

Dealer Survival Checklist

NADA MANAGEMENT SERIES

Today, more than ever, dealers must control their receivables and inventories to manage cash and also concentrate on maximizing their efforts in the areas of their business that produce the most revenue.

The following is a list of top priorities dealers should be focusing on, according to NADA 20 Group consultants and Dealer Academy instructors. Now is the time to scrutinize your business practices. It's been said before, "Bad habits are formed in good times and good habits are formed in bad times." Let's take advantage of today's business climate by putting practices in place that will not only help us survive this crisis, but sustain profitability in the future.

GENERAL BUSINESS MANAGEMENT

- Explore all finance sources in your market for capitalization and alternative floor plan needs, as well as for primary and secondary finance sources for your F&I department.
 - Consider community banks and credit unions.
- Contact a lender about the SBA 7(a) loan guaranty program for working capital.
 - Go to www.nada.org to learn more about the program.
- Keep your working capital at or above manufacturer requirements.
- Maintain sound business relations with your floor plan source. Pay off vehicles in a timely manner.
- Keep current lenders apprised of your dealership's performance and your plans for your business.
- Use caution when considering the use of personal money or personal guarantees for dealership business, i.e., floor plan, capital loans, operating capital.
- Maintain strict controls on your Dealership Management System including password protection. Who has the ability to override the DMS?
- Utilize a Daily Operating Control. Consider implementing an automated DOC that updates throughout the day and can be accessed by your management team.
- Support state franchise laws.

FINANCIAL MANAGEMENT—CASH IS KING!

- Control your cash. Know your cash position at any time during the day, week, and month.
- Determine the value of consolidating your debt if a more favorable rate is available.
- Pay off sold units on a timely basis to minimize wholesale interest charges.
- Analyze your LIFO liability. If you have been on LIFO for at least five years and are experiencing net operating losses consider going off LIFO. The LIFO income recaptured would be offset by your operating losses, thereby reducing your overall taxable income and tax liability.
- Review contracts in transit every morning with your Controller and Finance Manager. Are you maximizing your cash flow daily?
- Monitor your frozen capital to avoid running out of cash. How much excess investment do you have in your inventories and receivables?
 - Eliminate past due accounts receivable.
 - Manage your days' supply of inventories.
 - Manage your days' supply of receivables.
- Manage factory incentives. Are you tracking all factory incentives earned and applying for them on a timely basis?
- Track factory rebates, holdback, and dealer cash. Don't let them get behind.

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EXPENSE CONTROL

- Reduce expenses. Review the detail of every expense account. Do you have processes in place to review and manage your expense structure?
- Review all of your contracts with outside vendors. Are you paying for services that you really don't need? Ask vendors for discounts.
- Shop three vendors before purchasing new products or services.
- Go through your DMS agreement with a fine-tooth comb. Are you using everything you are being billed for? (On average, dealers use only 15 to 20 percent of their DMS capability.)
- Analyze your advertising effectiveness. Are you tracking where every customer heard about your store? Where are you getting the most bang for your buck?
- Budget your monthly advertising based on a Gross Profit factor.

PERSONNEL

- Review compensation plans. Do they reflect your vision?
- Re-evaluate staffing requirements. Can some jobs be merged? Look at job descriptions. Do not refill vacant positions.
- Monitor employee productivity.
- Set monthly gross profit goals per employee and monitor daily. Be sure that each employee knows what his or her goal is.
- Keep attitudes positive. This is a stressful time for employees as well; be sure to thank them for their efforts.

NEW-VEHICLE MANAGEMENT

- Adopt a new-vehicle aging policy including number of turns per year and acceptable grossing patterns.
- Place previous model year vehicles on the pre-owned lot at current market value. Wholesale after 60 days.
- Forecast your new-vehicle sales and order for the market conditions. Top-level authorization should be required for every order.
- Prospect for new-vehicle customers in your service lane. Assign salespeople to work the reception area.
- Minimize floor plan expense. Are you managing days' supply of new-vehicle inventories? (NADA Guide – 45 days)
- Make sure your inventory matches what you are selling.
- Identify your 10 oldest vehicles daily. Consider putting incentives on these units.
- Put your oldest new and used vehicle on the showroom floor.
- Assign management to take every up and TO it to a salesperson.
- Ensure that 100% of customers are turned back to manager prior to leaving the dealership.
- Sell your service and parts department along with the vehicle. Review the required vehicle maintenance schedule with every new- and used-vehicle customer.
- Decline unneeded inventory, even if an incentive is being offered.

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USED-VEHICLE MANAGEMENT

- Implement and enforce an aging policy. (NADA Guide – 60 days)
- Stock lower-end vehicles as many independent lots are no longer in business.
- Ensure vehicles are priced according to your market. Continuously review market conditions. Compare your prices with online pricing of similar vehicles.
- Work the Internet. Make sure your website contains photos of your used vehicles, offers specials, and is regularly updated.
- Check your used-vehicle inventory values against wholesale industry guides.

PARTS DEPARTMENT

- Review the Parts Exception Report daily.
- Manage days' supply of parts inventory. Return parts that are not turning. (NADA Guide – Not to exceed 45 days)
- Require deposits or a credit card imprint for all special-order parts.
- Is your freight expense being recovered?
- Don't discount parts to your used-vehicle department.
- Review your credit policies and manage your accounts receivable. Are you extending credit to customers who are delinquent?
 - Consider requiring wholesale accounts to pay by credit card.

SERVICE DEPARTMENT

- Review the Service Exception Report daily.
- Try to eliminate one-line repair orders. Train your Service Advisors to sell needed service.
 - Consider implementing a pay plan that will help you achieve this goal.
 - Have your top salesperson train your Advisors to sell.
- Analyze the amount of service work versus the number of technicians in your shop. Is it possible to increase the number of repair orders per technician?
- Focus on the number of hours produced per technician per day rather than number of hours per repair order.
- Capture email addresses of all service customers.
- Make sure your service menus are up-to-date and that every customer is aware of his or her scheduled maintenance.
- Call to confirm all service appointments the day before.
- Call no-shows to reschedule.
- Use your service drive to display vehicle specials.
- Don't discount labor to your used-vehicle department.
- Know early in the day how many unsold hours are available and develop a plan to fill them.

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ADDITIONAL RESOURCES

- Schedule a free Confidential Dealer Hotline appointment by calling 1.888.672.5147 or go online to www.nada.org/Lifeline.
 - Talk one-on-one with an NADA consultant about issues like cash flow, frozen capital, expense reduction, and aged inventory and get an in-depth analysis of your dealership's financial performance.
- Order these important NADA Management Education publications by calling 1.800.252.6232, ext. 2 or online at www.nada.org/mecatalog:
 - NADA's *Dealer/General Manager Planning Calendars* (BM35) provide a comprehensive list of dealership tasks organized by frequency and department.
 - NADA's *The Credit Crisis: Implications and Opportunities* (BM37) discusses how to manage through a market with limited credit.
 - NADA's *A Dealer Guide to Cash Flow Management* (BM33) defines cash flow, shows how to learn what consumes cash, and discusses cash flow management, including best practices.
- Contact NADA to schedule an in-dealership consultation. Call 1.800.248.6232, ext. 4745.
 - A professional consultant will come to your store to meet one-on-one with you and your management team, review and analyze your dealership operations, and make recommendations for improvement.

The information in this bulletin is not intended to be legal or financial advice for dealers and may not be appropriate for you. Please confer with your professional advisors before implementing any of the strategies in this bulletin to be certain that the strategy is appropriate for your dealership. The presentation of this information is not intended to encourage concerted action among competitors or any other action on the part of dealers that would in any manner fix or stabilize the price or any element of the price of any good or service.

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