



Don't Wait for Your "Wake-Up Call"

Where Value and Insight Come Together

It is in your best interest to invest another few minutes of your time and contemplate what today's technology and Valuinsight can do for you can do for you.

Your store's inventory health is the real importance of getting the decision-making process moving toward the top of your decision-making plate once and for all. Of course, most of you think you have what you need already in place and your store is "covered". You may have something, and you may be paying a lot for it, but is it taking you to where you really want to go? Over the years, how many things did you buy with good intentions that you were never able to fully implement? Are you and your team using the technology as designed, or does it just make you feel a little better knowing that something is in place? Managers fight change and accountability. It is natural.

The Bottom Line is:

1. You must have a serious process in place to monitor your key indicators
2. You must do something about these indicators on a regular basis
3. You must come to the realization that your future is in your hands

By far, the single most important and underused key financial indicator for both the new and the used vehicle inventories is Return on Investment. That is what you are in business for -- a continuously growing return on your investment. This drives the value of your entire business. It is used to calculate multiples of earnings, establish values for potential "Blue Sky" and a whole number of other important business indicators.

For purposes of this article, an indicator that most Dealership management personnel can understand and relate to is a modified version. It is GROSS RETURN ON INVENTORY INVESTMENT. This is a quality measurement indicator and is measuring the total gross profit return (both retail and wholesale) compared to the total investment required in the inventory to generate that return. The formula used to calculate this key financial management indicator is total vehicle retail gross profit plus total vehicle wholesale gross profit, divided by the sum of the cost of those sales plus the current actual vehicle dollar inventory. This is displayed as a percentage and, as the name implies, is measuring the gross return of the total inventory investment. In total, this is a relatively easy number to calculate. It is also relatively easy to compare this indicator for cars and trucks. Unfortunately, that is usually where most stores stop and, in actuality, this is where we should all just begin.

The formula to calculate this key indicator with an example looks like this:

Retail gross profit		\$38,325
Wholesale Gross Profit	+	<u>-\$6,550</u>
TOTAL GROSS PROFIT	=	\$31,775
Cost of retail sales (inventory amount)		\$365,244
Cost of Wholesale sales (inventory amount)	+	<u>\$82,349</u>
TOTAL COST OF SALES	=	\$447,593
CURRENT INVENTORY AMOUNT	+	<u>\$522,325</u>
TOTAL INVESTMENT	=	\$969,918
TOTAL GROSS PROFIT GENERATED		\$31,775
TOTAL INVESTMENT	÷	\$969,918

GROSS RETURN ON INVENTORY INVESTMENT= 3.27%

This indicator is for the period measured. The above example was for a month. In order to annualize this indicator, simply multiple by 12. A good target to strive for with this indicator is 10% per month, or 120% per year.

It is a given that the inventory is made up of many different types of investments. This includes small cars, sporty cars, mid-sized cars, full-sized cars, as well as, all of the different types of trucks, vans and SUV's. Within each of these sales segments reside the individual model years. It is also a given the some of your sales segments and model years perform better than others. Do you know, **without a doubt**, which ones those are? Do you know your quickest turners? By segment? By model year? By make? Do you know, **without a doubt**, if more inventory in those segments and model years would be better? Do you know the point of diminishing return for each investment? By monitoring and tracking the GROSS RETURN ON INVESTMENT you can get definitive answers to these questions and more.

As you know, part of management's responsibility is to manage the activities of the managers. Buying a system and telling them to use it is not management. Change will not happen by itself. Over the years this has become so evident to me that an integral part of the Valuinsight Vehicle Inventory Management System is weekly, 30 minute, revenue impact meetings insuring that your people are taking full advantage of the tools and being held accountable for progress and improvement. The entire Valuinsight team is dedicated to make sure your team is using the tools and you are getting a measureable "Return on Investment"

The traffic count that drives by your store every day is, by and large, the same traffic every day. The key to getting more of that traffic to turn in to your store is stocking more of what your demographic is looking for. Increasing vehicle turnover is simply having more of the right product on the lot more of the time and less of the wrong product taking up “shelf space”. This sounds easy and with a well thought out system, it can be accomplished. At the very least, develop and implement a system that will separate your sales, gross and inventory by categories of vehicles (small cars, mid size cars, Sporty Cars, etc) and by model years within each category (used vehicles) or specific model numbers within each new vehicle sales category.

Your stocking guide needs to include your target supply number for each type of vehicle (45 day supply for used and 60 day supply for new) based on the actual sales rate, not a forecast. Not only do you need to know how many units you should have on the ground, but also, you need to know what dollar value those units need to be that turn the quickest for your store. The decision to determine your stocking guide number of units and corresponding investment can largely be determined by your GROSS RETURN ON INVENTORY INVESTMENT.

Suffice it to say, if it has been good, let's try doing a little more of it. Alternatively, if it has not been so good, let's do less of it. Over time, you will be able to identify optimum inventory levels for the sales segment, the model years and the ready to go ACV that best suits your customer's demographics. We must come to the realization that we cannot be all things to all people.

Other Key “Inventory Health” Indicators:

- Days supply units versus Days Supply dollars
- By Model Number for New Vehicles
- By Year and Category for Used
- Purchase VS. Trade ROI
- Today's water in inventory
- Target supply versus actual
- Market pricing
- Internet generated activities including actual clicks, demo drives, sales
- The speed of “your money”
- Quickness of turn by price bucket at cost

For more information, please feel free to contact me anytime. Thanks and here's to your personal and corporate health.

Scott Dreisbach

Scott Dreisbach, vice president of Valuinsight, Inc., can be reached at 877.269.4491 or sdrize@valuinsight.com.