

Gary Lang GM

New Vehicle Department Action Plan

150 Day Hard Turn

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N353

Variable II

Introduction

Currently the biggest challenge in our new vehicle department, like many other dealers, are aged units. This problem stems from a variety of reasons not limited to poor ordering, merchandising and maintenance of the inventory.

I believe the biggest contributor to this issue however is lack of education, and gross deception. Sales management typically does not see nor understand the high costs associated with carrying aged inventory, and it is our responsibility to educate them.

In the following report I will outline my plan to educate the management staff on the high costs of aged inventory and how it directly affects them, give them the tools and best practices to keep the inventory clean, and finally reduce the aged inventory to 150 days. At this point we will institute a 150-day new car hard turn. This hard turn will become part of management pay plan once the inventory is purified.

Current Challenge

Currently we have 254 new units and \$10,197,897 of “Dead” inventory in the over 120-day category. (Figure A) We are currently paying \$49,505 per month and \$594,058 annually just in floor plan interest to carry this “Aged and Dead inventory (Figure B). It also comes as no surprise that the average cost of this “Aged and Dead Inventory” is high at \$40,000 compared to our average cost of new vehicle retailed at \$36,444 (November statement). We currently have 173 vehicles over 150 days old.

As I touched on in the introduction we are plagued by gross deception. The perception is that regardless of the age of a vehicle the **“Gross profit is the Gross profit”** or **“Loss is the loss”**. The reality is that sales management doesn’t see the carrying costs of the unit, and therefore don’t feel the urgency of turning the inventory. We need to educate management that we are losing a substantial amount more on aged inventory than they think.

A good example of this is our 2018 GMC Acadia (828 Days) This unit has a “Cost” of \$46,710. The traditional way of thinking is Sales less “Cost” represents the profit or loss on the deal. Using our daily new vehicle holding cost of \$14 per day however, this adds \$11,592 to the cost, to come to a total cost of \$58,302. (See figure C below) In this example the age adds \$11,592 to the cost of this unit. The point I am making with this unit is that we would be dollars ahead by taking the first big loss we were offered on this

vehicle when it began to age. I would suspect there have been deals worked on this vehicle that we passed on and would be more than happy to take today.

Figure A

New Stock Analysis							
Days In Stock							
	0-30	31-45	46-60	61-90	90-120	121+	Total
# Of Units	133	78	49	88	28	254	630
Dollars	\$4,225,401	\$1,226,962	\$1,878,402	\$2,689,833	\$927,578	\$10,197,897	\$21,146,073
	Fresh	At Risk			Old	Dead	
	133	127	Units		116	254	
	\$4,225,401	\$3,105,364	Dollars		\$3,617,411	\$10,197,897	

Figure B

Floor Plan vs. Total Dealership Profitability	
AGED New Vehicle Inventory (in dollars)	\$13,815,308
Current Floor Plan Interest Rate	x 4.30%
Annual Floor Plan Expense for AGED Inventory	= \$594,058
	+ +12
Monthly Floor Plan Expense for AGED Inventory <i>(or Floor Plan Savings if not in stock)</i>	= \$49,505
Total Dealership Profit Y.T.D.	\$3,567,998
Statement Month (example: May = 5)	+ 11
Total Dealership Profit (Average month)	= \$324,363
Monthly Floor Plan Expense for AGED Inventory (from above) <i>(or Floor Plan Savings if not in stock)</i>	\$49,505
Total Dealership Profit Y.T.D. (average month)	+ \$324,363
Increase in Total Dealership Net Profit <i>(without aged inventory)</i>	= 15%

Figure C

EXAMPLE

2018 ACADIA (828 Days in Inventory)

Simple calculation (Traditional thought process)

Sale Price \$42,000 -Cost \$46,710 = <\$4710>

Inclusion of actual holding costs (New thought process)

Sale Price \$42,000-Cost \$46710-Holding cost (828 days@\$14 per day) = <\$16302>

ACTION PLAN AND TIMELINE

GOAL

Dealer Principal/GM

NADA guide suggests that new vehicles in the 60-120 day "Bucket" are "Old" and 121 day and older are considered "Dead" and therefore distressed merchandise. In an Ideal situation with strong factory support, zero constraints and a short order cycle this may be the case and a realistic goal. We are however dealing with the General Motors ordering system, which as many of us know, isn't necessarily dealer friendly. Due to the above factors, we and other GM dealers believe a 150-day hard turn and 120-day supply of new vehicles is a realistic goal for 2020. Our goal is to have no vehicles over 150 days after September 1st, 2020 and thus reduce our aged inventory by roughly \$7mil to reduce Monthly floor plan expense from \$49,505 to \$24,889 on aged inventory. This will amount to an annual savings of roughly \$298,670 in floor plan costs alone. When factoring in daily boarding costs this figure will increase substantially.

Note: Since inventory is always a moving target and GM ordering and other conditions change, we may wish to slightly adjust our hard turn policy + - 20% to meet them.

We will achieve this by selling off ***The Oldest*** 30 units in inventory every month consistently for the next 6 months starting March 1 through September 1, 2020.

2/18/2020 MEETING/EDUCATION

GM/Sales Mangers/Inventory Manager

The first and foremost important part of addressing our aged problem is educating our management staff on the high costs of old age units while selling them on the benefit of having a clean inventory. It is important to have a complete “buy in” before we expect anything to change. We need to change the culture. Our GM and dealer principal are to present the Sales managers, Inventory manager the above figures and the breakdown of the “Gross Deception” Example. We will share the above calculations and the net effect they have on each manager’s pay plan. We will also roll out the compensation package below

2/24/2020 UTILIZING INVENTORY TOOLS/EDUCATION

GM/Sales Mangers/Inventory Mangers

It is important that every sales and inventory manger is using the V Auto Conquest software to its full potential. This system will allow our managers to adjust pricing, descriptions, track VDPs and ultimately dispose of aged units at minimal loss. Regardless of anyone’s proficiency with this tool they will be responsible for attending one mandatory training session. Trainer evaluations will determine the need for additional training. Properly utilizing this tool is essential.

2/24-2/28 MERCHANDIZING/RECONDITIONING

Sales Mangers/Inventory Mangers/Porters/Service Manger

As with anything, new vehicles need to be maintained and freshened periodically. Often times a unit will age simply because the battery needs frequent jump starting, the window sticker is missing or its just dirty. We will check battery life, body condition, presence of window stickers and correct as necessary. Every car is to be driven 5 miles fueled and completely detailed. The oldest 30 vehicles in inventory are to be parked in the "Hot" area in front of the appropriate showrooms. These units are to be tagged with a price and payments. Particular attention is to be paid to making sure internet price matches the sale tag price.

2/24/20 SALES EDUCATION

Sales Manager/Sales Staff

The invoices on the daily oldest 30 Units are to be hung in the conference room with Price and payments. We will do weekly mandatory lot walks with the sales staff emphasizing these units. We will utilize Kahoot quizzes on these units at every Saturday sales meeting to further emphasize these units.

T.O. SYSTEM

GM/Sales Managers

Any deal worked on a unit over 150 Days is to be T.O. to another sales manager and or Used car appraiser (if trade involved) for redundancy. The GM is to authorize any losses over \$3000.

ACCOUNTABILITY

Sales Mangers/Inventory Manger

At this point our management staff is new and was not responsible for letting the inventory age so it is not appropriate to penalize them in any way. For this reason, we will spiff our management staff and the salespeople for reaching the monthly goal. As mentioned above, the goal is to sell 30 of the oldest units each month until we have no units over 150 days in the next 6 months. At this time, we will reserve a % of cost of the over age vehicles from the departmental gross until the units are sold. When they are sold the

cost will be added back into the commissionable departmental gross. See below.

SPIFF PROGRAM (TO REMAIN IN AFFECT UNTUIL 9/30/20)

SALES STAFF -\$2 per day old on all units over 150 days.

-100% commission paid from net on all units over 1 year or \$2 per day whichever is greater.

-Each salesperson is to forecast and focus on 2 aged unit per month. Weekly review with SM to track this goal. (impractical to require this as part of pay but there must be individual focus)

MANGERS -Goal of 30 oldest sold per month \$1500 monthly bonus paid to each sales manager and inventory manger.

-General Manager is to review and zero each aged deal as to not affect manger commissions.

EMPLOYEE \$300 bird dog to **any** employee on 1 year and over inventory (must be a direct TO. No bird dog if customer is not brought or referred directly to the sales manager or salesperson)

MANAGER PAY PLAN AFTER 9/30/20

Percent cost of inventory over 150 Days reserved from commissionable department gross following the structure below. Cost to be added back to gross when unit is sold.

Over 150 days 10%
Over 200 Days 15%
Over 250 Days 20%
Over 300 days 25%
Over 400 days 30%

MEASUREMENT INTERVALS

Success of this program is dependent on regular monitoring of our progress. Monthly we will discuss progress toward the goal and make any adjustments to program to keep on track. Sales managers are to focus on this goal weekly with the sales staff.

3/2/20 begin **Top 30 per month nothing over 150 days inventory reduction program.**

4/6/20 Evaluate

5/4/20 Evaluate

6/1/20 Evaluate

7/6/20 Evaluate

8/3/20 Evaluate

9/7/20 Evaluate We should be at less than 3 million over 120 days and no units over 150 Days.

Conclusion

While this is an aggressive inventory reduction program, I believe given our talented experienced staff, tools and resources we can reach our goal before 4th quarter 2020