

Departmental Action Plan

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Class & Student Number: Class 321 Student #45

Academy Week: Week 4 Variable Ops Pre-Owned

Current situation or challenge you want to address:

Currently our wholesale to total pre-owned units ratio is too high, and I feel Retail opportunities being left on the table. Year to date we are at 57% wholesale to total used. This is partly because of poorly defined wholesale policies and a more of a random wholesale for profit set up vs having a proper turn policy. We do not have an aging problem in fact quite the contrary, we don't seem to be keeping inventory long enough to turn it retail. We currently have two other dealerships in our city that are large volume pre-owned stores and we have been feeding them a steady supply of quality pre-owned. This is mainly because they pay huge money and some of the profits we make selling them wholesale is close to our retail profit opportunity and we do not have to pay commissions, reconditioning, etc.. however we are losing the finance income, additional front end gross, and the potential trade ins on these transactions.

Overall Objective and Specific Desired Results:

Implement a clearly defined wholesale policy that gives the used car department an opportunity to retail a unit where that unit has been decided on to keep, recondition and retail. Then after 30 days the unit will become wholesale eligible unless it is paired with an aged unit over 60 days old then it may be wholesaled before the 30 day threshold. The desired results would be specifically to increase our retail volume from the YTD average of 35 units per month to over 40 retail units per month, this will increase the total monthly front end and back end gross profit. Currently we are sitting at 57% and by the end of the adjustment period the objective is to be at 40% maximum. The reason for it being higher than the nada guide of 30% is the amount of "beater trade" ins that we take and never have any intention of keeping.

Describe your action plan in detail (be specific and include before and after measurements)

Meet with our wholesaler, and all sales managers to discuss the potential opportunity cost of wholesaling to prematurely. Currently we are wholesaling for the intention of short term profit gains, and that we need to get back to wholesaling as a byproduct of retail and not the other way around. When a vehicle is brought in on trade and has been acv'd the used car manager will decide to keep the unit based on current inventory levels, the market supply and demand for the car and the profit potential. If all the factors don't add up then the car will be eligible for immediate wholesale. If it is to be kept and goes through reconditioning the vehicle will be allowed to stay on lot for a period of 30 days before becoming wholesale eligible. The only exception to the 30 day rule is if the unit is paired with a unit over 60 days old. The vehicle will still be subject to price to market criteria and efforts must be made to ensure the retail of the unit.

Timeline: Describe specific short term and long term checkpoints to monitor progress

Starting immediately, Inventory lists provided to wholesaler will be limited to wholesale eligible units, a full used car list will be supplied to supplement the list for old and new unit pairing.

Month end reports will be generated and reviewed to track the wholesale: total preowned ratio. As well as year front end and back end gross profit as compared with YTD data and previous year month to compare the new levels to the levels pre-policy.

Long term we will compare the total gross profit numbers to see if by lowering our wholesale volume and keeping them for retail we are generating more gross and net profit, and that additional interest, holding costs, and selling expenses are not actually eating into our incremental gross profit. I don't believe this to be the case as even though there will be reconditioning expense, and commissions, I believe the net income will be incrementally positive in the used car department because of the additional finance income that will come out if it. As well the service department will see a boost in internal parts and labor sales which are billed out at our full retail door rate.

Meeting with Stakeholders (dealership personnel)

Describe what behavior change is needed to support desired goal. Address required coaching, training and/or consequences. Include timelines / Accountability / Monitoring process

- a. **Who:** Dealer Principal, Used Car Manager, Wholesaler
- b. **What:** **Targets need to be set and measured. Month end wholesale to total used metrics to be reviewed and cross referenced to any increase in pre-owned volume and gross profit. These numbers are to be compared with the prior condition and see if there is a net increase or decrease.**
- c. **By When:** Start implementation of process July 1 and have a quarter meeting on sept 1 to see how the changes effected the over all profitability of the department, and compare the current to past metrics in the sense of volume, gross, expenses, and net profit.
- d. **How:** Implement and follow process for selecting inventory to keep and run through retail. This inventory will still be subject to the three day reconditioning time line and every conceivable effort will me made to retail the unit. Including pricing, training, and writing all deals. The idea is to have the wholesale units volume go down with a direct correlation in the form of an increase in retail units.

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 dealer principal agrees that there are possible deals being left on the table due to quick wholesaling. Another suggestion he had is to create a separate used car inventory and fund that is designated solely for wholesale income. This separate inventory amount would not intermingle with the pre-owned vehicle department unless the used car department wanted to buy a vehicle or sell into this separate pool of inventory. We have a strong wholesaler and he is great at generating gross profit which does help to bolster our department but we are not looking at the overall big picture enough and are missing out on back end gross,

reconditioning internal gross profit and the trade ins generated of those units. He agrees that these processes will increase the over all volume, gross and net of the department and is in full agreeance to allow these processes to be implemented and enforced.

