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## **Maintaining Profitability In A Declining Market**

*- Jay Prassel & Scott Reas*

**Premier Performance Group works with dealers who are interested in improving their dealership profitability and value.**

**We work with Dealers and their management staff to improve both the profitability and value of the overall dealership. This is accomplished through very detailed analysis of the dealership balance sheet, financial statement and asset management practices; then comparing these numbers to industry benchmarks. We work closely with the management team to identify areas of opportunity and coach them to develop action plans. We then help them to implement expeditiously, thus guiding the changes necessary for rapid improved net profitability.**

**In the past 13 years, members of Premier Performance Group have consulted in over 500 dealerships across the country. We have produced thousands of profitability initiatives that include letters to dealers, recommendations, action plans, team improvement plans and training manuals. All of these profitability initiatives were designed to facilitate the changes necessary to improve and sustain dealership profitability.**

**This business economy is even more challenging than it was in 1977 through 1981 where with the 21% interest rates, the Oil Embargo, the Iran Embassy fiasco and the volatile political climate, yesterday's auto dealer faced some of the worst years since the end of World War II. Today's auto dealer has even greater challenges with four dollar (\$4) and rising, per gallon gas prices that are affecting everyone, either directly or indirectly through higher prices brought on by the rapid increase in oil prices.**

**We must, like the manufacturers', realize that this is not a temporary situation; but rather a shift in our economy that is bringing the USA more into line with the world economy. Because this is a true shift we must adjust our business model if we are to survive and prosper from this point forward.**

**The manufacturers' problems and financial losses are a result of their failure to change and react promptly to the observable changes in the global economy. True the domestic manufacturers' hands have been tied with outdated labor agreements and unrealistic regulations. But none the less, the hand writing has been on the wall for quite some time; and all it took was the *Black Swan (unforeseen shift/increase in fuel prices)* shift of US fuel prices up closer to world prices to radically impact the economy.**

The manufacturers' sins do not have to trickle down to their dealers. While the turbulent economy and product issues may make it challenging, you can still turn a profit and increase the value of your dealership, if you choose to change your business model and adapt to this new world economy.

To sustain profitability you must first evaluate your current operation and adjust it, so it is *Right Sized & Profit Capable* so that with good business practices and realistic objectives, solid and consistent ROI is assured.

Have you structured your dealership expenses to industry benchmarks? If you had been selling 100 new vehicles a month and are now selling 50, are you still running with the same advertising, inventories and number of employees?

This article is not about "Doom and Gloom", but about being a realist and optimist, and being proactive about making a profit.

Let's start by doing a *realistic* sales forecast for the next 120 days, not a wish list, but one based upon recent history and the current facts we know about today's market and economy.

Based on industry benchmarks, how many salespeople, sales managers and F&I managers do you need based on your forecast? Taking it one step further, are you within the benchmarks for compensation as a percent of gross? Often when business gets tough, spiffs, bonuses and overly complex pay plans drive compensation percentages off the chart.

Have you reviewed your advertising budget and adjusted accordingly? It's our opinion and experience that you can't "buy" market share. You must budget to benchmark percentages and per unit sold. Utilize a well thought out plan and implement it. The problem is not that you don't have enough opportunities (ups), but rather that you fail to recognize all of your opportunities and worse, still do not execute your sales processes on all that you do log!

Asset Management is the next big challenge; again *Right Sized* floor plan and inventory levels. Nobody really saw this dramatic reduction of truck and SUV sales coming. Do you have a game plan working to move these units? Instead of your sales staff sitting around the showroom bitching about how slow it is, why not identify those consumers who will always need a truck regardless of whether gas is \$2 a gallon or \$5? Now is the time to get a solid *Lead Management Plan* in place. You must be able to data mine your opportunity data base. Do you really understand your CRM process, your CRM tool, your ILM process, your ILM tool? If not then you must focus on this area immediately!

You must NOT burn cash, and if you have been posting losses you must immediately take the actions necessary to stop! No dealer can sustain continued losses, you cannot make money without adequate working capital, and in today's economy cash is king. If you cannot retain earnings, NO ONE will loan you anything! So stop any cash burn and start saving it.

If you're losing money, let's identify those expense reductions that can be implemented immediately. The first step is always to get the expense load below the current average revenue stream, again asset management; inventories, advertising and human capital (personnel expense). Once *Right Sized* we will begin to fine tune the processes required to increase net profitability.

Now is the time to get really serious about your pre-owned vehicle department, if you're not already on top of it. We can maximize profit opportunities with a well implemented game plan. Here are some key measuring sticks - 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 (do we re-stock or do we load-up?) we can lower our cost of doing business and thereby increasing profitability.

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.

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 the semi-fixed and fixed expense for a total of departmental operating cost (YTD).

Divide this total by the number of months, then divide by 30 days to get the daily expense to open the doors of the dealership.

We divide this number by the number of units in stock to get the cost per day to inventory vehicle = usually \$28 to \$32.

<b>Cost To Inventory Used Vehicles</b>	
Month #:	11
	November YTD 2006
Used Vehicle Variable Selling Expense:	\$200,362
Used Vehicle Personnel Selling Expens:	+ \$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

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

Analyze and compare to industry benchmarks:

- Manager Compensation
- Porters
- Clerical
- Advertising
- Floor Plan

We 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.

Pre-owned opportunity to be continued next month..... and analyzing personnel productivity and *Right Sizing* your dealership to the current sales volume.

*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.*