Management Action Plan – VO1

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Dealership: Pape Subaru

Class & Student Number: NADA 346- Week 4 Student number: 30

Current situation or challenge you want to address (narrow your focus):

My primary focus would be to increase inventory turns. As we all know the new vehicle department is not a profitable department. I would like to close the gap slightly so the used vehicle department can absorb some of the financial loss the new car department creates.

My second challenge would be to increase the back end per unit. When financing pre-owned vehicles, there is not always a large amount of reserve created as the average amount financed is around $18,000 on both new and used. This creates a challenge to increasing the back end per unit.

Overall objective (goal) and specific desired results:

I would like to increase the inventory turns from 4.5 (average) to 9. Eventually I would like to get to 12 turns but the increase needs to be realistic. Currently our gross as a percentage of sales is roughly 15%. When our vehicles age, we then have to spiff the sales people to sell a vehicle we are already losing money on. An issue we have regarding the current situation is it can take an average of 14 days for a vehicle to get through our shop. Just like many in our class we have a difficult time prioritizing internal vehicles versus the customer pay vehicles.

The district average for Subaru on pre-owned vehicles back end is $750. We are around $550 at the moment. We would like to increase this to be at least at district average.

Describe your action plan in detail (including before and after measurements):

Before:

Increase inventory turns: In the Subaru world it is much easier to switch someone from a pre-owned to a new vehicle. Subaru’s' hold their value so well, and they lease out so great. Additionally, the sales staff gets paid more for a new vehicle (from the manufacture) than on a pre-owned. In order to increase the pre-owned sales without decreasing the new vehicle sales we should utilize software we currently have but do not use frequently known as equity connect. This software accesses all of our customers, prioritizing the customers most recently in for service. When sales has a customer come in on a very specific vehicle, we should have one or two people dedicated to turn to. Bring the select information, access our customer data base and contact customers with this specific vehicle. Let them know how much you want the vehicle and present them options to purchase a new vehicle. Many customers have a limited understanding on how much equity they have. In many instances the customer has been able to LOWER their monthly payment!

Secondly, we should create a program that gives bonuses to the sales people for selling a certain amount of pre-owned vehicles. Each of our sales people get paid on a per-unit basis. They understand that selling more used vehicles gives a higher per-unit; however it is not as much of a priority. If we can begin to train the staff to sell pre-owned vehicles and incentivize it, we will notice an increase in pre-owned sales.

Third, since it takes so long to get a vehicle through the shop, we should implement a tiered labor rate for vehicles that take too long to get through the shop. This will decrease our cost on vehicles, and get them on the lot that much quicker. If the vehicle has not gone through reconditioning, people are much more unlikely to purchase the vehicle.

The location of our store has more traffic than almost any other street (non-highway) in South Portland. If we are able to move the vehicles around routinely it will create vehicle familiarity with our sales staff, and draw those who pass our dealership daily in!

<u>Back end:</u> As I mentioned before we have a lower per unit on pre-owned vehicles. We currently added a new finance manager. We need to focus on increasing each of the finance manager's per-unit. Secondly, we should begin training sales and service personnel to help sell the extended coverages on their vehicles. Even when holding two points on a pre-owned vehicle they are financing so little that it does not hold much gross for us. If we implement the correct training we can increase the per-unit. If sales and the desk attempt to not give away the 63 and 75 month terms encourage customers to protect their investments, point out all of the technology and walk around the service drive. These small steps build value in the dealership, sales person and those servicing their vehicles. When the process is rushed, we skip important steps that can affect the long-term gross of the dealership. Additionally when you have 45% of your customers paying cash that can greatly affect the back end. Prior to the customer coming into the finance department we can work on switching them to a finance transaction.

If we incorporate the service department into our selling we would be able to increase our penetration in the back end as well. Many of our customers trust the service department *prior* to their trust in the sales department. Many of our sales are generated from the way our customers are treated in the service department. If our writers are able to encourage the sale of the maintenance agreement, and extended service contracts at the appropriate times, it will increase our overall back end!

After

Increase inventory turns: As a result of the increase in sales by utilizing the equity connect software, I anticipate there will be a growth in pre-owned transactions AND new vehicle transactions. Each time a customer is in need of a particular vehicle we are able to turn it into a two for one transaction. In turn our sales will increase overall which in turn increases morale. The happier our sales team is, the more we sell! When pre-owned vehicle sales increase the per-units will increase as well. When utilizing the equity connect features we will barley have the vehicles on our lot.

We will track the progress by maintaining the calculations taught in the NADA class. By tracking the month's supply, GROI, gross as a percent of sales we will see results quickly. Currently if we do not sell a vehicle within 49 days we are losing money. When it takes almost 1/3 of that time frame just to get through the shop we are setting ourselves up for failure!

Back end: After

With an increase in back end profit as well as an overall increase in inventory turns we will see the per-units increase. When you have a new finance manager, part of the success relies on practice. If we are more successful in the back end of the transaction the front end can allow more flexibility to sell vehicles. Although it is everyone's goal to maintain gross, if you are not dependent on the back end you will be reluctant to give up the slightest bit of gross in the back.

Timeline: What is your implementation date? Describe specific short-term and long-term checkpoints to monitor progress.

The implementation date should be at the beginning of next month. Sitting with each department explaining where we are at half way through the year and how we would like to finish the year.

Meeting with Stakeholders (dealership personnel):

Describe what behavior change is needed to support desired goal. Address required coaching, training and/or consequences, including timelines / accountability / process monitoring activity.

1. **Who:**
    a. Sales managers
    b. Sales personnel
    c. Used car manager
    d. GM
    e. Service writers
    f. Finance managers

It is important to have a group effort involved in these changes to be the most successful.

2. **What:**

a. Training for each department is needed to focus on how to sell.
b. Everything can be put into writing (new pay plans, word tracks…)
c. Pay plan structured around the common goal
d. Expectations are now set. Therefore each month follow up to continue to find ways to improve upon these changes that were implemented.
e. Find out what each department needs in order to be successful.
   i. How can management assist to make this as smooth and easy as possible?
   ii. Resources/software/meetings routinely.

3. **By When:**
   a. ASAP
4. **How:**

Step 1.) Begin with a meeting describing all the goals we have for this department
Step 2.) Open the floor asking for ideas and recommendations
a.) Without those who are implementing these ideas feeling valued and their opinions being valued they will not implement these ideas.
Step 3.) Bring to the floor ideas listed above.
a.) Share how we these new ideas will benefit everyone.
b.) Ask for suggestions and ideas on how to make this process smooth and easy

Step 4.) Put in writing the new changes to be implemented.

Dealer agreement:

If you need your sponsors support or approval to implement your plan, have it signed off before you start. If you can proceed on your own, present this action plan to your sponsor before next class. Describe the meeting:

The meeting is very encouraging. I am not in a position that holds authority over the variable department. Therefore I will be focusing on the areas I do have control over such as the finance department. I will work on my own numbers as well as training the other finance managers to improve.

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