



Corona del Mar, CA

Birmingham, MI

Galveston, TX

Cary, NC

117 S. Cook Street, #106 ♦ Barrington, IL 60010 ♦ Phone: 800.577.8015 ♦ Fax: 775.213.1718
Email: info@PremierPerformanceGroup.com ♦ Web: PremierPerformanceGroup.com

August, 2008

Improving your Net Profit

Jay Prassel – Premier Performance Group, LLC

As we gear up for the next quarter of 2008, it's time to take a look at the state of our used vehicle department.

The simple question is: "Are you satisfied with your performance and profitability?"

It's been a challenging time to be in the retail automobile business, but nobody ever told us that it was going to get any easier.

Net profit improvement can come in several ways. Sell more vehicles, increase the gross per vehicle sold, or reduce expenses. The third option is probably the least favorite as it is not easy or much fun, but it is the only option that can *guarantee* profit improvement.

Where should we start? Let's skip past the expense of personnel and advertising and look at the cost of inventory and the quality of the inventory. By quality I'm talking not about appearance or mechanical condition, but how good is my inventory.

The top 7 items to measure: (in my opinion)

Cost per Day per Vehicle

Dollar Day Supply

Unit Day Supply

Number of Times I Turn my Inventory per Year

Aging of Vehicles

Annualized Rate of Return

Excess Inventory

By improving the quality of our inventory we can lower our cost of doing business and thereby increasing profitability.

During our 2-Day Used Vehicle Workshop we work with dealers and their management team to understand how to calculate the 7 items. It is impossible to expect our managers to do their job without equipping them with this knowledge and without setting objectives.

The daily cost of stocking a vehicle is not just the floor plan expense, but also includes the costs of the personnel, semi-fixed expenses and fixed expenses. Here is an example from our worksheet:

| Cost To Inventory Used Vehicles | |
|---|-------------------|
| Month #: | 11 |
| | November YTD 2006 |
| Used Vehicle Variable Selling Expense: | \$200,362 |
| Used Vehicle Personnel Selling Expense: | + \$204,563 |
| Less Salesperson Commission: | - \$177,688 |
| | <u>\$227,237</u> |
| Total Semi-Fixed Expense: | + \$147,423 |
| Total Fixed Expense (Used Dept) | + \$101,415 |
| Total: | <u>\$476,075</u> |
| Expenses per Day: | \$1,443 |
| Retail Units In Stock: | 56 |
| Cost Per Day To Inventory Vehicle: | \$25.76 |

We take the variable selling from the financial statement, add the personnel selling expense, take that subtotal and subtract the salesperson commission (since that is paid only if a vehicle is sold).

Add to that subtotal (\$227,237) the semi-fixed and fixed expense for a total of \$476,075. Divide this total by 11 months, then divide by 30 days to get the daily expense to open the doors of the dealership = \$1,443.

We divide this by 56 (the number of units in stock) to get the cost per day to inventory vehicle = \$25.76

Obviously if we reduce this per day expense, we improve profitability.

I often talk to dealers and managers who ask how the department can be losing money when they are selling cars and at decent grosses. The next worksheet shows what happens when we average keeping vehicles for 45 days:

How Much Did You Really Make On That Over-age Vehicle?

| | |
|-------------------------------|----------------|
| Days In Stock: | 45 |
| Cost Per Day: | X \$25.76 |
| | <u>\$1,159</u> |
| Vehicle Gross Profit: | \$1,108 |
| Salesperson Commission/Spiff: | <u>\$488</u> |
| Actual Profit: | (\$539) |

We see the total vehicle gross of \$1,108, less the cost for 45 days @ \$1,159, less the salesperson commission of \$488 (total \$1,647), which results in a net loss of \$539 per vehicle sold.

Remember that volume does not equal profit.....and turn is more important than gross.

Dollar Day Supply

Let's take a look at calculating our dollar day supply. Industry experts and consultants recommend a 35 to 45 day supply.

| | |
|--|-----------|
| Total Dollar Amount of Inventory (Today): | \$592,987 |
| Divided by | |
| Total Retail Sales Last Month (Dollar Amount): | \$387,566 |
| minus Total Retail Gross Last Month (Dollar Amount): | \$20,231 |
| Retail Cost: | \$367,335 |
| <u>Days Supply (Cost):</u> | <u>48</u> |

In this example, we take the retail cost of sales = \$367, 335, divide that by our current inventory value (includes reconditioning) = \$592,987, and multiply that result by 30 (days) to get our dollar day supply of 48 days.

In our 2-Day Used Vehicle Workshop we complete the inventory analysis of the other 5 measuring sticks to get our inventory in line.

Another process is to determine your fast-turning, high grossing vehicles to build your inventory profile. While the actual process takes a little time and work, the simple version is to generate a Sold History Report (by computer or manual analysis) to determine what vehicles were sold in the last 3 (or 6 or 12) months, that were in stock less than 30 days and generated a front gross of \$2,000 (or whatever figure you chose). We can carry the criteria out to include miles, color, etc.

This is a very short and simple explanation of improving the quality of your inventory to reduce your cost of doing business, which results in improved profits. And yes, by improving your inventory, you should sell more vehicles and a higher gross.

Premier Performance Group, LLC is a national training and consulting company working with dealers on Net Profit Improvement. We offer programs for all dealerships, regardless of size or franchise. Programs include: In-dealership consulting, Profit Management Workshop (monthly), Used Vehicle Workshop, F&I Compliance, and Expert Witness Testimony / Consulting working with auto dealers. Premier has experience as a Dealer Group and Bank-Approved Chief Restructuring Officer, (CRO), working side-by-side with banks and Dealer Principals in the restructuring of out-of-trust dealerships or those that need temporary management status. Contact us at 800.577.8015 or info@PremierPerformanceGroup.com.



Corona del Mar, CA

Birmingham, MI

Galveston, TX

Cary, NC

117 S. Cook Street, #106 ♦ Barrington, IL 60010 ♦ Phone: 800.577.8015 ♦ Fax: 775.213.1718
Email: info@PremierPerformanceGroup.com ♦ Web: PremierPerformanceGroup.com

Improving your Net Profit
Jay Prassel – Premier Performance Group, LLC

It's no doubt that we are in a challenging business climate, and it's not going to get any easier.

Our slogan this year, "You owe it to yourself to have a better year in 2008", has generated a lot of questions from dealers wanting to improve profitability.

Last month we discussed several key items to measure, including:
Dollar Day Supply and Unit Day Supply.

Let's take a closer look at these two important points. The industry "experts" recommend a 35 to 45 Dollar Day Supply of vehicles.

Total inventory dollars: \$400,000
Cost of sales *: \$160,000
Calculation: \$400,000 divided by \$160,000 X 30 days = 75 Dollar Day Supply

* Cost of sales = total vehicle sales less gross profit

Let's calculate our Unit Day Supply of vehicles.

Vehicles in inventory: 50
Monthly Sales: 25
Calculation: 50 divided by 25 X 30 = 60 Unit Day Supply

As we can see, the Dollar Day Supply is much higher than our Unit Day Supply and indicates that we are stocking vehicles that are too high priced. The closer the two numbers (Days Supply) the better balanced is my inventory.

We can compare it another way to help us better manage my inventory.

We have 50 vehicles in stock with a total value of \$400,000 or an average of \$8,000. We now calculate our average cost of sale by taking my cost of sales, \$160,000 and divide by the monthly sales of 25 to get \$6,400. This reduces my turn rate and contributes to overage problems.

We should calculate these numbers within each of the segments (types of vehicles) that we stock. The better the quality of my inventory, the better my performance and profitability.

Remember our slogan for the year? Let's get serious about managing our inventory with technology and not by our gut. If you're not using an inventory management tool, you need to get one. The day of telling ourselves, "I know what sells, I've been doing this for 20 years" doesn't work.

Yes, I know the right vehicles are hard to find. Yes, I know we can't control what comes in on trade, but there are dealers doing it.

Are we afraid of the accountability that comes with the computerized management system? When used properly, it will make everyone more money. There are several great products available.

"Asking for help is not a sign of weakness. On the contrary, it takes courage to confront a problem and look for a way to get better." ~ from someplace on the Internet

Premier Performance Group, LLC is a national training and consulting company working with dealers on Net Profit Improvement. We offer programs for all dealerships, regardless of size or franchise. Programs include: In-dealership consulting, Profit Management Workshop (monthly), Used Vehicle Workshop, F&I Compliance, and Expert Witness Testimony / Consulting working with auto dealers. Premier has experience as a Dealer Group and Bank-Approved Chief Restructuring Officer, (CRO), working side-by-side with banks and Dealer Principals in the restructuring of out-of-trust dealerships or those that need temporary management status. Contact us at 800.577.8015 or info@PremierPerformanceGroup.com.