

Is Your Dealership a Model of Profitability or a Leaky Vessel?



Plugging the Hidden Revenue Holes that Threaten your Success

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...revenue leaks plague dealerships nationwide. That constant financial drain can prevent your operation from ever realizing its full potential.

When it comes to maintaining dealership profitability, it's easy to get tunnel vision without realizing it. In an industry as unforgiving as automotive retailing, there are a couple of things dealers tend to take for granted:

- First, the next sales plateau (and the chance of a subsequent decline) is never far away. When it arrives, it always increases focus on profit margins.
- Second, it's easier to try and eke more revenue out of your existing staff, departments, and processes than to take the time to refine for efficiency and thoroughly evaluate the status quo.

The tunnel vision comes from the idea that the answer to stagnation is simply squeezing more from your current operation or, if the situation calls for it, investing in a new bolt-on solution.

To be clear, savvy dealers should discover (or even create) as many new profit centers in the dealership as possible. Entirely new revenue streams go a long way in helping to mitigate sales declines. But driving increased revenue will never be enough if your dealership starts to resemble a leaky vessel sinking in slow motion.

The fact is revenue leaks plague dealerships nationwide. That constant financial drain can prevent your operation from ever realizing its full potential.

The fix? Ultimately it comes down to a refined sense of business discipline that strives for efficiency, improves processes, and gets the small details right.

Of course the execution is far more difficult than the diagnosis. Plugging the hidden revenue leaks in your dealership requires identifying those leaks and their sources, understanding the underlying causes, and then addressing issues in a way that promotes overall dealership efficiency and seamless performance.

These leaks come in all shapes, sizes, and levels of urgency. For clarity's sake, I'll separate them into three broad categories: process, equipment, and people.

Process Leaks

First, let's look at some major hidden costs within various dealership process. Whether it's in your parts department, on the lot, or in data management, every gap in your seemingly tried-and-true processes is needlessly costing you money regularly.

Consider the issue of parts obsolescence. Parts constitute a significant dealership cost as it is, but strict OEM return policies combined with human error can keep them stuck on the shelf until

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they've outlived their usefulness. At that point, they weigh down the entire parts department's financial performance.

Typically, the holding cost of parts inventory runs 2 to 2.5 percent per month, or up to 30 percent annually.¹ Let's consider a miscellaneous part with a selling price of \$50 and assume that the dealer's gross profit margin is 40 percent. For simplicity's sake, we'll say the part was inventoried on January 1 and sold on December 31 – a full year on the shelf.

At a 40 percent margin, the gross profit on the \$50 part is \$20. However, with the extra 30 percent annual cost of obsolescence, you can shave another \$15 off of that number to land on a grand total profit of \$5.

Once you factor in the additional obsolescence-related costs of lost sales, lost return allowances, loss of stock order discounts, and fewer inventory turns overall, the potentially devastating drain on your parts department should become clear. Obsolescence can easily take you from shrinking profit margins to actually selling at a loss.

The underlying issues here are the processes that allow excessive or unneeded parts into inventory and the manufacturer policies around return allowances. The solution? E-commerce. Whether it's on your website or an online marketplace such as eBay or Amazon, look to reach a national customer base, specifically consumers and repair facilities struggling to source certain parts from local stores. Dealers' e-commerce platforms are 10 times more likely to convert customers than stagnant parts pages.²

Another place where process leaks can drain the bottom line is on the lot. Much like parts sitting on the shelves, the units on your lot are depreciating assets – every day they spend sitting costs you money.

A common issue for dealers is not keeping the right vehicles on the lot – and by right I mean those you know you can sell quickly. Most dealerships' processes work against this goal. Vehicles aren't correctly priced to market, they don't make it on the internet immediately after acquisition, they aren't inspected on the lot daily, and their prices aren't continually adjusted as they approach their hard turn date.

For the used lot specifically, too many dealers don't have an active strategy in place for dealing with aging inventory. This underlying process issue demands discipline and follow-through. From acquiring the right inventory, to appraising it properly, to ultimately eliminating or decreasing aged units on your lot, it takes a lot of work to maximize your used vehicle profits.

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Similar pitfalls await in the wholesale market, where a lack of consideration for the full process from acquisition to sale at auction can lead to gross profit loss.

The smart move would be to invest in a solution that can provide optimal inventory recommendations and take the guesswork out of vehicle acquisitions; Or, a single system that leverages your data to track every transaction, every vehicle, throughout its life cycle, from the time the vehicle arrives to when it's sold, as well as what happens to the trades you take on the deal.

You may have the manpower and the money to do that data-heavy work manually, but I wouldn't recommend it since a process with more moving parts generally guarantees inefficiency. Either way, adopting a proactive mindset – whether it's regarding aging units on your lot or an inability to realize profit in wholesale – is essential to plugging this revenue leak.

Finally, let's examine a process leak specific to dealers with multiple stores. Too often, dealers are unable to group expense reports from multiple stores and view them together. This is a problem on both the tactical and strategic levels. Tactically, it can lead to a whole host of issues – think double billing for an expense that could have been consolidated or not receiving a potential volume discount on a particular service.

Those types of leaks can add up to have a major impact, but perhaps even more important is the strategy-level leak: Not having the opportunity to connect the dots on an individual store basis robs you of the chance to identify and manage larger trends in your expenses. In many ways, this is a high-level process leak that's a large-scale drain on your profitability.

Consider a web-based reporting tool that helps you master the big three – cash, asset, and expense management – from one secure access point, regardless of the number of stores involved. Addressing this process issue at the source can illuminate a number of additional process leaks plaguing your operation and empower you to take action.

Equipment Leaks

Now that you're familiar with the concept of process leaks, you can see why it's important to incorporate ongoing process improvement into every aspect of your operation, especially when it comes to equipment leaks.

Equipment leaks are a very different beast for one critical reason: They easily go undetected despite causing increasing damage over time. How is that possible? Because these leaks seem ordinary and inevitable – just part of the cost of doing business.

The reality of digitization – the linking of automated tasks to create entirely new processes and efficiencies – has transformed what used to be the cost of doing business into another preventable, hidden-in-plain-sight revenue leak.

One example: pre-printed F&I forms, which cost at least one dollar per form. How often do your printers jam, print a form out of alignment, or have some other issue that renders the form unusable?

Expanding on that example, consider the overall costs of paper, toner, ink, courier fees, storage, etc. These are general business costs that seem inevitable because they've always been part of how the dealership runs.

Not anymore. The reality of digitization – the linking of automated tasks to create entirely new processes and efficiencies – has transformed what used to be the cost of doing business into another preventable, hidden-in-plain-sight revenue leak.

In fact, these various equipment leaks point to a single, overriding issue that you'll have to deal with sooner rather than later:

Dealerships have struggled to move away from analog processes in an increasingly digital age. Just think about the overabundance of paper choking up your dealership's processes.

Once again, we can look to the F&I department. F&I paperwork takes nearly three dozen forms to complete, deal jackets can be more than an inch thick, and the combined length of all those forms placed end-to-end stretches nearly 39 feet!

Personnel in different departments are unable to take the next step in a vehicle transaction as they wait for paper to make its way to their desks, while dealers spend a great deal of time, effort, and money on physically handling and managing all that paper. They have to file it, archive it, retrieve it, and - when regulations allow - destroy it.

Your service department tells a similar story, with every repair order requiring input to multiple systems from write up to receiving payment. Similarly, the amount of paper printed for multi-point inspections, invoices, and receipts continues to grow.

Applying an ethic of digitization to your whole dealership strikes at the heart of these issues. Digitization seeks to link your automated processes together, multiplying the efficiency factor while drastically reducing the need to consume equipment-related resources.

When applying the concept of digitization, paper is the first place you'll save money, but think back to the other equipment leaks mentioned and consider how digitization could improve each of them as well.

Tired of those paper jams and the overall cost of pre-printed forms? Digitize with an interactive menu presentation and document processing system for your dealership's F&I office.

Is toner draining your gross profits? Digitize with an electronic document storage system and eliminate the towers of paper overwhelming your business office and archives.

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The presence of equipment leaks in your dealership is tied almost exclusively to an overreliance on the old way of doing things. Using physical resources when digital alternatives are available is the underlying issue. Digitization is the solution.

People Leaks

The final area of hidden leaks in the dealership pertains to people – or, to be more precise, employees.

It goes without saying that your employees are your greatest assets, but they can also prove to be among your greatest liabilities, and that extends to being the source of potentially the most harmful leaks to your dealership.

There are essentially two ways your employees can cause hidden revenue leaks: theft (of time, resources, or even money) and simple human error. The latter is far more common than the former, but both represent unique challenges. They must be addressed separately from your process-related and equipment-related leaks.

When it comes to solving people-related leaks, you have one word to live by: accountability. You can hold your employees accountable in a number of ways, but chief among them are training and the smart use of appropriate tools and solutions (training and solutions complement and reinforce each other, as well).

On the tools and applications front, the options for addressing people leaks are almost as numerous as the leaks themselves:

- Network security applications that prevent employees from wasting labor costs by browsing websites they shouldn't be while at work – theft of time.
- An approval system that controls and reconciles employee gasoline expenses to eliminate error, waste, and fraud – theft of resources.
- An always-on monitoring tool that constantly audits dealership-wide transactions to stay on top of what's happening on a detailed level and discourage deceitful behavior – theft of money.

These are just a few examples of ways to address behavior that may or may not be that common depending on the dealership. Even so, they illustrate the profound impact people-related leaks can have on the bottom-line – and the importance of introducing accountability.

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Looking beyond theft, let's consider the far more common people-related profit leaks: simple human mistakes and oversights. Solutions exist to address these types of leaks as well, helping improve performance throughout your operation.

One such example would be a payment processing tool that corrects something as simple (but potentially impactful) as a transposition error on a credit card transaction. In a similar vein, a tool that provides consistent and accurate service pricing estimates could help you avoid eating charges – or even losing customers – down the road when service estimates are off.

Each of these examples demonstrates ways you can proactively plug people leaks by investing in tools and solutions. It's worth noting that digitization, once again, can multiply benefits by linking any of these solutions within a single, comprehensive process. Indeed, logic dictates that the potential for human error can only exist in a human-involved manual process – remove the manual steps with a digitized process and you remove the potential for human error.

However, no external solution will serve you as well as quality internal training. Of course, there are tools specifically geared to helping dealers train more efficient, technologically savvy employees, but the follow-through ultimately falls on you.

Whether you're using a mobile application to directly coach salespeople of all skill levels or focusing on the transition from sales to service, it's critical for management to view training as an ongoing, hands-on process.

It's important to teach and re-teach best practices and protocols – and the reasons behind them – early and often. By helping your employees grasp how their successes and their mistakes impact everyone's well-being within the four walls, you help cut off human error leaks at their source.

Model of Profitability...or Leaky Vessel?

If the sheer number and scope of potential revenue leaks is hitting home, you may be looking at your automotive dealership in a slightly different light. It's not a place where smart and hardworking retailers go to make money, but a place where a million different things could go wrong to cost you money every minute of every day.

Not a model of profitability, but a leaky vessel.

Don't worry. The key take away into hidden costs in the dealership was never meant to be pessimism, but opportunity. While your numerous process, equipment, and people leaks will never disappear completely, there is good news. Once you

identify them and understand their underlying causes, you're instantly empowered to tackle hidden costs. By optimizing efficiency and enabling seamless performance, you'll transform your dealership from leaky vessel to airtight powerhouse.

The ball is in *your* court to make a change.

Visit www.reyrey.com/whitepapers to read more about how the automotive industry is changing.

¹ DealersEdge

² Naked Lime Marketing



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