

John Roa: A Used Car Story

Current Inventory Turn Analysis

Current Data	
Pre-Owned <i>Retail</i> Deliveries YTD (units)	131
Month of Year	3
Average # Retail Units Delivered Per Month	44
Total # Units Currently in Inventory	175
Months Supply "In Units"	4.0
CURRENT Inventory Turn Rate	3.0
CURRENT Average <i>Front End</i> Gross Profit PUVR	\$ 1,073
CURRENT Monthly Gross Profit	\$ 46,854
CURRENT Yearly Front End Gross Profit Total	\$ 562,252

- Inventory turn rate is suffering, sitting at 3 while NADA guide is 12
- Recently inherited dealership, current status was brought on by old school management that didn't believe in monitoring and taking action on metrics

Changes: Appraisal Process

- Previous manager had gotten lazy, was relying on software to do his appraisals for him
- Emphasize training the sales manager on good appraisal techniques, and hold him accountable to ensure that he is executing these actions on every trade
- Part of the appraisal process will include understanding days supply and price to market
- Will also need to go into each appraisal process with an exit strategy for that unit in place

Appraisal Process: Days Supply

- Since taking over in March, days supply has improved from 110 to 59
- This was done by removing many of the oldest units by wholesaling them, understanding that there'd be an up front loss (YTD wholesale loss of \$18,000 on 69 units)
- Also implemented a hard aging policy of 60 days, considering cutting it down to 45 days

Appraisal Process: Price to Market

- Previously making sure that he was at 85-90% cost to market before putting recon in, will plan to lower that target to 82% on the initial appraisal
- Currently 6% over where he'd like to be at price to market at time of sale
- Executing on this will shift his price to market closer to 100%, improving the turn rate

Appraisal Process: Exit Strategy

- Hard aging policy will remove the emotion from the inventory management process
- Will stress having an exit strategy in place at the time of appraisal
 - Is it retail or wholesale?
 - If wholesale, move it immediately
 - If retail, get it ready to sell in 72 hours and price to market

Changes: Pricing Strategy

	MDS		PTM
Double Down	1 to 45	Hot Car!	100 to 105%
	46 to 60	Good Car	95 to 100%
	61 to 90	Avg Car	92 to 97%
Price Pressure	91 to 120	Cold Car	88 to 95%
	120 +	Cookie Cutter	80 to 93%

- Strategy going forward will be market-based, rational, and optimal based on the competitive set
- Will have sales manager review 25% of the inventory daily, and the five oldest units will be reviewed every day

Changes: Tools and Metrics

- Will use vAuto for everything – appraisals as well as managing inventory
- When using it for appraisals, will ensure that managers are using the purchase and wholesale options as that will give better metrics to track going forward (ex. Look to book)
- Will use the excel sheets and computations received from NADA
- Will review the financial statement, specifically the used car department (gross analysis)

Changes: Trades

Source	Totals	Auction/Wholesale
Total # Retail Units	54	44
% of Retail Units	100%	81%
% Retailed of Off-Brand	59%	59%
Average Days to Sale	39.1	39.5
Average Transaction Price	\$ 21,696	\$ 22,972
Average Transaction to Market %	108%	109%
Average Transactional Discount	\$ (306)	\$ (314)
Average Front End Gross	\$ 320	\$ 280
Average Finance Gross	\$ 1,585	\$ 1,731
PUVR	\$ 1,671	\$ 1,735
Total Gross (Units & PUVR)	\$ 90,215	\$ 76,340
GROI	71%	69%

- Not getting enough trades, relying on the auction too much
- Need to make sure that managers are putting the right number on the trades, have sales team ask for the trade during the sales process, appraise each one correctly and transparently

Result

Projections	
6	PROJECTED Inventory Turn Rate
\$ 1,000	PROJECTED Average <i>Front End</i> Gross Profit PVR
88	PROJECTED Monthly Units Delivered
\$ 87,500	PROJECTED Monthly Gross Profit
\$ 40,646	PROJECTED Monthly Gross Profit Variance
\$ 1,050,000	PROJECTED Yearly Front End Gross Profit Total
\$ 487,748	PROJECTED Annualized Front End Gross Profit Variance

- Based on the changes we have made and plan to make, we expect to see turn increase to 6 and there to be a slight decrease in front end gross
- As this turn filters through, we expect this to add almost \$2.5 million of total projected gross on an annual basis (see next slide)

Result

Additional Income

Current Used Vehicle F&I Average PVR			1585
Reconditioning PVR	1215	X 60% Profit	\$ 729
Current Hard Pack			\$ 250
Other (DOC Fee, Service Charge, etc)			\$ 144

Monthly	PROJECTED	Yearly
44	Additonal Units	528
\$ 69,740	F&I Increase	\$ 836,880
\$ 32,076	Recondtioning Increase	\$ 384,912
\$ 11,000	Hard Pack Increase	\$ 132,000
\$ 6,336	Other	\$ 76,032
\$ 119,152	Total Additional Income	\$ 1,429,824
\$ 40,646	Front End Variance (from above)	\$ 487,748
\$ 159,798	Total Variance	\$ 1,917,572
\$ 206,652	Total Projected Gross (Variance + Current)	\$ 2,479,824