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AMi ON-LINE ARTICLE - DO YOU MEASURE YOUR BUSINESS KNOWLEDGE PROPERLY?

By Robert (Bob) Greenwood

The aftermarket industry, whether it is one independent shop, a multi-shop facility business or national company, spends a tremendous amount of money each year on all its various training courses, seminars and information programs. The purpose of these actions are to increase the employees and managements knowledge required to maintain today's vehicles in a safe and reliable condition, understand new products and enhancements, and continue with on-going business management and employee development.

These types of training build employee and management's knowledge of understanding, which in turn, when all is performed correctly over time, makes everyone more productive. Effectively executed productivity leads to enhanced company bottom-line profitability which in turn leads to higher wages for all. This on-going knowledge development is very necessary as it is designed to secure the company's future.

I believe most people would agree with this very basic analysis.

The industry also spends a great deal of money on various types of physical shop/company equipment required to execute its day to day business professionally. This is also a very necessary outlay of cash a business must plan for. Up-to-date equipment does increase productivity as well, which in turn, when executed properly, as does the above mentioned training, increases profits and eventually wages of the company.

This basic analysis I believe also most people would agree with.

The problem with both examples is that under today's business accounting rules they are treated very differently. Consider the following:

- training courses, seminars and information programs of any kind that are for business purposes, as mentioned above, are treated as an immediate expense for "accounting purposes" which means they are written off completely in the year that they are incurred. For example, if the shop/company spent $5,000 or $100,000 on training in one year, these monies are an immediate expense. This means the shop/companies net profits are immediately reduced.

- physical equipment that is acquired (not leased) for the shop/company on the other hand are considered a “capital investment” and written down over time. Let me give you a simple example where let’s say current equipment purchases are written down at 20% each year on a declining basis – use your actual accounting tax rules to calculate your numbers. For example, if the shop spent $50,000 on equipment, the first year expense would be $10,000,($50,000 X 20%) the second year the expense would be $8,000, ($40,000 X 20%) and the third year expense would be $6,400 ($32,000 X 20%) etc. This depreciation method does not reduce the net profit by the total amount of monies spent in that given year on equipment.

Both “expenditures” when executed properly, increase productivity and profitability. Both “expenditures” realize a business return over time as an “investment”. Due to the way they are handled for accounting purposes, which is allowed under tax law, they can mislead Management. For example, imagine spending a total of $45,000 between equipment purchases ($35,000) and training ($10,000) in one year. The total $45,000 cash is gone, yet on the expense statement of the business Management will see $10,000 as an expense to training and $7,000 as an expense ($35,000 X 20%) to equipment depreciation.

Management can very easily fall into the trap that if the “training” expense is cut back, the bottom line and cash flow would improve after examining the expense statement of the business. We know that type of thinking in the real world in our industry will lead to disaster BUT when things are tight, “expenses” are the first to be examined by Management. Very rarely do you hear Management desire to cut back on “equipment purchases” because 1. Management understands equipment in a more defined manner and its contribution to the back shop and 2. It is a “physical, touchable” item however the entire cash spent on equipment is not shown as a current year expense to bring the awareness of how much real cash was truly spent. It is shown on the Balance Sheet as a capital item. Most Independent shop owners never spend time analysing the business Balance Sheet to see “how” it has changed year over year and why.

The point to these examples is this; both expenditures are an absolute necessity for survival and success within our industry. This must be clearly understood and acknowledged. The problem is that training staff and management on a continuous basis is never seen as an “investment”, it is continuously considered, referred to and talked about throughout our industry as an “expense”. This is an incredible mistake when examining the complexities of our industry. To compound the problem with this type of thinking is that this “investment” is considered by Management as “intangible” and perceived difficult to measure in immediate terms.

Consider an investment in a piece of equipment may see a true dollar increase to the business in day one of entering the business, whereas perceived “Knowledge investment” may only see a true return late in year one, or early in year two, yet, it must be acknowledged that staff and Management knowledge today are truly "assets" to the business. As with equipment, without it, the shop/company cannot survive.

Consider that even with the most progressive, professional looking facility, in the best location in town, and containing the best equipment ever, without the right "Knowledge base" inside this facility from the Management level, to the front counter, to the back shop, to the back office the business cannot, will not, succeed in today's business climate.

It is important to understand that the shop/companies "Knowledge base" is a "human capital asset" to the business. Proper "investment" in this asset realizes a tremendous return but calculating how much you are investing each year can be tricky. Consider this simple exercise to get the process rolling:

1. Add all actual monies spent (checks written) on various staff technical, management, soft skill business courses and seminars over the past year.

2. Calculate the total number of hours in classes to attend such functions in #1.

3. Calculate all the hours spent doing "in-house" training (solving technical/business problems) and internal staff training (such as attitude adjustment discussions and/or business vision/industry trends/issues explanations to the staff) .

4. Add all the hours spent in #2 to the total hours in #3, then, multiply the total by the shop's diagnostic door rate.

5. Take the answer in #4 and multiply it by your shops efficiency rate (efficiency objective minimum of 75%, however many shops are in the 55% to 65% range – refer to AMI On-Line Site Efficiency article to calculate yours).

6. Add together the amount in #1 and the final amount in #5.

7. Take the total amount in #6 and now artificially add that number to the bottom line of the businesses net profit/loss and also add it to the Balance Sheet of the business under a new Asset heading titled "Knowledge capital investment account". This is what you can consider was re- invested last year in the business in which the business does expect to see a return. This is a "Knowledge" investment that is inside the business and every year it should increase and realize a proper return for the business. If the business did not see a proper return on its investment (35% for independent shops and 20% for national companies is reasonable), then Management must revisit what type of "Knowledge investment" it is making and what is required to get the desired results. If Management does not look after this asset properly, then this item on the "Balance Sheet" depreciates very rapidly along with the value (worth) of the

business.

Now don’t run out to your accountant and demand changes because it is not an accepted accounting procedure. I think, however, this type of exercise clearly makes a statement that in the aftermarket sector of the industry, the business is constantly working with its “Knowledge assets” and when an asset of this type leaves the business, or is “lost”, or is not properly maintained, the bottom-line of the business is dramatically affected.

In today’s successful businesses within our industry, “Knowledge investment” is clearly understood. Many others, however, still look at it as a “Knowledge expense”. If personal income and/or business bottom line is not adequate or acceptable to you, then consider looking very closely at your “Knowledge capital investment account” and examine what, and how you have “invested” in it. Are you measuring and managing this account properly?