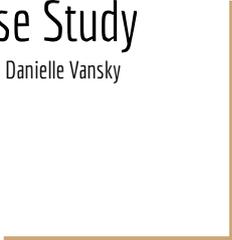




Bad News Bears Chevrolet

Financial Management Case Study

Chad Chase, Angela Power, Paula Callari, Greg Kapeleula & Danielle Vansky





The owner of Bad News Bears Chevrolet needed help badly to get his business back on the map, so he hired Ted to fix his store.

He told Ted that he could do what was necessary to make the dealership one of the best Chevy Stores in North Carolina.

Initial Concerns

- Cars need paid off
- Technology out of date & website needs updated
- Personnel needs reviewed
- Lack of training
- Lack of process
- Out of trust
- Lack of cash
- Working Capital inadequate

To prevent losing the franchise

Not meeting working capital by over \$1 million

- Dealership purchased a building in hopes to run a body shop and/or detail shop
- Building sat for 5 years
- Found a buyer willing to purchase for \$2.9mil if we agree to sell within 30 days
- We will take a loss of about \$350k, but still enough to start positively impacting dealership

More oxygen

- Update AR Process --34% of S&P receivables is over 60 days with \$130,522 in frozen capital
- Implement the following:

Managing accounts receivable involves five steps:

1. Determine to whom to extend credit.
 - a. Risky customers may be required to provide letter of credit or bank guarantees, or to pay cash on delivery
 - b. Ask potential customers for reference from banks & suppliers for reference checks
 - c. Periodically check financial health of continuing customers
 2. Establish a payment period
 - a. Standard 10 Net 30, but we will offer 2/10 Net 30 to customers - we will clearly state this on all statements
 3. Monitor collections
 - a. Review AR schedule beginning and mid-month
 4. Evaluate the receivables balance.
 - a. Potentially to set charge limit on accounts
 - b. Pursue problem accounts immediately--cut off any vendor who is over 60 days
 5. Accelerate cash receipts from receivables when necessary.
- Quick Money: Floor used cars

SALES and F&I

- Hours of operation change:
 - 8:00a - 8:00p M-F | 8:00a - 8:00p Saturday | Closed Sunday
 - BDC open Sundays
- Doc fee increase to \$450
- Meet with department to discuss and set expectations (Change Habits & Culture)
- Daily meetings for all managers (Save a Deal & CIT)
- Training for salespeople Monday Wednesday Friday
- Hold a lot party to see if vehicles are in the right condition to sell
- Immediately place bonus programs to rid of aged units
- Volume Bonuses
- Spiff program for social media

SALES and F&I

With menu selling and pay plan reviews:

Increase avg F&I income from \$573 per new vehicle to \$1800 by 12/31

Increase avg F&I income from \$624 per pre owned vehicle to \$1500 by 12/31

- Introduce menu selling
- Relook at payplans for finance - CIT any contract not funded at month's end will be charged back in full to finance manager and sales department until funded.
 - F&I currently on salary plan - move to commission based and set bonus structure catered to product penetration vs gross
- Currently selling GAP & Service Contracts - Will begin to sell Tire & Wheel, Credit Life & Disability, Appearance Packages and VIN Etching
- Add accessories to vehicles that are tied into extended coverages through F&I
- Increase F&I sales by over \$200k per month
 - Note: we average 44 NC and 31UC per month
 - Goal: 88 NC and 62 UC per month

SALES and F&I

Drive more traffic:

- Dedicate BDC staff with manager
- Dedicate staff to acquisitions to help move customers from service to sales
- Letter/E-mail blast introducing new GM
- Purchase DMV list of GM owners & prospective conquest owners
- Create good mix of digital and traditional advertising
- Host a big sale event
 - **Positive Impacts:** turn aged inventory, save on floorplan expense, bring in new customers, retain these customers for future service needs

Sales Event



- Focus on aged inventory
- December raffle - for every NC sold, customer is entered to win 5 years of free oil changes
 - Raffle allows person to make same day decision instead of shopping around
- Spiff an additional \$200 to salesperson for any vehicle sold >60 days old

SFE Bonus: we estimate selling 88 new cars which will result in SFE bonus of \$50,000

SERVICE & PARTS

- Hours of operation change:
 - 7:00a - 6:30p M-F | 7:00a - 4:00p Saturday | Closed Sunday
 - This increase provides an additional 19 hours per week
- Increase labor rates across the board to the Raleigh-Durham area average of \$150 per hour for all labor types.
 - This is an increase of \$50 Cust Pay / \$75 Internal / \$75 Warranty
- Increase CP ELR from 85% of door rate to 94%.
 - Pull exception reports and get a handle on discounts made on the drive
- Increase service hours by adding four additional technicians thus utilizing all 10 service bays

- Increase tech proficiency from its current 84.6% to 110%.
 - Evaluate each techs level of ability and implement training where necessary to help them achieve desired proficiency.
 - Look at breaking shop into teams and pay team leaders based on his or hers efficiency / proficiency as a group.
- Raise our CP parts to labor ratio from its current 0.8:1 to the industry standard 1:1
 - See if the factory offers any advisor training to help our advisor increase their part sales per RO
 - Change advisor pay plans to incentivize CP parts sales on the service drive
- Change our parts matrix and increase our overall parts percentage.
Looking for the following; 40% CP, 40% Internal, 40% retail, 40% warranty and 20% wholesale.

- Increase Retail Counter Sales from average \$300 per month to \$3000 per month
 - Reconfigure retail parts area to promote after sales products
 - Purchase right mix of retail parts inventory
- Increase wholesale parts sales from \$11,000 per month to \$20,000+
 - Hire dedicated wholesale parts representative to cater to local body shops
 - Improve efficiencies to offer faster deliver and a higher level of service
- Increase Fixed Absorption coverage from 36.9% to 70%
 - Continue to keep already low expense structure in check
 - With projected sales and gross increases, this will be easily attainable.

Average Monthly Increase

SERVICE DEPARTMENT	Current	Forecast	Change
Technicians	6	10	167%
Flagged hours	845	2383	282%
Proficiency	75%	110%	147%
CP ELR	\$85	\$145	171%
INT ELR	\$75	\$150	200%
WAR ELR	\$75	\$150	200%
Service Labor	\$67,320	\$343,500	510%
Gross %	60.5%	75.0%	124%
Service Gross	\$40,699	\$257,625	633%

Service average monthly gross increase = \$216,926

PARTS DEPARTMENT	Current	Forecast	Change
CP/WA/ INT Parts	\$26,928	\$343,000	1273.8%
Gross %	34.1%	40%	117.3%
CP/WA/INT Gross	\$18,787	\$137,200	730.3%
Retail Parts	\$1,551	\$3,000	193.4%
Gross %	20.0%	40.0%	200.0%
Retail Gross	\$302	\$1,200	397.4%
Wholesale Parts	\$11,782	\$20,000	169.8%
Gross %	9.3%	20.0%	215.1%
Wholesale Gross	\$1,107	\$4,000	361.3%
Total Parts Gross	\$20,196	\$142,400	705.1%

Parts average monthly gross increase = \$122,204

TOTAL FIXED OPS	Current	Forecast	Change
SERVICE GROSS	\$40,699	\$257,625	633%
PARTS GROSS	\$20,198	\$142,400	705%
FIXED GROSS	\$60,897	\$400,025	657%

Combined average monthly gross increase = \$339,128

As of December 31, 2020

Working Capital will be above \$4,000,000

Account Receivable will be current (Estimated \$17700.00 expense for uncollectible accounts)

Aged inventory will be depleted, significantly decreasing floorplan interest expense

All sold floorplan vehicles will be paid off and we will no longer be "Out of Trust"

New employees will be trained and new processes will be implemented

All new labor rates will be effective

Repair orders will be closed in a timely fashion

Accounts payable will be paid in a timely matter, while taking advantage of any discounts when paid early.

New car Inventory will be replenished with a mix of cars that meets customer demand



Expectations for 2021

Decrease frozen capital for Preowned Vehicles from \$1,374,627 to less than \$200,000

Decrease frozen capital for Parts & Accessories from \$111,175 to 0

Projected \$200,000 increase in F&I Income by using menus and new products (Also changed payplan to be commission based)

Projected new cars sales to hit SFE objective monthly--increase bottom line by at least \$50,000.00 monthly.

Projecting increase of vehicle sales for an additional \$110k per month

Projecting increase of service--\$216,926 gross profit per month

Projecting increase of parts of about \$122k GP monthly by getting rid of stale/aged parts

Doc fees: \$450.00 vs \$149.00 -if we meet forecast of 88 new cars and 62 used cars--increases bottom line \$45,000.00

Although expenses will increase, we expect to earn a total store minimum GP of \$250k a month

“Good News” Bears! Let’s Turn a Profit



Additional Information

- Cash does not seem to be an issue as the calculations show 130 days vs guide of 90.
- They look to be out of Trust by \$422,237.
- There does not seem to be an issue with getting Contracts funded as 1 day vs 3
- However, the Working Capital is off. Guide is \$2,250,000 vs Actual of -\$813,099
- Fixed Absorption needs improvement; 52.6% vs guide of 60%. Pre owned at 30.6% vs 40%, which leaves a dependency of 16.8% on the New Vehicle Dept.
- Need to review how we can unfreeze \$1,374,627 of Capital in the Pre Owned Dept
- \$111,175 Frozen Capital in Parts & Accessories
- \$130,522 Frozen Capital in Service, Parts Accounts Receivables
- TOTAL Frozen Capital of \$1,619,615

Additional Information

- Hours of Operations for ALL departments need to be changed
- Doc Fee Increase
- Implement Menu Selling / Training
- Add more Sales Staff / Training
- Develop a BDC
- Increase Customer Labor Rate & Internal Labor Rate - Apply for Increased in Warranty Rate
- Evaluate level of the 6 current Technicians. Hire 3 more Techs to have 3 Teams of 3. Make sure 3 A level Techs, 3 B Level Techs and 3 C Level

Additional Information

- A Level Techs to be Team Leaders and Dispatch all the work. Develop Pay for A Techs to want to guide the rest of their Team.
- Need more used cars and a designated Reconditioning Technician to get cars ready for display
- Technology in the dealership needs upgrading for better efficiency in all departments
- Formal Parts Inventory needs to be complete. Old parts need to be returned to factory or sold on eBay
- Utilize the OEM computer tools for parts mix and daily ordering system
- Look into free training that the vendors offer for Menu selling in F&I and Service
- OEM training that has not been utilized