INSTITUTE FOR SOCIAL RESEARCH
Organization Behavior Program
UNIVERSITY OF MICHIGAN

SOME DEALERSHIP CHARACTERISTICS RELATED TO CHANGE IN NEW CAR SALES VOLUME

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SOME DEALERSHIP CHARACTERISTICS

RELATED TO CHANGE IN NEW CAR SALES VOLUME

This report was prepared by Martin Patchen and William C. Eckerman, under the supervision of and in collaboration with Stanley E. Seashore. Several findings contained in the report were contributed by Bernard P. Indik, from an independent analysis of these data.

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SUMMARY AND MAJOR CONCLUSIONS

This study has examined differences between a number of dealerships which have increased their volume of new car sales in recent years and a number of dealerships which have dropped in sales volume.

We found several factors of business policy and procedure to be associated with change in sales volume. Outstanding among these is a dealership's policy with regard to wholesaling versus retailing of used cars. The greater proportion of used cars which are wholesaled, the more the increase in new car sales. Also important is a dealership's success in handling auto purchase financing. The greater the proportion of potential deals turned down because of inability to get the finance contract approved, the poorer the overall sales performance.

While these aspects of business procedure are important, the data indicate that a dealership's methods of developing the abilities and motivations of its salesmen are of equal importance. The better performing dealerships appear successfully to involve their salesmen in the effort to reach department sales goals--by keeping them informed about these goals and progress toward goals, and by paying some bonuses based on the performance of a department or team. Salesmen in improving dealerships also feel more free to discuss problems with superiors and feel less need for additional sales help than do salesmen in declining dealerships.

These results concerning the relation between supervisors and salesmen are consistent with results from studies of other organizations. The previous research has indicated that involvement of employees in company goals, and a high level of supervisory help and encouragement for subordinates, are associated with organizational effectiveness.

Another aspect of dealership organization which appears related to sales success is the ratio of supervisors to salesmen. Declining dealerships in our sample were more likely than improving dealerships to have a comparatively small number of supervisors in relation to the number of salesmen.

Turnover among salesmen was found to be most strongly related to satisfaction with earnings. However, regardless of degree of satisfaction with earnings, turnover tends to be higher when salesmen are paid in part for performance relative to other salesmen rather than on what they themselves have accomplished.

Some aspects of dealership operation which we expected to be associated with change in sales volume were not so related. These include the degree of mutual help and assistance among salesmen, the distribution of authority and influence within dealerships, and many features of compensation systems. The failure of some of these expected associations to occur may be due in part to a lack of variation among dealerships in some characteristics--for example, the uniformly low influence of salesmen in dealerships makes it difficult to know if more influence by salesmen would contribute to overall sales success. Also, some negative results obtained may be due to special conditions found in dealerships that are not duplicated in other businesses. For example, the amount of interdependence among auto salesmen is probably not great enough to make mutual assistance crucial while in other occupations such cooperation may be a necessity.

Finally, it should be noted that much of the variation in performance among dealerships is not accounted for by our data. Some of this unexplained variation may be due to limitations in our measurement of dealership success. In addition, there are undoubtedly factors of economic conditions, business practices, and personnel management, which affect dealership success, but about which we have little or no information. While these limitations of the study should be borne in mind, it would seem that the data can be of considerable use in any effort to improve dealership operation.

I. PURPOSES AND DESIGN OF STUDY

Main Points

1. This study attempts to provide some answers to this question: What are the effects on dealership success of the ways in which its personnel work together?
2. The criteria of success used are: (a) growth in sales volume;(b) present level of sales volume; (c) return on investment.
3. A sample of neighboring pairs of dealerships, one of which improved while the other declined, was chosen for study.
4. In each of the sample thirty dealerships, supervisors and salesmen filled out questionnaires. The owner or general manager of each dealership was interviewed and supplementary data obtained.

Purpose of the Study

It is an obvious fact that there are large differences in performance among the many Acme* dealerships throughout the country. Dealerships differ widely in such ways as present volume of sales, rate of sales growth, profitability, and turnover among salesmen. The purpose of this study is to try to pinpoint some of the factors which account for these variations.

The differences in dealership success are due in part to economic factors over which the dealer has little or no control. These include local variations in business conditions, the location of the dealerships and the strength of competition. Differences in business practices--such

* The company name being used is fictitious.

as advertising methods, cost controls, and used car wholesaling policies--can also have a marked impact on success. While recognizing the importance of such factors, the present study is mainly concerned with the effect of managerial practices on the success of dealerships. More specifically we will examine here such matters as supervisory practices, ways in which decisions are made, coordination among departments, compensation systems, and personal characteristics of employees. We will also discuss some matters of business practice--such as advertising media used and used car wholesaling. Our primary interest throughout, however, will be in the relationships among people in dealerships and in determining whether certain ways of working together are associated with business success.

Criteria Of Organizational Effectiveness

Three criteria were used in classifying dealerships as either outstandingly successful or only moderately successful. These were:

(1) Growth or decline in new car sales over a three year period. This figure was computed by taking the difference between sales volume in the first six months of 1957 and in the first six months of 1960--two similar periods for industry sales.

Dealerships were chosen primarily according to this growth criterion because we were most concerned with the present vitality of the organization and with the trend in its effectiveness. Use of this criterion means that we omitted from the study some dealerships which had high sales volume but whose sales had not increased in recent years.

All improving dealerships chosen had a percentage increase over the period chosen of at least 13 per cent. Most had a much larger increase than that, the median increase being 32 per cent. Each dealership classified as declining had a sales decrease of 15 per cent or more. The median decrease for declining dealers was 24 per cent.

In order to eliminate dealerships that might demonstrate dramatic percentage increases in sales volume with only a small change in total number of cars sold, the sample was limited to dealerships with a new car sales volume of over 450 in 1960.

(2) Current sales volume. Present volume cannot be judged in terms of the actual number of sales, some such factors as differences in market area and the size of dealership will affect sales volume. As a criterion of "expected" volume for each dealership, we used the assigned market percentage established by the Acme Motor Company. These figures indicate the percentage of the Acme new car market for a given area which each dealership was expected to attain. The actual percentage of the market attained by the dealership for the first half of 1960 was compared to the assigned percentage.

Dealerships tentatively chosen for dramatic increases or decreases in sales growth were evaluated in terms of current sales volume. These dealerships which had improved greatly but which had remained substantially below assigned market percentage were excluded.[1]

(3) Return on investment. We did not wish to classify as improving any dealerships that were achieving growth in volume at the expense of a reasonable profit. Therefore, the return on investment figures were examined for each dealership which had passed the tests of growth in sales volume and high current sales volume. Any dealership which was not earning a good return on its invested capital did not qualify as an improving dealership. Dealerships classified as declining because of poor sales performance were retained in the declining group even if they

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1. See Appendix A for discussion of several exceptions to this rule.

showed an adequate return on investment. However, the median return on investment was considerably higher for improving than for declining dealerships (53 per cent versus 10 per cent on actual investment).

<u>Matching Improving And Declining Dealers</u>

We are interested primarily in the differences among dealerships which stem from differences in the way the organization is run (supervisory practices, coordination among departments, etc.). It was useful, therefore, to hold constant--or at least minimize--variations in economic and other "outside" conditions which affect the dealership's success. To try to accomplish this purpose, we included in the sample only those improving dealerships which could be matched with a declining dealership in their own area. With the exception of one dealership pair, each matched pair is located in the same multiple point area. The remaining pair is located in neighboring single point areas within the same sales district.

To check on the adequacy of the matching of pairs, we asked each district manager whether there were other factors besides managerial practices that might have accounted for the marked differences in success between the dealerships chosen in his area. The district manager was asked, among other things, whether one dealership of the pair had a significant advantage in market conditions or location, and whether growth or decline could be due to gain or loss of fleet accounts. In several cases, the comments of the district manager made it apparent that the differences between the improving and declining dealership in his area could be readily accounted for by non-managerial factors. In these cases, the dealership pairs were dropped from the sample.

After these and other poorly matched pairs were dropped from the sample,[2] there remain fifteen pairs of dealerships, or a total of thirty. Our results are based on the information obtained from these thirty dealerships.

What The Sample Dealerships Are Like

The dealership pairs--one improving and one declining--which are included in the study, are located in nine different states. Four of the fifteen pairs are in the Northeast section of the country, five pairs are in the Midwest, four pairs are in the Far West, one pair is in the Rocky Mountain region, and one pair is located in the Southwest.

All but one of the pairs are located within large metropolitan areas of 500,000 or more population. The remaining pair comes from two neighboring small cities of about 50,000 population each.

The improving dealerships in our sample have been in business under the same ownership for a median period of five years. Declining dealerships generally have been in business longer--a median of fourteen years. There is, however, considerable variation within each group of dealerships. Thus, five improving dealerships have been in business fourteen years or longer, while six declining dealerships are seven years old or less.

The size of dealership in our sample--in terms of total number of employees--varies greatly, from 25 to 139. Declining organisations have a median of 66 employees, while the median size of improving dealerships is 44 employees. Looking only at the number of employees in the sales departments--both new and used--we find that our sample of improving

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2. Twenty pairs were originally included in the study. Two of these pairs were dropped after it was learned that the declining members of the pair had completely reorganized the personnel and procedures of the dealership just prior to the study. Three additional pairs were dropped after sales figures for the second half of 1960 showed that the differences in performance between the two dealerships had considerably narrowed.

dealerships has a median of twelve employees while the declining dealerships have a median of sixteen employees.

An equal number of improving and declining dealerships--seven in each group--have combined new and used car departments. In those dealerships which have separate new car departments, improving dealerships have a median of eleven persons in the new car department[3] as compared to a median of twelve persons in declining dealerships.

The capitalization of dealerships in our sample varies greatly, both among improving and also among declining organizations. However, the median capitalization amount for improving dealerships is considerably less than the median for declining dealerships--$132,000 versus $243,000.

How and When the Information was Obtained

During late October and early November 1960, each dealership in the sample was visited by a staff member of the Survey Research Center. Employees in the dearlership were informed of the practical and scientific purposes of the study and of its sponsorship by the Acme Motor Company.

Salesmen and supervisors were asked to fill out questionnaires. They were assured that their individual answers would be kept strictly confidential and would be seen by no one outside the Survey Research Center. In each dealership, the owner[4] (or in a few cases, the general manager) was interviewed. These interviews usually lasted between an hour and an hour and a half. The owner also was assured that his answers would not be identified with himself or his dealership.

3. This figure excludes persons exclusively engaged in selling trucks.

4. In one dealership an interview with the owner could not be arranged.

What Kind Of Information Was Obtained

This study focuses primarily on the car sales part of the dealership, especially on the new car department. The emphasis on the new car department is consistent with the fact that we classified dealers as improving or declining primarily on the basis of new sales performance. At each dealership, the following information was obtained:

New car salesmen. Questionnaires answered by salesmen in the new car department (or in combination departments) included questions about the way in which they do their jobs; about their knowledge of and reaction to sales goals; about their relations with their supervisors; about their earnings and their feelings concerning the compensation system; about how they work together with other salesmen; and about their personal characteristics.

New car supervisors. Supervisors in new car departments filled out questionnaires which elicited much factual information concerning the dealership--including data about the frequency and length of sales meetings; about who makes decisions in such matters as accepting questionable deals and deciding on bonus plans; about compensation plans; and about various business techniques. Sales supervisors were also asked about their way of dealing wihh salesmen. For purely factual questions, the information provided by that sales supervisor who was judged by the Survey Research Center representative to be "best informed" was used. The best informed supervisor was usually the sales manager or general sales manager.

Supervisors in other departments (service, parts, business office, etc.). These supervisors were asked only a few questions concerning their relations with their superiors and with persons in other departments, including the new car business.

The owner. The owner or general manager was asked about his role in the dealership, about the special problems and advantages his dealership has, and about his way of dealing with employees.

General information. To supplement the information obtained from sales-personnel and the owner, we asked an executive of each dealership (usually the office or business manager) to provide information about a number of additional subjects--including the history of the dealership, turnover of personnel, compensation plans for supervisors, financing practices, and the way in which advertising money is spent. Also, an organizational chart showing the lines of authority in the dealership and the number of persons in each department was filled out by the Survey Research Center staff member.

Financial information. Information about such matters as service absorption and return on actual investment, in addition to other financial information, was obtained from Acme Motor Company records.

There was, thus, a considerable amount of information gathered about each dealership. The following sections of this report will consider how these various aspects of dealership operation are related to business success.

II. SALESMEN'S NEED FOR HELP

<u>Main Points</u>

1. Salesmen in declining dealerships want more help from supervisors on various aspects of selling.
2. Salesmen in declining dealerships are more hesitant to discuss problems with their superiors than are salesmen in improving dealerships.
3. In declining dealerships, sales supervisors are likely to hold a pessimistic view of salesmen development--agreeing with the statement "A good salesman is born, not made." Supervisors in improving dealerships more often reject this view.

Help To Salesmen

We asked each salesman this question:

> Would you like more help than you now get from your supervisors concerning the following:
>
> a. selling techniques
> b. closing deals
> c. getting prospects
> d. handling financing arrangements
> e. qualifying buyers
> f. getting customer's car properly serviced
> g. other problems

For each of these items the salesman could check either "Yes, would like a lot more help," "Yes, would like a little more help," or "No, don't particularly need more help."

For each item, salesmen in declining dealerships were more likely than those in improving dealerships to say they wanted more help than they now get. This is especially marked for the items concerning help in selling techniques and help in closing deals. On each of these items, salesmen in eleven of the fifteen declining dealerships stated a greater need for help than did salesmen in the improving dealerships with which they are paired.[1]

The fact that dealerships do differ widely in how much help they give to salesmen is illustrated by these contrasting descriptions by owners:

The owner of one improving dealership said:

> "We consult with the man on every deal; that is something they seem to like. Many say they have received more help here than any other place...We just converse with one another constantly."

The owner of another improving dealership said:

> "We feel we've provided adequate sales management to assist the salesmen when they're working on selling a car. There's always somebody here who can help them close it."

A contrasting situation is described by the owner of a declining dealership:

> "A salesman is really in business for himself. It's up to him to produce, and on his production he earns money. We provide the product for him to sell and give him desk space and any help he may feel he requires to build up his own clientele."

Another declining dealer expressed the same general point of view in these words:

> "We get good men and we just let them go out on their own and sell. But we have a minimum figure that we won't let them go below, and if they do, we replace them."

The Sales Supervisor's Viewpoint

The fact that salesmen in declining dealerships expressed a relatively high need for more help is paralleled by the attitudes of the

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1. For each of these items considered separately, the probability of getting this difference between improving and declining dealerships by chance alone is 6 in 100.

principal supervisors in declining dealerships.

Each sales supervisor was asked whether he agreed or disagreed with a number of statements regarding supervisory techniques. Among these was the statement, "A good salesman is born, not made." A supervisor who agrees with this statement would probably place less emphasis on training and helping salesmen than would a supervisor who believes that good salesmen can be made.

In the improving dealerships only one out of the fifteen principal sales supervisors (usually the sales manager) agreed with this statement. (See Figure 2) In the declining dealerships, seven out of the fifteen sales supervisors agreed that good salesmen are born rather than made.[2] Moreover, when supervisors in declining dealerships disagreed with the statement their dissent tended to be weaker ("mostly disagree") than the dissent of the improving supervisors ("strongly disagree").

The dealerships in which sales supervisors believe that good salesmen are "born, not made" are no more likely than other dealerships to be ones in which salesmen express need for more help from supervisors. Why this expected association does not occur is not clear. In any case, one or the other of these indicators of low emphasis on helping salesmen is much more likely to be found in declining dealerships.

Autonomy Of Salesmen

The fact that the salesmen in improving dealerships expressed less need for additional help does not necessarily mean that they are less "on their own" in handling most deals. Salesmen were asked how often they usually handle various parts of their job alone or with only a little

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2. The probability of this difference between improving and declining dealerships occurring by chance is less than 1 in 100.

help from others. Most of those in both types of dealerships said that they usually handle such tasks as getting the names of prospects, persuading the customer, and closing deals, by themselves.[3]

Communication With Supervisor

While feeling that they need more help from supervisors, salesmen in declining dealerships are more reluctant than men in improving dealerships to discuss problems with their supervisors.

Each salesman was asked:

> When you have a problem which you would like to discuss with your immediate supervisor, how free do you generally feel to approach him about it?

A similar question was asked about discussing problems with the owner. For both questions, salesmen checked alternatives ranging from "Wouldn't hesitate at all" to "Would keep it to myself." Reluctance by salesmen to discuss problems with their supervisors may be said to constitute a communication block.

Salesmen in declining dealerships show more reluctance to discuss problems with their supervisors than do salesmen in improving dealerships. (See Figure 3) This is especially true with regard to communication to the owner. In ten out of fourteen dealer pairs which differ in the strength of the communication block to the owner, there is a greater block in the declining dealership. Similarly, in nine of fourteen dealer pairs which differ in strength of the communication block to the immediate supervisor, there is a greater block in the declining dealership. An index of the freeness of communication to both superiors shows that salesman in declining organizatons feel more hesitant about discussing their problems

3. Salesmen in improving dealerships are somewhat more likely to persuade customers alone and to handle financing arrangements alone, but are slightly less likely to close deals alone.

in twelve out of the fifteen dealer pairs.[4]

The greater reluctance of salesmen in declining dealerships to discuss problems with supervisors is consistent with the stronger wish for help in declining dealerships. Though the communication block and the wish for more help do not necessarily occur together (the association is only a weak one), they both appear symptomatic of a situation where the salesman is cut off from some of the possible help and encouragement he can get from his superiors.

The association between receiving help and support from supervisors, on the one hand, and good performance, on the other hand, is consistent with findings in a number of other types of organizations. Supervisors who place greatest emphasis on facilitating the work of subordinates and on furthering their subordinates' success, have generally been found to get better results than those concerned primarily with keeping a close check on or pressuring their employees.[5]

One may ask, however, whether a greater wish for help by salesmen in declining dealerships may not reflect the fact that such dealerships attract and keep poorer salesmen. Although there is no systematic evidence that this is so (salesmen in declining dealerships are not greatly different from others in age, in education, or in length of service), it seems plausible that the best dealerships will tend to draw and keep the best salesmen.

However, the fact that supervisors in declining dealerships are more

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4. The probability of this difference between improving and declining dealerships occurring by chance is 2 out of 100.

5. See, for example, Katz, D. and others. Productivity, Supervision and Morale Among Railroad Workers, Ann Arbor: University of Michigan Press, 1951; and Likert, R. and Willits, J.M. "Morale and Agency Management," Hartford Life Insurance Agency Management Association, 1940, Vol. 2.

likely to believe that "good salesmen are born, not made" suggests that supervisors in declining dealerships tend to have different philosophies about how to handle salesmen. Also there is some evidence from previous research that the characteristics of supervisors tend to be an independent force and not just a reaction to the traits of the subordinates they encounter. Thus, in one company when managers were shifted to different divisions it was found that each tends to adhere to his same point of view toward his subordinates irrespective of the productivity level of his division at the time. Furthermore, the productivity of the mamager's new division tended to go up or down toward the level of his previous division.[6]

It may be that a vicious circle sometimes arises in dealerships whereby both kinds of effects are operating. On the one hand, lack of sufficient help to salesmen (even to experienced salesmen) would reduce the success of the dealership. This would, in turn, tend to discourage the best salesmen from joining or remaining and leave only salesmen who require more help. If this kind of vicious circle does, in fact, operate, it is clear that one way the dealership management can break the circle is to give potentially successful salesmen enough help and encouragement so that their full promise is realized.

6. See Likert, R. Motivational Dimensions of Administration, Chicago: Public Administration Service.

Figure 1

Salesmen's Felt Need For More Help

COMPARISON OF DEALERSHIP PAIRS

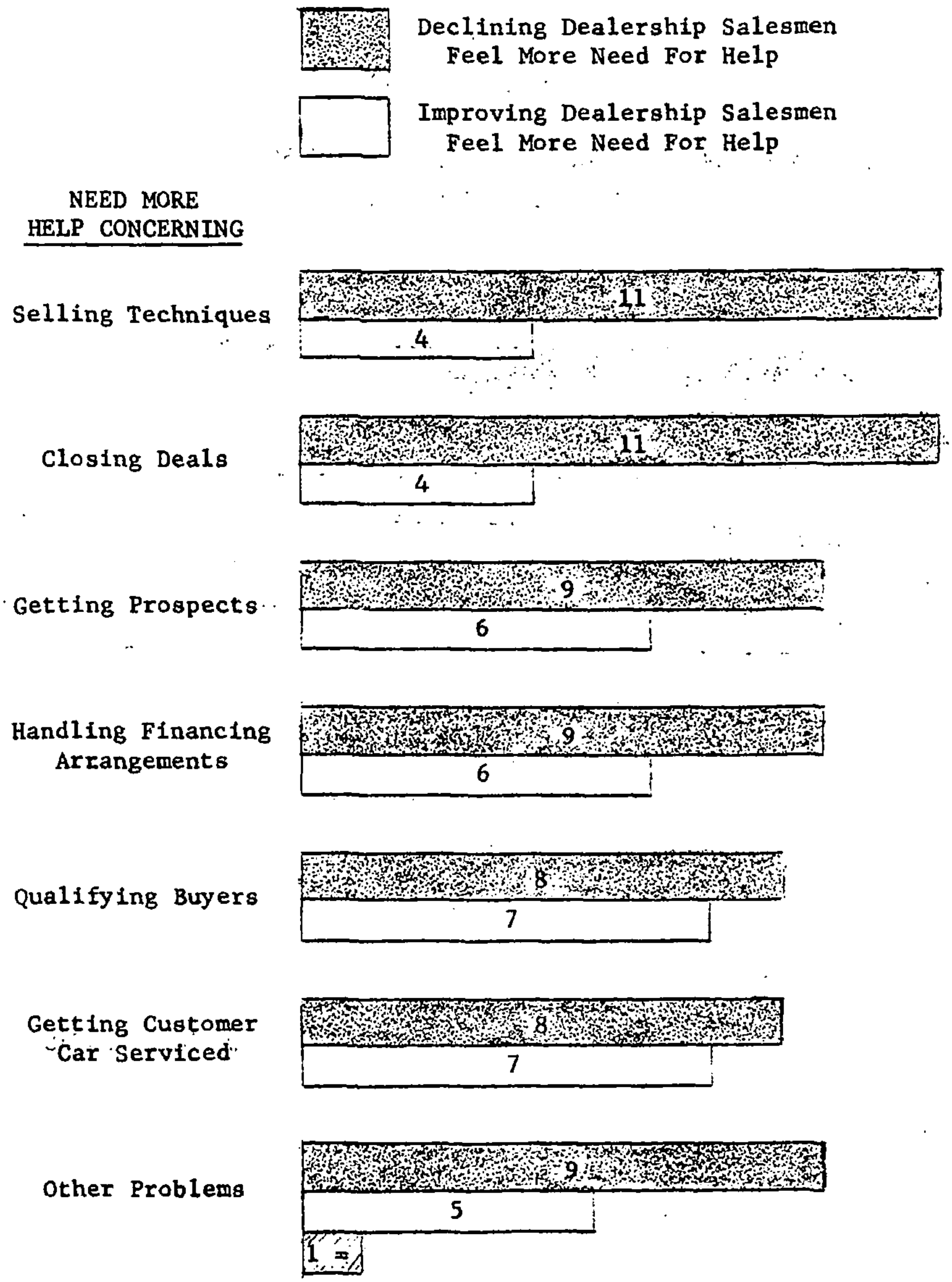


Figure 2

"A Good Salesman Is Born, Not Made"

RESPONSE OF PRINCIPAL SALES SUPERVISOR

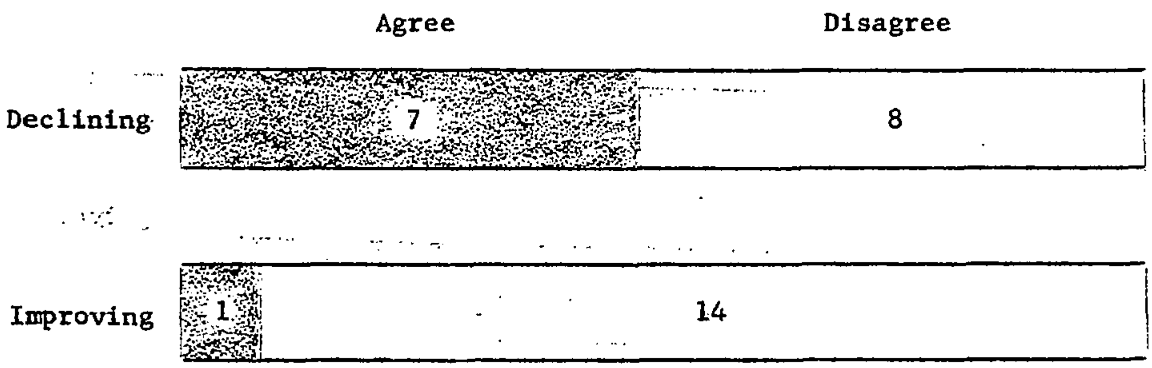
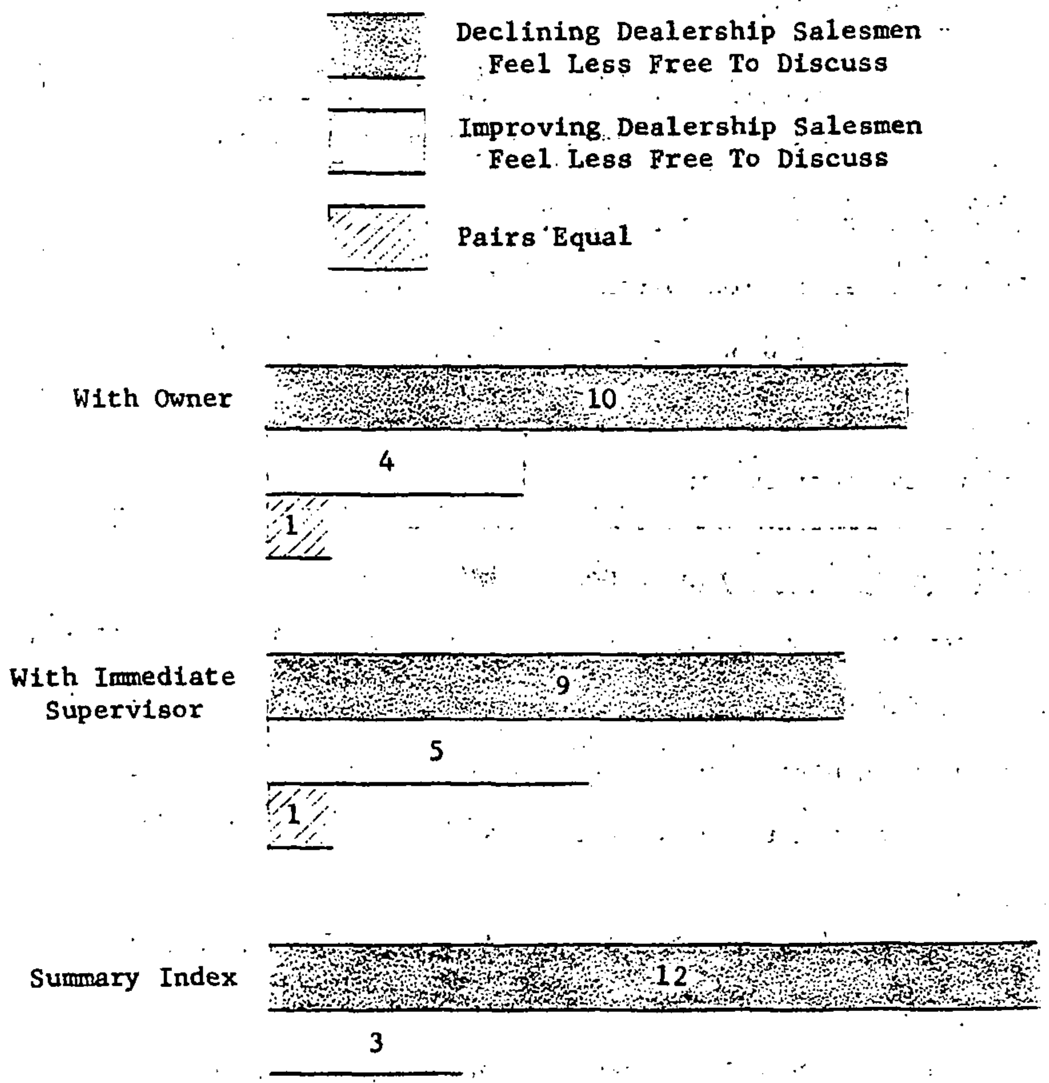


Figure 3

How Free Salesmen Feel To Discuss Problems With Superiors

COMPARISON OF DEALERSHIP PAIRS



III. INVOLVEMENT OF SALESMEN IN DEPARTMENT SALES GOALS

Main Points

1. Salesmen in improving dealerships are more likely than those in declining organizations to be aware of department sales goals.
2. Owners of improving dealerships often indicate an active effort to keep salesmen informed about sales goals and progress toward them.
3. Improving dealerships often reward salesmen, in part, on the basis of department or team performance. Declining dealerships are more likely to reward solely for individual performance.

Informing Salesmen About Department Goals

The management of every dealership in our sample, with one exception, sets goals of profit and/or sales volume. This is clear from the interviews with owners or general managers and from the responses of sales supervisors. There is no difference between improving and declining dealers in this respect.

But how much do the salesmen know about such goals? We asked salesmen:

> Has your department had an annual sales goal or any monthly sales goals during 1960?

In six of the improving dealerships, 100% of the salesmen said they know about group goals. (See Figure 4) Only two improving dealerships had less than 75% of salesmen who were aware of department sales goals. But in a majority (eight) of the declining dealerships, less than 75% of the salesmen said they know about department goals. In only three declining dealerships were all salesmen aware of such goals.[1]

These differences between improving and declining dealerships do not happen accidentally. They appear to reflect differences in the amount of effort the owner and other managers make to inform the salesmen and to get him involved in reaching group goals.

In eleven improving dealerships which could be rated reliably (see Appendix E), eight showed clear evidence of making an active effort to inform their salesmen, two gave some evidence of such an effort, and only one owner indicated that no such effort is made. The following quotations illustrate the responses of those improving owners who report trying to inform salesmen. From one owner:

> "They are told all about it, the figures on which the goals are based, and progress reports twice each week."

The general manager of another improving dealership said:

> "We tell salesmen about goals and how sales are doing. There is a regular board for salesmen. Salesmen are proud to work for a successful firm. They work better when not dejected about poor sales."

Among declining dealers, however, there is less often an active effort to involve salesmen in their department goals. Of twelve declining dealerships which could be rated reliably (See Appendix E), three showed clear evidence of trying to inform salesmen, four owners gave some indication of trying to do this, and five declining owners indicated that they do not try to keep salesmen informed about goals. Several top executives of the declining dealerships purposely avoid informing the salesmen about department goals.

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1. When pairs of dealerships are compared, in ten pairs the improving dealership has a higher proportion of salesmen who are aware of department goals, while in only three pairs does the declining dealership have a higher proportion who are so aware. This result could occur by chance only 5 times out of 100.

One owner of a declining dealership commented:

> "Salesmen are not told about these goals. We are fighting the union all the time, so the less you let a man know about how much volume you are selling, the better off you are. Because if they know you are doing well, they will ask for more in the union contract."

The owner of another declining dealership said:

> "Each salesman has his individual quota, and there are competitions several times a year. But the only quota a salesman sees is his own."

Group Versus Individual Bonuses

Not only are salesmen in improving dealerships better informed about department goals, but also they are more likely to be rewarded financially if their department or team does well. We asked the best-informed sales supervisor in each dealership this question:

> Thinking now of the total amount of bonus money given to salesmen during the past year, about what proportion was based on the performance of a department or team rather than on the performance of an individual?

Among the fifteen declining dealerships, only four gave any group bonuses at all. Eleven gave no bonuses on a group basis, but only for individual performance.

Among the improving dealers, on the other hand, nine out of fifteen gave some bonuses for team performance.[2] While such group bonuses constituted only a small proportion of total bonus money (under 20 per cent in most cases), the concept of paying attention to the performance of the group as a whole was evidently present in these improving dealerships.

Group Goals And Individual Goals

The data presented above indicate that selesmen in improving dealerships are likely to be better informed about department goals and to be

2. This difference between improving and declining dealers could occur by chance 8 times out of 100.

rewarded for reaching group goals.

But is the important thing that there be goals as such, regardless of whether they are group or individual goals--or is it important that these be group goals?

There is considerable evidence from other field and laboratory studies that people work harder when they have immediate personal goals, as well as when they have group goals. But there is also evidence from previous studies that group forces can add great pressure on individuals to perform well.[3] Moreover, in some situations productivity has been found to be higher in groups which cooperate toward common goals as opposed to groups in which persons competed for individual rewards.[4]

In the present study of dealerships, there are several pieces of evidence which support the idea that the presence of group goals is generally more effective than solely individual goals.

The first is the fact (reported on page 22), that improving dealerships, more than declining dealerships, have group bonuses in addition to individual bonuses. Where salesmen know that some bonuses will be paid on the basis of group performance, it seems plausible to suppose that they will be more likely to accept the group (department) goal and work to help achieve it.

The available evidence also indicates that salesmen in declining dealerships are just as likely as those in improving dealerships to have individual goals. While we did not ask this question directly of owners,

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3. See Coch, L. and French, J.R.P., Jr. "Overcoming Resistance to Change," Human Relations, Vol. 1, 1948, pp. 512-532; and Seashore, S. Group Cohesiveness in the Industrial Work Group, Survey Research Center Monograph, Series No. 14, December 1955.

4. Deutsch, M. "The Effects of Cooperation and Competition upon Group Process," Human Relations, Vol. 2, 1949, pp. 129-152 and 199-231.

it is possible to code interviews with owners according to whether or not individual goals for salesmen are mentioned. An approximately equal number of declining and improving owners (five declining and six improving) specifically mention the presence of individual goals.

There is another indication that salesmen in declining dealerships are just as likely to have individual goals. When salesmen are asked how much say or influence they have over "your monthly sales quota," those in declining dealerships were no more likely to check "inapplicable" (i.e., no individual quotas) than were those in improving dealerships.

Thus, the available evidence is that the presence of group goals, rather than merely goals per se, is what distinguishes the improving from the declining dealerships.

Why should this be so? What is there about the presence of group goals that would contribute to a dealership's success?

There is evidence from previous research that the presence of group goals may lead to greater cooperation among individuals.[5] Consistent with this research, when we consider all dealerships together, the data show that those which pay some group bonuses have more mutual help and cooperation among salesmen. However, when improving and declining dealerships are compared, there is no systematic evidence that salesmen in improving dealerships help each other more.

There is also, little evidence that salesmen in improving dealerships are more "loyal" or "committed to" the dealership. They are somewhat less likely than those in declining dealerships to say they would prefer another dealership to their own, but estimate a shorter time during which they plan to work for the dealership in the future.

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5. Deutsch, M. op. cit.

While informing salesmen about group goals does not necessarily result in increased cooperation or increased commitment to the dealership, it may be that it is often accompanied by a greater <u>publicity</u> about how individuals are performing. Analysis of the owner interviews shows that a number of improving dealers report such publicity. For example, one owner of an improving dealership said:

> "We have a chart up here keeping a running account. The men are very much aware of what goes on."

He pointed to a large blackboard on the wall which showed, for each salesman and for the department as a whole, the number of vehicles sold that month and cumulatively. In another improving dealership, a loud bell resounds throughout the premises whenever a deal is closed.

The evidence here is not conclusive since we did not ask owners directly about the matter of publicity. But there are clear indications of such publicity in the description of their dealerships given by five improving dealers while no declining dealerships gave clear indication of such publicity.[6]

It seems probable that when group goals are established, and when each salesman's performance is known to others, each salesman will feel some pressure from the other salesmen to contribute toward the group or department goal. This is especially likely to be true when there is the probability of a bonus following good group performance. Thus, where there are some rewards for group performance, a climate in which the "rate-buster" is ostracized and the "failure" ignored, may be replaced by one in which the high producer is accepted and the "failure" encouraged to do better. While salesmen in such dealerships are still being

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6. For most dealerships it was not possible to make confident judgments about the amount of publicity given to salesmen's performance.

compensated mainly according to individual performance, it apperars that a "friendly competition" toward some mutual goals may be an effective stimulant to sales.

Figure 4

Per Cent Of Salesmen Aware Of Department Goals

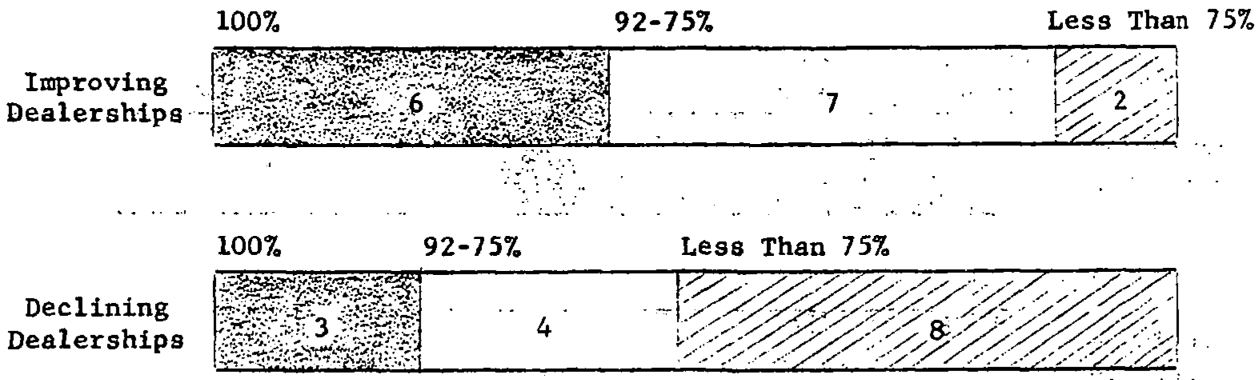
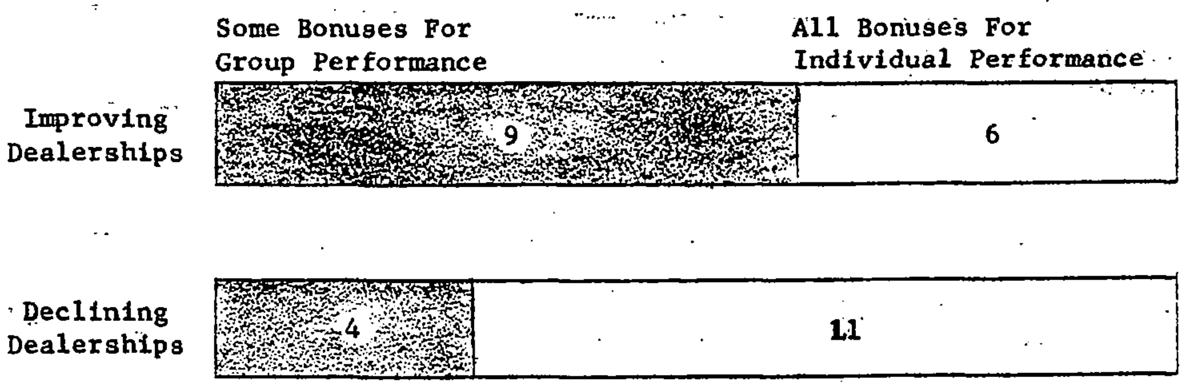


Figure 5

BONUSES FOR GROUP PERFORMANCE



IV. OVERALL SUPERVISOR-SALESMAN RELATIONS

<u>Main Point</u>

When dealerships are rated in terms of the adequacy of overall salesman-supervisory relations, ten of fifteen improving dealerships rate high. Only three of fifteen declining dealerships rate high.

We have seen that salesmen in improving dealerships are more involved in group or department goals than are salesmen in declining dealerships. We have seen too that salesmen in improving dealerships are more likely to feel that they are getting sufficient help from their supervisors.

It seems reasonable that both of these factors together are necessary for developing successful.salesmen. On the one hand, salesmen must have the necessary skills and savvy to do the job right. At the same time, they must be motivated to put forth more than just a minimum effort.

It is possible, on the basis of the data, to give each dealership an overall score on each of two factors: (1) the extent to which salesmen have been involved in group goals, and (2) the extent to which salesmen appear to be receiving sufficient help and support from their superiors.[1]

We find that ten of the fifteen improving dealers are good or moderate on <u>both</u> of these factors. But among declining dealerships, only three of fifteen dealerships rate good or moderate on both goal involvement and getting help. (See Figure 6)

In other words, the performance of 22 of the sample of 30 dealerships

1. See Appendix D for a description of how scores on each of these factors were developed.

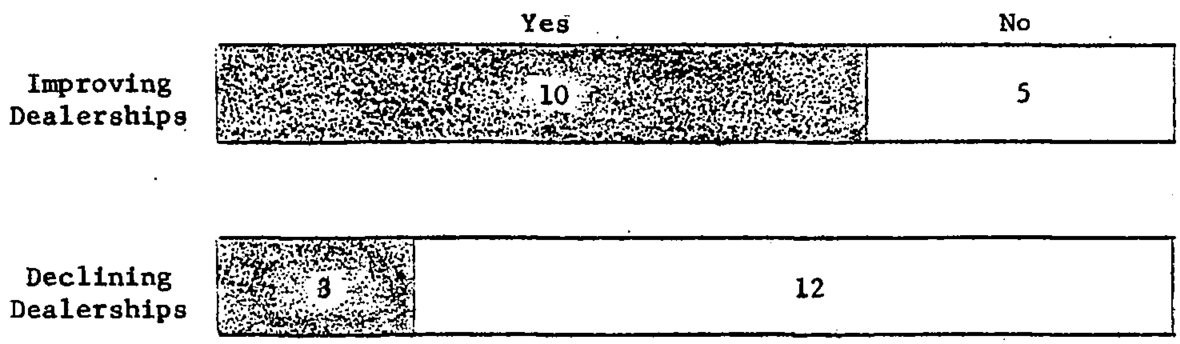
is consistent with their position on these two factors of supervisor-salesman relations.

While there are, as we will see, other factors which are important in dealership operation, it appears from these data that knowing the level of skills and motivation of salesmen will tell us a good deal about any dealership.

Figure 6

Overall Supervisor-Salesman Relations

SALESMEN ARE INVOLVED IN DEPARTMENT GOALS
AND ALSO RECEIVE ENOUGH HELP



V. RATIO OF SUPERVISORS TO SALESMEN

Main Point

Improving dealerships have a higher ratio of supervisors to salesmen than do declining dealerships.

Supervisors In Sales Department

Some dealerships have more supervisors per salesmen than other dealerships do. We may consider the ratio of supervisors to salesmen from two separate points of view. The first is to look at the number of supervisors who have responsibilities in the sales department alone. This would include sales managers, assistant sales managers or team captains, and "closers."

Dealerships differ considerably in the proportion of sales department supervisors to salesmen. The range is from a low of about one sales department supervisor for every 17 salesmen to a high of one sales supervisor for every four salesmen. When we compare improving and declining dealerships (see Figure 7), we find that declining dealerships are more likely to have a small proportion of sales supervisors. Seven out of fifteen declining dealers have less than one sales supervisor for every ten salesmen as compared to only two out of fifteen improving dealers who have this small proportion of sales supervisors.[1] However, declining dealerships are just as likely as improving dealerships to have a very large proportion of sales supervisors--i.e., about two supervisors for every five salesmen. It appears then, that having a large proportion of sales supervisors does not guarantee good sales performance, but that

1. This difference between improving and declining dealerships could occur by chance five times out of 100.

achieving good performance is more difficult when the ratio of sales supervisors to salesmen is small.

Sales-Connected Supervisors

It often happens that other supervisors, in addition to sales managers and their assistants, are active in the sales department. These other persons may include the owner, where there is a working owner, and a general manager, as well as other persons (assistant general manager, general sales manager, etc.). It is of interest, therefore, to examine, in relation to the number of salesmen, the number of supervisors who have any responsibility for the sales department. We may term these persons, including supervisors in the sales department itself, "sales-connected supervisors."

Again there is considerable variation among dealerships in our sample. The ratio of all sales-connected supervisors to salesmen ranges from a low of one supervisor for about every six salesmen to a high of three supervisors for every four salesmen. When we compare improving and declining dealerships, those which have a high proportion of sales-conneeted supervisors (two or more for every five salesmen) are equally likely to be improving or declining. But among dealerships which have a low proportion of sales-connected supervisors (one or fewer for every four salesmen), seven out of ten dealerships are declining.[2]

Why should having a larger proportion of supervisors aid the success of a dealership? A number of possible explanations suggest themselves; let us consider several such interpretations and evidence bearing on them.

2. This difference between improving and declining dealers, while not statistically significant, is consistent with the difference in proportion of supervisors in the sales department itself.

One possible explanation is that when there are more supervisors around the sales showroom, more help and counsel is available to the salesmen. As we have seen in a previous section of this report (page 11), salesmen in improving agencies are less likely to feel the need for additional help. While this explanation may appear plausible, the data contradict it. In dealerships which have a high ratio of supervisors to salesmen, salesmen are not <u>less</u> likely to say they want more help; they are, in fact, somewhat <u>more</u> likely to say they want additional help.

Another possible explanation is that when there are more supervisors around, they check more closely on the salesmen and exert more pressure on them. Again the evidence does not support the explanation. As the proportion of supervisors rises, there is no corresponding rise in the likelihood that superiors will "check more closely" on a poorly performing salesman (as reported by sales supervisors). Nor is there an increased feeling by salesmen of "pressure for better performance over and above what you think is reasonable."

It appears from the available evidence, therefore, that the mere presence of more supervisors does little to affect the performance of the salesmen. It may be that the good effects of having sufficient supervisors comes primarily from what the supervisor himself accomplishes. An active owner or general manager, for example, may be himself an effective salesman. As several owners commented, many customers prefer to see the "top man" personally. Also, the presence of a large enough supervisory core may mean that certain tasks of long-range planning do not get neglected in the hurly-burly of daily business. However, since evidence bearing on this interpretation is lacking, it must be considered for the present as only a reasonable guess.

It should be noted that the proportion of supervisors to salesmen is generally related to the size of the dealership. Large dealerships (defined here as those with twelve or more new car salesmen) have a smaller proportion of supervisors than do medium dealerships (seven to eleven salesmen), which in turn have a smaller proportion of sales supervisors than do small dealerships (six or fewer salesmen). Moreover, declining dealerships in our sample are more often large organizations than are improving dealerships (seven cases to four).

However, it is difficult to ascribe the poor performance of the large declining dealerships to the fact of their size rather than to the low ratio of supervisors. When seven declining large dealerships are compared to four improving large dealerships, it is seen that all but one of the declining large organizations have a lower ratio of sales department supervisors than <u>any</u> of the improving large dealerships. It appears therefore, that while bigness it itself is not harmful to successful performance, bigness can be harmful when it results in the error of having too few supervisors in proportion to the number of salesmen.

It is interesting to note that those dealerships which have the lowest ratio of supervisors to salesmen also are poorest in supervisor-salesman relations--i.e., in involving salesmen in department goals and in providing as much help as salesmen desire. As we have seen (page 29), poor supervisor-salesman relations are associated with declining dealerships. However, as Figure 8 shows, dealerships which have poor supervisor-salesman relations still have a fair chance of success if they have a high ratio of supervisors to salesmen.[3] But where supervisor-salesman relations are poor and the proportion of supervisors is low, the chances for success are very poor. Seven out of eight dealerships in this category are declining.

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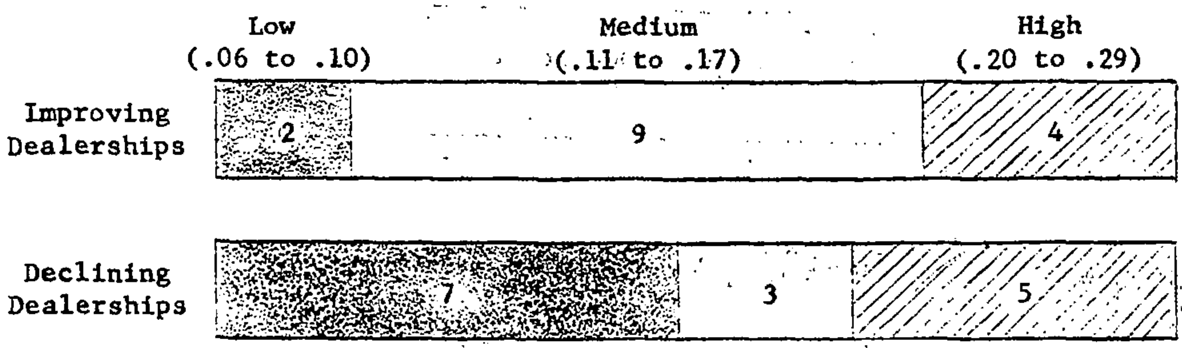
3. Proportion of supervisors score is in this case, a composite score based on the proportion of sales department supervisors and proportion of all sales-connected supervisors.

Figure 8 also indicates that having a low proportion of supervisors does not necessarily lead to poor performance. Thus, of those dealerships which have a low proportion of supervisors but good supervisor-salesman relations, two are improving and one declining.

It appears that having poor supervisor-salesman relations and having a low proportion of supervisors each represents a handicap for the dealership. Neither alone is an impossible obstacle, but in combination they seem crippling.

Figure 7

Ratio Of Sales Department Supervisors To Salesmen



Ratio Of All Sales-Connected Supervisors To Salesmen

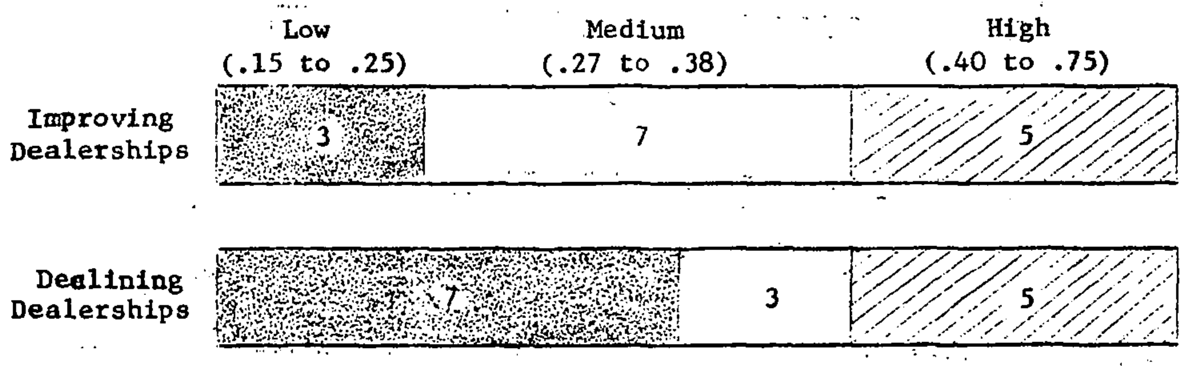


Figure 8

Proportion Of Supervisors, Supervisor-Salesman Relations, And Dealership Success

I = Improving Dealerships
D = Declining Dealerships

PROPORTION OF SUPERVISORS*	SUPERVISOR-SALESMAN RELATIONS** Good	Poor
Low	I I D	I D D D D D D D
Medium	I I I I I I	I D D
High	I I D D	I I I D D D

*"Proportion of supervisors" score is a composite of data on ratio of sales department supervisors to salesmen and on ratio of all sales-connected supervisors to salesmen.

**A good supervisor-salesman relations score means that the dealership scores at least adequate both in involving salesmen in department goals and in providing sufficient help to salesmen. See Appendix D for further details.

VI. PROBLEMS OF FINANCING DEALS

Main Points

1. Declining dealerships lose more potential sales because of financing than do improving dealerships.
2. In dealerships which turn down a high proportion of potential deals because of financing problems, salesmen are likely to feel the need for more help from superiors in handling financing arrangements.
3. Lack of financing problems will not necessarily bring success, while success is possible in the face of serious financing problems.

Is skill in arranging financing an important element in the success of a dealership?

We asked new car salesmen:

> About what per cent of the deals you handle are turned down because you can't get approval of the finance contract?

In eleven out of the fifteen dealer pairs, salesmen in declining dealerships report a higher percentage of deals lost in this way than do salesmen in the improving dealership in the same area.[1] In some cases the difference between the declining and improving dealerships in the same area is fairly sizable. Salesmen in two declining dealerships lose about 10% or more of their deals through financing difficulties (14% and 12% respectively) as compared to the improving dealers in their areas (4% and 2% respectively).

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1. This difference between improving and declining dealerships could occur by chance 6 times out of 100.

These data are paralleled by salesmen's responses to the following question:

> In general would you rather handle a cash deal or a time sales deal?

While in no dealership do a majority of salesmen prefer cash deals (many expressed no preference), salesmen in declining dealerships are more likely to prefer cash. In nine dealership pairs, a higher proportion of salesmen in the declining dealership said they preferred a cash deal; four pairs had an equal proportion preferring cash deals; while in only two pairs did a larger proportion in the improving organization prefer cash.[2]

While declining dealerships are more likely to <u>turn down</u> deals because of financing problems, it does not follow that they make a smaller proportion of their completed deals as time sales. In fact, declining dealerships have a somewhat higher percentage of time deals than the improving dealerships in their area. This is true in nine out of fifteen pairs.[3]

That declining dealerships in our sample both <u>turn down</u> a relatively high percentage of time deals and tend to <u>make</u> a larger proportion of time deals indicates that the declining dealerships in our sample tend to draw more "time customers" than do the improving dealerships with which they are paired. It may be therefore, that the turn-down of many time deals by some declining dealerships is, to some extent, a result of the kind of

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2. This difference could occur by chance 3 times out of 100.

3. Five out of seven declining dealerships which turn down more time deals than does the improving dealership of the pair also make a greater percentage of time deals than does the improving dealer.

customers they encounter.[4]

There is some evidence, however, that a high percentage of deal turn-downs because of financing problems, is connected, at least in part, with inadequate handling of financing problems by the dealership.

We asked salesmen:

> Would you like more help than you now get from your supervisors concerning...financing arrangements?

The more salesmen feel a lack of sufficient help with financing arrangements, the greater the percentage of deals which are turned down because of financing difficulties.[5] Lack of help with financing may sometimes indicate a poor knowledge of financing by the management of the dealership. In other cases, it may stem from a failure to pass down the necessary knowledge to salesmen. In either case, the data suggest that where salesmen handle some of the fanancing arrangements themselves (as they do in almost every dealership in our sample), a greater assistance to salesmen in these complex matters can help sell more cars.

Financing Skills And Supervisor-Salesman Relations

How well can we account for the performance of dealerships on the basis of their success in handling financing problems: Will a "smart-finance" dealership be outstandingly successful even without the managerial skills necessary to involve salesmen in department goals and to provide salesmen with enough help?

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4. It may be noted that the higher the proportion of deals which an organization turns down, the higher its percentage of repossession (correlation coefficient = +.57). Whether this means that a high rate of repossession leads to greater reluctance to take marginal risks or that those dealerships with a high rate of turn-downs are poorer judges of risks is not possible to tell from these data.

5. The extent of association is indicated by the correlation coefficient $r = +.37$; an association of this size could occur by chance less than 5 times out of 100.

While there are too few cases in our sample to answer this question with certainty, Figure 9 provides some clues. The most interesting cases for the present purpose are those which are good in one respect but poor in the other.

Among four dealerships that have few financing problems but have poor supervisor-salesman relations, two are improving and two are declining. And two dealerships which turn down a high proportion of deals on financing grounds but which have good supervisor-salesman relations are both improving dealerships. This limited number of cases indicates that while financing expertise in itself will not necessarily bring outstanding success to a dealership, success is possible without overcoming financing difficulties.

Other Aspects Of Financing

Improving and declining dealerships showed no consistent differences on the following other aspects of financing:

1. In the type of liability on time sales. (About half of the dealerships have re-purchase and about half have non-recourse liability.)
2. In offering salesmen's incentives for time payment sales. (Most dealerships in both categories offer such incentives.)
3. In who usually works with the finance company to get final approval on deals. (The sales manager does this in a majority of both improving and declining dealerships.)
4. In whether the dealership is willing to handle a heavy truck finance sale on a re-purchase agreement. (Most dealerships in our sample showed some reluctance to do this.)

Figure 9

Financing Problems, Supervisor-Salesman Relations,
And Dealership Success

I = Improving Dealership
D = Declining Dealership

FINANCING PROBLEMS*	SUPERVISOR-SALESMAN RELATIONS** Good	Poor
Few (2.4-7.9% Turn-downs)	I I I I I D	I I D D
Moderate (8.3-12.4% Turn-downs)	I I I D D	I D D D D
Many (12.9-27.6% Turn-downs)	I I	I I D D D D D D

*Figures are average of data reported by individual salesmen.

**Dealerships good in supervisor-salesman relations score adequate in involving salesmen in department goals and in providing sufficient help to salesmen. See Appendix D for further details.

VII. BUSINESS PRACTICES

Main Points

1. Improving dealerships wholesale a larger proportion of their used cars than do declining dealerships.
2. Amount spent on advertising and advertising media used do not distinguish improving from declining dealerships.
3. As important sources of customers, improving dealerships are more likely than declining ones to mention "passers-by who walk in"; declining dealerships are more likely to mention service customers.
4. There are no differences between improving and declining dealerships on a number of other practices.

It is possible that differences between improving and declining dealerships are due in some measure to differences in their business practices--including emphasis on specific parts of the business, advertising methods, and ways of selling customers. We turn now to a comparison of improving and declining dealerships on a number of such business practices.

Areas Of Emphasis

Do improving dealerships emphasize more one part of the business--say, new car sales--while declining dealerships emphasize more a different part of the business?

Evidence on this question is mixed. Declining and improving dealerships seem to stress the service deaprtment about equally. The median service absorption figure is 66.1% for improving dealerships and 60.1% for declining dealerships. On amount of service provided per unit in operation, once again the differences are small, with the median improving dealership providing $44 worth of service and declining providing $41 in service.

To assess the relative emphasis placed on new car versus used car sales, we may examine for each dealership the ratio of used car sales to new car sales.[1] The median ratios for improving and declining dealerships are almost identical (.68 and .69 respectively). Of the fifteen dealer pairs, nine declining dealerships have a higher used-to-new sales ratio than the improving dealerships in their area, while six improving dealerships have a higher ratio than the neighboring declining dealership. Thus, while declining dealerships show some tendency to have a higher used-to-new ratio, the differences are not large.

These relatively small differences in sales ratios are consistent with the owners' own views concerning emphasis on the different departments.

We asked owners (or general managers) this question:

> How much emphasis do you feel a dealership should put on its used car operation as compared to its new car operation?

In improving dealerships, nine top executives said there should be equal emphasis on new and used sales; three felt used car sales should receive more attention; two thought new car sales should come first, and one did not answer this question. In declining dealerships, four top executives felt there should be equal emphasis between the two sales departments; five said used cars should get more attention; three believed new car sales should come first; and three either did not answer this question or were not available for interviewing.

These responses from owners and general managers show a slight tendency among declining dealerships to place relatively more emphasis on used car sales than do improving dealerships, but the difference is small.

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1. Truck sales and fleet sales were omitted in computing this ratio.

A more sizable difference between improving and declining dealerships emerges when we look at the percentage of used cars which are retailed rather than wholesaled. (See Figure 10) In eleven out of fifteen pairs, the declining dealership retails a higher proportion of used cars than does the improving dealership in his area. The average difference in per cent of cars retailed is 16% in favor of declining dealers.

One possible explanation of these data is that growth in new car sales leads to more used car wholesaling--i.e., that improving dealerships wholesale more used cars because they have more trade-ins to sell. However, the available evidence does not support this explanation. It shows that improving and declining dealers sell about an equal number of used cars and, as already noted, a similar proportion of used to new cars.

Another possible explanation of the data is that retailing more used cars has the effect of slowing down new car sales.

In each dealership, we asked the best-informed supervisor this question:

> Has it ever happened during the past year that you were tougher than usual about making deals because of a big backlog of cars on the used car lot?

In declining dealerships only three supervisors said "Yes, this has happened quite a few times in the past year," while four new car supervisors of improving dealerships reported such an effect. Four declining dealership supervisors said this happened "once or twice" while four improving dealership supervisors gave this answer. The new car supervisors of nine declining dealers and seven improving dealerships reported that such an effect of used car sales on new car sales had not occurred at all in the past year.

Information on this subject was also obtained from owners (or general managers) who were asked:

> Have new car sales been affected at all this year by how fast your used cars were being sold?

Top executives of four improving dealerships and seven declining dealerships said that there had been such an effect, while in eleven improving organizations and seven declining ones, the top executive said this had not happened (one declining owner was not interviewed).

These data from new car sales supervisors and from owners give little support to the idea that the differences between the new car sales of improving and declining dealerships are due, in any great degree, to the effects of wholesaling versus retailing of used cars. It may be, however, that dealership managers are somewhat reluctant to concede that such an effect is important. Also, it may be that these effects are so subtle that even the dealership supervisors are sometimes not aware of them. Thus, where new car sales personnel know that most used cars are retailed, they may be somewhat more choosy in the the trade-in deals they will readily accept.[1]

Advertising

The emphasis on advertising, both the amount of money allocated and the particular media employed, is an area of possible importance. This first link with the buying public is an important one, and gross neglect or improper emphasis could conceivably account for large changes in sales volume.

However, advertising expenditure does not appear to account for the differences in sales success among dealerships in our sample. In terms of total dollars spent on advertising, advertising dollars spent per car sold, and advertising dollars per salesman, improving dealerships do not place more emphasis on advertising than do declining dealerships.

There is also the possibility that improving dealerships get more per dollar of advertising by concentrating on media with higher payoff. Again, however, the available data do not support this possibility. The great majority of both improving and declining dealerships put most of their advertising dollars into newspaper advertising. There are, also, few differences among

1. It is possible that there is no causal relationship between wholesaling of used cars and growth in new car sales. If this were so, the greater amount of used car wholesaling among improving dealerships might be accounted for by their possibly having less room for used cars.

improving and declining dealerships in how often they use television, direct mail, handout literature, and public billboards for advertising purposes. Declining dealerships do show a tendency to spend more than improving dealerships on radio advertising (eight declining dealerships and three improving dealerships use radio advertising), but this difference is not large and could occur by chance.

It is probable, of course, that some dealerships place more effectively worded advertisements than do others. We have no evidence on whether improving dealerships differ systematically from declining dealerships in this respect.

Other Means Of Attracting Customers

In addition to advertising, there are other ways of attracting customers to a dealership. Supervisors were asked to rank the importance for their dealership a number of customer sources, including passers-by, service customers, previous new car customers, bird-dogging, and cold-spearing.

The outstanding source of customers for both improving and declining dealerships is repeat customers. (See Figure 11). Twelve out of fifteen dealerships in each category rank this source among the top three. Bird-dogging is another source of customers which is deemed important by both improving and declining dealerships. Eight imporving and nine declining dealerships chose bird-dogging as an important customer source.

There are, however, some differences between improving and declining dealerships in the customer sources they emphasize. Eight improving dealerships chose "passers-by who walk in" as one of their three most important sources of customers while only one declining dealership chose this source as important.

This difference does not appear to reflect merely a superior location for improving dealerships. We asked owners:

How about your location--does it help or hinder?

There are no systematic differences in reported favorability of location between owners of improving dealerships and those of declining dealerships. It may be that improving dealerships have a more agressive sales force that is willing to spend more time with casual walk-ins, and thus rate this as an important source of customers.

Declining dealerships are, on the other hand, more likely than the improving dealerships to rate service customers as an important source of new car sales. Seven declining dealership supervisors, as compared to only one improving dealership supervisor, mention this source as important. This difference may reflect, in part, the fact that the service operations of declining dealerships tend to be somewhat larger than those of declining dealerships.[2] It may also indicate a tendency to rely on "known" people as customers rather than aggressively trying to sell such "unknowns" as casual walk-ins.[3]

Handling Of Customers

Having attracted the cstomer to the dealership by various means, is there any difference between declining and improving dealerships in their way of selling a potential customer?

The best information about this subject would probably come from the customers themselves. Such customer reports were not obtained, but there is available some relevant information from the dealership personnel. Sales supervisors were asked to rank in order of importance factors that might contribute to a sale in their dealerships. These include good service; reputation for fair dealing and reliability; big stock or quick delivery; and better or easier financing.

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2. Declining dealerships have a median of 19 employees in their service department, compared to a median of 15 such employees in improving dealerships.

3. The overall differences between improving and declining dealerships in ways of attracting customers could occur by chance less than 5 times in 100.

There are no sizable differences between improving and declining dealerships in the importance attached by sales supervisors to each of these items. Dealerships of both types assign greatest importance to a reputation of fairness and reliability, while smart selling techniques and good service reputation are also emphasized by both.

The top executive of each dealership (usually the owner) was asked to express his preference on several questions which concern alternative ways of handling customers and sales.

These included the following alternatives:

1. In the long run, the interest of a dealership is best served when the customer is given a good deal and the best possible service.	vs.	As a practical matter, the interests of a dealership are best served when the salesman obtains the highest profit that competition allows and the customer gets only that service to which he is strictly entitled.
2. The salesman's only responsibility is to make a profitable deal with minimum risk even though the customer may be making an unwise decision.	vs.	The salesman has at least some responsibility to the customer to encourage him to buy the Acme car best suited to his needs and financial situation.
3. A dealership should make every transaction count in adding to profit, and keep a close watch on day-to-day costs and losses.	vs.	A dealership should take a long view of costs and profit, aiming for an ultimate favorable result but taking occasional losses in order to maintain growth and volume.

On each of these alternatives, top executives of improving and declining dealerships showed little difference in their approach to selling.

While there may be systematic differences in handling customers that are not caught by our questions, there is no basis in the present data for thinking that customers get treated very differently in improving dealerships than they do in declining dealerships.

Other Business Practices

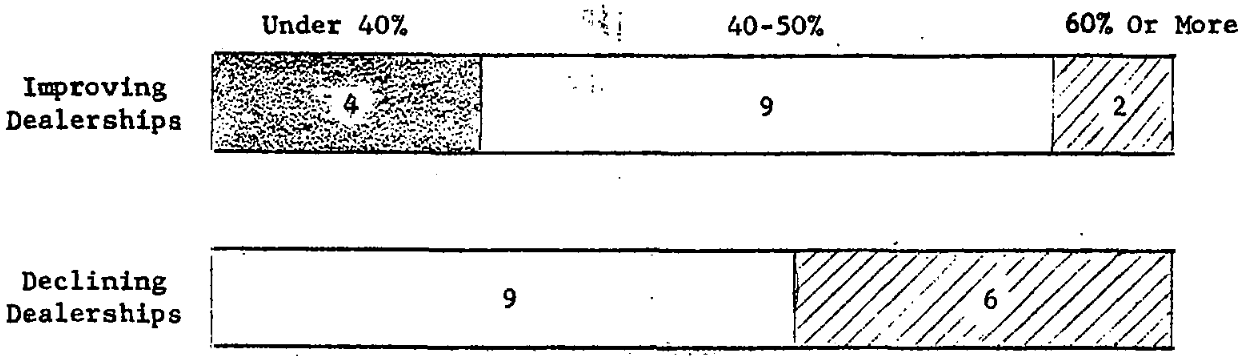
A number of additional questions about specific practices were included throughout the questionnaires. The following statements summarize the findings.

1. Both improving and declining dealerships are equally likely to use Acme's reconditioning program.
2. Setting a minimum margin on profit on a deal is not a general practice, and when employed is equally as likely in improving and declining dealerships.
3. There are no large differences between improving and declining organizations on "who has the most say on trade-in allowance," e.g., between new and used car managers.
4. A large majority of both declining and improving dealerships book trade-ins on new vehicles at the dealer's estimate of wholesale value, rather than either book wholesale value or estimated retail-resale value.
5. A considerable number of dealerships employ accounting records in addition to those required by the Acme Motor Company. There are no appreciable differences between improving and declining dealerships in this practice.

Figure 10

Retailing Of Used Cars

PER CENT OF USED CARS RETAILED



COMPARISON OF DEALER PAIRS

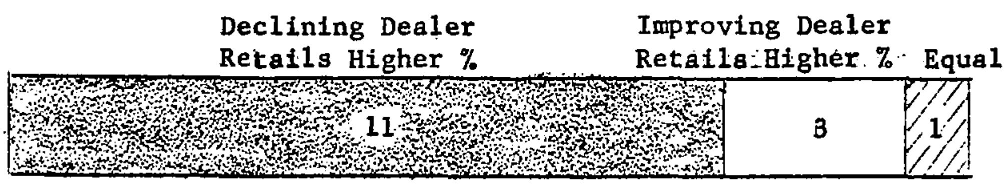
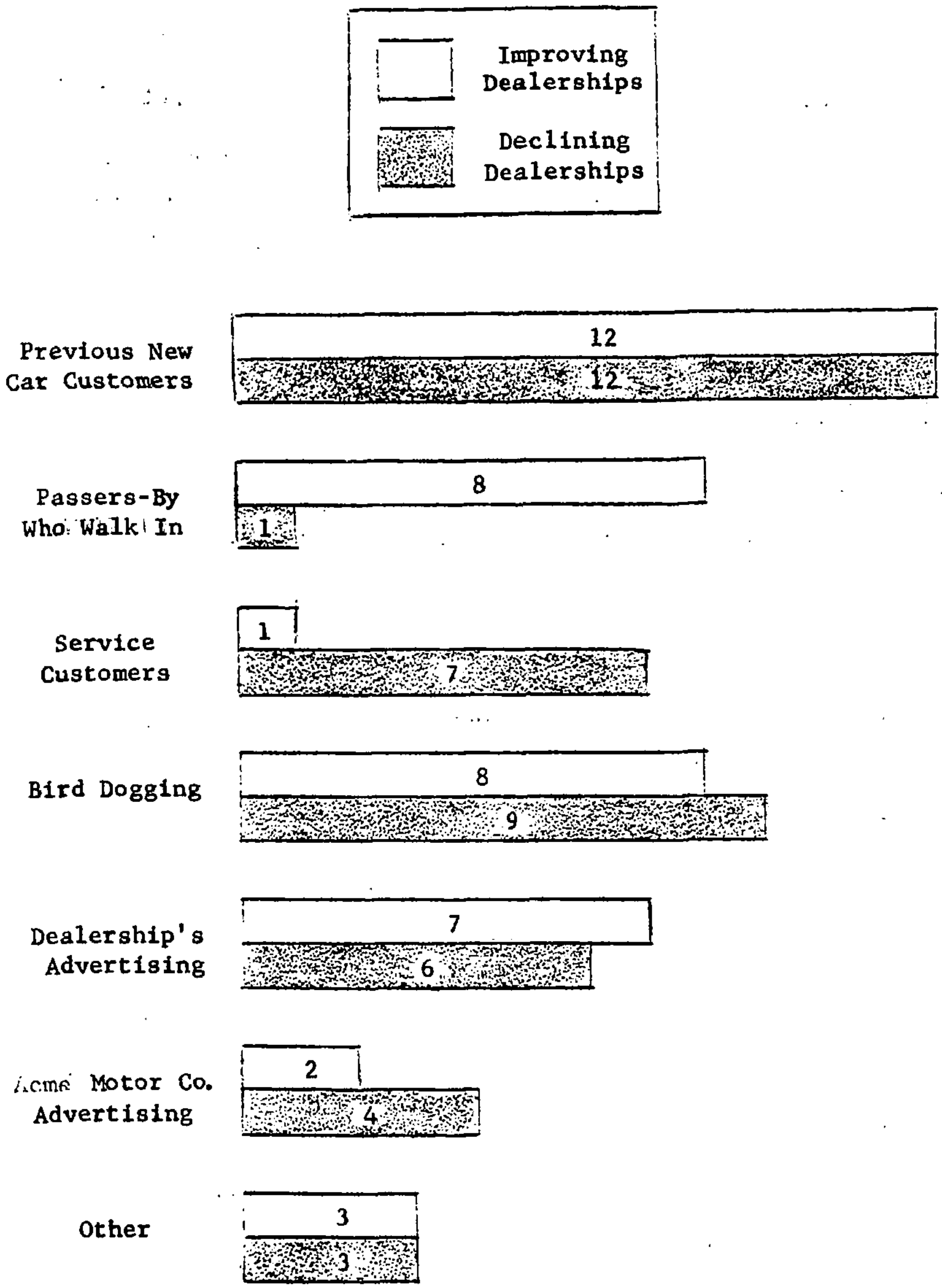


Figure 11

Most Important Sources Of Customers
(As Chosen By Improving And Declining Dealerships*)



*Includes item mentioned as any one of three choices. Grand total is less than 90 for 30 dealerships, since all dealerships made three choices.

VIII. COMPENSATION PLANS

Main Point

Despite the prominence of money incentives in dealerships, many aspects of compensation plans do not distinguish the improving from the declining dealerships.

Money incentives play a prominent role in every dealership. Moreover, the specific compensation plans used vary considerably among dealerships. How important are these differences in distinguishing between improving and declining dealerships?

For Salesmen

We obtained information from each dealership on the following aspects of the compensation system:

1. Whether any salesmen get a salary or a draw and how much.
2. Whether any bonuses are paid on the basis of department or team performance.
3. To what extent bonuses for individual performance are based on how well a man does relative to other salesmen (most sales, highest grosses, etc.) and to what extent they are based on how well a man does regardless of whether others did better or worse, (e.g., a bonus after x number of sales).
4. What proportion of bonus money was based on sales volume and what proportion was based on the size of the margin of profit on deals.
5. Whether salesmen get something extra on each deal (e.g., higher commissions, bonuses) after having sold a certain number of cars or whether they are paid on the same basis for all deals.
6. Whether annual bonuses are given; in what amounts; and how they are apportioned among salesmen.

7. The basis on which the salesman's commission is figured (e.g., the whole washout on a deal, gross profit on vehicle sold minus over-allowance on trade-in, etc.).
8. Income of salesmen (total for past year; for best month of past year; and for worst month of past year).

When improving and declining dealerships are compared on these features of the compensation system, the most striking result is the general lack of differences between the two groups of dealerships. The one aspect which distinguishes the improving dealerships is, as we have seen (page 22), their greater likelihood of basing at least some of their bonuses on the performance of a whole department or team. But on other features of the compensation system, the differences between improving and declining dealers are slight and might easily occur by chance.

The subjective reactions of salesmen to the compensation systems they work under are also not very different in improving dealerships from what they are in declining dealerships. Salesmen in declining and improving dealerships are about equally likely to say that it is worthwhile to try hard for a bonus; that they have had a dispute with a supervisor concerning compensation; that earnings depend on their own efforts; that management makes an effort to help salesmen maintain a good income; that they feel their job will provide them with adequate earnings even in low sales periods; and that the compensation system provides them with as good an income as they are entitled to.

These results do not mean that differences in compensation plans are of no importance. Experience with a variety of incentive plans in a number of other (non-dealership) work settings has led observers to conclude that some types of plans have advantages over other types.[1] It seems likely that some dealership compensation plans--perhaps some that we did not consider in this study--will provide more incentive for salesmen than will others. Moreover, the nature of the compensation system and, especially, the satisfaction of salesmen with their earnings, have important effects on turnover among salesmen (see pages 70-72).

It remains an arresting fact, however, that despite fairly wide variations in the compensation plans of dealerships in our sample, this aspect of dealership operation does not clearly distinguish the better dealerships from the poorer ones. The fact that all dealerships provide some form of money incentives may account for the lack of difference. If there were few financial incentives in some dealerships, it would probably hurt the performance of these organizations. But where financial incentives are everywhere present, other factors appear to become of more critical importance. One of these other factors, discussed in a previous section (pages 20-28), is the involvement of salesmen in group goals. To the extent that the compensation system helps create and maintain such goals--especially through paying some bonuses for group performance--it may make an additional contribution toward a more effective dealership.

For Supervisors

In addition to the information obtained about the compensation plans for salesmen, we also recorded the basis on which supervisors--both those in the sales departments and those in other departments--are paid.

For each supervisors, we determined:

1. Whether or not he is paid a salary.

2. Whether or not he is paid anything based on the sales or profits

1. See for example, Marriott, R. Incentive Payment Systems--A Review of Research and Opinion, London: Staples Press, 1957.

of his own department.

3. Whether or not he is paid an amount based on the sales or profits of the dealership.

4. Whether or not he is paid an amount based on individual performance, regardless of overall department or dealership performance.

The data show that new car sales managers in improving dealerships are paid in much the same way as are their opposite numbers in declining dealerships. Almost all the new car managers in either type of dealership are paid a salary, most are paid an amount based on the profits of the entire dealership, and some in each type of dealership are paid an amount based on the performance of their own department.

There are likewise, few differences in the compensation plans for used car managers; the majority in both improving and declining dealerships are paid a salary, about a third in both types of dealership are paid an amount based on the profits of the entire dealership; and about a third are paid an amount based on the sales or profits of their own department.

By considering the compensation plans for other supervisory positions in the dealership (service manager, parts manager, etc.) along with those for sales department positions it is possible to determine the "typical" methods of compensation which each dealership uses. For example, we can figure the proportion oa all dealership jobs which get paid a salary; the proportion of all jobs which are paid a proportion of the entire dealership profits; etc.[2] The results show almost no differences between improving and declining dealerships in the compensation plans which are most typically used. For supervisors as well as for salesmen, therefore, we may conclude that the

2. The jobs considered were all sales positions, both supervisory and non-supervisory, and the manager of every department.

that the differences between improving and declining dealerships can not be accounted for on the basis of their compensation plans.

IX. AUTHORITY AND INFLUENCE

<u>Main Points</u>

1. Owners of declining dealerships are as active in their business as are owners of improving dealerships.
2. Sales managers in both improving and declining dealerships report considerable autonomy in running their departments.

Do the owners of declining dealerships take a less direct hand in running the dealerships than do the owners of improving organizations? Do sales managers in improving dealerships have more autonomy in running their own departments than do their peers in declining dealerships?

To shed some light on these and related questions, we asked sales managers and salesmen about the amount of influence which various persons--the owner, the general manager, the sales manager, the assistant sales manager, and the salesmen as a group--have over "what goes on in your department." Each sales supervisor was asked to rate "how much say or influence" he has "in running your own department." Salesmen were asked how much influence they have concerning a number of things that directly affect their work--e.g., whether to accept a questionable deal, the bonus plans they work under, and their schedule for being on the floor. Finally, owners were questioned about their role in the dealership.

<u>The role of the owner</u>. Owners of declining dealerships do not appear less active in the affairs of the dealership--and specifically the new car department--than are the owners of improving dealerships. In only one declining dealership is there an absentee owner--a man who spends almost no time around the dealership; there is also an absentee owner in one of the improving dealerships. Also, improving and declining dealerships are about

equally likely to have a general manager to do some of the coordinating work. Ten improving and eight declining dealerships have a general manager.

The owners themselves report spending about as much time in declining dealerships--an average of 50 hours per week--as do owners of improving dealerships.[1]

Sales managers. The great majority of sales managers in both improving and declining dealerships claim considerable autonomy in running their own departments, with the typical statement being "I generally decide things myself and get my supervisor's approval." This lack of difference between improving and declining organizations is supported when we examine differences between the influence of the new car sales supervisor and his immediate supervisor (owner or general manager). In both improving and declining dealerships, a majority of sales managers say they usually have equal or greater influence than their supervisor in such matters as setting sales objectives, accepting questionable deals, setting up bonus plans and setting salesmen's schedules. Head sales supervisors in both types of dealerships generally say they are "very satisfied" with the amount of say they have in the dealership.

Salesmen. Salesmen typically see themselves (and are seen by sales managers) as having "some" but not great influence in both improving and declining dealerships. They are likely in both types of dealership to want more influence than they actually have, but to say, nevertheless, that they are fairly satisfied with the influence they have.

Previous research has shown that greater opportunity for non-supervisory employees to influence the affairs of their units is usually

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1. Owners of improving and declining organizations do not differ systematically in the number of "outside" activities--clubs, civic organizations, church groups, etc.--to which they belong.

associated with high productivity.[2] In auto dealerships, however, a low level of influence for salesmen in such matters as setting department goals and devising bonus systems appears fairly uniform. This uniformity may account for the lack of relationship between influence of salesmen and sales success. It may be that trial attempts to give salesmen greater influence would, under appropriate conditions, produce increases in performance.

2. Georgopoulous, B.S. and Tannenbaum, A.S. "A Study of Organizational Effectiveness," American Sociological Review, Vol. 22, 1957; pp. 534-540; Coch, L. and French, J.R.P., Jr. op. cit.; and French, J.R.P., Jr., Israel, J. and Aas, D. "Experiment on Participation in a Norwegian Factory: Interpersonal Dimensions of Decision Making," Human Relations, Vol. 13, 1960, pp. 3-19.

X. COMMUNICATION UP AND DOWN

<u>Main Points</u>

1. Improving and declining dealerships do not differ appreciably in the amount of information which salesmen and supervisors receive nor in the satisfaction of personnel with the amount of information received.
2. In dealerships where salesmen get a lot of general information about their dealership, they are likely to be aware of department sales goals. Such awareness has been shown to be associated with dealership success.

<u>Salesmen</u>. Some dealerships give a lot of information to their personnel about things that are going on in their department and in other departments. Other dealerships keep such information within the circle of top managers.

We asked salesmen how much information they get concerning a number of subjects--including how the dealership is doing financially, how their own department is doing financially, what things are happening in other departments, and what the owner or general manager is planning for the dealership in the future.

Improving and declining dealerships do not differ consistently in the amount of information which salesmen receive nor in their expressed satisfaction with the information they get. Also, the frequency of sales meetings is about the same in improving and declining dealerships. Variations in communication to salesmen seem, therefore, to have little direct importance in accounting for sales success.

However, in dealerships where salesmen are given considerable information about things happening in the dealership, they are more likely to be aware of department sales goals.[1] And as noted in a previous section (page 11), an awareness by salesmen of department goals is associated with dealership success. Thus, adequate communication to salesmen does appear to contribute to good sales performance when it leads salesmen to become involved in group goals.

It should be noted that salesmen who are aware of department goals are not merely given more information about this phase of the business. They also report being told more about the financial situation of the entire dealership,[2] as well as about things happening in other departments.

Communication is of course, a two-way process. Important information which the salesman has can fail to reach his superiors. There is some evidence, as noted previously (page 14), that salesmen in declining dealerships are more hesitant to discuss problems with the owner or with his immediate supervisor than are salesmen in improving dealerships. However, questions asked of salesmen about their communication of opinion and information in sales meetings did not show marked differences between improving and declining dealerships. It may be that expression by salesmen is easier in a group situation.

Supervisors. There is little difference between the amount of information which supervisors report they receive in improving and declining dealerships. This is true whether we consider supervisors of all departments as a group or only the new car managers.

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1. The size of this association is indicated by the correlation coefficient, $r = +.37$. An association of this magnitude could occur by chance 2 times out of 100.

2. Correlation coefficient, $r = +.29$. An association of this size could occur by chance 5 times out of 100.

XI. COOPERATION AMONG DEPARTMENTS

<u>Main Point</u>

While there is some variation among dealerships in the degree of cooperation among departments--especially between the new and used car departments--improving and declining dealerships do not differ systematically in inter-department cooperation.

The dealerships in our sample have been classified as improving or declining primarily on the basis of new car sales performance (although return on investment was considered too). It is clear, however, that a new car sales department must coordinate its activities with the operations of other departments--especially with the used car and service businesses.

One way to coordinate new car and used car operations is to amalgamate them. But having separate or combination sales departments has no clear relation to sales performance, since improving and declining dealerships are about equally likely (seven improving and seven declining) to have combined new and used car departments.

Where there are separate new and used car departments, a possible source of friction concerns the value to be place on trade-ins. We asked new car supervisors how often there are disagreements about this matter. Dealerships vary a great deal in the amount of friction reported--from disagreement "almost every day" to "about once a month or less"--but there is no consistent difference between improving and declining dealerships.

Friction between the new car department and the service operation also does not appear more frequent in declining as compared to improving dealerships. New car supervisors in both types of dealership generally report only a few occasions when service does not have a new car ready on time or when service and the new car department disagree about whether a repair job should be covered under a warranty. Moreover, improving dealerships do not appear to be benefiting more from a large service operation, since relative size of service department--as indicated by per cent of overhead absorption--does not differ much in improving as compared to declining dealers. (See pages 44-45)

To get further information about the general level of cooperation among departments, we asked the manager of every department how much cooperation his department gets from each of the other parts of the business. Again, no appreciable differences between improving and declining dealerships appears; supervisors in most dealerships--with the notable exception of one declining dealership--generally claim good cooperation. Also the frequency of meetings for department heads does not differ much between improving and declining dealerships.

All of this information indicates that good cooperation among departments, while undoubtedly beneficial, does not distinguish the improving from the declining dealerships. It may be, however, that even where there is good personal cooperation among department personnel, the policies of the one department adversely affect the success of another. Thus, it is possible that when the used car department retails a high percentage of cars, the sales success of the new car department is hurt. The reader should refer to the section on business practices, especially pages 45-47 for a discussion of these possible effects.

XII. PERSONAL CHARACTERISTICS OF EMPLOYEES

Main Point

New car salesmen and supervisors in improving dealerships do not differ greatly from declining dealership personnel in age, education, or number of dependents.

Are the men who sell new cars in improving dealerships different kinds of people than those in declining dealerships? While data on this question are limited,[1] there are available data on the age, education, and family status of personnel.

Age

Neither salesmen nor supervisors of improving dealerships differ much in age from those in declining organizations. The average age of salesmen in improving dealerships is 36 years, while the average age of salesmen in declining dealerships is 38 years. The average age of principal sales supervisors in improving dealerships is 38 years, as compared to an average age of 41 years for principal sales supervisors in declining dealerships.

Education

There is, also, little difference in the educational level of sales personnel in improving and declining dealerships. About 40% of new car salesmen in both types of dealerships have completed high school while an approximately equal percentage in both types of dealerships have at least some college training.[2]

1. It is, of course, possible that there are systematic differences in characteristics which we have not measured--such as personality traits and intelligence.

2. The percentage of salesmen in each education category was computed separately for each dealership and these percentages were than averaged for improving dealerships and for declining dealerships.

The educational level of principal supervisors for new car sales is also similar in improving and declining dealerships. In both types of dealerships, a majority of new car managers have had at least some college training.

Dependents

Questions on the number of dependents each respondent has were asked only of salesmen. These in improving dealerships tend to have more dependents than salesmen in declining dealerships, but the difference is not large. In nine out of fifteen dealerships, salesmen in the improving organization have a higher average number of dependents than do those in the neighboring declining dealership. The average number of dependents for salesmen in improving dealerships is 2.6 as compared to an average of 2.2 for those in declining organizations.[3]

The slight tendency of improving dealership salesmen to have more dependents is probably related to the fact that they are somewhat more likely to be married. Almost 17% of those in declining dealerships are single as compared to about 7% in improving dealerships.[4] In nine dealership pairs, there is a greater proportion of single men in the declining organization; in three dealership pairs, the improving dealership has a higher proportion of single men; and three pairs are equal in this respect. However, in both improving and declining dealerships, the great majority of salesmen are married.

In general, differences in the personal characteristics of salesmen

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3. These figures were computed by getting the average number of dependents separately for each dealership and then averaging the numbers for all declining dealerships and all improving dealerships.

4. The probability of this percentage difference occurring by chance, taking into account the percentage in each dealership separately, is 5 in 100.

in improving dealerships, as opposed to those in declining dealerships, are not large enough to suggest that these factors are important in explaining the differences in dealership success.[5]

5. For data on how long salesmen worked in the dealerships, see the turnover section.

XIII. TURNOVER OF SALESMEN

Main Points

1. Improving and declining dealerships do not differ greatly in the turnover among their salesmen.
2. Turnover among new car salesmen decreases as satisfaction with income increases. However, regardless of satisfaction with income, turnover tends to be higher when bonuses are based on the relative performance of salesmen, rather than on their absolute performance.
3. A reduction in turnover is also associated with supervisors at all levels playing an active personal role in the operation of the sales department.

To study turnover in dealerships, we computed for each dealership in our sample, the following ratio:

$$\frac{\text{Total number of new car salesmen who left during 1960}}{\text{Number of new car salesmen employed at one given time}^{1}}$$

The range of these proportions is great. It varies from zero for two dealerships which lost no salesmen during the year to two dealerships which lost a number of salesmen equal to almost three times their normal sales force. For the entire sample, the median ratio of salesmen leaving to size of sales force is .88.

Improving dealerships tended to have less turnover among new car salesmen during 1960 than did declining dealerships, but the difference is not large. In nine out of fifteen pairs, the improving organization had a smaller

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1. Number of salesmen employed when the data were collected was used as the base figure.

proportion of its salesmen leaving than did the declining dealership in the same area.

Improving and declining dealerships also differ little in the turnover among new car managers. The median for each group is two managers serving during the period from 1957 through 1960.

Considering the job tenure of salesmen presently employed, salesmen in declining dealerships show a longer average tenure, due to the presence of a few long-service salesmen in the declining dealerships (which are generally older organizations). But when a measure of the more typical job tenure of salesmen--the median--is used, salesmen in improving and declining dealerships have about the same "typical" tenure--about sixteen months.

Importance Of Turnover

These data indicate generally that turnover of salesmen, in itself, does not account for much of the variation in sales performance.

It is plain, nevertheless, that it is good for dealerships to reduce turnover. Replacing salesmen takes time and money; so does training new salesmen. Moreover, it should be expected that new salesmen will usually need more assistance than do salesmen who have been with the dealership longer. This expectation is borne out by the fact that increasing turnover among salesmen is associated with a greater desire for help among salesmen.[2] For these reasons, it is of interest to see what characteristics of dealerships are associated with greater or lesser turnover.

Satisfaction With Income

The factor which shows the strongest association with turnover among salesmen is their satisfaction with income.

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2. The extent of association is indicated by the correlation coefficient, $r = +.33$; an association of this size could occur by chance less than 5 times out of 100.

Salesmen were asked:

> How do you feel about the following aspects of your job:
>
> a. the kind of work
> b. the money
> c. the hours
> d. the amonnt of prestige in the community
> e. job security
> f. your immediate supervisors
> g. your co-workers

For each of these items, salesmen could answer "very dissatisfied," "a little dissatisfied," "fairly satisfied," or "very satisfied."

Of these items, satisfaction with "the money" is most strongly associated with turnover.[3] Holding constant (statistically) satisfaction with other aspects of the job, as well as other factors,[4] the higher the average dissatisfaction of salesmen with "the money," the higher the turnover.

Competitive Versus Absolute Bonuses

While general satisfaction with income has a marked effect on turnover, the way in which income is distributed among salesmen is also important. We asked sales supervisors:

> Thinking...of the total amount of bonus money given to salesmen during the past year, about what proportion of such bonuses were based on how a man did relative to other salesmen and what proportion was based on how well a man did regardless of how other men did?

Responses were distributed in five categories ranging from "almost all based on how a man did relative to other salesmen," at one extreme, to "almost all based on how well a man did regardless of how others did," at the other extreme.

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3. The correlation between these factors is +.30.

4. The following factors were among those held constant: whether bonuses are paid on a relative or absolute basis; satisfaction with hours; an index of direct job satisfaction based on satisfaction with co-workers, immediate supervisors, and the kind of work; satisfaction with the prestige of the job; and income during the worst month of the year.

The more bonuses are paid on a relative basis, the higher the turnover.[5] The more dealerships reward a man's own performance, regardless of how others did, the lower the turnover. This relationship tends to hold true even when general satisfaction with income, as well as a number of other factors are held constant. It is not difficult to think of reasons why a strongly competitive bonus system should be associated with high turnover. A bonus system which rewards only the "winner" may lead to considerable hostility among salesmen and thus make the work situation less acceptable. Also, where hard work and "success" can remain unrewarded because another man does even better, frustation and disillusion are likely to be frequently produced. Such feelings may lead a man to quit or to so slacken his efforts that he is fired.

It may be noted that these results are consistent with previous research which found absences to increase when employees felt that their compensation was unfair--regardless of their actual rate of pay.[6]

Relation To Supervisors

There is evidence that salesmen's relations to their superiors also affects turnover. The data here are rather indirect. We asked salesmen this question:

> In general, how much say or influence do you think each of the following groups or persons actually have on what goes on in your department?
>
> a. Owner
> b. General manager
> c. Assistant sales manager or team captains
> d. The salesmen as a group

Each position was rated as having one of five degrees of influence,

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5. The correlation between these factors is +.26.

6. Patchen, M. "Absence and Employee Feelings about Fair Treatment," Personnel Psychology, Vol. 13, No. 3, Autumn 1960, pp. 349-360.

ranging from "little or no influence" to "very great influence." For each dealership, the total amount of influence which salesmen attribute to all positions above them was computed. This measure may be thought of as an indication of the extent to which managers at all levels play an active personal role in the operation of the new car department.

The greater the role which all managers play in the sales department, the less the turnover.[7] This relation holds up even when we control for the effect on turnover of many other factors.

This result is in accord with findings in two other organizational settings.[8] In these other organizations, a high level of personal control by supervisors was associated with low absence rates, while control from above through impersonal rules was associated with increased absence rates. These results suggest that personal rather than impersonal control by higher level officials (such as the owner and general manager in dealerships) is more satisfying to employees--perhaps by making them feel a more important part of the organization.[9]

While some of the results concerning turnover in dealerships are consistent with previous research, there is less association between turnover and feelings toward co-workers than might be expected from previous studies.[10]

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7. The correlation between these factors is -.31.

8. Indik, B. "Organization Size and Member Participation," Unpublished doctoral thesus, University of Michigan, 1961.

9. It should be noted that a high ratio of supervisors within the sales department to salesmen tends to be associated with increased turnover in this sample of dealerships--although this relationship is sufficiently weak so that it may be due to chance.

10. Mayo, E. and Lombard, G. "Teamwork and Labor Turnover in the Aircraft Industry of Southern California," Boston: Harvard University, Business Research Studies, No. 32, 1944.

The relative unimportance of group cohesiveness in this respect is consistent with its low relationship to sales performance. These facts suggest again that bonds of personal friendship among co-workers are less important in dealerships than in some other organizations.

XIV. RELATIVE IMPORTANCE OF FACTORS ASSOCIATED WITH DEALERSHIP SUCCESS

<u>Main Point</u>

Dealership characteristics most strongly related to sales growth are, in order of the strength of association:

(a) per cent of used cars wholesaled

(b) proportion of salesmen aware of group goals

(c) felt need by salesmen for more help from superiors

(d) number of salesmen

(e) per cent of deals turned due to financing problems.

In preceding sections, a number of characteristics of dealership organization and operation have been shown to be associated with variation in sales success. These include felt need for help by salesmen, awareness of department goals by salesmen, per cent of used cars retailed, per cent of potential deals turned down because of financing problems, and a number of other factors.

But what is the relative importance of each of these factors? To answer this question, we performed a complex statistical analysis which relates each of ten important characteristics of dealership operation to per cent change in new car sales volume from 1957 to 1960--our principal criterion of success. There is of course, considerable variation within our sample in this per cent change figure. The statistical analysis permits us to assess the approximate amount of variation among dealerships (in per cent change) which can be accounted for or explained by each of the dealership characteristics--independent of the effect of other characteristics considered.

Table 1 presents the main results of this analysis.[1]

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1. See Appendix C for technical data from this analysis.

These data indicate that the per cent of used cars retailed has the strongest relationship to growth in new car sales. Two important aspects of the developing of salesmen--salesmen's awareness of department goals and their felt need for more help from superiors--rank second and third in importance. The extent of success in financing deals ranks fifth. It is interesting to note that the two most important factors of business policy and skill (used car retailing and financing deals) are together of about equal importance to the two outstanding factors on interpersonal relations within the dealership (awareness of goals and need for help by salesmen).

Table 1 shows also that the amount of sales growth is less when the new car department is larger--i.e., when there are more salesmen. Some of this effect may be due to the fact that a relatively small organization may have more "room" for growth--in terms of market potential and facilities. However, there is evidence from the study of other organizations that smaller units are often more effective than larger units. In many situations, small organizations have advantages of greater internal coordination and flexibility as well as greater cohesiveness among members.[2] There is some evidence that similar advantages are enjoyed by smaller Acme dealerships. In smaller dealerships (defined in terms of number of new and used car employees), there tends to be better cooperation among departments;[3] salesmen are more likely to think that their supervisors are good at improving the selling and business practices of the agency;[4] decisions are somewhat less likely to be made by rules--an indication of greater flexibility;[5] and salesmen are more likely

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2. Indik, op. cit.

3. The size of this association is indicated by the corelation coefficient, $r = +.10$.

4. Correlation coefficient is $r = +.30$.

5. Correlation coefficient is $r = +.15$.

to get information about the events in the dealership.[6]

A number of other dealership characteristics were also considered in this analysis. These are:

Whether any bonuses to salesmen were based on performance of department or group. Our analysis shows that the presence of group bonuses has, in itself, little importance for sales growth. Its association with good sales performance appears to arise primarily from the fact that it is often associated with other desirable dealership characteristics--such as an awareness by salesmen of department goals.

Division of sales work. The more the job of selling a customer (including closing deals, making financing arrangements, etc.) is handled by several persons rather than one salesman working alone, the better the dealership's sales growth. This is true when the effect of division of sales work is considered in isolation--holding other things constant. However, in reality, increased division of the sales job is associated with larger dealership size, which as we have seen (page 35), is itself associated with poor sales growth. Also, division of sales work is strongly associated--at least in this sample--with a high percentage of deals turned down due to financing problems. For these reasons, the extent that the sales job is divided does not distinguish the improving from the declining dealerships.

Communication of salesmen to superiors. While a readiness by salesmen to communicate freely to superiors is associated with improved sales performance, our analysis shows that free communication is beneficial primarily because of its association with other desirable dealership characteristics--such as salesmen receiving needed help from superiors.

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6. Correlation coefficient is $r = +.15$.

Ratio of supervisors to salesmen. For technical statistical reasons, it was not possible in the present statistical analysis to assess the relative importance of supervisor-to-salesman ratio[7] as a predictor of sales success. See page 32 for a discussion of this factor and its relation to dealership success.

Assigned Market Percentage

In another statistical analysis,[8] the various dealership characteristics discussed above were related to the success of the dealership in meeting its assigned market percentage. The measure of success used in this instance is:

$$\frac{\text{Actual per cent of market for first six months of 1960}}{\text{Assigned per cent of market}}.$$

The extent to which salesmen desire more help has by far the strongest relationship to meeting assigned percentage. The less salesmen feel the need for additional help, the better the sales performance--independent of other factors.

Per cent of used cars retailed ranks second in strength of association with meeting assigned percentage. Again, the higher the percentage retailed, the poorer the sales performance.

Other factors which show a substantial relation to success in reaching assigned percentage are the ratio of sales department supervisors-to-salesmen and freedom of communication from salesmen to supervisors. As the ratio of supervisors increases, sales performance impoves.[9] And as salesmen feel

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7. The multiple correlation assumes linear relationships between each of the predictors and the dependent variable, a condition not met by the relation between supervisor-to-salesmen ratio and change in sales volume.

8. A multiple correlation analysis was used for this purpose.

9. This measure of association is only a very rough approximation since the relationship between supervisor ratio and performance does not appear linear. (See Section V)

more free to discuss problems with superiors, performance improves.

Two factors which show a strong association with change in sales volume show little association with present position relative to assigned market percentage. These factors which drop in importance are proportion of salesmen aware of group goals and proportion of deals turned due to finance problems. These data caution us that the measure of success used may affect the relative importance of various dealership characteristics.

Table 1

Characteristic Of Dealership Operation	Relationship Of Characteristic To Change In New Car Sales Volume From 1957 To 1960*	Approximate Percentage Of Growth Variation Among Dealerships Accounted For By Characteristic
1. Per cent of used cars wholesaled	The more used cars wholesaled, the greater the new car sales growth	15
2. Proportion of salesmen aware of group goals	The more salesmen are aware of group goals, the greater the sales growth	10
3. Felt need by salesmen for more help from superiors	The greater the need for more help, the less the sales growth	8
4. Number of new car salesmen	The smaller the number of salesmen, the more the sales growth	7
5. Per cent of deals turned down due to financing problems	The more deals turned down, the less the sales growth	5

*Data on sales for the entire year of 1957 and the entire year of 1960 were used for this analysis.

Appendix A

POSITION OF SAMPLE DEALERSHIPS* ON THREE CRITERIA OF SUCCESS

	Dealership Number	Per Cent Change In Volume**	Return On Investment	Actual % Of Market / Assigned % Of Market
Improving Dealerships	1	146	204	2.13
	2	117	22	1.36
	3	135	30	1.67
	4	156	14	1.06
	5	116	16	.97
	6	132	27	.88
	7	119	58	2.26
	8	164	122	2.42
	9	116	8	.86
	10	121	63	1.23
	11	121	97	1.23
	12	113	31	1.06
	13	203	34	1.36
	14	140	86	***
	15	176	8	1.00
Declining Dealerships	1	77	6	1.28
	2	82	44	1.19
	3	62	18	.88
	4	78	48	.80
	5	85	1	.47
	6	67	10	1.16
	7	81	8	.80
	8	66	17	.91
	9	85	22	.89
	10	73	5	.80
	11	57	34	.70
	12	47	-32	.86
	13	51	-38	1.16
	14	76	21	***
	15	62	-66	.75

*All dealerships in the sample have a new car sales volume of over 450 cars per year.

**Per cent of cars sold in the first six months of 1960 in relation to those sold in the first six months of 1957.

***This is a pair of single point dealerships in comparable market areas. These dealerships were compared on their performance relative to Competitor dealers in the area. The improving dealer in this case performed better relative to Competitor than did the declining dealer.

Note On Pairing: Improving dealerships and declining dealerships with the same number constitute a pair.

Other Criteria Used

In addition to employing the above criteria, dealerships whose improvement or decline could be attributed to conditions beyond the control of management were eliminated from the sample. Information about these matters was obtained from Acme Motor Company district managers familiar with specific dealerships under consideration for study. In addition the final sample was evaluated by the sales division of Acme Motor Company.

Comments On Specific Dealership Pairs

Pair 4: In this pair the declining dealership surpassed the improving dealership with respect to return on their investment. However, the declining dealership dropped from 112% profit in 1957 to 43%, while the improving dealership went from 5% to 24% profit. In addition, the improving organization was above assigned market percentage while the declining one was considerably below quota.

Pair 9: Members of this pair were approximately equal in meeting assigned market percentage and the declining dealership had a higher return on investment. The decision to include them in the sample was based primarily on their change in volume figures and on the evaluation of the Acme Motor Company district manager and sales division.

Pair 6: In this pair, the declining dealership surpassed the improving dealership in meeting assigned market percentage. However the superiority of the improving dealership with respect to return on their investment and in sales volume growth seemed substantial enough to warrant including these dealerships.

Appendix B

STATISTICAL METHODS

A. Comparison of dealership pairs. Where each improving dealership is compared with the declining dealership with which it is paired, the sign test was the primary statistical measure used. For example, if we find that in eleven out of fifteen dealership pairs the improving dealership scores higher on characteristic X, the sign test tells us the probability that such a result would occur by chance alone.[1]

B. Comparison of the average of all improving dealers with the average of all declining dealers. Where such averages were compared, the t test was used. For example if the average for improving dealership on characteristic X is 2.1 and the average for declining dealerships on characteristic X is 3.5, the t test will tell us the probability that a difference of this size would occur by chance alone. Since each improving dealership is paired with a declining dealership (and may be similar to the paired dealership in certain respects) a formula which takes account of this pairing was used where appropriate.[2]

C. Distribution of dealerships in certain categories. Where improving or declining dealerships were categorized as falling into one of two distinctive classes, the Fisher Exact Test was used. For example, dealerships were classified as either giving some group bonuses or not giving any group bonuses. The number of improving dealerships which fall into each of these categories was then compared to the number of declining dealerships in each of the two categories. The Fisher Exact Test gives the

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1. See Siegel, S. Non-Parametric Statistics, New York: McGraw-Hill, 1956, pp. 68-75.

2. See Guilford, J.P. Fundamental Statistics in Psychology and Education, New York: McGraw-Hill, 1956, p. 220.

probability that the difference between improving and declining dealerships in this respect would occur by chance alone.[3]

Where there are more than two categories into which each dealership may fall, the chi-square test was used. For example, the number of improving dealerships which mentioned each of several ways of attracting customers was compared to the number of declining dealerships which mentioned each of these ways. The chi-square test gives the probability that the observed differences in how often improving and declining dealerships fell into the various categories would occur by chance alone.[4]

Both the Fisher Exact Test and the chi-square test are intended for comparison of independent samples. While dealerships were paired in this study, it was judged that this pairing would not affect the independence of responses to many questions. In such instances, the Fisher Exact or chi-square test was used. Any error deriving from non-independence of samples should raise the computed probability that the observed differences are due to chance. This means that the results obtained through use of the Fisher and chi-square tests are conservative estimates of probability; i.e., that the actual probability of getting the observed results by chance may be somewhat smaller than reported.

D. Measures Of Association. To measure the association between two characteristics in dealerships, the product moment correlation coefficient (r) was used.[5] The square of the correlation coefficient (r^2) indicates the proportion of variation in one characteristic which can be accounted for by variation in a second characteristic. For example, if we correlate

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3. See Siegel, op. cit. pp. 96-104.

4. See Siegel, op. cit. pp. 104-111.

5. See Guilford, op. cit. pp. 138-143.

turnover and salesmen's satisfaction with wages and obtain an r^2 of .13, this means that thirteen per cent of the variation in turnover can be accounted for by variation in salesmen's satisfaction with wages.

In some instances a multiple correlation analysis was used. This procedure enables us to judge the total variation in one dealership characteristic X which is "explained" by a number of other dealership characteristics. This type of analysis also permits a ranking of "explanatory" variables in their order of importance.

Appendix C

RELATIVE IMPORTANCE OF FACTORS ASSOCIATED WITH CHANGE IN NEW CAR SALES VOLUME FROM 1957 TO 1960*
(RESULTS OF MULTIPLE CORRELATION ANALYSIS)

	Beta Value**	r With Per Cent Change In Sales	Beta x r
1. Per cent of used cars retailed	-.3912	-.3915	+.153
2. Proportion of all salesmen aware of department sales goals	+.2831	+.3669	+.104
3. Felt need by salesmen for help from superiors (Index)	-.2479	-.3180	+.079
4. Number of salesmen in new car (or combination) sales department	-.4128	-.1753	+.072
5. Per cent of deals turned down due to financing problems	-.2540	-.2103	+.053
6. Communication blockage between salesmen and superiors (Index)	-.1148	-.2091	+.024
7. Ratio of all sales connected supervisors to salesmen	-.2140	-.0461	+.010
8. Presence of bonuses based on performance of group	-.2810	-.0315	+.009
9. Division of sales job among more than one person (Index)	+.4535	+.0146	+.007
10. Ratio of sales department supervisors to salesmen	+.0757	+.0610	+.005

* Sales volume figures used here are for the entire year of 1960, in relation to the entire year of 1957.

** Beta values represent b values which have been adjusted to take account of difference in standard deviations of each independent variable and the dependent variable.

Appendix D

ASPECTS OF SUPERVISOR-SALESMAN RELATIONS

A. Extent to which salesmen are involved in group goals. The extent to which each dealership involves salesmen in group goals was assessed on the basis of two factors:

(1) The extent to which salesmen are aware of department sales goals.

This data is bsed on salesmen's answers to the following questions:

(a) Has your department had an annual sales goal or any monthly sales goals during 1960?

____ Yes
____ No
____ Not sure

(Per cent of salesmen who said "yes"; i.e., were aware of goals, was computed.)

(b) How often during 1960 have you heard one of your superiors mention specific department sales goals to one or more salesmen?

____ Once a week or more often
____ Several times a month
____ About once a month
____ Several times during the year
____ Very rarely or never

Dealerships were classified, for each of these questions, as having salesmen who indicated high, medium or low awareness of sales goals. Each dealership was then assigned an overall score (high, medium, or low) of awareness among salesmen.

(2) Rewards to salesmen for good group performance.

This data was derived from answers by best informed sales supervisors to the following question:

Thinking now of the total amount of bonus money given to salesmen in your department during the past year, about what proportion was based on the performance of a department or team rather than on the performance of an individual? (If not sure, estimate.)

____ None; all bonuses based on individual performance
____ Up to 10% based on the performance of a group or team
____ Between 10% and 20% based on the performance of a group or team
____ Between 20% and 30% based on the performance of a group or team
____ Over 30% based on the performance of a group or team
____ No bonuses of any kind given

Dealerships were categorized into those which gave some rewards for good group performance and those which did not give any on this basis.

A dealership's overall rating on "involvement of salesmen in group goals" was based on the combination of ratings for factors (1) and (2) above, weighting each equally.

B. <u>Extent to which salesmen receive enough help and support from superiors.</u> Dealership scores on this variable were based on the following two factors:

(1) An index of the extent to which salesmen said they would like more help from superiors than they now receive. (See page 11 for the questions on which this index was based.)

(2) The extent of communication block between salesmen and superiors. This data was obtained from an index based on the following questions:

(a) When you have a problem which you would like to discuss with the owner, how free do you generally feel to approach him about it?

____ I wouldn't hesitate at all
____ Would hesitate a little
____ Would hesitate quite a bit
____ Would hesitate a great deal
____ Would keep it to myself
____ Never anything I'd want to discuss with him
____ Owner usually not present

(b) When you have a problem which you would like to discuss with your immediate supervisor, how free do you generally feel to approach him about it?

____ Wouldn't hesitate at all
____ Would hesitate a little
____ Would hesitate quite a bit
____ Would hesitate a great deal
____ Would keep it to myself
____ Never anything I'd want to discuss with him

Each dealership was rated as high, medium or low on each of these two factors--i.e., on the extent to which salesmen receive enough help and the extent of communication block. An overall score of help and support for salesmen based on these ratings of the two factors, was then assigned, weighting each factor equally.

Appendix E

RATINGS OF MANAGEMENT EFFORTS TO INFORM SALESMEN ABOUT GOALS

Three separate coders were asked to determine from owner interviews whether there is an active effort to inform salesmen of department and/or dealership goals. Dealerships were assigned to "Yes," "No," of "Not ascertainable" categories. In all but two cases, at least two out of three coders agreed on the rating of the dealership. In 16 out of 29 cases there was perfect agreement on the classification.

Using a rating scale of degree of agreement where:

3 points = perfect agreement
2 points = 2 Yes or 2 No with 1 NA
1 point = 2 Yes or 2 No with 1 rater completely opposed
0 points = no agreement,

the scoring went as follows:

Declining Dealerships	Degree Of Agreement	Improving Dealerships	Degree Of Agreement
1	3	1	3
2	3	2	3
3	3	3	2
4	2	4	0
5	2	5	2
6	2	6	3
7	2	7	3
8	2	8	3
9	3	9	3
10	3	10	1
11	3	11	3
12	no interview	12	3
13	2	13	3
14	1	14	1
15	3	15	0

Perfect agreement for all dealerships on this scoring procedure would be 87. The total score is actually 67. In terms of reliability, employing Horst's generalized reliability measure,[1] the intercoder reliability is .954.

1. Horst, P. "A Generalized Expression for the Reliability of Measures," Psychometrika, Vol. 14, 1949, pp. 21-31.