

**DealersEdge**

# How to Develop Dealership Pay Plans That Work

**A New Look at Pay Plans and How to Create  
Workable Plans that Actually Help Dealership  
Long and Short Term Goals!**

With

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Presented by DealersEdge

**DealersEdge**

*Dealership Pay Plans  
That Work*

“Only the Master shall praise and only the  
Master shall blame; And no one shall work for  
the money and no one shall work for fame;  
But each for the joy of the working.”

*Rudyard Kipling*

## **In the real world:**

- **We do work for the money and we have to eat every day**
- **We enjoy recognition**
- **People who enjoy their jobs tend to perform better**

- **Pay plans that “Work”**
- **Pay plans that don’t “Work”**
- **Pay plans that used to work but have stopped “Working”**

**Definition: Pay plans that work**

**Performance meets or exceeds expectations  
AND employees earn approximately what the  
dealer/owner thinks the job is worth.**

**Therefore, when employees start earning “too much,” the pay plan has stopped working.**

# **Is Money a Motivator?**

**Motivation**

**Vs.**

**Job Satisfaction**

## Trends from the 2006 Dealership Pay Plan Survey

1. **Fewer “full commission” pay plans for dealership managers**
2. **Base salaries are higher – reflects strong industry performance**
3. **Pay plans have gotten less complicated**

**Pay plans for dealership sales reps,  
service advisors and shop technicians  
have undergone subtle sophisticated  
changes.**

# Pay Plans That Work

## Pay for the position not the person

- Define the job
- Job Descriptions/definitions
- Evaluate the job
  1. Skill/education
  2. Level of decision making
  3. Impact on results
  4. Human interaction

# The Job Definition Questionnaire

## The questionnaire

- Reporting relationships
- Time in grade
- Purpose of the job
- Essential elements – prioritize
- Peer group
- Training needed/available
- Authority

# **Develop a compensation policy**

**Adjustments made only when warranted by performance, not by personal need.**

# The two underlying questions that support successful pay plans:

1. How much is the job worth?
2. How should the employee earn the \$\$\$?

# Three Rules for Effective Incentive Plans

- **Keep it simple**
- **Goals must be achievable, verifiable and within the employee's control**
- **Significant achievement deserves a significant reward**

# The “Spousal” Corollary

- If an employee’s spouse needs more than a two-minute explanation to understand the pay plan, it is too complicated

## Target income level

**No matter what they say, most  
dealers have some target  
income in mind when they  
develop a pay plan**

# Creating a pay plan

- Target income
- Base salary
- Incentive component
- The “bogey”
- Weekly vs. monthly incentives
- Do the math, and then do it again

## How much is too much/little?

- **Exit interviews – check turnover due to money**
- **Industry benchmarks**
- **Employee opinion surveys**

# Some sample compensation systems and pay plans

- **Technicians**

- FRH

- Variable pay

- **Shop foreman/Dispatch**

- Full base (I.e, \$20/hour)

- Split 50% base, \$1 FRH, 1.5% sales

- **Warranty Administrators**

- Base

- Base plus commission

- **Other support people**

- **Service Advisors ...**

# General Sales Manager Pay Plan

Target Income: \$125,000 - \$145,000

## Plan #1 –

Base Salary: \$1,000 weekly

Bonus: 1.5% of new, used, and F & I gross plus holdback

## Plan #2 –

Base salary: \$1,500 weekly

Bonus: 1.5% of new, used, and F & I gross plus holdback over \$200,000  
monthly

## Plan #3 –

Base salary; \$1,500 weekly

Bonus: Potential bonuses to earned as follows:

\$16,000 for 2005 Sales Dept. Gross Profit of \$4,500,000 (see monthly schedule)

\$16,000 for 2005 new and used unit volume of 2,100 vehicles

\$16,000 for new vehicle inventory under 60 days supply  
used vehicle inventory no units over 45 days old

# Sales Pay Plan

- Commissions:
- Pontiac – Commissionable gross up to \$350, commission is \$95; gross over \$350, commission is 25% plus \$95.
- GMC – Commissionable gross up to \$500, commission is \$75; gross over \$500, commission is 25% plus \$75.
- Used – Commissionable gross up to \$500, commission is \$75; gross over \$500, commission is 25% plus \$75.
- Demo – Six months, 6,000 miles, 25% of gross, no pack, plus \$95.
- GMPP -- Up to 48 months pays 10% of reserve; over 48 months pays 5%
- Finance reserve – Up to 48 months pays 10% of reserve; over 48 months pays 5%
- Life A & H – Up to 48 months pays 10% of reserve; over 48 months pays 5%

# Sales Pay Plan - Continued

Unit bonus paid second week each month:

- 13 –15                      \$30 per unit
- 16-20                      \$40 per unit
- 21-25                      \$50 per unit
- 26 and up                 \$60 per unit

Mid-year bonus – paid in July

75 and over pays \$10 per unit

End of year unit bonus – paid in January

150 and over pays \$10 per unit (less any mid-year bonus)

# Service Advisor plan thoughts

- Pay plan types
  - Straight-hourly/salary
  - Substantial base with some performance objectives  
80/20 (or less)
  - The 40/40/20 plans – base, commission, bonus
  - The 30/70 plans – most common structure – base, commission and very little bonus
  - Complex matrix plans (ala ATcon's 5x5 or 7x7)

# Service Advisor thoughts

- Example: Advisor needs to make \$40,000/year - \$3,300/month - \$770/week
  - 80/20 - \$616 salary, \$154 bonus
  - 40/40/20 - \$308 salary, \$308 commission, \$154 bonus
  - 30/70 - \$231 salary, \$539 commissions

# Service Advisor thoughts

- Matrix plan
  - Dollar amount paid on the flat rate hour:

5 x 5		<i>Labor Sales / week</i>				
		<i>&lt;=\$12,000</i>	<i>\$12,000-\$13,500</i>	<i>\$13,501-\$15,000</i>	<i>\$15,001-\$16,500</i>	<i>\$16,501&gt;</i>
<i>CSI score</i>	<i>&lt;=69%</i>	\$1.82	\$1.87	\$1.92	\$1.96	\$2.01
	<i>70-79%</i>	\$1.85	\$1.90	\$1.94	\$2.02	\$2.07
	<i>80-89%</i>	\$1.88	\$1.92	<b>\$2.00</b>	\$2.05	\$2.09
	<i>90-99%</i>	\$1.91	\$1.95	\$2.03	\$2.08	\$2.12
	<i>100%</i>	\$1.96	\$2.01	\$2.06	\$2.10	\$2.15

So if the Advisor has average performance they are paid \$2/FRH. Let's say they are running 5 techs, booking 200 hours a week-

**Average performance - \$400**

**Low CSI, low sales - \$364.15**

**High CSI, low sales - \$392.45**

**Low CSI, high sales - \$401.89**

**High CSI, high sales - \$430.19**

# Commission/Incentive types –

- Start with the objectives of the business to get everyone on the same plan
- Sales – Gross or net (CP, WTY, INT)
- Hours sold – per FRH
- Hours per R.O / sales per R.O.
- Effective labor rate
- Parts sold
- # of repair orders written
- Upsales closing ratio / menu sales / maintenance packages
- CSI
- Spiffs – flushes, wipers, etc.
- Incentive modifiers (write-offs, ELR, open R.O.s)
- What about outside incentives – oil people providing spiffs

# Other thoughts on dealership pay plans

- Habits of successful dealerships
- Work on your weaknesses
- Focus on the bottom line – not expense ratios
- Calendar utilization
- Keep something in reserve

## Non-managers

### STATEMENT OF RESPONSIBILITY

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Company: \_\_\_\_\_

Department: \_\_\_\_\_ Location: \_\_\_\_\_

Length of time in present job: \_\_\_\_\_ Initial date of employment: \_\_\_\_\_

Supervisor's Name: \_\_\_\_\_ Title: \_\_\_\_\_

### INSTRUCTIONS

- ▶ Read this questionnaire before you begin.
- ▶ Describe your job as accurately as possible. Try not to understate or inflate your responsibilities.
- ▶ Generally, consider your normal assignments and primary responsibility.

**1. PURPOSE OF YOUR POSITION:** Briefly state the reason your job exists.

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**2. Describe the duties you personally perform in the course of your work.**

- a. Daily: \_\_\_\_\_
- b. Weekly or monthly: \_\_\_\_\_
- c. At irregular intervals: \_\_\_\_\_

**3. Which of your duties do you consider to be most important?**

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4. Who assigns work to you? Give title and name.

Name: \_\_\_\_\_ Title: \_\_\_\_\_

5. Does anyone else perform similar or the same duties which are assigned to you? if yes, who?

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6. What reports or records do you personally prepare?

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7. a. What percentage of your time is spent operating office or mechanical equipment?

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b. To what extent are you responsible for the maintenance of this equipment?

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8. How much education is required for someone filling this job, and are there any specialized courses or schools which should be required? (This may or may not correspond with your own education.)

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9. Are there any special courses necessary to start this position?

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10. What previous experience is necessary for a person starting in your job?

a. Type: \_\_\_\_\_

b. Time required to obtain it: \_\_\_\_\_

c. Where obtained: \_\_\_\_\_

**Job Descriptions For Dealership Staff**

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**11.** Are there any health or accident hazards connected with your work?

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**12.** Are there any unfavorable working conditions over which you have no control, e.g. irregular hours, noise, weather?

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**13.** Are there any physical requirements such as lifting, climbing, or reaching which is an essential part of your job?

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**14.** Describe any special features of your work not covered above.

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**Questionnaire**

**Managers and Supervisors**

**STATEMENT OF RESPONSIBILITY**

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Company: \_\_\_\_\_

Department: \_\_\_\_\_ Location: \_\_\_\_\_

Length of time in present job: \_\_\_\_\_ Initial date of employment with Company: \_\_\_\_\_

Supervisor's Name: \_\_\_\_\_ Title: \_\_\_\_\_

**INSTRUCTIONS**

- ▶ Read entire questionnaire before you begin.
- ▶ Describe your job as accurately as possible. Try not to understate or inflate your responsibilities.
- ▶ Consider your most normal assignments and activities.
- ▶ If more space is required, additional sheets may be used.

**I. PURPOSE OF YOUR POSITION:** Briefly state, in your own words, the reason your job exists.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**2. PRINCIPAL FUNCTIONS:** Carefully think through the activities you regularly perform and those you carry out on a periodic basis. In order of priority, list the principal activities for which you are primarily accountable.

a. \_\_\_\_\_  
b. \_\_\_\_\_  
c. \_\_\_\_\_  
d. \_\_\_\_\_  
e. \_\_\_\_\_  
f. \_\_\_\_\_

## Job Descriptions For Dealership Staff

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### 3. GENERAL POSITION INFORMATION:

a. What are the most important aspects of the work you do?

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b. What is the most time consuming activity of your position?

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### 4. ORGANIZATIONAL RELATIONSHIPS:

a. What positions (by title) report directly to you?

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b. What positions (by title) report indirectly to you?

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c. What positions (by title) report to your supervisor?

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### 5. RESPONSIBILITY AND AUTHORITY.

What is the scope of your responsibility for taking action on the following:

a. Company expenditures:

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b. Personnel Actions (Hiring, Firing, Compensation, etc.):

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c. Changing Company Policy:

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d. Types of Decisions made without reference to higher authority:

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### 6. RELATIVE POSITION IN ORGANIZATION:

a. From what positions within the company could employees be promoted to your job?

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b. For what higher positions should your job prepare you?

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**7. EDUCATION:**

a. What is the minimal educational requirement for this position?

	YEARS	DEGREE
High School		
College		
Graduate School		

b. What special courses or certifications are required?

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**8. EXPERIENCE:**

a. What kind of, and how much, previous experience is required?

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b. Where can it be obtained?

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## Sample Dealership Compensation Policy

### **A. Basis for pay increase:**

1. Employees of this dealership will receive increases in compensation for the following reasons only:
  - a) Promotion
  - b) Merited increase within the established range
  - c) Reclassification of position
  
2. All increases will comply with our established job classifications and pay ranges. All changes involving increases in compensation will be one of the foregoing reasons and will be so indicated. All proposed and actual increase will be fully documented and supported by valid reasons.

### **B. Control of compensation:**

No promise, commitment, or statement will be made to any employee regarding a change in compensation or the effective date of any increase until notice has been given by his/her supervisor that such an increase has been approved and authorized. All increases will be effective at the beginning of the next pay period.

### **C. Merit increases**

1. A merit increase is an increase in an employee's base compensation made as a reward for improved job performance.

2. Merit increases will be granted, when earned, to employees on the basis of formal job performance reviews. Merit increases shall be given only within the compensation range established for the job. It is recommended that a minimum and maximum percentage of an employee's present compensation be a guide when granting a merit increase.

The dealership pay grade sheet gives the compensation range for all jobs in the dealership. These ranges were established on the basis of:

- a) Evaluation of each job within the plan;
- b) Analysis of the dealership's existing compensation practices;
- c) External comparisons with the prevailing average salary practices within the surrounding area.

3. All personnel decisions must be approved by the supervisor of the individual who is recommending action involving an employee who is under his/her supervision. Merit increase will be given only within the compensation range established for the job. The compensation range establishes the minimum compensation, the rate for 100% adequate performance and the rate for employees performing at exceptional levels.

## SAMPLE AUTOMOTIVE GROUP

### RECOMMENDED SALARY GRADES AND RANGES

<u>Grade</u>	<u>Points</u>	<u>Min</u>	<u>Mid</u>	<u>Max</u>	<u>Positions in grade</u>
XII	601-650	100,000	125,000	150,000	General Manager Chief Financial Off
XI	551-600	90,000	113,000	135,000	
X	501-550	80,000	100,000	120,000	General Sales Mgr Dir. Of Operations
IX	451-500	70,000	87,000	105,000	Fixed Ops. Mgr Used Car Mgr – Cad New Car Mgr – Cad
VIII	401-450	60,000	75,000	90,000	Dealership Controller New Car Mgr–Saturn Used Car Mgr-Saturn
VII	351-400	50,000	63,000	75,000	Asst Sales Manager Service Manager Parts Manager Body Shop Manager F & I Mgr – Cadillac
VI	301-350	40,000	50,000	60,000	F & I Mgr – Saturn Fleet Sales Mgr Used Veh. Whlsr Whlsr Parts Mgr Office Manager
V	251-300	35,000	44,000	53,000	Asst Service Mgr Body Shop Foreman Serv Shop Foreman Service Advisor Parts Team Leader Admin Manager Marketing Manager B/S Asst Manager Dispatcher Warranty Manager Asst. Parts Manager Financial Check Accts
IV	201-250	30,000	38,000	45,000	Maintenance Manager Body Shop Appraiser Executive Assistant
III	151-200	26,000	33,000	39,000	Accounts Payable

Lockhart Automotive Group  
Recommended Salary Grades and Ranges

III	151-200	26,000	33,000	39,000	Biller Clean-up Mgr Title Clerk Warranty Biller Asst Admin Mgr Bookkeeper Accounts Recvbl Payroll Clerk Parts Counter
II	101-150	20,000	25,000	30,000	Greeter/Reception Cashiers
I	50-100	15,000	20,000	23,000	Drivers Lube Techs Maintenance Porters Clean-up

## **Sample Sales Pay Plan #1**

**Salary = \$75 per week; Pack is \$400 on new vehicles and \$500 on used.**

### **Commissions:**

Pontiac – Commissionable gross up to \$350, commission is \$95; gross over \$350, commission is 25% plus \$95.

GMC – Commissionable gross up to \$500, commission is \$75; gross over \$500, commission is 25% plus \$75.

Used – Commissionable gross up to \$500, commission is \$75; gross over \$500, commission is 25% plus \$75.

Demo – Six months or 6,000 miles, 25% of entire gross (no pack) plus \$95.

GMPP – Up to 48 months pays 10% of reserve; over 48 months pays 5%

Finance reserve – Up to 48 months pays 10% of reserve; over 48 months pays 5%.

Life and A & H – Up to 48 months pays 10% of reserve; over 48 months pays 5%.

### **Unit bonus paid second week of each month:**

13 – 15	\$30 per unit
16 – 20	\$40 per unit
21 – 25	\$50 per unit
26 and up	\$60 per unit

### **Mid-year unit bonus – paid in July**

75 and over pays \$10 per unit

### **End-of-year unit bonus – paid in January**

150 and over pays \$10 per unit (less any mid-year bonus)

**DEMO POLICY:**

**Monthly units sold**

**No demo – amount due sales rep**

9.5 or fewer	\$0
10	\$240
10.5	\$270
11	\$300
11.5	\$330
12 and up	\$360

**Monthly units sold**

**Demo  
Amount due dealer**

**\$20K  
MSRP**

**\$25K  
MSRP**

9.5 or fewer	1.5% MSRP less destination	\$300	\$375
10	0.5% “	\$100	\$125
10.5	0.375 “	\$ 75	\$ 93.75
11.0	0.25% “	\$ 50	\$ 62.50
11.5	0.125% “	\$ 25	\$ 31.25
12 and up	0	0	0

**SAMPLE AUTOMOTIVE GROUP**  
**MANAGEMENT COMPENSATION PROGRAM**

SERVICE DIRECTOR – CADILLAC

Target Income:                 \$60,000 - \$75,000

Base Salary:                    \$600 weekly

Bonus:                            3% of Service Department Gross Profit less  
Controllable Expenses

0.5% of Parts and Body Shop Gross Profit less  
Controllable Expenses

Incentive:                        \$500 incentive bonus for any month in which Service  
Gross less Controllables exceeds \$75,000

\$500 CSI incentive bonus for any month in which the  
service department achieves its “top box” objectives

## CADILLAC SALES COMMISSION PLAN

All Cadillac Sales Consultants will earn commissions at a rate, which will vary depending on the individual consultant's three-month rolling average performance as follows:

<u>Three-month rolling average</u>	<u>Commission rate</u>
0 – 8 units	20%
9 – 11 units	25%
11+ units	30%

Commission is earned on the commissionable gross profit

All other unit bonuses and provisions of the current pay plan remain in force

Sales representatives with more than two years service with the Lockhart Automotive Group may receive a monthly draw against commissions provided the draw does not exceed 50 percent of the sales representative's prior year's average monthly commissions.

TRAINING MANAGER/POTENTIAL SALES MANAGER - SATURN

Plan #1 -

Target Income: \$50,000 - \$70,000

Base Salary: \$750 per week

Incentive: \$75 per unit improvement over baseline production  
Baseline is defined as current average monthly unit sales. Saturn LS units are excluded.

Plan #2

Target Income: \$50,000 - \$70,000

Base Salary: \$750 per week

Incentive: Identify training group (bottom 75% of sales force).  
\$1,500 bonus for any month in which training group averages 10 – 11 units.  
\$2,500 bonus for any month in which training group averages 12 or more units.

USED VEHICLE MANAGER/ASST. DIRECTOR OF OPERATIONS – INDY

Temporary plan: \$650 per week base pay plus \$2,000 per month guaranteed bonus. Plan to stay in effect for six months.

Plan #1:

Target Income: \$50,000 - \$70,000

Base Salary: \$500 per week

Bonus: 2.0% of new, used, and F & I gross, less holdback

Plan #2:

Base Salary: \$800 per week

Bonus: 1.0% of new, used, and F & I gross, less holdback, over \$50,000 per month.

## SATURN USED VEHICLE MANAGERS

Target Income: \$50,000 - \$70,000

Base Salary: \$650 per week

Bonus:

- 1) 0.5% of the used vehicle gross profit in the manager's store;
- 2) 2% of the used vehicle gross profit after controllable expenses in the manager's store;
- 3) 0.5% of the new vehicle gross profit in the manager's store
- 4) participation in market area bonus pool (1% of market area used vehicle gross profit) if the manager's own department is profitable

Incentive: \$500 bonus for any month in which no used vehicle inventory is over 60 days old.

## USED VEHICLE WHOLESALE MANAGER

Target Income:                 \$50,000 - \$60,000

Base Salary:                    \$600 per week

Bonus:                            0.75% of the used vehicle gross profit if no vehicles  
in inventory are more than 60 days old;

0.5% of the used vehicle gross profit if up to 10% of  
the dollar value of the used vehicle inventory is more  
than 60 days old;

0.25% of the used vehicle gross profit if more than  
10% of the dollar value of the used vehicle inventory  
is more than 60 days old

NOTE: The inventory control bonus is based on  
inventory conditions at individual stores. That is, an  
over-age condition in one store will not affect any  
bonus earned in other stores.

## SATURN NEW VEHICLE MANAGERS

Target Income:               \$50,000 - \$70,000

Base Salary:                 \$650 per week

Bonus:

- 1) 0.5% of the new vehicle gross profit in the manager's store;
- 2) 1% of the new vehicle gross profit after controllable expenses in the manager's store;
- 3) 0.5% of the used vehicle gross profit in the manager's store