At next week's meeting, we will discuss Salem Farm Supply's absorption rate (don't worry; we'll also be discussing other items). In order to best effectively use our time, please read the following information prior to the meeting. By doing this, we can devote more time to collectively brainstorming ways to improve our absorption rate.

What is a dealership's absorption rate?

The absorption rate is:

$$\frac{\text{Total Parts \& Service Margin (dollars)}}{\text{Total Dealership Expenses (dollars)}}$$

For example, if Salem Farm Supply's parts and service departments made $200,000.00 gross profit in one month and the entire dealership (sales, parts and service) had $300,000.00 in expenses during that same month, we would have an absorption rate of 67%.

$$\frac{200{,}000.00}{300{,}000.00} = 67\% \text{ absorption rate}$$

In other words, sales by the parts and service departments alone covered 67% of Salem Farm Supply's total expenses for that month.

What does the absorption rate indicate?

The absorption rate indicates how efficiently the dealership is recovering its costs. In the example above, the dealership has an absorption rate of 67%. In order to be profitable during that month, the sales department must make a net profit of over $100,000! And that's *after* you subtract the cost of the equipment! That means that Salem Farm Supply either must sell a lot of tractors or have a large mark-up on each tractor sale. It also means that the dealership is less competitive because we can't afford to sell our tractors at the low prices that dealerships with higher absorption rates can. Therefore, a 65% absorption rate is pretty mediocre. That's like winning a date with Susan Boyle.

Bleh! 65% absorption rate!

An ideal absorption rate is 85% or above. With a high absorption rate, our salesmen can be more competitive making sales, offer our customers better deals, and have more funds to reinvest in the dealership!

← Kate Upton, 85% absorption rate

Salem Farm Supply wants to shoot for 85%. In 2012, our average absorption rate was actually 68%. We don't want to settle for Susan Boyle when we can have an absorption rate as enticing as Kate Upton!

How do we improve our absorption rate?

There are many ways to boost our absorption rate: upselling parts sales, billing out hours efficiently, better communication. At next week's meeting, we will discuss specifics that we can implement. We will also set specific benchmark dates and goals so that we can track our progress. Over the course of the next week, brainstorm ways that either individuals or departments as a whole can achieve these goals. Please keep in mind that rewards will be distributed at both the departmental and individual level as we achieve our benchmark goals!

Good luck brainstorming!