



Attacking and Cutting the Big 5 Untouchable Dealership Expenses

With
Jodi Kippe, CPA
Crowe Horwath and Company

Moderated by
Mike Bowers, Editorial Director
DealersEdge

Presented By



[Additional Information](#)

Attacking and Cutting the "Big 5" Untouchable Dealership Expense Categories

Presented by Jodi Kippe, CPA
Crowe Horwath LLP

Learning Objectives

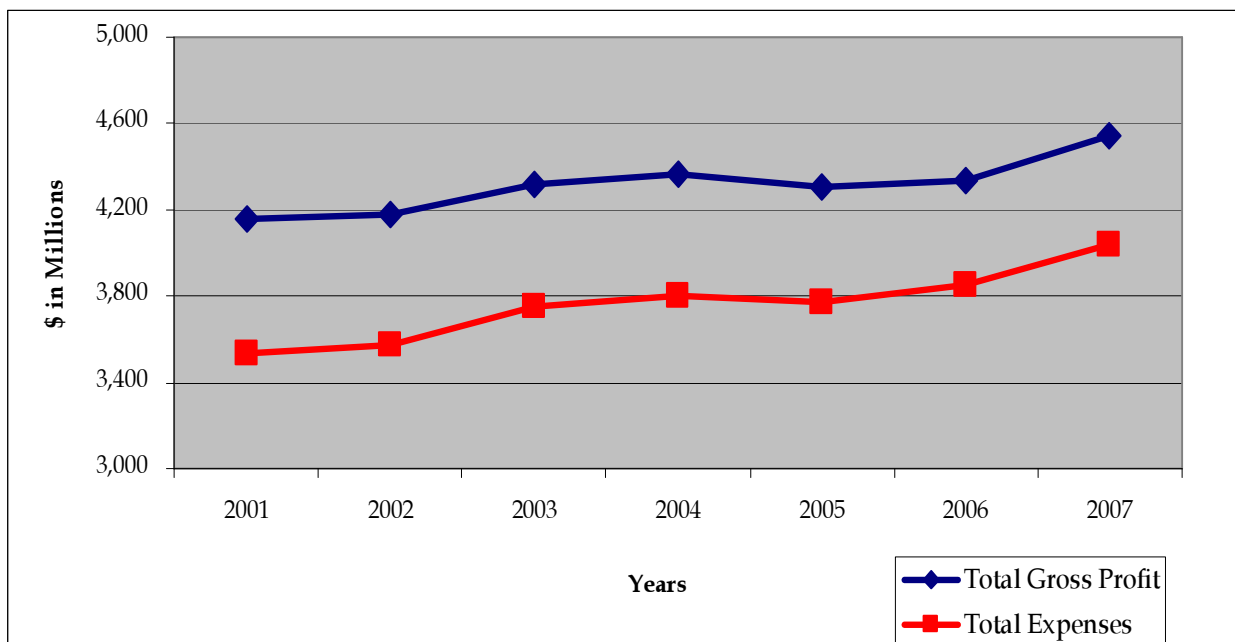
1. How to confront the Big Five "Untouchable" expense categories (Personnel, DMS, Floor Plan, Insurance, and Advertising), without reducing production. How to get past the "low-hanging fruit."
2. How to get buy-in and ownership of the process from your managers. Expense reduction is usually a top-down exercise. That's ineffective. A better way is to take advantage of the brainpower in your dealership, engage managers and employees give them a stake in the outcome.
3. What dealers can do to create an environment that encourages managers to act like owners.
4. The latest thinking in Performance Management Systems. What gets measured gets improved. Everybody already knows that. Jodi will cover what's really working today in dealership performance management.
5. How to leverage the "total buying power" of car dealerships to negotiate better vendor and service provider contracts.

Current State of Dealership Market:

- Sales revenue increased by 3 percent in 2007 compared to 2006;¹
- 2007 dealership gross margins as a percent of total sales stayed the same as in 2006 at 13.6 percent; ¹
- 2007 total expenses as a percent of total dealership sales stayed the same as in 2006 at 12.1 percent; ¹
 - 2007 total expenses increased slightly to 88.8 percent of total dealership gross profit as compared to 88.7 percent in 2006.
- 2007 total dealership net profit before tax as a percent of sales stayed the same as in 2006 at 1.5 percent. ¹
 - 2007 total dealership net profit before tax as a percent of dealership gross profit decreased to 11.2 percent from 11.3 percent in 2006. ¹
- U.S. auto sales fell by 15.5% in August 2008 from August 2007 and a bit worse than forecasts of 14.4 percent ²
- "Sales of new cars and light trucks will drop below 16 million units in 2008." *according to Paul Taylor, Chief Economist for NADA.*³
- "The closely watched seasonally adjusted annualized selling rate was 13.7 million vehicles for August 2008, up from 12.55 in July, but down from 16.3 million in August 2007, according to AutoData Corp." ⁷
- Consumer Confidence Index rose slightly in August 2008 to 56.9 from 51.9 in July but still at a five year low.⁶
- Expectations Index, that measures shoppers outlook over next six months, increased to 52.8 from 42.7 in July 2008. ⁶

Total Gross Profit and Total Expense Trend

Average Dealership Profile ¹



Expense Containment Impact on Net Income

Average Dealership Profile

Total dealership gross profit in 2007	\$4,546,212 ¹
Expenses as a % of 2001 gross – 85.1% Expenses as a % of 2006 gross – 88.8% Difference	x 3.7%
Lost profit due to lack of expense containment	\$168,210

Results in 33% improvement to the bottom line!

Analysis of Key Dealership Operating Expenses

Side-by-side comparison of multiple stores in a dealership group

New Vehicles		Crowe Navigator® Screen Shot						
		ABC CHEVROLET SEP 2007 YTD 9 Month(s)		ABC HONDA SEP 2007 YTD 9 Month(s)		CONSOLIDATION 9 Month(s)		
Statement Date	Months Covered	Target	Amount	%	Amount	%	Amount	%
SALES - UNITS								
Total New Units			699		462		1,161	
GROSS								
Total New Gross			2,197,838	3,144	1,370,809	2,967	3,568,646	3,074
CONTROLLABLE EXPENSES								
Commissions			336,074	15.3%	139,106	10.1%	475,180	13.3%
Advertising & Promotion			163,108	7.4%	62,339	4.5%	225,447	6.3%
Supervision			413,526	18.8%	261,698	19.1%	675,224	18.9%
Interest - Floorplan			103,871	4.7%	171,362	12.5%	275,233	7.7%
F&I Compensation and Exp			149,524	6.8%	125,219	9.1%	274,743	7.7%
Demos/Company Vehicles			38,367	1.7%	14,085	1.0%	52,452	1.5%
Other Salaries			67,678	3.1%	18,335	1.3%	86,013	2.4%
Prep, Deliver & Policy			39,857	1.8%	12,465	0.9%	52,322	1.5%
Other Controllable Expenses			63,197	2.9%	42,890	3.1%	106,087	3.0%
Total Controllable Expenses			1,375,202	62.6%	847,499	61.8%	2,222,701	62.3%
New Vehicle Selling Gross			822,635	37.4%	523,310	38.2%	1,345,945	37.7%
CASH MANAGEMENT								
New Vehicle Days Supply			98		64		84	
Floorplan to Inventory Ratio			0.97		1.56		1.12	
CIT/VR Days Supply			13		9		12	

Summary \ **NEW** \ USED \ SERVICE \ PARTS \ BODY \ FIXED \ BALANCE SHEET /

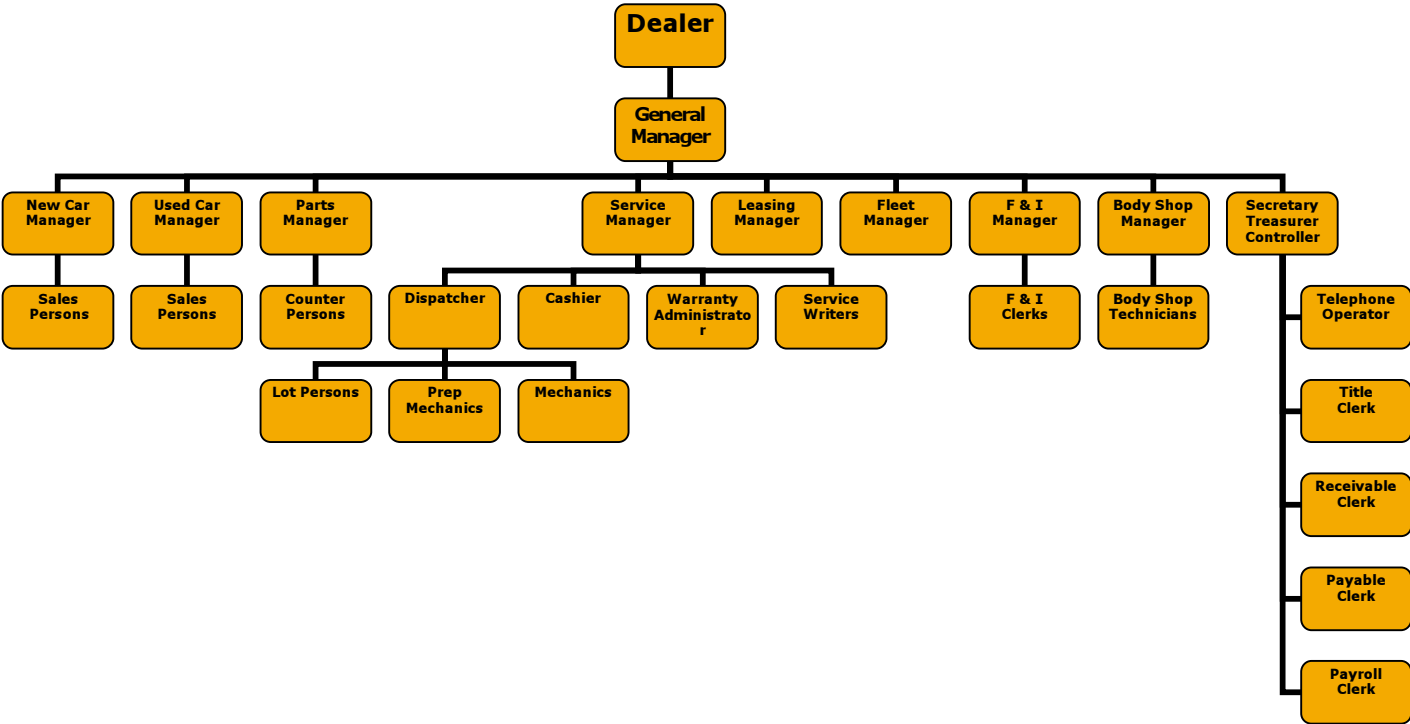
Side-by-side comparison of single store by month and year-to-date to previous year

New Vehicles		Crowe Navigator® Screen Shot							
		ABC HONDA		ABC HONDA		ABC HONDA		ABC HONDA	
Statement Date		SEP 2006		SEP 2007		SEP 2006 YTD		SEP 2007 YTD	
Months Covered		1 Month(s)		1 Month(s)		9 Month(s)		9 Month(s)	
Line Items	Top 10% Target	Amount	%	Amount	%	Amount	%	Amount	%
SALES - UNITS									
Total New Units		81		46		390		462	
GROSS									
Total New Gross	2,300	255,124	3,150	99,290	2,158	1,044,880	2,679	1,370,809	2,967
CONTROLLABLE EXPENSES									
Commissions	14.6%	29,206	11.4%	11,488	11.6%	109,248	10.5%	139,106	10.1%
Advertising & Promotion	3.7%	22,783	8.9%	5,840	5.9%	104,201	10.0%	62,339	4.5%
Supervision	7.0%	28,953	11.3%	29,238	29.4%	171,324	16.4%	261,698	19.1%
Interest - Floorplan	(3.2%)	29,937	11.7%	15,840	16.0%	188,996	18.1%	171,362	12.5%
F&I Compensation and Exp	4.5%	17,604	6.9%	16,356	16.5%	71,006	6.8%	125,219	9.1%
Demos/Company Vehicles	0.0%	636	0.2%	1,019	1.0%	3,390	0.3%	14,085	1.0%
Other Salaries	1.0%	2,070	0.8%	1,081	1.1%	20,829	2.0%	18,335	1.3%
Prep, Deliver & Policy	0.1%	1,153	0.5%	1,504	1.5%	15,816	1.5%	12,465	0.9%
Other Controllable Exp	0.9%	12,894	5.1%	3,435	3.5%	33,499	3.2%	42,890	3.1%
Total Controllable Expenses	38.4%	145,236	56.9%	85,801	86.4%	718,308	68.7%	847,499	61.8%
New Vehicle Selling Gross	61.6%	109,888	43.1%	13,489	13.6%	326,572	31.3%	523,310	38.2%
CASH MANAGEMENT									
New Vehicle Days Supply		92		71		87		64	
Floorplan to Inventory Ratio		1.32		1.56		1.32		1.56	
CIT/VR Days Supply		15		11		13		9	

Analysis of Key Dealership Operating Expenses by Category

PERSONNEL – The largest dealership expense, second to the cost of sales.

- Domestic ⁴ _____% Median and _____% for Top 10%
- Imports ⁴ _____% Median and _____% for Top 10%
- Employee productivity
 - Accounting personnel guideline
 - ◆ 1 accounting person to every _____ dealership employees
 - ◆ More effective dealerships achieve 1 to _____ or _____
 - ◆ Centralized accounting 1 to _____ or _____
 - Service advisor to technician guideline, 1 for every _____ to _____ technicians
 - Dealership personnel analysis
- Employee turnover – a conservative estimate is \$10,000 to \$15,000 ⁵
- Employee compensation
 - Manager compensation
 - Salespeople compensation
 - F & I and salespeople compensation
- Employee benefits
 - Domestic ⁴ _____% Median and _____% for Top 10%
 - Imports ⁴ _____% Median and _____% for Top 10%
 - Health insurance
 - Workmen's compensation insurance



COMPUTER SYSTEMS

- ◆ Domestic ⁴ _____% Median and _____% for Top 10%
 - ◆ Imports ⁴ _____% Median and _____% for Top 10%
 - Review monthly invoices
 - Vendor contracts
 - Hardware – network and printers
-
-
-

FINANCING

- ◆ Domestic ⁴ _____% Median and _____% for Top 10%
 - ◆ Imports ⁴ _____% Median and _____% for Top 10%
 - Interest rates – understand market and basis reductions
 - Quantitative factors
 - Cash management program
 - Inventory – days supply with no exceptions
 - New vehicles _____ days for domestic and _____ days for imports
 - Used vehicles _____ days with no vehicle aged greater than _____ days
 - New vehicles in-transit exceeding “normal commute” submit for additional floorplan assistance
 - Sales and contract funding process
 - F & I to accounting – _____ days
 - Contract funded by financial institution – 2 to 5 days, depends upon the volume of special financing
-
-
-

ADVERTISING

- New vehicle department
 - ◆ Domestic ⁴ _____% Median and _____% for Top 10%
 - ◆ Imports ⁴ _____% Median and _____% for Top 10%
 - Used vehicle department
 - ◆ Domestic ⁴ _____% Median and _____% for Top 10%
 - ◆ Imports ⁴ _____% Median and _____% for Top 10%
 - Establish monthly goal and monitor actual expenditures
 - Dealership’s website - click-to-chat
 - e-Marketing campaigns
 - Mobile marketing - e.g. text messaging
-
-
-

INSURANCE

- ◆ Domestic ⁴ _____% Median and _____% for Top 10%
 - ◆ Imports ⁴ _____% Median and _____% for Top 10%
 - Property and casualty insurance
 - Captive insurance company
-
-
-

OTHER EXPENDITURES

- Utilities – outdoor and indoor lighting plans; reduced utilities and increased security
 - Auto detailing - outsource
 - Policy adjustment – all charges approved by management and monitored by technician (training opportunities)
 - Credit bureaus and vehicle history
 - Credit cards – pay corporate bills and request processing fee reduction
-
-
-

Empower Managers to Develop and Implement

- Establish a plan by department to obtain peak operating performance
 - Managers should create a plan of cutting departmental costs by 2.5%, 5.0% and 7.5% and reviewed by senior management
 - Monitor the progress month-by-month, or quarter-by-quarter; whichever is most appropriate and effective
 - Compensation plans should align employees with the dealership's financial goals
-
-
-

Understanding Your Buying Power

- Effective purchasing programs
 - Expense analysis
 - Vendors optimization
 - Standardized processes and improved controls
- Evaluate vendors that serve multiple dealerships to achieve economies of scale as well as understand market rates
 - Reduce vendors
 - Provides for streamlining future purchasing decisions
 - Establish processes for centralizing purchasing activities
- Analyze expenses by category and by vendor with respect to industry guidelines and your goals

Analysis of expenses by Vendor for a single dealership over multiple periods

Crowe Navigator® Screen Shot

(Vendor View) play: Total Filter: N Generate Report

Vendor Group	Total	9/2007	8/2007	7/2007	6/2007	5/2007
ABC COMPUTERS	119	0	0	119		
ABC VENDOR 2	23,623	5,017	11,269	3,466	3,871	0
ABC VENDOR 3	1,058	332	169	241	88	228
ABC AUTO PARTS	9,554	1,228	2,011	994	3,906	1,415
ABC VENDOR 5	125	0	0	0	125	
ABC VENDOR 6	6,637	4,099	0	1,885	0	654
ABC VENDOR 7	143	0	0	0	143	0
ABC VENDOR 8	10,251	0	0	0	6,406	3,845
ABC VENDOR 9	3,954	170	660	1,315	823	986
ABC VENDOR 10	978	0	0	978	0	
ABC UNIFORM	8,870	1,849	2,558	1,755	1,717	991
ABC ABRASIVES & SUP	4,792	872	1,493	819	817	792
ABC TOWING	200	0	200	0		
ABC AUTO PARTS	270	135	0	0	0	135

Analysis of expenses by Vendor for comparing multiple dealerships

Crowe Navigator® Screen Shot

(Vendor View) Display: Total View: YTD Period: September 2007 Filter: A Generate Report

Vendor Group	Total	Nissan	Toyota	Cadillac
ABC VENDOR 1	898	898		
ABC VENDOR 2	-255			-255
ABC VENDOR 3	334	334		
ABC VENDOR 4	771			771
ABC VENDOR 5	104	104		
ABC DEALER NETWORK	26,899	26,899		
ABC WAREHOUSE, INC.	35,109			35,109
ABC INFORMATION SYSTEMS	360			360
ABC AUTO NEWS	105			105
ABC SEARCH GROUP	4,160		4,160	
ABC VENDOR 10	13,400			13,400
ABC VENDOR.COM, LLC	69,194	11,164	21,678	36,353
ABC VENDOR.WEB.COM	31,936	17,465	14,471	
ABC FINANCIAL SERVICES	18,716	14,500	4,217	
ABC, VENDOR, INC.	605	605		
ABC COMMUNICATIONS, INC.	2,813			2,813
ABC CAR RENTAL	912			912
ABC VENDOR 17	289			289

Typical Expenditures for Vendor Consolidation

Brake Shop Materials & Supplies	Car Wash
Coffee Service	Copier Paper
Deal Jackets	Dumpster & Removal Fees
Gasoline	Janitorial
Landscaping	Office Equipment
Printed Forms	Rubbish & Garbage Removal
Telephone Service Contracts	Waste Removal Oil Coolant & Sludge
Office Supplies	Lubricants & Fluids
Security-Video Surveillance	Records Management
Marketing-Direct Mail	Uniform & Linen Services
Shop Supplies	Food Services
Drug Screens	Check Processing

Capitalizing on Your Buying Power

- Review and renegotiate vendor contracts
 - Evaluate and eliminate non-performing vendors
 - Consider high performing vendors for other services
- Utilization of master vendor contracts
 - Purchase order system
 - Mechanism in place to minimize spot purchasing decisions
 - Compliance processes – approved vendors utilized and compare actual with contracted rates
 - ◆ Internal resources - analysis tools and transaction testing
 - ◆ Outsource to Purchasing Services Provider (PSP)

Conclusion

- Organizational and operational changes will be required in order to capture expense reductions
 - Resist the temptation to emphasize gross profit generation, while neglecting the management of expenses
 - Empower managers to develop plans as well as active in execution
 - Measure, audit and report results
 - Utilize analysis tools to provide you valuable information; focus your time on implementation and monitoring
 - Capture your buying power - consolidate vendors; monitor usage with only approved vendors; it takes time, be patient
 - Remember, the seemingly small items will add up to big savings!!!
-
-
-
-
-
-
-

Sources

- ¹ "NADA Data 2007" "Economic Impact of America's New-Car and New-Truck Dealers," AutoExec, May 2007, pp. 49,52-53
- ² "July 2007 U.S. Auto Sales Scorecard – Sales Down 8.7%," <http://www.theautochannel.com/news/2007/08/01/056980.html>
- ³ "Economic Fears To Pinch Auto Sales," Webster, Sara, Detroit Free Press, September 4, 2007
- ⁴ "Crowe Navigator Statistics," Crowe Chizek and Company LLC, September 2007
- ⁵ "Calculating the high cost of employee turnover in a dealership," DealersEdge Car Dealer Insider, April 15, 2006
- ⁶ "'07 holidays' spirit: Bleak", Anne D'Innocenzio, Associate Press, Sun-Sentinel, October, 31, 2007
- ⁷ "Auto Sales Tumble, But Industry Sees Signs of Hope", Boudette, Neal, E. The Wall Street Journal Online, Sept, 4, 2008