

January 25, 2022
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Class N395

Case Study: Conversation with owner on what numbers on the Financial Statement they look at and why.

I had a very informative and interesting conversation with our COO Mr. Marcus Johnson who is the son of our owner TJ Johnson. Marcus oversees the day-to-day operations for our 15-store auto group.

Question: Mr. Johnson, when you look at the financial statements from each store what number or numbers do you look at and why?

Answer: He looks at these numbers in this exact order:

1. Contracts in transit
2. Customer and Factory receivables over 30 days old
3. Net Profit before taxes
4. Total Store Gross as a percentage in relation to Net Profit
5. Service Gross as a percentage in relation to Service Total Salary and Wage Group
6. Parts Gross as a percentage in relation to Parts Total Salary and Wage Group
7. Used Car Inventory Turn

Why?

1. Contracts in transit
 - a. He monitors contracts in transit daily. Requires each GM to report to him in writing on all contracts over 14 days old.
2. Customer and Factory Receivables over 30 days old
 - a. With customer receivables there should never be anything owed over 30 days "we are not a bank." However, there are some exceptions, and he needs to have a clear explanation on why.
 - b. With Factory receivables most of all factory receivables are received weekly and any volume-based factory bonuses etc. are usually paid within 15 business days of the following month from all of our OEM's. So, any factory receivables that are still lingering he wants to know why. The reason for this is to ensure that the GM isn't overlooking this. After 90 days any factory receivables are charged back to the appropriate department.
3. Net Profit before taxes
 - a. With net profit he is looking to make sure each store is at or above a 3.5% net profit return on sales.
4. Total Store Gross as a percentage in relation to Net Profit.
 - a. This includes all income generated above and below the line. This gives him a general idea of expense control. His target for each store in our group is to retain 40% of total store gross. This calculation is one of his favorites because he can quickly calculate where each store should end up each month based on the Total Gross.
 - b. i.e., "If a store does a total of \$850,000 in total gross it should net north of \$340,000."
5. Service Gross as a percentage in relation to the Service Department's Total Salary and Wage Group

- a. What he's looking for here is each store is retaining a minimum of 50% of the service gross in relation to the total wages earned in that department.
- 6. Parts Gross as a percentage in relation to the Parts Department's Total Salary and Wage Group
 - a. He's looking for the same gross retention at service a minimum of 50%.
- 7. Used Car Inventory Turn
 - a. He's looking for 12 turns per year. "A Healthy used car inventory = A Healthy dealership it's as simple as that."

In conclusion my conversation with Mr. Johnson was very inciteful and informative. He took the time to show me his key numbers and metrics. Which really gave me a clear understanding of his financial vision of the auto-group and his expectations for each store.