



CREA LEGAL

Dealer Target Setting Methodology

You are issued with a new vehicle sales target periodically in advance. You might object to the issued target if it is unrealistically high but your complaints tend to fall on deaf ears. This is a concern because you know your performance will be measured against target achievement which may have financial implications and may amount to a breach of your dealer agreement. Dealers are entitled to and should seek a full explanation of the target setting methodology along with justification that it is equitable between dealers and applied consistently across the network. If there are flaws in the methodology or its application, you will have a sound basis for objection and far more likely to succeed in your efforts to have targets altered.

At a global level, car companies come up with a number of cars (broken down by vehicle and model line) they wish to sell into a particular market in the next year. They will then commit to production of the vehicles and not wish to change it. The vehicles will be produced and will be sent to Australia. The focus then becomes getting the cars into the market. This is where the big number gets broken down between dealers and allocated as individual dealer targets.

To set any target it is necessary to predict the future, i.e. how many cars can be sold in a particular territory. No one has a crystal ball so the best available indicator of future sales is what we can learn from history. This involves an assumption that what occurred previously can be achieved again. Not always true because there are many variables which do change but the best indicator we have. Accepting that the past will be used to predict the future, we need to break down exactly how that will be done.

The best way to do this is with a combination of metrics involving individual dealers' sales history in the last year ('Dealer Market Share') and the entire brand's sales history in the last year ('National Market Share') broken down by model and segment. This combination will measure the popularity of particular vehicles within the national market generally and within the particular territory, which can be quite different. The two metrics might be weighted unevenly which is fine provided that is consistent for everyone. This measure can then be applied to the national sales forecast for each vehicle to be sold to generate the dealers' fair proportion of this target.

This assumes that the vehicle model in question was sold in the previous year so won't work for vehicles which are new to market. It also assumes that the dealer was trading for the previous year so it won't work for new dealers. In the case of dealer transfers through buying and selling, a decision is required on whether the previous dealer's performance will be applied to the new dealer.

There should also be a focus on retail and small business sales so it will be necessary to disregard sales of other buyer types which cause major distortions such as government, rental, large fleet etc.

Target setting methodology should be written clearly in policy (if not in the dealer agreement) and, as with any policy, it should be applied equally to every dealer. I would argue that under no circumstances should targets be manually manipulated at head office level. If subjective personal intervention does occur, it will set a very dangerous precedent and undermine sanctity of the entire process. This would give all dealers very wide scope to challenge targets and seek compensation if they were adversely impacted by changes outside policy.

As a dealer you certainly want to know that there is a logical methodology for distribution of the annual national forecast between dealers. If it is along the lines of that suggested above, you can take comfort but make sure it is applied strictly as a matter of policy.

There is one other issue. What about the big number that comes down from the global sales director as to how many cars will go to Australia next year? Is there a sound basis for how this was arrived at? This is also a question which can and should be asked, the answer to which would be extremely interesting in some cases where we have seen some wildly optimistic forecasts recently. I suspect that some of the 70 odd brands all competing hard to get a piece of the lucrative Australian automotive sales market may struggle to justify this aspect of their business planning.

For advice on this or any other franchising matter, Steven Crea can be contacted on 0411 777 695 or steven@crealegal.com.au.



CREA LEGAL