

# 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](http://www.IndependentDealer.com))

- Take Action: How can you improve ROI?

- Increase inventory turn

- Decrease expenses

- Increase grosses

- Improve appraisal process