VARIABLE OPERATIONS 1 HOMEWORK – ACTION PLAN

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What is your current situation and challenge you will address?

Across the I-State Truck Center locations, there is no consistent, repeatable and standard method of handling a used truck from “onboarding” to “sale”. As a result, our aging profile isn’t as healthy as it could be.

Periodically, the company (at a Holdings level) finds itself reviewing aged used truck inventory (within the I-State Truck Center sub-company) and making a decision to write-off losses that have accumulated. The down-side of this annual rhythm is that the burden of the problem does not rest with the operational personnel who created the issue. Today they make their incomes from GP$ (Sales Personnel & Used Truck Manager) or OP$ (Branch Manager). If a used unit sits on the lot and ages, there is little incentive creating urgency for the Sales personnel to sell it. The Used Truck Manager has some incentive to minimize aging and absorb any “minimal” loss as early as possible to reduce any GP$ loss.. And the Branch Manager has no appetite to take any loss due to a “magical” process at the end of the year that takes over-aged used units off his/her hands without it impacting their variable compensation.

The situation/challenge we need to address: Build a Used Truck Lifecycle Program around how used truck inventory will be processed from “onboarding” through “sale.” Build incentives that support this (which should be minimal if the policy forces a “sale” of the truck at some point -- directing the financial reward or consequence at the branch level).

What is your goal? What do you want to Achieve? From what metric, to what metric? By what Date?

Goal: Create a full used truck lifecycle. No used trucks older than 150 days on our lots.

What do we want to achieve: A full program that Branch Managers and Sales personnel can follow to understand what is expected, and what they must do, through this 150 day lifecycle.

From what metric to what metric: First: From 61 trucks older than 150 days to 0 trucks older than 150 days. Second: Bring the overall aging of used truck inventory into a healthier profile. Specifically - most inventory dollars in “fresh”, fewer in “at risk” and little to none at “old”.

By what date: Bring the program online through Q4. Fully adhere to the program in Q1. Achieve 0 trucks over 150 days aged by the end of Q1.

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Caveat: In certain vocational instances, there are used trucks who's depreciation is extremely minimal, or non-existent, that will be exempted from this program. These units will be identified up-front during the "Plan at Appraisal" stage. Any exceptional units that meet this criteria must be personally approved by I-State Truck Center's overall Manager of Used Trucks. (e.g. Snow Plow).

How does this goal align with or support your Dealer's Vision? What are the BENEFITS of achieving your goal? What are the CONSEQUENCES if you don't? Why is this goal important to you?

Our Dealer is focused on operating with best practices. This falls squarely within that mindset, and has the added benefit of avoiding frozen-truck-capital on the balance sheet (aka: a hidden loss that will eventually rear its head). The consequences of not meeting this goal are broad, they include:

- Not elevating the operations processes within Used Trucks and Sales around Used Trucks
- Not elevating the business acumen of our leaders and salespeople, and instead settling for a situation that creates challenges for the company
- Not doing our part as leaders to set expectations, provide guidance, and support learning and improvement as a culture
- Not aligning accountability (reward or consequence) to those who create risk/opportunity

It's important to us because it reduces risk and grown business skills in the organization.

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Specific Action / Step	Necessary Resources	Who is Accountable?	Expected Result?	Expected Completion Date?	Actual Completion Date?	Check Off
Create Used Truck Lifecycle Plan	Jordan Tenney (Used Truck Manager)	ITC Branch Mgrs and Sales Mgrs/ Personnel	Action plan for review	8/15/2020	8/15/2020	Done
Business Leader review & approval of Used Truck Lifecycle Plan	CEO, I-State Truck Center President, CFO, VP Corp Ops	I-State Truck Center President	Garner edits and approval for the plan with edits included	9/15/2020 (scheduled and accepted by accountable parties)		
Finalized Used Truck Lifecycle Plan	Jordan Tenney, Aaron Johansen	Jordan Tenney, Aaron Johansen	Final Plan for broader Branch Mgr and Sales Mgr / Personnel	10/7/2020		
Operations Communication and Go-Live	Jordan Tenney, Branch Mgrs, Sales Mgrs / Personnel	Jordan Tenney, Branch Mgrs, Sales Mgrs / Personnel	Publish plan and plan overview with Operations	10/15/2020		
Go-Live with Used Truck Lifecycle	See Above	Jordan Tenney, Branch Mgrs, Sales Mgrs / Personnel	Begin tracking, reporting, ALERTING, and ACTING on the plan	11/1/2020		
Reporting: Clean up aged inventory reports	Jordan, Aaron, IT	Jordan, Aaron, IT	Clean used truck inventory reporting	10/15/2020		
Alerting: Setup email and call alerts to Branch Mgrs and Sales Mgrs / Personnel	Aaron, IT	Jordan	Alerting rhythms	11/30/2020		

How will you track your progress? What specific metric(s) will you track? At what intervals will you check on the progress?

The current draft Used Truck Lifecycle is:

- Day 0
  - Plan at Appraisal – Retail, wholesale or Auction unit
- Day 1
  - Start retail reconditioning process – initial photos

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    - Start Wholesale sale ready process – invoice to wholesale
    - Start Auction sale ready process – determine auction
- Day 30
    - Retail unit – through shop and reconditioning process– Front line ready – updated standard photos and videos. – Unit is advertised in proper channels.
    - Wholesale unit – invoiced, paid, and delivered
    - Auction unit – At auction location ready to sale day
- Day 60
    - Retail unit – update pricing
    - Auction unit – invoiced, paid
- Day 90
    - Retail unit – Update pricing, check for any other reconditioning needed
- Day 120
    - Retail unit – Update pricing, shop for wholesale sale, shop best immediate auction channel.
- Day 150
    - Must sell by date. Retail unit – Invoiced, paid, and delivered steps complete

The supporting reports that will allow for tracking around this will be the Used Truck Aging report and the Used Truck Lifecycle Alerts program (email, calls, etc.) that the Used Truck Manager will follow and/or automate as needed.

Potential Obstacles?

Obstacle 1: The incentives for Sales Mgr and Sales Personnel may not be well aligned. Today there are no consequences to the behavior. In essence, going into this lifecycle plan with no “teeth” of any sort may result in it falling on deaf ears.

Solution 1: Review with leadership to determine the appetite for incentives (carrot) vs. policy (stick) around this program.
Obstacle 2: The habits to adhere to a program like this are not well developed. This could result in some early stumbles or misses in the lifecycle until these habits are formed and the process is refined.

Solution 2: Don’t wait for perfection before we launch. We have to get started and understand that some flexibility will be a requirement to get this going successfully.

Obstacle 3: There will be some financial burden upon the branch and salesperson finances that comes with a program like this.

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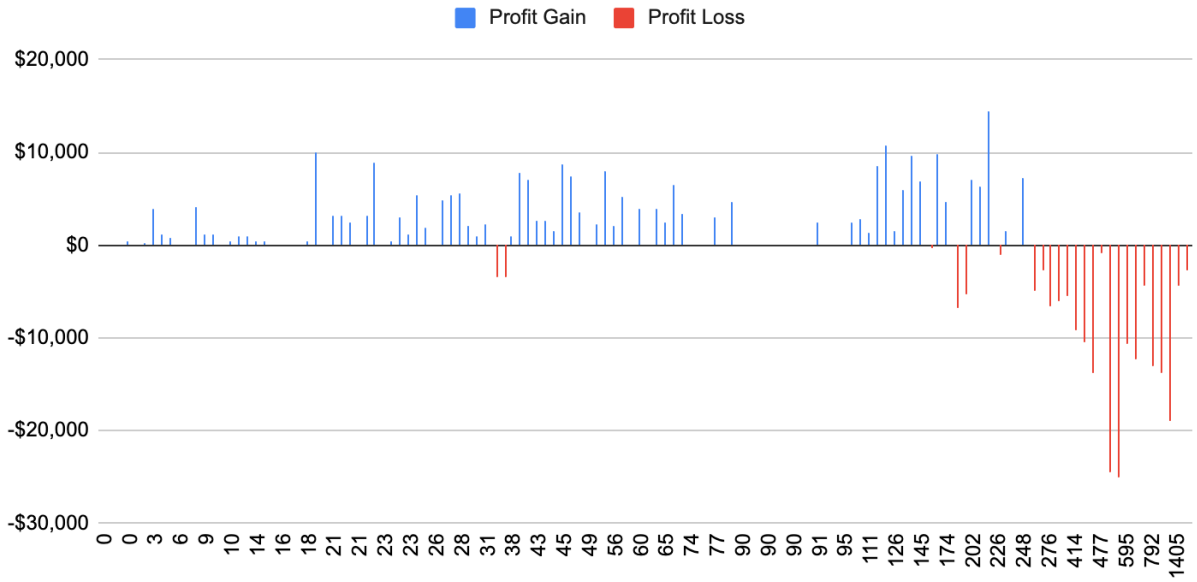
Solution 3: It's necessary for leadership to do some education around this. The current arrangement of not taking ownership of the financial consequence, and instead being incentivized to increase the loss at a company level to preserve branch-level benefits is not in the spirit of best practice or good business. The team must rise to the occasion here - both in leadership's expectations and Operations' business acumen.

Bottom Line: What is the financial impact (expressed in dollars) of achieving your goal?

The sooner you sell the truck the better off you are.



Year to date, over $200k in profits from used truck sales occurred when the truck wasn't aged over 150 days. Over the same period, all aged trucks >150 days resulted in a $150k loss. In essence, holding aged trucks beyond 150 days results in losing 75% of the profit the company would otherwise stand to make… even if it simply sold them at $0 in profit. In reality, the goal here would be to reduce any losses by simply not allowing "very aged" inventories to accrue.

A program to process all used truck inventories within a 150-day period is key to bringing control and best practices around this.

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Once you've accomplished your goal, added or adjusted policies, procedures, and behaviors, now what? How will you ensure you and your staff do not fall back into the previous habits that produced poor results? Be specific.

A progress meeting will take place between the central Used Truck Manager and the respective Regional Vice Presidents that manage the branches. The RVPs can use this report to have conversations with management and sales to adjust behaviors when adherence to the program isn't being met. At the start, this will be a flexible 2-way conversation until the program is refined and ironed out. Within a year's time, the goal would be to have full adherence and a new culture around the Used Truck Lifecycle.

Describe any planning or implementation meetings conducted as part of development of your plan.

See above in the grid. All meetings, reporting, alerting and rhythms are indicated.