts price increase is noteworthy. The price increase to augment gross is deferred until the dealership has accounted for stock shortages, scrapping and obsolescence issues. The balance after these adjustments are made goes into the gross and the manager gets 10.0% of this residual. An elegant solution to increasing parts gross every time a price increase takes place.
- Paying a bonus off labor hours links the various departments.

5: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary
- A commission of the combined fixed department controllable gross profit
- Obsolescence commission calculated on the monthly difference between aged inventory this month versus last month
- Fill rate to the service department
- Parts availability CSI bonus if it is higher than zone average

PARTS MANAGER			
(1)	Salary		\$
(2)	A 30.0% share of the 5.0% commission of the combined controllable gross profit of the service, parts and body shop departments	30.0% of 5.0%	\$
(3)	An obsolescence commission of 8.0% is either an add or deduct. It is calculated on the difference between the value of the parts in inventory with '3 month no sale' this month versus last month	8.0%	\$
(4)	Bonus of \$500 if the fill rate to service technicians exceeds 92.0%	\$500	\$
(5)	Bonus of \$400 if CSI for 'parts availability' is above zone average	\$400	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- The commission based on a share with the other managers of the fixed controllable gross profit links all the managers together. Should help with forging teamwork and genuine cooperation.
- An increase in parts having no sale activity in the past three months over the previous month will cause a deduction to the manager's pay. This should push the manager to focus on not allowing parts inventory to age.
- Having a high fill rate helps service technician productivity (a welcome introduction of this component). This metric is measured daily and it is the average for the month that is used.
- The CSI bonus can be introduced as a pay plan element as this is part of the manufacturer's CSI survey.

6: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary
- Commission on the net profit of the parts department
- Bonus on managing gross margins
- Bonus on managing parts obsolescence

PARTS MANAGER				
(1)	Salary			\$
(2)	Commission of 3.0% of the net profit of the parts department	3.0%		\$
(3)	Bonus on gross margin attainment of the following sales activities:		\$	\$
	<u>Sales Type</u>	<u>Gross Profit %</u>	<u>Bonus</u>	
	• Sales on customer pay RO's	45.0%	\$600	
	• Sales on internal RO's	45.0%	\$600	
	• Counter retail sales	50.0%	\$200	
	• Wholesale sales	15.0%	\$400	
(4)	Obsolescence deduction is at 3.0% of the following: The percentage on inventory with 'parts no sale in 3 months' that exceeds 5.0% of the total inventory		(3.0%)	(\$)

ADDITIONAL COMMENTARY:

Comments & Observations:

- Commission on net department profit is good.
- The bonus on achieving certain gross margin targets is an interesting way to make sure that the margins are managed. The bonus varies, I would assume, on the priorities set by the dealership and can be easily tweaked making it a rather flexible format.
- The obsolescence bonus focuses on all parts in inventory for 'more than nine months with no sale' using 5.0% as the acceptable threshold. The excess over this 5.0% will be multiplied by 3.0% and be a deduction against the parts manager's pay helping to control inventory aging issues.

7: RECIPIENT: Parts Manager

PAY ELEMENTS: The following elements are included:

- Salary
- Parts gross commission, as well as a bonus on controllable net
- Obsolescence bonus
- Commission on service sales

PARTS MANAGER			
(1)	Salary		\$
(2)	Commission of 2.0% of parts gross profit	2.0%	\$
(3)	Bonus based on the controllable net profit as a percentage of parts gross using the following table:	\$	\$
	<u>Controllable gross as a % of total parts gross</u>	<u>Bonus</u>	
	• Below 50% controllable profit to gross	\$0	
	• Up to 55% controllable profit to gross	\$500	
	• Above 55% controllable profit to gross	\$1,000	
(4)	Commission of 1.0% of service labor sales if above \$135K	1.0%	\$
(5)	Obsolescence bonus of \$500 if less than 4.0% of the parts inventory is less than '9 months or older no sale'	\$500	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Commission on parts gross is coupled with a bonus based on controllable net profit as a percentage of the parts gross requires vigilant cost controls in order to enjoy the highest bonuses.
- I like the payment of a commission on service labor sales once a certain objective has been met.
- The obsolescence bonus is simple and easy to understand.

8: RECIPIENT: Parts Back Counter Person

PAY ELEMENTS: The following elements are included:

- Salary
- Graduated bonus based on flat rate hours produced in the service department
- CSI bonus based on parts availability

Parts Back Counter Person			
(1)	Salary		\$
(2)	Bonus based on the amount of flat rate hours produced by the service department using the following formula:	\$	\$
	<u>Number of hours produced</u>	<u>Bonus amount per hour</u>	
	• Less than 1,200 hours	\$1.50 per flat rate hour	
	• Above 1,200 hours	\$1.75 per flat rate hour	
	• Above 1,300 hours	\$2.00 per flat rate hour	
(3)	Bonus of \$100 if CSI for 'parts availability' is above zone average	\$100	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Salary – a necessary component for this position.
- The bonus based on hours produced in the service department is a great way to link this pay plan to the main objective of the back counter person's position, which is to supply parts to the technicians in the most expedient way possible. The higher the fill rate, the greater the opportunity to improve technician productivity. The CSI bonus is a good idea. If the manufacturer does not have a CSI questionnaire that explicitly measures parts availability then another way to produce this information would be to measure fill rate and use this as the basis.

9: RECIPIENT: Parts Counter Person

PAY ELEMENTS: The following elements are included:

- Salary
- Commission on gross production
- Bonus on shared bonus pool
- Bonuses on personnel productivity and margins

Parts Counter Person				
(1)	Salary			\$
(2)	Commission of 5.0% of the individual gross produced	5.0%		\$
(3)	Incentive pool is 0.5% of the total gross produced in the parts department split amongst the 5 counter people	0.5% ÷ 5		\$
(4)	Bonus of \$300 if the average gross produced per counter person exceeds \$34K for the month	\$300		\$
(5)	Bonus based on the following gross profit margin attainment:	\$		\$
	<u>Sales Type</u>	<u>Margin Requirement</u>	<u>Bonus</u>	
	• Parts counter retail	38.5%	\$300	
	• Parts wholesale	22.5%	\$300	

ADDITIONAL COMMENTARY:

Comments & Observations:

- Salary
- Commission on individual gross, as well as a share of the much larger incentive pool.
- The personnel productivity payment is an interesting angle with everybody working hard as a team to meet the necessary threshold required for the bonus to be triggered.
- The bonus on gross profit margins could make the parts counter people manage these margins and keep discounting to a minimum. As another facet, you may want to consider including parts sold on customer pay repair orders, as well as internals.

**1: RECIPIENT: Business Development Personnel
(Providing internet leads for salespeople)**

PAY ELEMENTS: The following elements are included:

- Hourly
- Bonus on appointment kept and deliveries made
- Volume unit bonus
- CSI

BUSINESS DEVELOPMENT PERSONNEL (PROVIDING INTERNET LEADS FOR SALESPEOPLE)			
(1)	Base		\$500
(2)	Bonus of \$15 for each validated internet appointment kept	\$15	\$
(3)	Bonus of \$25 for each validated internet sale made	\$25	\$
(4)	Volume bonus based on the following table:	\$	\$
	<u>Units</u>	<u>Bonus</u>	
	• Above 12 units	\$200	
	• Above 16 units	\$400	
(5)	Bonus of \$100 if the sales CSI is above average	\$100	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Hourly rate – standard.
- Activity based bonus on appointments that are kept and validated. In order to validate this bonus, one infers a structured database protocol, as well as a foundation of strong processes and procedures. Forces the process, which is a good way to enforce compliance.
- Volume bonus that increases with volume. Obviously you may fine tune this element according to the objectives you have for your dealership.

**2: RECIPIENT: Business Development Personnel
(Providing internet leads for salespeople)**

PAY ELEMENTS: The following elements are included:

- Hourly and bonus for appointments that are kept
- Commission sharing arrangement with salesperson on furnished leads that become sales
- Bonus on the closing percentage of sales to internet leads

BUSINESS DEVELOPMENT PERSONNEL (PROVIDING INTERNET LEADS FOR SALESPEOPLE)			
(1)	Hourly		\$
(2)	Bonus of \$25 for each appointment kept	\$25	\$
(3)	Commission sharing of 25/75 with salesperson for each sales transaction that is consummated	25/75	\$
(4)	Commission override on the total commission earned from the sale of the internet leads provided to salespeople using the table below:	\$	\$
	<u>Total Commission</u>	<u>% Override</u>	
	• In excess of \$3,000 in commission	5.0% override	
	• In excess of \$5,000 in commission	10.0% override	
(5)	Bonus of \$300 if the closing percentage of internet leads exceeds 11.0%	\$300	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- The commission partnership with salespeople who handle their internet leads is an effective way to create the necessary 'work together' environment to make deals and hold gross. Good idea.
- The commission override puts an additional focus on producing gross.
- The closing percentage may work opposite of the intended goal, as internet personnel may 'cherry pick' leads from the various lead sources. See next pay plan for a possible better option.

**3: RECIPIENT: Business Development Personnel
(Providing internet leads for salespeople)**

PAY ELEMENTS: The following elements are included:

- Hourly
- Bonus on deliveries
- Bonus on closing ratios by internet source

BUSINESS DEVELOPMENT PERSONNEL (PROVIDING INTERNET LEADS FOR SALESPEOPLE)						
(1)	Guarantee				\$	
(2)	Bonus on deliveries made: new \$40 per unit; used \$30 per unit			\$40 or \$30 per unit	\$	
(3)	Bonus if the following closing percentages are met from the following lead sources:			\$	\$	
	<u>Internet Source</u>	<u>Closing %</u>	<u>Bonus</u>			
	• Dealership website	12.0%	\$500			
	• Manufacturer's website	8.0%	\$500			
	• Lead aggregators	5.0%	\$500			
	• Total closing ratio – all leads	10.0%	\$500			

ADDITIONAL COMMENTARY:

Comments & Observations:

- Guarantee that hopefully will not kick in as the recipient earns more than the guarantee.
- The payment of a bonus based specifically on internet source type is interesting and makes sense provided the dealership is closely tracking (and it should be) where the leads are coming from and the closing ratios associated with these sources. Should one of these sources not be getting enough attention (witnessed by a lower than expected closing ratio) then the bonus can be reworked to encourage additional effort in this area. I like this bonus idea.

**4: RECIPIENT: Business Development Personnel
(Providing internet leads for salespeople)**

PAY ELEMENTS: The following elements are included:

- Guarantee
- Bonus on deliveries
- Bonus on working old leads
- Commission on total internet gross over a certain minimum
- CSI

BUSINESS DEVELOPMENT PERSONNEL (PROVIDING INTERNET LEADS FOR SALESPEOPLE)			
(1)	Guarantee		\$
(2)	Bonus on deliveries made – retail only: new \$50 per unit; used \$45 per unit	\$50 or \$45 per unit	\$
(3)	Bonus of \$500 if more than 5.0% of the internet sales for the month have been 'worked' for more than 4 months	\$500	\$
(4)	Commission of 1.0% if the total attributable gross earned by internet leads exceeds \$60K	1.0%	\$
(5)	Bonus of \$200 if the sales CSI is above average	\$200	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Guarantee rather than a salary – fairly common.
- Bonus based on new and used sales. Easy to fine tune the dollar amounts based on the dealership's needs.
- Bonus on deals that have taken a long time to reach fruition. Great incentive to keep the internet personnel staying in touch with all their unsold leads since the incubation period on internet sales is fairly lengthy.
- The payment of a commission off internet gross generated by the department is welcomed. This is a good concept to use in order to get everybody on board with helping each other generate gross and earn additional income.

5: RECIPIENT: Internet Manager (of internet salespeople)

PAY ELEMENTS: The following elements are included:

- Salary
- Bonus based on appointments made and per unit sales
- Volume bonus
- Commission on net profit
- CSI

INTERNET MANAGER (OF INTERNET SALESPEOPLE)			
(1)	Salary		\$
(2)	Bonus of \$400 if more than 500 appointments were kept	\$400	\$
(3)	Bonus on total internet department unit sales based on the table below:	\$	\$
	• New vehicles	\$30	
	• Used vehicles	\$25	
(4)	Volume bonus of \$1,000 if department is responsible for 150 deliveries per month	\$1,000	\$
(5)	Commission of 5.0% of the net profit of the internet department	5.0%	\$
(6)	Bonus of \$500 if CSI is above zone average	\$500	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- The bonus on appointments made is an important task-based activity.
- Bonus on units sold can be adjusted according to priorities.
- Volume bonus is welcomed.
- Paying off the net internet department profit is an important departure from most internet pay plans and brings accountability to the equation. It also indicates strong departmental accounting by treating the internet department as a separate department for P & L purposes. Good move.
- Paying off CSI scores makes sense.

6: RECIPIENT: Internet Manager (of internet salespeople)

PAY ELEMENTS: The following elements are included:

- Salary
- Bonus per appointment kept
- Bonus per sale made
- Closing ratio bonus
- Volume bonuses

INTERNET MANAGER (OF INTERNET SALESPEOPLE)			
(1)	Salary		\$
(2)	Bonus of \$5 for each appointment made and kept	\$5	\$
(3)	Bonus of \$25 for each vehicle delivered	\$25	\$
(4)	Bonus of \$1,000 if closing ratio to internet leads exceeds 14.0%	\$1,000	\$
(4)	Volume bonuses for units delivered: \$750 for 150 new units; \$500 for over 100 used units	\$750 or \$500	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Salary or guarantee will be part of the plan. If it is a salary then the incentives become a smaller contribution piece.
- Bonus on appointments – pretty much an essential element to create more deliveries.
- Bonus on vehicles delivered makes sense.
- I like the closing ratio, but have some reservation here because it may lead to the ‘managing’ of the percentage rather than the full effort to sell more vehicles. Since purchased leads have the lowest closing percentages, the manager may decide not to use this source of business because it may reduce the chance of meeting this goal. Short sighted tendency, but realistic.
- Volume bonuses make sense.
- Notable absence in the pay plan is any recognition of gross or CSI performance.

7: RECIPIENT: Internet Manager (of internet salespeople)

PAY ELEMENTS: The following elements are included:

- Salary and bonus on appointments and deliveries
- Commission on the net profit of the internet department
- Bonus on gross per unit
- CSI

INTERNET MANAGER (OF INTERNET SALESPEOPLE)			
(1)	Salary		\$
(2)	Bonus of \$7 for each appointment made and kept	\$7	\$
(3)	Bonus of \$20 for each vehicle delivered	\$20	\$
(4)	Commission of net profit of the internet department as based on the following table:	\$	\$
	<u>Net Profit</u>	<u>Commission %</u>	
	• Below \$40,000	4.0%	
	• \$40,000 – \$60,000	4.5%	
	• Above \$60,000	5.0%	
(4)	Bonus of \$1,200 if gross per vehicle retailed exceeds \$1,200	\$1,200	\$
(5)	Bonus of \$300 if CSI is above zone average	\$300	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Salary – an expected insertion (or guarantee).
- The bonuses on appointments and deliveries makes sense.
- I really like the commission on the net profit of the department and how the net profit bonus levels trigger higher commissions.
- The compensation on gross per unit is excellent.
- CSI element requiring average or above performance.

8: RECIPIENT: Internet Sales Producer
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PAY ELEMENTS: The following elements are included:

- Hours or commission
- Bonuses on appointments made and deliveries consummated
- Commission on gross
- Commissions on accessories and products
- CSI bonus

INTERNET SALES PRODUCER			
(1)	Hours (if the hours exceed the commission), otherwise commission counts		\$
(2)	Bonus of \$10 for each appointment made and kept	\$10	\$
(3)	Bonus of \$15 for each vehicle sold	\$15	\$
(4)	Commission of 12.0% of front end gross with no pack or holdback	12.0%	\$
(5)	Commission of 10.0% of the total gross on accessories and products sold on the vehicle	10.0%	\$
(4)	Bonus of \$100 if CSI is above zone average	\$100	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Hours or commission, whichever is the highest. Beware of overtime.
- Bonus for appointments made and kept.
- Bonus for vehicles delivered.
- Commission of 12.0% of the gross of the transaction without pack or holdback makes for a very favorable payout compared with the traditional sales commission pay plan.
- The commission on the gross of the accessories and vehicle products makes sense. They can influence the customer to purchase these products, even though they may ultimately be sold by the finance office.
- The CSI bonus is a recommended element to include.

9: RECIPIENT: Internet Sales Producer

PAY ELEMENTS: The following elements are included:

- Hours or commission
- Bonuses on appointments made and deliveries consummated
- Commission on gross
- Commission on accessories and products
- CSI

INTERNET SALES PRODUCER			
(1)	Hourly, plus		\$
(2)	Bonus of \$5 for each appointment made and kept	\$5	\$
(3)	Commission of 10.0% of the total monthly front end gross produced by the salesperson	10.0%	\$
(4)	Bonus if the following closing percentages are met for the following lead sources:		\$
	<u>Internet Source</u>	<u>Closing %</u>	<u>Bonus</u>
	• Dealership website	12.0%	\$100
	• Manufacturer's website	8.0%	\$100
	• Lead aggregators	5.0%	\$100
	• Total closing ratio on all leads	12.0%	\$200
(5)	Bonus of \$150 if CSI is 2 points above zone average	\$150	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Hours and bonus on appointments kept is pretty standard fare.
- Commission is on the total gross produced rather than on a per transaction basis – low and high grosses are added together.
- The closing ratio percentage by internet source is an excellent idea and is similar in content to what the internet manager is paid on.
- CSI bonus is good.

10: RECIPIENT: Internet Sales Producer

PAY ELEMENTS: The following elements are included:

- Hours, plus bonus on appointments kept
- Bonuses on appointments kept as a percent of leads
- Commission on gross
- Volume bonus and a CSI bonus

INTERNET SALES PRODUCER			
(1)	Hourly, plus		\$
(2)	Bonus of \$5 for each appointment made and kept	\$5	\$
(3)	Bonus of \$200 if more than 25.0% of your leads keep their appointments	\$200	\$
(4)	Commission of 10.0% of gross, less \$200 pack	10.0%	\$
(5)	A volume bonus based on the following table: (mutually exclusive levels)	\$	\$
	<u>Unit Sales</u>	<u>Bonus</u>	
	• Over 12 units	\$500	
	• Over 15 units	\$700	
	• Over 20 units	\$900	
(6)	Bonus of \$200 if CSI is above zone average	\$200	\$

ADDITIONAL COMMENTARY:

Comments & Observations:

- Bonus on appointments kept.
- Bonus on percentage of appointments kept is a great way to track the effectiveness on the salesperson to get customers into the dealership.
- Commission is calculated after a standard modest pack – encourages gross profit.
- Volume bonus that pays more for higher unit sales.
- CSI bonus should be part of the pay plan.

11: RECIPIENT: Internet Sales Producer

PAY ELEMENTS: The following elements are included:

- Hours, plus bonus on appointments kept
- Response time bonus that is conditional
- Commission on gross
- Bonuses on appointments kept, sales to appointments and sales to total leads

INTERNET SALES PRODUCER				
(1)	Hourly, plus			\$
(2)	Bonus of \$7.50 for each appointment made and kept	\$7.50		\$
(3)	Response time bonus of \$300 if customized responses are made within 20 minutes during normal business hours	\$300		\$
(4)	Commission of 8.0% of gross	8.0%		\$
(5)	Bonuses if the following objectives are met or exceeded:	\$		\$
	<u>Activity</u>	<u>Objective</u>	<u>Bonus</u>	
	• Leads to appointments	25.0%	\$300	
	• Sales to kept appointments	50.0%	\$400	
	• Original leads to sales	15.0%	\$500	

ADDITIONAL COMMENTARY:

Comments & Observations:

- Bonus on appointments kept.
- Response time has to be on average below 20 minutes to receive a bonus. Excellent insertion and can be managed through the CRM.
- Commission on gross keeps salespeople focused on holding gross.
- The bonuses on the various percentages is a superb way to track and incentivize to follow the steps necessary to improve effectiveness and pay.

1: RECIPIENT: Accounting Personnel

PAY ELEMENTS: The following elements are included:

- Hourly rate
- Bonus pool that is shared among the accounting personnel with a longevity requirement

OFFICE STAFF PERSONNEL			
(1)	Hourly, plus		\$
(2)	Bonus pool to be shared amongst the office staff who have been at the dealership for at least 6 months based on the table below:	\$	\$
	(A) Retail units sold: \$2 per retail unit	\$2	
	(B) Fixed gross profit attainment levels :	<u>Bonus</u>	
	• Fixed gross below \$150K	\$500	
	• \$150K – \$170K	\$800	
	• Fixed gross above \$170K	\$1,200	

ADDITIONAL COMMENTARY:

Comments & Observations:

- The hourly rate is a given for holding an office staff position.
- The bonus pool concept is very inventive and worthy of consideration:
 - It makes the office personnel become more involved in supporting the variable and fixed operations departments.
 - The pay plan for office personnel shifts from being a total fixed cost to one having a small variable cost element to it.
 - The threshold for participation based on longevity is an interesting feature. Once someone has been there for six months they get somewhat of an automatic raise.
 - It is extremely flexible because the dollars per unit and the bonus on fixed gross can be easily tweaked.

2: RECIPIENT: Controller/Office Manager

PAY ELEMENTS: The following elements are included:

- Base
- Commission percentage, which varies according to the monthly net profit earned by the dealership
- There is a guarantee should the base and the commission not exceed the guarantee

CONTROLLER/OFFICE MANAGER			
(1)	Base, plus		\$
(2)	Commission on net profit before taxes based on the following table:	\$	\$
	<u>Net Profit</u>	<u>Commission</u>	
	• Below \$100K	1.0%	
	• \$100K – \$150K	1.5%	
	• \$150K – \$200K	2.0%	
	• Over \$200K	2.5%	
(3)	There is a guarantee for the controller/office manager if (1) and (2) do not meet the guarantee	guarantee	guarantee

ADDITIONAL COMMENTARY:

Comments & Observations:

- Base, but protected by a guarantee if the commission does not bridge the gap between the base and the guarantee.
- I am not convinced that paying a commission off the net profit instead of perhaps paying the commission based on the percentage of net to sales or net to gross is not a preferable compensation method. The latter method will perhaps recognize and reward cost containment efforts to boost the profitability of the organization.
- There is no provision here for a net loss for the dealership and perhaps unrecognized write-offs after the year has ended.

3: RECIPIENT: Controller/Office Manager

PAY ELEMENTS: The following elements are included:

- Base
- Graduated commission based on a net profit as a % of sales. There is a holdback of half of the commission until the audited year end numbers are finalized

CONTROLLER/OFFICE MANAGER				
(1)	Base, plus			\$
(2)	Commission on net profit as a percentage of sales levels using the following table; payable 50.0% each month and the accumulation at the year end after audit and adjusting entries:		\$	\$
	<u>Net profit as a percent of sales</u>	<u>Commission</u>		
	• Below 3.0%	1.0%		
	• 3.0% – 3.5%	1.5%		
	• 3.5% – 4.0%	2.0%		
	• Above 4.0%	2.5%		

ADDITIONAL COMMENTARY:

Comments & Observations:

- There is a base.
- This pay plan's commission on the net profit of the dealership expressed as a percentage of gross is a better measure as it brings into play operational efficiencies, such as expense controls, etc. Another measure is net profit expressed as a percentage of gross profit.
- An interesting and welcomed insertion in the pay plan is the holding back of some of the pay for the controller/office manager until the final year end numbers are on hand (and after they have been audited). This additional step prior to releasing the accumulated commission is to verify that the numbers are correct.

4: RECIPIENT: Controller/Office Manager

PAY ELEMENTS: The following elements are included:

- Base
- Bonus on retail units sold
- Commission on the dealership's net profit
- Bonus on office personnel staffing in relationship to total dealership staffing

CONTROLLER/OFFICE MANAGER				
(1)	Base, plus			\$
(2)	Bonus based on \$10 per retail vehicle sale		\$10 per retail sale	\$
(3)	Commission of 1.0% paid on the net profit of the dealership		1.0%	\$
(4)	Bonus paid on the ratio of total dealership personnel to office staff using the following table:		\$	\$
	<ul style="list-style-type: none"> • Ratio of less than 17:1 (total personnel ÷ office personnel) 	\$0		
	<ul style="list-style-type: none"> • Ratio of less than 20:1 (total personnel ÷ office personnel) 	\$400		
	<ul style="list-style-type: none"> • Ratio of above 20:1 (total personnel ÷ office personnel) 	\$1,000		

ADDITIONAL COMMENTARY:

Comments & Observations:

- The bonus on retail sales looks somewhat out of place here, but gives the pay plan a variable content – something that is healthy due to the cyclical nature of the business.
- Commission on the net profit is a useful element to include.
- The personnel productivity element is great. The higher the ratio of office staff to total dealership personnel, the more productive is the office staff. Solid incentive to look for additional ways to become more productive, increase computer utilization, streamline processes and overcome paper flow bottlenecks.

5: RECIPIENT: Controller/Office Manager

PAY ELEMENTS: The following elements are included:

- Base
- Commission of net profit above a certain threshold
- Bonus on reduction of audit fees

CONTROLLER/OFFICE MANAGER				
(1)	Hourly			\$
(2)	Commission of 1.75% of the net profit that exceeds \$75K	1.75%		\$
(3)	Commission of 20.0% of the reduction in audit and accounting fees over the same period last year and with the same level of services offered	20.0%		\$
(4)	Incentives on asset management criteria that is met based on the following table:		\$	\$
	<u>Attribute</u>	<u>Yardstick</u>	<u>Bonus</u>	
	<ul style="list-style-type: none"> • Contracts in transit (Average time it takes from date of delivery to receipt of cash) (Average less than 4 days) 	<4 days	\$1,000	
	<ul style="list-style-type: none"> • Incentive receivables (Only 3.0% over 10 days old) 	3.0% >10 days	\$500	
	<ul style="list-style-type: none"> • Warranty receivables (Only 5.0% over 10 days old) 	5.0% >10 days	\$300	
	<ul style="list-style-type: none"> • Work in process (Only 2 hours per service tech.) 	2 hours per tech.	\$300	

ADDITIONAL COMMENTARY:

Comments & Observations:

- Base for this position is a requirement.
- The commission has a different twist to it. The bonus only kicks in once the dealership gets to \$75,000. It effectively lowers the 1.75%.
- Reduction of audit and accounting fees is an interesting incentive to get the books in tip top shape.
- The asset management incentives are a welcome inclusion. Aggressively managing contracts in transit, incentives, warranty receivables and work in process will help improve cash flow.

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Paying salespeople on the customer pay revenue generated by their customers

(4)	Commission of 3.0% paid to salespeople on all customer pay labor that is generated by their customers in the service drive	3.0%
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INTENT: Encourage a more active customer engagement after the sale by salespeople. Introduce a somewhat stable pay component that can grow if nurtured.

FRAMEWORK: Pay salesperson a percentage of customer pay business that their customers generate in the service department.

DATA CAPTURE: Salesperson's name is attached to customer's record and the DMS will print up on a monthly basis the amount of customer pay labor and parts produced per salesperson.

PROCESS GOAL: To encourage salespeople to maintain an active customer contact relationship throughout the ownership experience.

METHODOLOGY

A suggested method to determine how much potential service business per salesperson is as follows: (You need to decide on certain of the factors in order to customize it for your commission structure.)

Row		Example
1	Number of vehicle deliveries per year per salesperson	100 units
2	Estimated # of service visits per customer per annum	3 times per year
3	# of service visits per year [Row 1 x Row 2]	300 RO's
4	Estimated # of years customers keep their vehicles	4 years
5	Total # of potential customer pay repair orders generated for each salesperson each year	1,200 RO's
6	Average labor and parts sales per repair order [\$100 labor + \$80 parts]	\$180
7	Total potential revenue attributed per salesperson [Row 5 x Row 6]	\$216,000
8	Percentage paid of customer labor and parts	3.0%
9	Monthly Potential Attribution [Row 7 x Row 8]	\$540

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Paying sales managers on customer labor sales

(3)	Commission of 4.0% on customer pay labor gross	4.0%
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INTENT: *To improve the ability of sales managers to enhance their remuneration by helping grow customer pay labor sales.*

FRAMEWORK: Incorporate this bonus component and perhaps reduce another pay element to make this cost neutral with the opportunity over time for sales managers to improve CP Labor, thus increasing their own pay.

DATA CAPTURE: Financial Statement. Pay components could be customer pay labor sales or labor gross and may also include customer parts sales or parts gross.

PROCESS GOALS: To improve customer pay labor by have a system to:

- Make salespeople accountable for their customer's first service appointment
- Actively have salespeople interact with their customers as it pertains to service appointments, defection management, etc.

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: **Compensating salespeople on finance & insurance gross**

(2)	Sales commission of 15.0% on the total of the new, used and finance income generated for the month by that particular salesperson	15.0%
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INTENT: *To shift sales focus to the total gross consummated from the vehicle sales transaction. Possibly reduce protracted price negotiations.*

FRAMEWORK: Reduce the commission percentage paid to salespeople but offset this reduction by the inclusion of the Finance & Insurance gross as part of the payable gross for salespeople.

DATA CAPTURE: DMS - Sales analysis reports.

PROCESS GOALS: To concentrate focus on the making the sale and not spend time 'managing' the gross in order to stay above the mini commission threshold:

- Reduce and track length of time 'spent on negotiating' price

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Fixed operations managers: joint pay plan

EXAMPLE (The %'s and dollars are arbitrary – insert what is appropriate to obtain the acceptable take home pay for that particular manager in your market)

Each fixed operations manager will be paid a bonus plus a base.

Bonus: The bonus is 2.0% of the combined gross of the service, parts and body gross profit.

The Base Salary: The base salary is as follows:

- 1) Service Manager - \$2,000
- 2) Parts Manager - \$1,200
- 3) Body Shop Manager - \$800

INTENT: *Encourage all fixed operation managers (service, parts and body shop) to work together by tying their pay plans together.*

BUSINESS DRIVER: Increased co-operation, reduced friction between the various fixed operation managers.

FRAMEWORK: Combine the pay plan elements that the managers are paid on (gross department profit, net profit, or something in between) and pay them the same percentage off this combined number. In order to differentiate the different pay scales of each manager, adjust their base to reflect these differences.

DATA CAPTURE: Financial Statement

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Paying parts back counter person off the flat rate labor hours produced by the service department

(2)	Bonus based on the amount of flat rate hours produced by the service department using the following formula:		\$
	<u>Number of hours produced</u>	<u>Bonus amount per hour</u>	
	• Less than 1,200 hours	\$1.50 per flat rate hour	
	• Above 1,200 hours	\$1.75 per flat rate hour	
	• Above 1,300 hours	\$2.00 per flat rate hour	

INTENT: *To directly reward the primary responsibility of the parts back counter person/people which is to supply the necessary parts for the service department in the most expedient way possible.*

FRAMEWORK: Calculate the amount of hours typically produced in the service department. Determine how much this component of the pay plan should comprise of this labor hours produced component and then calculate the dollar per hour factor to be used. The balance of the pay plan should be represented by the base and the total should roughly represent the previous gross salary amount, provided there is no intent to increase or decrease the established salary structure.

DATA CAPTURE: DMS – Labor Hours produced:

- Customer pay
- Warranty
- Internal

PROCESS GOALS: Possible considerations:

- Improve the level of service in parts fulfillment
- Reduce waiting time for parts – track the time spent at the back counter waiting for parts
- Have vehicles in the bays with the parts already pulled prior to when the technicians arrive for work
- Have the fastest moving parts close to the back counter

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Paying Service Advisors for extended service and maintenance contracts sold on the service drive

(4)	Commission of 10.0% on all extended warranties sold in the service drive	10.0%
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INTENT: *To improve the penetration levels for these products and sell these products in a seamless and effective manner on the service drive.*

BUSINESS

FRAMEWORK: When vehicles approach the 50K threshold the service advisors should easily be enabled and rewarded to present, sell and complete the paperwork in service as well as collect the money for extended warranties and service contracts. They have the personal contact with the customer at this point and built up the necessary rapport.

DATA CAPTURE: Identify via your DMS customers using special operational codes (op codes) and sort at the month end by service advisor using these op codes.

PROCESS: Process suggestion:

- Have all the collateral material in the service lane
- Establish op codes for each type of contract being sold
- Upon sale complete documents
- Insert op code in the sublet section of the repair order
- Print up the repair order which will include sale of the product

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Office Staff: Variable pay plan component

(2)	Bonus pool to be shared amongst the office staff who have been at the dealership for at least 6 months based on the table below:		\$
	(A) Retail units sold: \$2 per retail unit	\$2	
	(B) Fixed gross profit attainment levels:	<u>Dollar</u>	
	• Fixed gross below \$150K	\$500	
	• \$150K – \$170K fixed gross	\$800	
	• Fixed gross above \$170K	\$1,200	

INTENT: To create a bonus to be paid to office staff based on sales activity.

FRAMEWORK: To create a variable cost element for office personnel compensation by creating a bonus pool based on sales activity. Intent it to offer participants higher compensation opportunity when business is good and an enhanced share the lower the number count in the accounting office. This may reduce upward pressure on pay increase demands.

DATA CAPTURE: Financial Statement – units retailed and fixed gross.

ADDITIONAL COMMENTARY:

Pay Plan elements to create this bonus pool:

- A dollar per unit multiplied the number of new and used vehicles retailed
- A dollar amount added to this pool for various fixed gross thresholds that are attained
- Decide on eligibility for participants

Pay Plans to Improve Inter Department Teamwork

RECIPIENT: Used vehicle reconditioning – service manager: A charge levied to service gross if the reconditioning cycle exceeds 72 hours

(4)	Internal is at full retail. Should a vehicle not be completely reconditioned with 72hours, there will be a \$100 charge against the service department gross for each successive day over the 72 hours	(\$100 per day)
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INTENT: *To keep reconditioning cycle time within the agreed upon objective. Develop a financial impact pay plan that is tied to reconditioning cycle time. Create greater accountability between service and used vehicles.*

FRAMEWORK: Consideration should be given to charging the service department's gross should the reconditioned vehicles be completed after their promised time.

DATA CAPTURE: Open Repair Order listing sorted by days.

PROCESS: Process suggestions:

- Undertake a trade walk every day as to what vehicles that were traded in yesterday are to be reconditioned and open an internal repair order at that time for those vehicles
- Produce an open repair listing of internals each day
- Isolate all vehicles on the list that are over 72 hours old and are not yet on the used vehicle sales lot