



Financial Management Action Plan Homework

Homework is due the Monday of the week before you return for Parts Class

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Academy Class #: 347

Composite Data Reference: Depart: Pre-Owned Vehicles, Page 6 Inventory Analysis, Column: 8A, 8B, 9A,9B, and 10D

What is your goal?

To decrease our Pre-Owned vehicle inventory days' supply from 66 to 45 by March 1, 2019

How do you plan to achieve your goal?

The first thing that needs to happen is to have a meeting with the used car manager and the reconditioning manager. Nothing will work without myself and these two managers working together to achieve this goal. A process that we all agree to and understand needs to be put in writing. We as a management team then need to train our staff using this written process.

Starting off the three of us need to calculate our current days' supply of pre-owned inventory. This is done by taking our current pre-owned inventory in dollars divided by the average YTD pre-owned retail cost of sales to give us the months' supply pre-owned inventory. Next is to multiply the months' supply of pre-owned inventory by 30 days to give us the days' supply. Here is how it currently looks at the end of December 2018. Total pre-owned inventory is \$2,054,945. Now figure average YTD cost of sales. (Total Pre-Owned Retail + Wholesale Sales) - (Total Pre-Owned Retail + Wholesale Gross) ÷ # of Months Reported (((\$5,836,242 + \$106,062) - (\$357,587 + \$2,028+0))/6 months = \$930,448 Average YTD cost of sales. Then divide \$2,054,945 by \$930,448 to get 2.21 months' supply multiplied by 30 days to get 66 days' supply. Now that we all know how to calculate our days' supply, we can move forward with our plan.

The new reconditioning turnaround time will now be no longer than 72 hours from when the vehicle is received by that department. After 72 hours all pre-owned vehicles need to be on the lot ready for sale.

The used car manager will now purchase vehicles as we sell the existing ones. In other words, he will not wait until the department is low in inventory and then purchase large quantities of vehicles. A steady flow of vehicles will help the reconditioning department maintain the 72 - hour requirement.

Another important calculation that needs to be done is to determine the variance of the average cost of a pre-owned vehicle in inventory to the average cost of a pre-owned vehicle sold. This is critical in making sure we are stocking the right vehicles. Otherwise we will not help ourselves in reducing the days supply of used cars in inventory. Here is how this looked at the end of December 2018. Total pre-owned inventory divided by total units. $\$2,054,945/119 = \$17,248$ average cost of pre-owned vehicle in stock. Now figure the average cost of a pre-owned vehicle sold YTD. Average YTD pre-owned vehicle retail cost of sales, not including wholesale, of $\$913,109$ divided by the average YTD vehicles sold at retail of 52 = $\$17,560$. Our average vehicle cost is on target. We just need to stay at this figure or less when we continue to purchase units for our inventory.

Finally changing our inventory management tool to better help us price and merchandise our pre-owned vehicles is critical to our success. Our current inventory management tool is outdated and came with little continued training. In the search for a new vendor the ongoing training will play a big part in our decision on who we will go with. We need to stay current with any changes in the used car market.

**How will you track your progress? What measurements, KPI's?
(think about current vs past measures)**

Checking in everyday with each manager to make sure the written process is being followed and that neither manager is dealing with any obstacles that may create a setback. The calculations listed above that were used to determine our current situation need to be done every week so we can all see if our process is working. The more we do this the more comfortable we will become with the process which will then allow us to start working on ways to improve it. Working together as a team with a written process is completely different than our old ways of handling our pre-owned inventory. Just thinking that what you are doing is working and not having any way to measure your days' supply is pointless.

The benefits of achieving this goal will be:

The number one benefit is increased gross. By getting our used car inventory to a 45 - day supply eventually leading to a 30 - day supply will boost profits for both the used car and reconditioning departments. Reducing the days' supply will lead to more used car sales, reduced floorplan expense, higher retention of used car and reconditioning staff. Everything I mentioned will then allow the entire dealership to depend, with more confidence, on the used department in covering their share of the fixed expenses.

Take Action!

Potential Obstacles		Potential Solutions	
Stop tracking days' supply/mgmt. meetings weekly schedule	Management/staff changes	Get back on the	Train
our process to all new hires			

Who on you staff will need to be involved to accomplish this goal:

General Manager, Used Car Manager, Reconditioning Manager, and Reconditioning staff

Specific Action Steps: *What steps need to be taken to get you to your goal?*

What?	Expected Completion
Completed	
Management Meeting January 3, 2019	January 3 ,2019
Reconditioning staff meeting January 4, 2019	January 4, 2019
Follow up - Used Car Purchases January 9, 2019	January 9, 2019
Follow up - Reconditioning 72 - hour turnaround January 12 -14	January 12 - 14

These dates are just the beginning of many future meetings and inspections of our process. Failure to follow up will end the progress we will be making.