

Inventory Impacts ALL That You Do

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The Impact of Inventory On...

■ Expenses

■ Increased *floor plan expense*

- Avg of \$6.50 per unit PER DAY

■ Increased *holding cost*

- Avg of \$29.00 per unit PER DAY

■ Increased Insurance Expense

- Insurance premiums based on original value of unit when purchased.
 - Paying premiums for aged depreciated units in stock

The Impact of Inventory On...

■ Cash Flow

■ Frozen Capital

- How many units do you have in stock over 60 days old?
- What would you rather do with that Frozen Capital?

■ Sales

■ Low Sales Volume

■ Low gross profit per unit sold

Impact of Inventory On...

- F&I income
- Service Dept Income
 - Avg of 6 service visits within a 2 year period
 - Reconditioning income

**Let's See What Our
Esteemed Panel Has To
Say About....**

The Impact of Inventory
On
Their Business

Impact of Inventory On...

A dealer has two choices. . .

- Keep cars in stock until they sell
 - Hold on to the wrong models
 - Lower prices – because customers won't pay more for their 2nd or 3rd choice
- Stock only the best-suited models
 - Profit from customers paying for what they really want

Managing Inventory Turn

Aged inventory is the primary cause of poor R.O.I.

- Lowers morale, increases turnover
- Increases advertising expense
- Increases sales commissions
- Increases policy adjustments
- Reduces ability to take trades

Managing Inventory Turn

“How many times per year should my inventory turn?”

Minimum = 9 times per year

Goal = 12 times per year

Increasing Turn

- Pull inventory report and review daily
 - Identify stock by age
- Re-evaluate pricing every 10 days
 - Check additional price sources
 - Park aging units on front line with new price on windshield
- Evaluate floor traffic log and address issues
 - Why no buy?
 - Keys? Fuel? Clean?
 - Mechanical or Reconditioning problem?
 - Not marketable to your area?
 - Seasonal product?

A More Efficient Market Place

- Dealers need to be more efficient in pricing
- Price to the market...
 - Not to tradition
 - Not to the “fantasy”

Finding Non-Working Capital

Non-working capital =
Money to invest elsewhere in your business

- “How can I free up my non-working capital?”
 - Retail for lower gross
 - Wholesale
 - Take to auction
 - Closed auction on your lot

“Water” in Inventory

- When the actual value of a vehicle in your inventory exceeds the market value, the difference is negative equity – or “water”
- Excessive “water” can wipe out your financial results!



Calculating ROI

- Determine **TOTAL** Used Vehicle Operating (net) Profit for the previous 3 months
- Calculate **AVERAGE** monthly investment in Used Vehicle Inventory for the previous 3 months
- $\text{Total Profit} / \text{Average Investment} = \text{Quarterly ROI}$
- $\text{Quarterly ROI} \times 4 = \text{Annualized ROI}$

Setting ROI Goals

- Evaluate your ROI against industry standards
 - S&P Composite Total Return Index: 14.43%
 - Average Return on Inventory \$ Invested in Used Vehicles: 18.4%
(www.IndependentDealer.com)
- Take Action: How can you improve ROI?
 - Increase inventory turn
 - Decrease expenses
 - Increase grosses
 - Improve appraisal process