

Departmental Action Plan Template

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Class & Student Number: N353-15

Academy Week (Var II): January 13-17, 2020

Current situation or challenge you want to address: (must be quantifiable)

We have a **high days' supply of inventory** in reflection to the number of units we sell on monthly average. I am looking to increase my new vehicle sales volume this year with more competitive online market pricing and leasing, while also reducing the number of units we may need to carry in stock in relation to our sales volume. I plan to review my wholesale closer, as well as evaluate the manufacturer's fast turns market data for our area, and I will be ordering units needed to meet that criteria instead of ordering based on what I feel we need in inventory for a fuller trim level selection. Therefore, we may not have a full trim lineup available in stock for every model, but by doing this we may increase some other trim level areas where volume can grow. We can also reduce our large overhead expense in floor plan, especially since our captive seems to have one of the higher floorplan rates among the floorplan sources available.

Overall Objective and Specific Desired Results:

The goal is to achieve a more effective inventory mix for a faster turn and to reach more buyers in our market while carrying a lower days' supply of inventory.

- Properly using Ford's inventory management system that shows and lists the inventory for faster turns in my market area.
- Increasing the average monthly sales volume from 2019 monthly YTD avg of 15.58 to 21 monthly average. Goal 250 annual new vehicles sales.

- Implement a leasing presence in our area to assist in obtaining our goal.
- Reduce the high days' supply of inventory carried in units from the end of 2019 of 212 days' supply down to 120 days' supply by September 1, 2020.

The desired result will be to carry an average stock inventory level of 84 units with a monthly sales volume of 21 units per month.

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

As of the end of 2019, our day's supply of inventory was setting at 212 days based on our average sales 15.58 and current inventory level of 110 units in stock. And at the end of January 2020 we sold right at last year's average in sales of 16 new units while decreasing our inventory level down to 96 units. This is a good step in the right direction, although we must now work to increase our monthly sales volume in new vehicles without creating a large decline in our new vehicle grosses.

In the diagram below, I am looking to change our organization's way of viewing the inventory levels. We must see that we can sell more vehicles, with greater total dealership success, through a better operational practice of stocking the faster turning inventory. While we will not be carrying the full trim levels of all models, we are going to open up our customer market by supporting Ford's leasing programs and thereby gaining sales with lease customers that we were previously losing. The points below will state the changes to our practices.

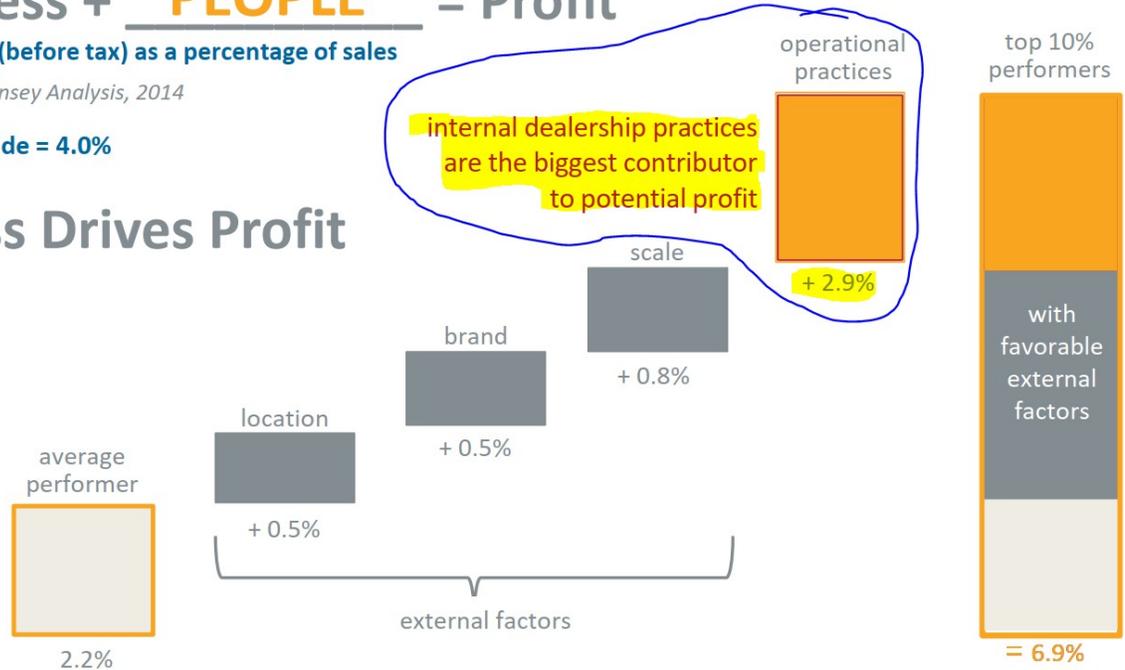
Process + **PEOPLE** = Profit

net profit (before tax) as a percentage of sales

NADA McKinsey Analysis, 2014

NADA Guide = 4.0%

Process Drives Profit



DAYS' SUPPLY OF INVENTORY THE MANUFACTURER STATES TO HAVE BELOW:

Fiesta.....	3,000	37	55
Fusion	29,000	53	101
Mustang	23,000	98	93
Total Ford car.....	55,000	63	91
E-series van.....	8,000	46	56
EcoSport (I).....	24,000	126	129
Edge	32,000	58	66
Escape.....	51,000	81	79
Expedition	21,000	56	60
Explorer.....	68,000	91	113
F series	269,000	75	100
Flex.....	5,000	84	66
Ranger	39,000	67	108
Transit	22,000	46	75
Transit Connect (I).....	16,000	108	127
Ford trk. (D)	515,000	72	91
Ford trk. (I)	40,000	118	129
Total Ford trk.	555,000	74	93
Ford (D).....	570,000	71	91
Ford (I).....	40,000	118	129
Total Ford.....	610,000	73	93

Ford's total average days' supply of inventory as of December 1, 2019 was 93 days.

Ford's total average days' supply of inventory as of January 1, 2020 was 73 days.

For us to be able to drop down to carrying an average day's supply of inventory level of 120 days or less, we will implement the following steps:

- 1.** For immediate reduction of inventory, we will implement one-way dealer transfers moving forward and not take any inventory back from other dealers until we get our 120 goal. This may require us to even give a portion of our holdback in order to move out some of this inventory, but that will only be done if necessary to move a very old unit. Our dealer trade coordinator will handle giving other dealers a portion of holdback on a case by case basis.
- 2.** Reviewing my monthly Ford wholesale commitment closely and now understanding that our OEM reps' number one thing to complete well is wholesale – sell the dealer their product. Starting now, when I review the monthly wholesale, I am going to collect more data before making the dealership's final decision. By reviewing last year's sales for each model line, and looking for the months that carry spikes over other months, I can prepare my inventory level for that expectation of sales, while also not overstocking inventory as I have allowed to happen in the past. By comparing the current level of inventory I have on hand with the expected sales we plan to complete, I can better manage the current inventory before the wholesale commitment inventory will arrive. The dealership will follow the model of previous sales history in each model segment to determine each month's wholesale commitment, and not always help the OEM rep when they are looking to dump extra inventory onto you for their benefit, even though they say they are trying to help and can give extra inventory in other areas as I have in the past.
- 3.** Place vehicle orders of fast turn inventory based on past sales that are being made in my market area. This is something I have done, based on what I felt we needed to carry, but now that I have been taught this system, I understand how to use it to my benefit for stocking faster moving units for my area. This should assist me in moving inventory faster with less units that are sitting on the lot for

a long time and creating a large holding cost per unit. Based on last year's data, my average daily holding cost per unit in new inventory was almost \$80 per day. Also, decreasing my inventory will lower my total floorplan expense and, in conjunction with the increase in monthly sales volume, will bring my daily new vehicle holding cost down closer to the domestic national average of \$67 per day.

* Dealer: 23253-Valley Ford, Inc.
* Model Year: 2020
* Vehicle Line: All
* Scheduling Start Date: Feb-20-2020
* Report Type: Fast Turn Report

[Generate Report](#)
(Opens Report in PDF/HTML)

* Dealer: 23253-Valley Ford, Inc.
* Model Year: 2020
* Vehicle Line: All
* Scheduling Start Date: Feb-20-2020
* Report Type: Inventory Balancing Report

[Generate Report](#)
(Opens Report in PDF/HTML)

4. Pricing and marketing our new vehicle inventory with lower gross margins being set on trim leveled inventory that show a traditional greater days' supply in inventory. This is going to be done with in-stock inventory by comparing our current inventory to the fast turn report, and then selecting the inventory that has a low turn rate. Once units are selected, these units will be marketed at a lower margin than the faster turn units (possibly at a loss), with the goal of regaining that loss on the backend. With a lower volume store and lower manufacturer sales goal achievement incentives, we cannot price all of our inventory with this strategy on a continual basis. This is why our store's new vehicle sales shows a slightly larger front-end gross than the national average.
5. Begin sales training and marketing plan to enter Ford's leasing program. The sales training will be handled by our sales manager, and will ensure the sales staff properly understands how to explain

leasing to customers and how to handle objections customers may have in the purchase of a lease. Going forward, our payments we market are going to be lease payments on the digital and traditional marketing fronts. Our website will have retail purchase pricing, but customers will be able to see a lease payment as well on these vehicles. The traditional store front marketing will have vehicles labeled up with lease payments on the windshields, as well as payment brochures in our service loaner vehicles for customers to review and consider while driving our loaner vehicle. Last year our lease penetration was less than 1 percent. My goal within this segment is to gain back our fair portion of lease penetration, with a 10 percent penetration rate of 2020. Ford national average of lease to purchase penetration is about 22 percent. This is where we can gain almost half of our needed sales in obtaining our new annual sales goal of averaging 21 new vehicles per month.

Timeline:

Describe specific short term and long-term checkpoints to monitor progress.

The short-term timeline is to lower my wholesale commitment over the next 3 months and to only gain in model lines that need replacing based on sales with the faster turn trim levels, and to lower my in-stock inventory level by moving out inventory that has a longer days' supply and not replacing them with the same trim level as I have in the past. Also in the short-term, we will price our slow moving inventory (inventory that shows longer days on lot and low turn rate according to the Ford fast turn report in our market area) at net to possible loss front end margins with expectations of capitalizing our front end loss in the back end profit. These units will in turn be replaced with faster turning units.

The long-term timeline is to enter the leasing market to gain some sales momentum in this area. This will take some time to increase our leasing penetration, and will be done through proper sales training

and offering our lease options to our customers through both digital and personal marketing. By the end of this six month period, the dealership should have a 10 percent lease penetration rate in reflection to total sales.

As my slower moving inventory is sold, I will be shifting to inventory that have been known in our market area as faster turning units. This will be an adjustment from replacing units with like units to replacing with better selling units. This will be continually monitored over the long-term to ensure that we are stocking what is being listed as faster moving inventory for our area. By doing this, we will not be able to carry the total full trim levels in every model, but now I understand the importance of not carrying that one unit that is only sold just once a year from our lot just because I want that trim level in stock to view. It is better to have this unit in stock in a trim level that sells in a greater quantity in our market area.

Meeting with Stakeholders (dealership personnel)

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

- a. Who:** Eddie (Dealer), Shane (GM), Diane (NV Inv order Manager & D/T), Lisa (SM & Marketing Manager)
- b. What:** To understand how our inventory levels will be monitored and controlled for a better vehicle sold to inventory stock ratio going forward to get to our goal of 120 days' supply of inventory on a consistent monthly basis with policies and procedures outlined above.
- c. By When:** Plan to get to 120 days' supply over a 6-month period from 3/1/20 until 9/1/20 and stay under 120 days' supply.
- d. How:** With stronger online pricing presence on vehicles in stock as well as entering the lease market

more this year than ever before, all to gain more customers with a slight increase of sales volume. Short term we will be only taking one-way dealer trades and monitoring our manufacturer's monthly wholesale commitment more closely.

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:
