

JEFF SMITH

The
K.P.I.
Book

*“The ultimate guide to understanding the
Key Performance Indicators of your business”*

[Free Sample of The KPI Book by Jeff Smith](#)

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About The Author



Jeff Smith is regarded by many as one of the UK's leading business improvement strategists. He is particularly well known for his ability to convey complex information into jargon busting, plain English that everyone understands. As well as being one of the Motor Industry's top trainers and consultants, he is also a founder member of the Professional Speakers Association and has appeared many times as a motor industry expert on Sky Television.

Jeff's career spans 25 years within the Motor Industry. He has progressed through the Sales Department to become Dealer Principal and then to Divisional Director within a retail motor group.

He followed this by becoming a Consultant to the Motor Industry and during this time he's worked with many manufacturers developing their profit improvement programmes within Sales, Aftersales and Business Management for Dealer Principals and Line Managers.

As well as speaking at conferences and product launches around the world, Jeff continues to work with manufacturers developing training courses for their dealer networks and he also runs open training courses and bespoke in-house coaching programmes for individual dealerships and major groups. You are welcome to contact him directly by email on JeffSmith@AskInsight.com

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Introduction

There are around two hundred KPI currently in use within the motor industry and to operate your business effectively, you are expected to understand them all.

Most people do not work with KPI every single day and because of this fact, you need a simple and effective reminder of their meanings so that you can correctly interpret your dealership information.

This book has been written because everyone who works with Key Performance Indicators needs a central point of reference. Something that gives you the information that you want with complete understanding in less than two minutes.

Your management accounts, franchise composite reports and daily operating controls offer a wealth of information but it is the KPI that derive from these sources of information that yield the real power of understanding.

This book removes the mystique that often surrounds KPI so that you can better interpret your dealership information, and with this clarity of understanding you will be unlocking your true potential to achieve greater results on a consistent basis.

The quality and size of this book has been designed so that it fits snugly in to your briefcase providing you with the constant source of reference that you will draw upon for the rest of your career.

How To Use This Book

One of the biggest benefits that you will find from using this book is that you don't have to make time to read it. What I mean by this is that you can access the information very quickly and gain understanding without reading through countless pages of other information to get to the part that you really want.

This has been achieved by ensuring that the explanation of each Key Performance Indicator is condensed to one single page, thereby ensuring that you gain complete understanding in less than two minutes in most cases.

To ensure your ease of reference, as well as comprehensive indexing, the book has been divided into five separate sections, which of course represent five different parts of your dealership.

These five divisions are Sales Department, Service Department, Parts Department, Bodyshop and Business Management. Within each of these sections you will find all of the KPI that you need, listed in alphabetical order.

At the top of the page, the first thing that you will see is the name of the Key Performance Indicator printed in bold letters.

Underneath the name of the Key Performance Indicator you will see the mathematical formula that is used for its calculation.

Beneath this mathematical formula you will see one of three words together with a corresponding statistic. The

three words used here are **Benchmark**, **Baseline**, or **Guideline**.

Key Performance Indicators provide you with meaningful statistics about the direction and travel of your business. In some cases it is possible to state how a particular Key Performance Indicator should behave, or in other words we can state what result should be generated to ensure optimum performance in a given area.

Generally speaking, the term that is used throughout the industry for these optimal levels of best practise is the word Benchmark. In my own experience this term is very useful for keeping performance *constrained* at a specific level and because of this it brings with it some psychological limitations in the area of dealership profitability.

Because of these implications I have introduced an additional term, which I call a Baseline. My aim in introducing this term is to remove any limitations that may exist when dealing with Profitability.

KPI really are fabulous tools for measuring and comparing your performance with others. However, the downside is that some KPI mean different things to different people and many comparisons are rendered meaningless because different criteria are being used as well as different names. Frankly, it can get confusing!

My aims in writing this book are twofold, the first being to eradicate all confusion surrounding the interpretation and calculations of KPI so that a common dialogue can be established at your business meetings. My second aim

is to produce a reference manual that will aid and speed up your development within the motor industry. I hope you find it useful.

Sales Department

Lost Opportunity Costs (*Used Vehicles*)

Days in Stock ÷ Days Stock Turn x GP per Unit

Benchmark: < Gross Profit per Unit x 2

This statistic measures the profitability of the space that a used vehicle occupies rather than any measurement of the used vehicle itself. Understanding of this difference is critical to this concept.

Let's assume that your used vehicle Stock Turn is 35 days and your Gross Profit is £1,500 per used vehicle.

If you have a used vehicle that remains in stock for a period of longer than 35 days, then the space it occupies is no longer productive at the average rate and is missing profit opportunities.

In order to establish the value of this lost opportunity you must divide the actual number of days a vehicle has been in stock by your Stock Turn and then multiply this by your average Gross Profit.

Example:

- (A) Actual Days in Stock = 87
- (B) Current Stock Turn = 35 Days
- (C) Failed to sell = 2.49 times (A ÷ B)
- (D) Average Gross Profit = £1,500
- (E) **Lost Opportunity Cost** = **£3,735** (C x D)

This concept accepts the principle that your used vehicles generate £1,500 every 35 days, whereas this vehicle has failed to do so 2.49 times therefore the profit opportunity of £3,735 has been lost.

Return on Investment (*Used Vehicles*)

Used Vehicle Profit ÷ Stock Value (x 100)

Baseline: > 60%

This K.P.I measures the amount of profit that you generate from used vehicles as a percentage of the investment you have in used vehicle stock.

There are many different variations on this calculation, the example shown here is probably the most popular.

Example:

- (A) Used Vehicle Gross Profit = £480,000
- (B) All Used Vehicle Expenses = £160,000
- (C) Used Vehicle Profit = £320,000 (A - B)
- (D) Used Vehicle Stock Value = £460,000
- (E) Return on Investment = **69.56%** (C ÷ D x 100)

The logic behind this K.P.I. is straightforward in that it measures whether you are really making any profit from your used vehicle activity. Expenses that are deducted generally include Reconditioning Costs and Sales Commissions; however, some reports measure Gross Profit and do not deduct expenses, whilst others deduct further expenses such as basic salaries.

Neither method is right nor wrong; it is simply a matter of what you want to measure. However, you should invest some time in understanding what is in your own statistics because the deduction of expenses makes a sizable distortion to the final result.

Stock Turn (*Version 1*)

Annualised Used Unit Sales ÷ Used Units in Stock

Baseline: > 8 times per annum

Used vehicle Stock Turn tells you the number of times that you turnover your used vehicle stock in 1 year.

When considering the improvement of operational performance with used vehicles, this K.P.I. represents the kingpin around which everything else revolves.

Example:

(A) Annualised used vehicle sales = 945

(B) Number of units in used vehicle stock = 90

(C) **Annual Stock Turn** = **10.5** (A ÷ B)

This example illustrates the used vehicle stock being turned 10.5 times per year. Quite simply, the faster you turn your used vehicle stock, the less money you need to invest and the more profit you will make.

Stock Turn affects your business in the two areas that really matter. Improving this K.P.I tends to increase your profitability in used vehicles and also speeds your company's Circulation of Funds Employed thereby delivering a double benefit.

If you ignore Stock Turn, then all your profits could leak out of your business just as easily as water leaking from a colander because with the passing of time, your costs become larger and your profits become smaller.

Service Department

Idle Time

Hours Attended – Hours Worked

Guideline: See Utilisation

Idle Time does not mean that the Technicians are standing around idle doing nothing; it simply represents the time spent at the dealership that cannot be charged out to the customer. This is also known as Diverted Time, Unrecovered Time or Lost Time.

Typically this could be time spent locating keys or vehicles, waiting for parts and other such issues.

Example:

(A) Hours Attended	=	320	
(B) Hours Worked	=	304	
(C) Hours Idle	=	16	(A - B)
(D) Prime labour Cost	=	£8.50	
(E) Idle Time	=	£136	(C x D)

The mathematical formula is simply Hours Attended minus Hours Worked and this is always shown as a monetary value, which can usually be found within the Variable Expenses of the Service Department.

In addition to this, some financial reports might show the monetary value of Idle Time as a percentage of the Departmental Gross Profit.

(Also see Hours Attended and Hours Worked)

Utilisation %

$$\text{Hours Worked} \div \text{Hours Attended (x100)}$$

Benchmark: 85% to 95%

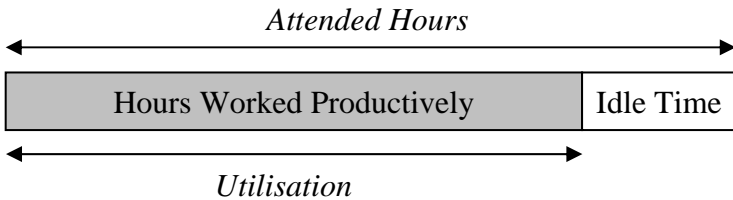
This KPI is also known as Labour Efficiency, Labour Utilisation and Selling Efficiency. The statistic tells you how much of the Technicians Attended time is actually spent working productively.

In more simplistic terms, each Technician usually clocks in and is available for eight hours each day, but how much of that time is spent spanner-in-hand, head-under-bonnet, clocked onto jobs? Utilisation gives you the answer to this question.

Example:

- (A) Hours Worked = 957
- (B) Hours Attended = 1,040
- (C) **Utilisation** = **92%** (A ÷ B x 100)

This example shows that the Technicians have attended 1,040 hours at the dealership of which 92% of that time has been spent clocked onto jobs. The remaining 8% will be shown in your expenses as Idle Time.



Parts Department

Parts Gross Profit

Invoice Value of Parts Sales - Parts Cost of Sales

Guideline: See Parts Gross Profit %

This is the invoice value of the parts sold less the cost of those parts. Generally, this is expressed as a monetary value and also as a percentage of the total sales value.

Example:

(A) Parts Sales	= £695,688
(B) Cost of Sales	= £507,852
(C) Parts Gross Profit	= £187,836 (A - B)

The general accounting definition for any type of Gross Profit is simply sale less cost of sale and this statistic is no exception to the rule.

The trading strategy of your Parts Department will have an impact upon the value of profit that you make and will vary according to the amount of Trade Sales, Van Sales and the value of internal discount (if any) that your business conducts.

Before you get carried away with the *value* of Gross Profit that you are generating, use this statistic in conjunction with your Gross Profit % to ensure that your business is travelling in the direction that you want it to travel.

It is possible for the value of your Gross Profit to show an increase whilst the Gross Profit % is declining. Make sure that you avoid the busy fool syndrome.

Total Parts Stock Turn

Annualised Parts Purchases ÷ Stock Value

Guideline: Franchise Specific

When you are interested in making your money work for you, then there are two Key Performance Indicators relating to Stock Turn for you to measure: this one and True Parts Stock Turn.

It is vitally important that you understand the difference between the two KPI as they tell you very different things about your business. The calculation for Total Parts Stock Turn is the Annualised Parts Purchases divided by the value of total Parts Stock.

Example:

(A) Annualised Parts Purchases	=	£695,688
(B) Parts Stock Value (at cost price)	=	£115,948
(C) Total Parts Stock Turn (per year)	=	6 (A ÷ B)

This is a useful trend to measure, but it can be misleading. The assumption is that this K.P.I tells you how many times that your Parts Stock is turned over each year, whereas in reality this is not the case. This is because the total Parts Sales include sales from parts ordered on V.O.R, which are not sales from stock.

Special note:

Total Parts Stock Turn is the KPI that is shown on most reports. When you want to measure how effectively your parts stock is being utilised then you need to measure True Parts Stock Turn.

Bodyshop

Productivity %

Hours Sold ÷ Hours Worked Productively (x100)

Benchmark: 110% to 150%

This KPI is also known as Productive Efficiency or Working Efficiency. It shows you the Productives ability to complete their work within the agreed hours provided by the Estimator.

This statistic is not as straightforward as the Service Department equation, as due to the nature of the work it is not possible for a franchise manufacturer to apportion standard times.

Example:

(A) Hours Sold	= 1,083	
(B) Hours Worked productively	= 958	
(C) Productivity	= 113%	(A ÷ B x 100)

When a customer brings a vehicle to your Bodyshop for repair you provide them with an estimate that states the number of hours to be charged. This allocated time is the maximum amount that you are able to charge.

In order to make gains in profitability, your Productives must complete the job in a lesser time than is allocated by the Estimator, thereby increasing your Productivity.

Productivity is a double-edged sword. If you take more time to complete the job then your Productivity falls below 100%.

Work-In-Progress (Days)

WIP Hours \div N^o of Prod's. \div Hrs Attended in 1 day

Benchmark: 5 days or less

Work in progress (WIP) simply refers to the number of hours that have been booked onto jobs that have not yet been invoiced.

This vital K.P.I. informs you of the number of days Work In Progress that you have currently accumulated.

Example:

- (A) Hours booked as WIP = 216
- (B) No of Productives = 6
- (C) Hours Attended in 1 day = 8 (Per Productive)
- (D) **Work In Progress Days = 4.5 Days** (A \div B \div C)

Many financial reports have a tendency to provide WIP as a total monetary value, but this can often be misleading. You must ask the question, is it reporting a value based upon the Labour Cost of Sales, Hours Sold at retail value, or Hours Sold at the current Recovery Rate?

The example above just deals with the number of hours accumulated in WIP and is therefore more useful in trend analysis and deals with all eventualities.

Interpreting Your Business Information

Top KPI to study:

Current Ratio

Net Profit Before Interest %

Circulation of Funds Employed

Return on Funds Employed %

Circulation of Current Assets

Absorption % (Version 1)

Aftersales Direct Profit ÷ Total Overheads (x100)

Baseline: 100% +

The Absorption percentage of a business essentially measures risk. How much of the company's overheads are covered by the profits generated by the Aftersales Departments?

Example:

(A) Direct Profit from Aftersales	=	£1,154,223
(B) Company Overheads	=	£1,452,238
(C) Sales Semi-Fixed Expenses	=	£189,364
(D) Total Company Overheads	=	£1,641,602 (B + C)
(E) Overhead Absorption	=	70.31% (A ÷ D x 100)
(F) Value of under Absorption	=	£487,379 (D - A)

This example demonstrates that 70.31% of the overheads are covered by Aftersales, which leaves a shortfall to be recovered by the Sales Department.

Whenever you are measuring the Absorption of your business you should be aware that there are two very different calculations. Basically, the difference between the two calculations lies within the Semi-Fixed Expenses of the Sales Department; some statistics include these expenses whilst others exclude them. This of course makes a considerable difference to the Absorption figure. This version of Absorption is the most accurate, you will understand why when you read version 2.

Debtor Days

Aftersales Debtors \div Aftersales Daily Turnover

Benchmark: < 45 days

The Debtor Days K.P.I is usually a measurement of the credit activity within the Aftersales departments. Its purpose is to inform you of the average number of days that your customers take to pay you.

Example:

(A) Aftersales Debtors	=	£120,624
(B) Aftersales daily turnover*	=	£2,805
(C) Debtor Days	=	43 days (A \div B)

Note:

In order to calculate the Aftersales Daily Turnover, you will need to take the annualised Aftersales turnover sold on credit and divide that figure by 365 to arrive at a daily sales turnover.

Example:*

(A) Aftersales Turnover On Credit	=	£1,023,825
(B) Days in 1 year	=	365
(C) Aftersales Daily Credit Turnover	=	£2,805 (A \div B)

In the first example provided above, the average amount of debt is outstanding for a period of 43 days. In many cases, customer credit agreements are for 30 days and all too often these credit terms are not fully instigated and your money is outstanding for longer periods of time. The question is how much longer?

Gearing Ratio

Interest-Bearing Borrowings ÷ Net Worth

Benchmark: < 1.4:1

The term gearing is all about the relationship between the level of Equity in a business and the amount of money that is currently being borrowed.

Example:

(A) Interest-Bearing Borrowings	=	£4,541,263
(B) Net Worth	=	£5,342,663
(C) Gearing Ratio	=	0.8:1 (A ÷ B)

Generally speaking, a Bank Manager is relatively happy to maintain Gearing at 1:1. This means that for every £1 that you have invested in the business, the Bank Manager will also invest £1.

When Gearing goes over and above 1:1 this is the time when you may experience increasing pressure from the bank to repay some of your loans. After all, the bank does not want to put more money into your business than you have invested yourself.

There are two different ways of expressing Gearing, this method provides you with a Gearing Ratio; the other provides you with the Gearing %. Although both KPI are called Gearing, they do measure slightly differently.

Return on Funds Employed % (R.O.F.E.)

Value of N.P.B.I. ÷ Funds Employed (x 100)

Baseline: > 21%

This K.P.I. is also known as Return on Investment and measures the ability of your business to grow from the profits that it generates.

The best time for a business to expand is when this K.P.I is showing an increasing trend in line with the suggested baseline because this means that any growth can be funded by the company's profits as opposed to borrowed funds.

Example:

(A) Net Profit Before Interest = £508,327
(B) Funds Employed = £2,420,610
(C) **Return On Funds Employed** = **21%** (A ÷ B x 100)

When anyone sets up a business, the main aim is to generate a profit. Obviously, you need sufficient profit to pay all the bills and salaries with some left over to enable the business to grow in the forthcoming year.

The reason that interest is not shown within this equation is because it measures the amount of profit being generated without any interference of borrowed funds.

If the trend of this K.P.I is diminishing, then you might choose to reconsider your overall business viability, as you will have a greater dependence upon borrowed funds, therefore increasing interest charges and reducing profitability.

The day you stop learning is the day you stop earning, and this is true for all managers in business. By investing in The K.P.I. Book for all your management team you are investing in the people who will be making sure that your company is successful in the future.

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