



## // Dealership Management

# Leverage Your Spend to Increase Your Profits

// Successful business owners understand the power of leverage. Leverage can refer to the use of capital that is borrowed and employed to control additional assets that grow in value. Leverage can also refer to assets that a business controls that can be maximized for increased benefit. Well-developed processes or intellectual property can be leveraged for greater advantage. A good name in the community can be

leveraged to increase market share... a strong management team can be leveraged to grow the business. Businesses can leverage their scale and size as they leverage their spend for maximum profitability.

An overlooked source of strength or leverage in an enterprise of any significant size is the money they spend for supplies and services. Many business people fail to understand that leverage, and fail to

take advantage of that leverage when working with all of their suppliers.

### LEVERAGING YOUR SPEND CAN PRODUCE THE FOLLOWING

- ▶ Highly competitive pricing
- ▶ Improved business terms
- ▶ Fewer suppliers to manage
- ▶ Customer focused service levels
- ▶ Quality improvements
- ▶ Innovative technology
- ▶ Increased operational efficiencies – simpler

business model

- ▶ More

### POORLY LEVERAGED SPEND PRODUCES THE FOLLOWING

- ▶ Non-competitive pricing
- ▶ Standard business terms

▶ More suppliers than are necessary

- ▶ Poor service levels
- ▶ Questionable quality of services and supplies

- ▶ Few technology options

### HOW TO KNOW IF YOU ARE LEVERAGING YOUR SPEND

▶ You know how much you spend in each expense category – if you don't know your annual category spend, how can you impress suppliers to give you their best offer or best pricing?

▶ Your individual pricing, terms and service levels are better than your comparable peers, or those larger than you – your maximum use of pricing leverage will be obvious as you compare your pricing and offering to your peers or to the marketplace in general

▶ Your suppliers treat you with respect – your suppliers check in on you, bring you the latest and greatest innovations, and are willing to work with you to improve pricing, terms and service levels. If your supplier says "no" to you more often than "yes," you are not utilizing your leverage effectively.

▶ Your supplier base is narrow at the category



level – if you have multiple office supply providers, you are not well leveraged. If you have one, single supplier supporting multiple locations, you “might” be well leveraged...your pricing, terms and service levels will provide the ultimate answer.

#### **WHY ORGANIZATIONS DO NOT UTILIZE THEIR LEVERAGE**

I am sure that most business owners understand the concept of leverage or they wouldn't be or stay in business for any length of time. Yet countless business owners sub-optimize their leverage across their spend, their management team and their intellectual property and more. Some business owners or executive team don't appreciate the strengths across the organization they enjoy and as a result...do not reap the benefits that could be theirs. Reasons for not utilizing spend leverage can include the following:

1. Too busy – the belief that there is not enough time to focus on maximizing their spend leverage
2. The mistaken belief that they are already leveraged – contrary to obvious signs and indicators, many believe they have already maximum benefit in the marketplace. A quick look at the active supplier base could change their minds.
3. Too complicated – the belief that it is easier to sell more units than it is

## **“ONE OF THE MOST UNDER-UTILIZED ASSETS THAT CAN BE LEVERAGE IN A DEALERSHIP IS YOUR SPEND FOR SUPPLIES AND SERVICES.”**

to manage financial and operations functions to maximize their leverage.

#### **HOW DOES A DEALERSHIP LEVERAGE THEIR SPEND TO IMPROVE PROFITABILITY**

▶ **Make a Deliberate Decision to Manage More Effectively – Commitment time.** Managing more effectively is not a short-term project. This decision to leverage your spend for maximum benefit should impact you as well as your management team in terms of how you manage and where you focus your time going forward.

▶ **Analyze Your Category Spend –** How much do you spend in each category annually? How many suppliers are you spreading that spend across? As a rule of thumb, you probably spend 6% of your total annual revenues on supplies and services across 100-130 expense categories. A supplier or two for each category on average is plenty of suppliers.

▶ **Schedule the Work –** Once you know your spend across the

categories, it is time to build a plan (spend map) and schedule the sourcing work. Once your team works methodically through each expense category, your leverage will be obvious as your prices will begin to decrease and your cash flow and profitability will increase.

▶ **Multiple Location Leverage - Dealerships with multiple locations should leverage their supplier spend down to as few suppliers as practical for each category.** A reduced supplier base will take a load off of your management and payables team and result in increased operational efficiencies.

#### **SUMMARY**

Your organization has many strengths, many assets you can leverage to drive efficiencies, reduce costs and improve your profits. One of the most under-utilized assets that can be leverage in a dealership is your spend for supplies and services. If you talked to an office supply vendor about the possibility of doing business with your

organization you will get a lot more interest and attention if you tell them you spend \$50,000 a year on office supplies rather than just asking for their price list. Immediately a good supplier will evaluate your size, your spend and consider the importance of your account if they know they will get the majority of the business.

Take a look at your overall expenses for the previous twelve months... you might be surprised at how much you spend annually. Build that data into a spend map which become your sourcing roadmap (plan). Once you begin following that plan, maximizing your spend and reducing your supplier base you will be leveraging your spend for maximum effect. The effect of this action will be to improve operational efficiencies and improve your profitability...a winning combination!

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