



Financial Management Objective Homework

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Class # General Motors

I plan to accomplish the following objective April 3, 2017 **by**
our next class on:

Provide the relevant composite data

Department	Month	Page	Column
Variable (N &U)	12/16	6	6,8

December 2016 Data

New Vehicle Inventory \$18,568,687 (180 Cars, 290 Trucks, 9 Med Duty Trucks)
 Used Vehicle Inventory \$1,592,829 (38 Cars, 57 Trucks)
 New Vehicle Months'/Days' Supply - 4.25 Months/ 127.5 Days (45 days NADA guide)
 Used Vehicle Months'/Days' Supply - 1.40 Months/ 42 Days (30 days NADA guide)

Action plan for achieving objective

What is the area of focus?

One of the key things I learned during week one was how critical managing your inventory can be. At our GM Store, we are well above guide in days' supply of both new and used vehicle inventory. Up until recently (on variable side), our stores were staffed with sales managers only and they were trained to focus on how to sell more vehicles. We transitioned to a general manager approach to have more accountability and more empowerment at the store level with less reliance on senior management. Pay plans are still sales focused with a base salary and percentage of variable gross component.

The key area of focus is getting our vehicle inventory supply in line with NADA guides. I believe this can be accomplished through education, development, and reinforcement as follows:

**Educate and Develop* - This step has been accomplished at our store. The

General Manager is NADA academy trained. Additionally, we have emphasized the importance of managing inventory to the new and used vehicle department managers. We will continue to emphasize the importance of staying as close to guide as possible.

**Reinforce* - At the end of January and February, the used vehicle schedule has been reviewed by myself and the company's operations director. We request explanations for any vehicles approaching 60 days and ask that an exit strategy (i.e. to auction on xx/xx/xxxx, to be deliver on xx/xx/xxxx) be provided for the vehicle. Communication and review will certainly help us achieve better results in trimming excess inventory levels. However, we will also have to drive behavior through redesigned pay plans.

Redesign pay plans for new car manager, used car manager, and general manager to implement interest charges on aged inventory to reduce compensation for misaligned behavior.

What is the proposed plan? How will you achieve it?

I believe this issue will take several months to correct particularly for new vehicle department. We will need to be aggressive with our older new vehicle inventory and make sure we are tracking our used vehicle inventory closely and wholesaling any aged units that we will not be able to retail. The General Manager has access to schedules in CDK and will be asked to review inventory levels regularly (daily). A formal review of aged units by stock number will be done by the Operations Director, myself, and the General Manager monthly.

Interest charges will be calculated (off books charges) on aged units and sent to Payroll to be included as a reduction prior to the commission percentage.

How will you track your progress? What measurements, KPI's? How often will you track?

Both new and used vehicle inventory are scheduled by Stock number in CDK. The key KPI as mentioned above will be days' supply. We do not floor used vehicles unless absolutely needed. At the end of December, we had no used GM inventory floored. Therefore, tracking how often we are turning over these vehicles is key to our cash flow. All new vehicles are floored. Maintaining appropriate inventory levels should allow us to reduce interest expense and free up lot space which is extremely valuable.

CDK schedules will be used to track. Days' supply calculations will be provided each month to managers and interest charges will be calculated for monthly bonus/commission checks.

Who are the employees that will be involved, or impacted? Will they require training or assistance?

New Car Sales Managers, Used Car Sales Manager, General Manager - This initiative is being rolled out into the variable department to help untie frozen capital in used vehicles and avoid unnecessary interest and curtailment charges on new vehicles. We do not floor used vehicles as a general approach unless

capital is needed for an upcoming large, expenditure.
Is there a cost, or estimated cost for implementation?
This is a relatively inexpensive solution to reducing excess inventory levels. More formal training could be provided to the new and used managers to help them develop skills and knowledge beyond just managing inventory levels. However, for this particular initiative, the concepts and reasoning can be taught and communicated by the general manager, operations director and myself to get things rolling.
Projected date of completion? October 31, 2017

Pay Plan Ideas

New Car Manager Pay Plan

\$2,275 Semi-Monthly + .1.35% of Variable Gross + Mkt Ranking Bonus

2016 Wages - \$137,098

NADA Guide Medium Volume, Non-Luxury Mid-Atl- \$112,784

Used Vehicle Manager Pay Plan

3,006 Semi-Monthly + 1% of Variable Gross + Unit Used Bonus

2016 Wages - \$128,080

NADA Guide Medium Volume, Non-Luxury Mid-Atl - \$112,78

Both Sales Managers are making above NADA guidelines in compensation.

Therefore, I do not believe any adjustments are needed to raise the wages prior to implementing interest charges. For a few months, it may be helpful to calculate and communicate what the charges would be to their pay and allow them time to digest and start to work on improving these figures.

Our floor plan rate with USB is LIBOR plus 1.15.

There were \$9,247,919 in New Vehicles over 60 days aged at 12/31/2016.

There were \$508,277 in Used Vehicles over 60 days aged at 12/31/2016.

Charging them personally interest on these vehicles at a non-marked up rate would have reduced individual wages by nearly \$2,000. Still trying to come up with the right way to implement this into pay plans. Will probably have to implement a go forward basis and exempt the existing vehicles to be fair to employees and avoid huge decreases in employee morale.

Jan.	Feb.	March	April	May	June
July	Aug.	Sept.	Oct.	Nov.	Dec.