HEADLIGHTS

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MAKING MONEY IN USED VEHICLE SALES

Today most dealerships make a significant portion of their net profit from used vehicle sales. In the United States, Certified Pre-Owned sales are up 10% for the year to date over October of last year. Historically, used vehicle sales far outnumber new vehicle sales.

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As in all retail sales functions, money is made when the inventory is purchased, not when it is sold. Why are the buyers the highest paid managers in the retail world? They are paid to acquire the inventory with the highest profit potential that will sell the quickest!

The same is true for used vehicles. With today's technology, it is easier to determine which units to stock that will sell the fastest and generate the highest gross profits. The trick is to apply the least amount of cost to those sales. The key is to stock "quality inventory."

Many dealers subscribe to vAuto for help in pricing their stock of used vehicles. It is a great tool to analyze what is selling in the local markets as well. But the most useful tool is your own data processing system, coupled with the analytical skills that sit between the chair and the keyboard.

Using your vehicle sales history file, it is easy to create a matrix to review the following sales characteristics of your own inventory:

- ✔ days in stock
- ✔ gross profit
- ✔ make/model number
- ✔ vehicle color
- ✔ vehicle option codes
- ✔ customer's Beacon Score
- ✔ number of demonstration rides prior to sale

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✔ reconditioning costs

✔ method of vehicle acquisition (trade-in, auction or other)

This data should become the "buying bible" for acquiring inventory. It shows what you sell best and where your product knowledge lies.

One way to place some ownership on the managers and buyers is to use a pay-plan matrix with incentives to purchase vehicles that will move quickly. Incorporate a day's supply policy and limit into the pay plan. An up-and-out policy of 45 to 50 days with the actual loss taken will make them believers.

Using old-school "bruise accounts" is a waste of time in today's environment. You need to keep the department realistic and hold everyone accountable. To balance good buying habits, pay higher percentages for the higher gross profits.

With respect to keeping costs down, place ceilings on reconditioning costs. If the number is too high, get approvals to make the additional investment. Heavily advertise product and value through more efficient media. Consider adding service contracts and loyalty programs to service the used vehicles, and spread some of that cost to the back end.

The basic point is to be smart when planning what your quality inventory stock should be, so that you end up doing more with less. Controlling costs through smart pay plans that are win-win propositions and advertising effectively should add to the bottom line in this department. Contact an AutoCPAGroup member to discuss your policies further. ✍

ONE-PRICE SELLING

Barton Haag, CPA
Albin, Randall & Bennett, CPAs

A client recently asked our dealer team what we thought was most important to his customers. The answer: time. At a meeting with another client, we discovered that the average car deal takes four or more hours to complete. Cutting the transaction time in half is a difficult task given all the regulations dealers must navigate when completing a deal's paperwork. When the transaction was broken down into its various phases, negotiating the deal presented a clear opportunity to reduce transaction time. One-price pricing is an opportunity to do this and eliminate customer stress when buying a new or used vehicle.

Implementing a one-price strategy takes discipline and patience—especially from your general manager. The tendency will be to revert to the "old" way of doing business; for example, in a one-price situation, you don't

make up gross in a trade. Your trades have to be valued assuming an acceptable gross—no more. Your inventory also needs to be managed more efficiently.

So why change to a one-price strategy? One important reason is the changing demographic of new-car buyers. Generally, women don't want to haggle over price or spend a lot of time in the dealership. The younger generations are also less likely to enjoy negotiating price. They are more likely to do their shopping online and come into the dealership prepared with data about the cost of the vehicle. They know the deal they want and the fair price of the vehicle.

Mark Rikess and The Rikess Group help dealers transition to a one-price strategy. According to Mr. Rikess, there are other benefits to a one-price strategy. Recruiting is much easier if you are not looking for traditional salespeople who, among other things, need to be good negotiators. Because a one-price strategy doesn't rely on traditional sales methods or negotiation, a dealership with a one-price sales strategy can open its recruitment practices to nontraditional resources—college campuses, for example. One-price dealerships are also able to create a more traditional 40 to 45 hour workweek for their employees, thus expanding the sales associate talent pool.

Dealers incorporating a one-price strategy can also expect grosses to eventually go up, according to Mr. Rikess. Having salespeople who know the product well and who can efficiently move the customer through the transaction adds value to the deal, especially for those customers who value their time and don't like negotiating. Adding such value to the transaction allows dealers to charge more.

Is a one-price strategy right for you? If you are a metropolitan dealer, it may make more sense. Your customer base is likely to be more diverse, and your market more competitive. That's not to say metropolitan markets are the only markets where one-price strategies work; however, they are likely to be the first to convert. If you'd like more information on one-price strategies, contact an AutoCPAGroup member today. ✍

SERVICE DEPARTMENT METRICS

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Some service departments generate a reasonable amount of sales and gross profit, as well as their share of total dealership gross profit. For some dealerships, however, too much service gross profit is given away in controllable service department expenses. When this occurs, these dealerships show a below-average service department net profit.

The metrics for direct service controllable expenses include compensation for direct service employees and other direct service expenses. These employees include the service director, service writers, dispatcher, lot persons, direct clerical employees and the warranty clerk.

One guideline sets the ratio of technicians to service administrators at around 2:1. We have seen this ratio approach 1:1 in some dealerships, which leads to a barely profitable service department. A second guideline is a 4:1 or 5:1 ratio of technicians to service writers. We have seen this ratio as low as 2:1, leading to service writers having too much idle time and/or being terribly disorganized.

Dealerships with above-average net profit as a percentage of sales exhibit certain metrics. We find a wide range of service administrator compensation expense (not including benefits or payroll taxes) as a percentage of service department gross profit. The more successful dealerships consume 25% to 32% of service department gross profit for service administrator compensation expense. We have also found that some dealerships consume 40%—in some cases even more than 50%—for this one category. In this situation, there are too many employees doing too little, employees are overpaid for their performance or some combination of the two.

The other direct service expenses added to compensation expenses can bring the total expenses from 55% to more than 70% of the total service department gross profit. This means that the service department is keeping 45% or less of its service gross profit. The better-performing dealers will retain from 45% to 60% as net service gross profit (total service gross profit less the above-defined direct service expenses).

Other cost considerations include advertising charged to service, which should be only direct service and parts advertising. Training expense should only be for service employees. Tools and supplies should include items only used in service, not those used to prepare new and used vehicles for sale. It can be difficult to determine where to

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SERVICE DEPARTMENT METRICS

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charge service loaner costs because many sales departments offer free loaners. Vacation and holiday pay should cover compensation paid only to service department technicians.

If you have not measured your service department's retention of service gross profit, you might have your office staff assess how well you are performing. If your dealership is in the bottom half, a more in-depth analysis should be performed. Contact an **AutoCPAGroup** member to discuss this further. ✍