

CONQUEST

NEW CAR INVENTORY MANAGEMENT & PRICING

vAuto

LIVE MARKET VIEW

# NEW CAR DEALERS' GUIDE TO TRANSFORMING FLOOR PLAN EXPENSES INTO A PROFIT MACHINE

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# INTRODUCTION



Thank you for downloading “A New Car Dealers’ Guide to Transforming Your Floor Plan Expenses Into a Profit Machine.” In this ebook, we examine trends impacting the profitability of new car operations. After speaking with and studying hundreds of new car dealers, we discovered that some dealers are making significant changes to reduce the age of their new inventory and maximize the amount of money they generate from their floor plans.

Pressure from market forces and OEM production present significant challenges for new car dealers. The implications of these trends can have drastic consequences on a dealership’s bottom line. Effectively managing your dealership’s new car inventory has never been more important to maximizing profit and minimizing the effects from these trends.

The purpose of this guide is to give you five critical steps your dealership can take to turn your floor plan into a profit machine.

Best,

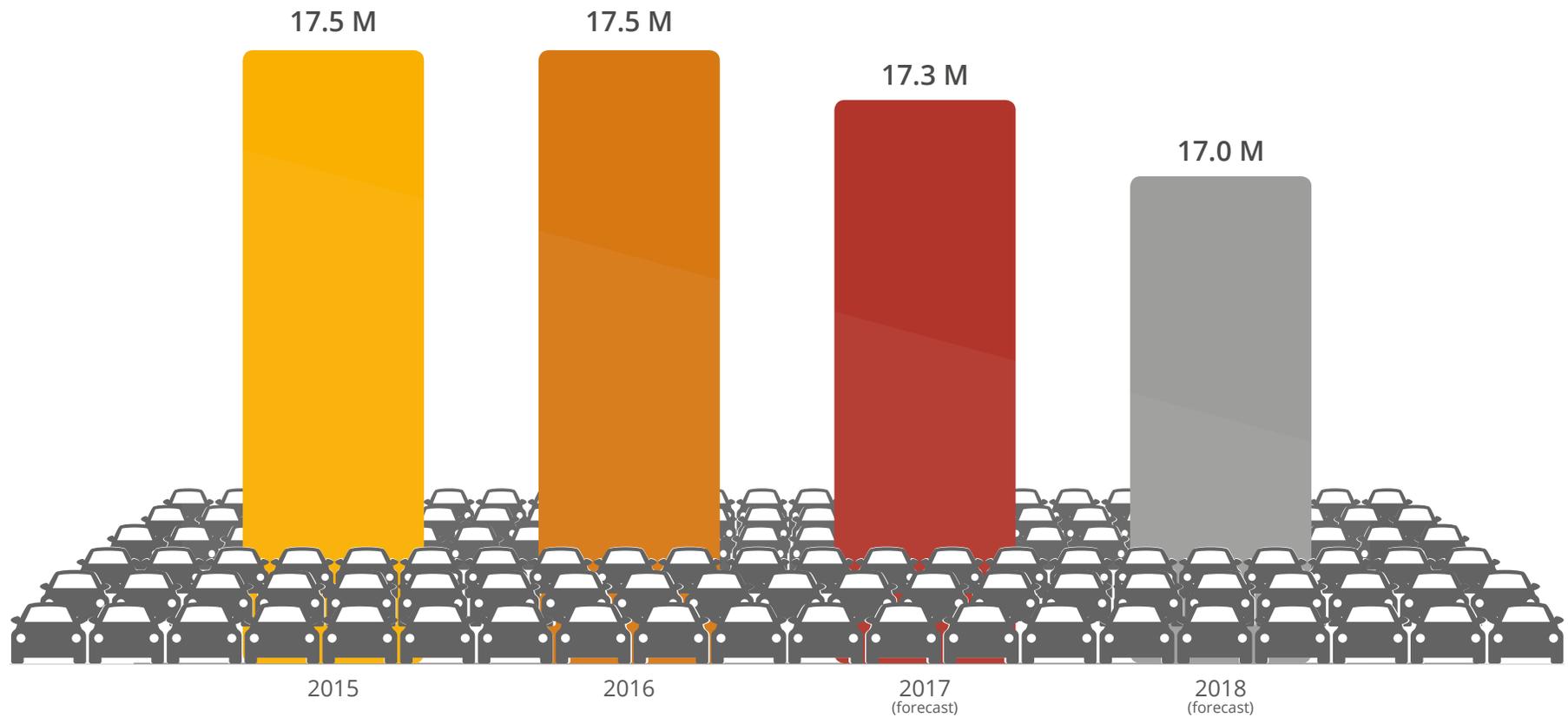
Brian Finkelmeyer  
*Director of Business Development – Conquest  
vAuto*

# MARKET INSIGHTS



# MARKET INSIGHTS

The growth of the new car market plateaued at 17.5 million units and is forecast to retract over the next few years.



# MARKET INSIGHTS

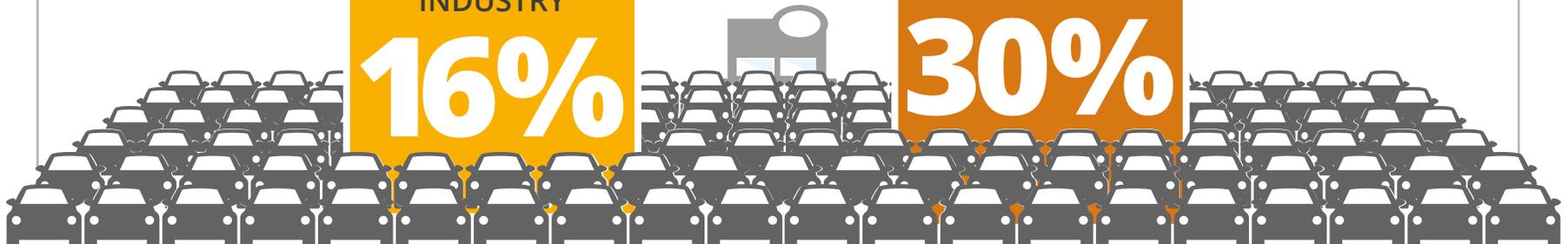
DEALERS NOW HOLDING **4 MILLION+** UNITS ON LOTS FOR FIRST TIME EVER

INVENTORY  
INCREASE ACROSS  
INDUSTRY

**16%**

SOME BRANDS  
HAVE WATCHED  
INVENTORIES  
INCREASE

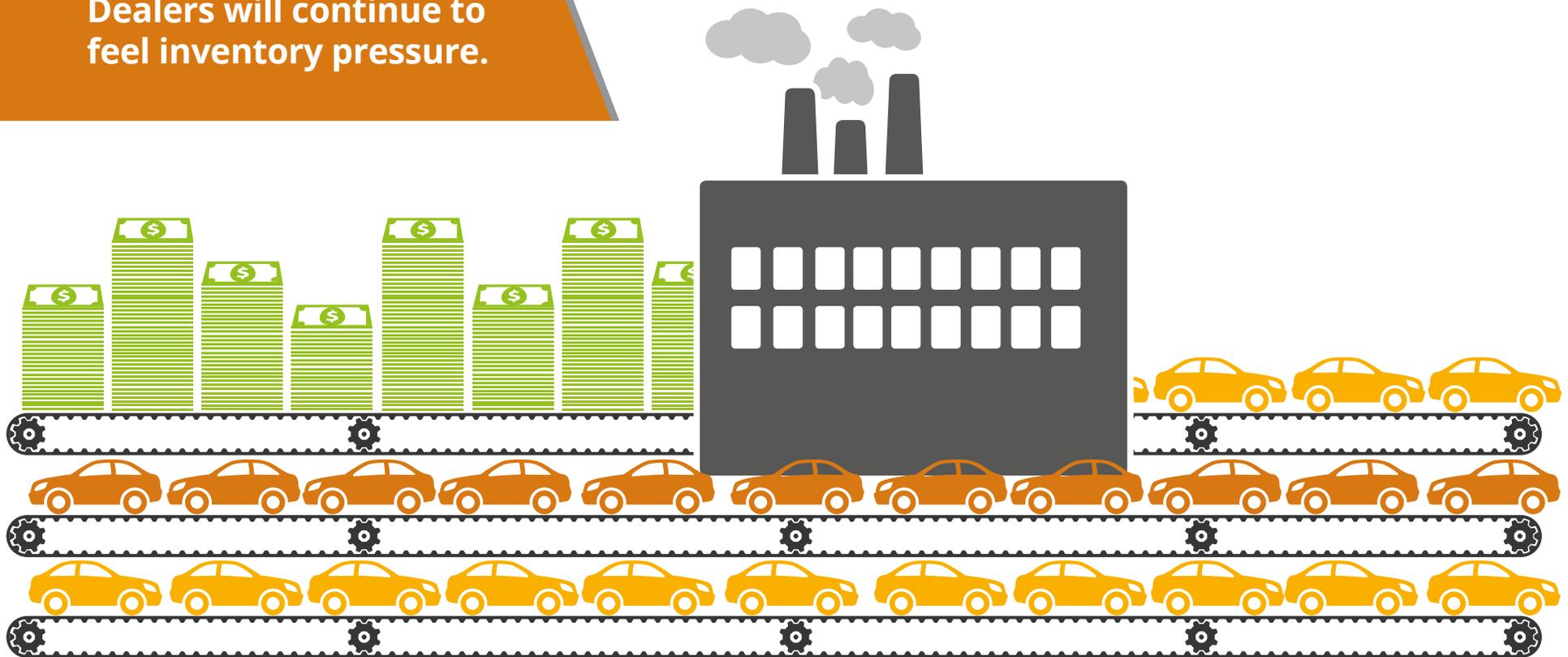
**30%**



# MARKET INSIGHTS

Automakers are investing huge dollars to increase their production capacities. Incremental production from new plants in North America is forecast to grow by nearly 4 million units by 2022, as automotive OEMs fight for larger market share.

**Dealers will continue to feel inventory pressure.**



# MARKET INSIGHTS

Interest rate increases continue to drive up holding costs. This situation bears a very real consequence on dealer financial statements. **We've seen floor plan expense grow by as much as 40% at some brands in 2017 compared to a year ago.**

Turn this expense into a profit center by doing a better job of managing your inventory against the ticking clock of your bank's floor plan program.

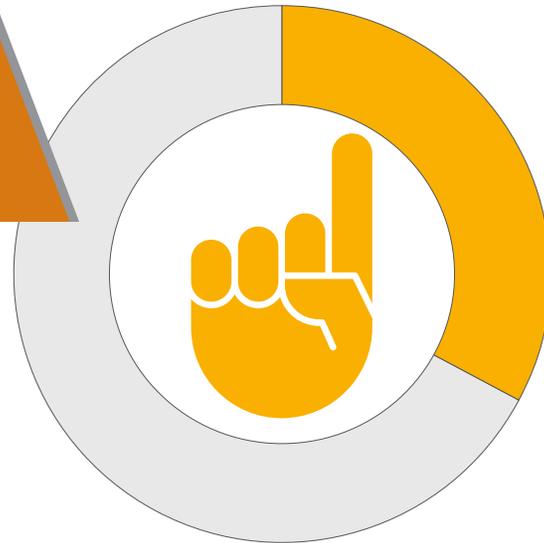
SOME BRANDS HAVE WATCHED FLOOR PLAN EXPENSES GROW

**40%**

# MARKET INSIGHTS

Only 33% of dealers make floor plan expense management a priority, while the remaining 70% either “hope” floor plan credits outweigh expense or just pay the bill as it comes. **Dealers who proactively manage their aging inventory are among the roughly 30% of dealers who earn a profit from floor plan credits at least seven months out of the year.**

Floor plan management provides a real opportunity for two-thirds of all new car dealers.



**33%**

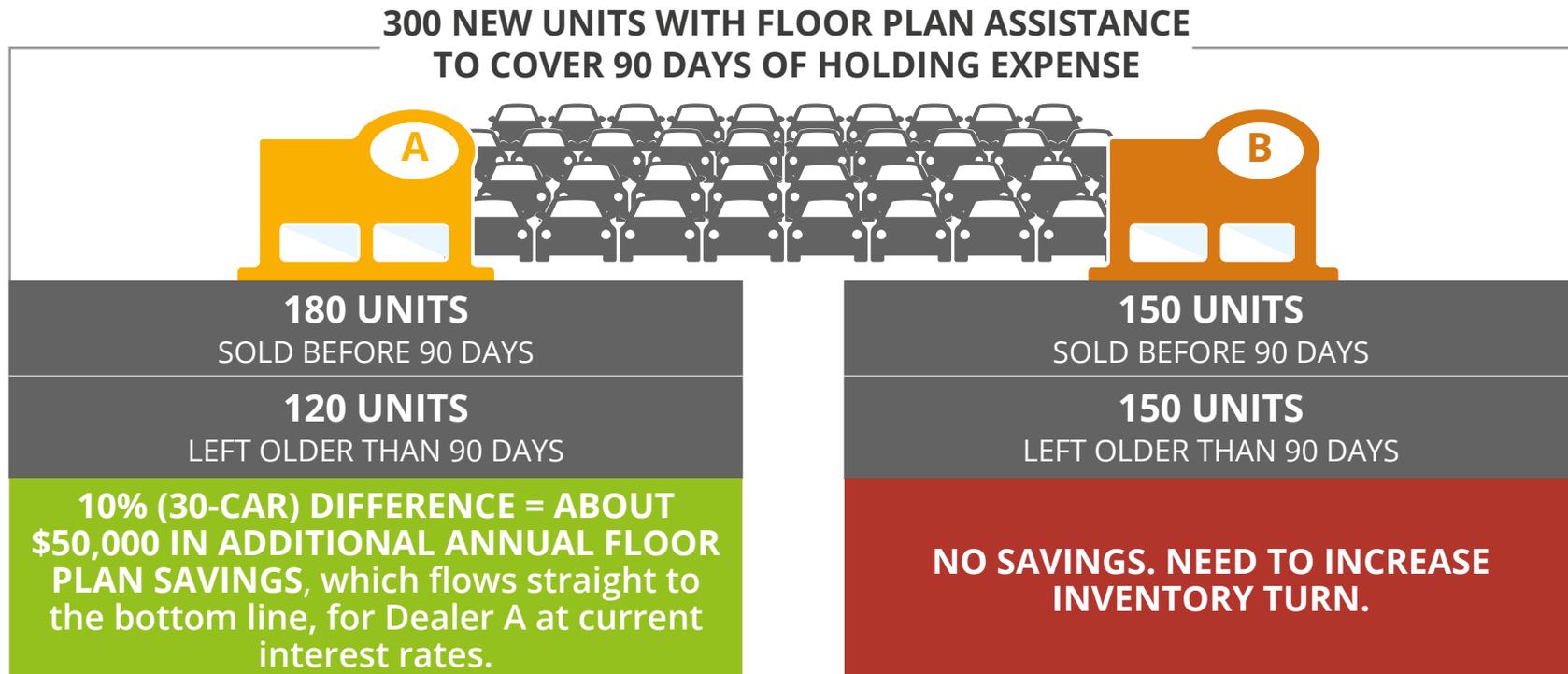
of dealers make floor plan expense management a priority

BOTTOM LINE IMPLICATIONS  
FOR NEW CAR DEALERS



# BOTTOM LINE IMPLICATIONS FOR NEW CAR DEALERS

Consider two dealers who share the same brand and stock 300 new units. Let's assume their manufacturer provides floor plan assistance to cover 90 days of holding expense. Dealer A sells about 60% of his inventory before it hits 90 days, which leaves about 40% (120 units) older than 90 days. Dealer B sells 50% in less than 90 days, with 50% (150 units) older than 90 days. This 10% (or 30-car) difference equals about \$50,000 in additional annual floor plan savings, which flows straight to the bottom line, for Dealer A at current interest rates. **Reducing the number of aged units over 120 days on a 300-unit inventory by 10% amounts to an annual floor plan savings of \$50,000!**



# MINIMIZING AGED INVENTORY & **MAXIMIZING FLOOR PLAN INCOME**

With new car margins at all-time lows, this \$50,000 a year is definitely worth pursuing. So how do you get there? Here are five best practices to help you turn floor plan expense into profit.



# MINIMIZING AGED INVENTORY & MAXIMIZING FLOOR PLAN INCOME

# 1



**WRITE DOWN ALL NEW VEHICLES OLDER THAN 60 DAYS.**

A 3% write-down on aged units against monthly new vehicle gross will keep sales managers / consultants accountable and focused on retailing aged inventory quickly.

**Industry data shows that nearly half (48%, or 96 units) of the average dealer's new vehicle inventory is older than 90 days.**



# MINIMIZING AGED INVENTORY & MAXIMIZING FLOOR PLAN INCOME

## 2



**DON'T TAKE A CAR BACK ON TRADE UNLESS YOU REALLY NEED IT.**  
You may be better off just executing one-way trades vs. taking back a unit that is high in availability. This is particularly true on sedans right now.

**15% of all new vehicles more than 365 days old are the result of bad dealer trades.**

# MINIMIZING AGED INVENTORY & MAXIMIZING FLOOR PLAN INCOME

# 3



## TIE NEW VEHICLE SPECIALS TO AGED UNITS.

Make sure your oldest vehicles in stock are featured on the New Vehicle Specials section of your website. All too often, dealers have very few, if any, vehicles listed as specials.

Nearly one-third of all new vehicles listed on Autotrader are not discounted.

# MINIMIZING AGED INVENTORY & MAXIMIZING FLOOR PLAN INCOME

# 4



## IDENTIFY SLOW-MOVING VEHICLES EARLY, NOT LATE.

Leverage technology and tools to understand which vehicles have high market days supply and price them appropriately on day one in inventory vs. day 300.

**When you combine optimized factory orders with age- / market-based pricing, you set the stage for selling more vehicles faster, and increase the “total” return on investment you make in each new vehicle.**

# MINIMIZING AGED INVENTORY & MAXIMIZING FLOOR PLAN INCOME

# 5



## MONITOR VEHICLE-SPECIFIC SHOPPING ACTIVITY.

If specific vehicles and VINs aren't getting much online attention, adjust your digital marketing / merchandising on those units to boost demand.

Dealers using effective marketing practices online receive as much as 4x more traffic to their online listings that drives a 15% improvement to their new car turn.



# MINIMIZING AGED INVENTORY & MAXIMIZING FLOOR PLAN INCOME

Dealers continue to be concerned that they can't make a profit from their new vehicle sales. Some continue to lose as much as \$50,000 a year, even when they are selling high volumes. These same dealers do not know their average days in stock or taking the appropriate steps to lower it.

While the new vehicle market is challenging, there's more money to be made if dealers commit to earning it with proven methods. More focus on new vehicle inventory management provides the very real opportunity to transform your floor plan expenses into a profit machine.



**Turn your inventory  
faster and turn  
your floor plan into  
a profit machine.**

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## ABOUT US

vAuto® provides innovative technology, tools and business intelligence to thousands of dealerships across the United States and Canada, helping them compete more effectively and increase new / used vehicle sales volumes and profits. Founded in 2005, vAuto revolutionized dealers' used vehicle operations with the groundbreaking Provision® suite of tools. Leveraging the Velocity Method of Management®, pioneered by vAuto's visionary founder, Dale Pollak, the Provision suite guides used vehicle acquisition, appraisals, pricing, merchandising and more based on real-time, local market supply-and-demand data. In 2014, vAuto expanded beyond used vehicle management with the introduction of Conquest™, the industry's first new car inventory management and pricing software of its kind. Built on new thought leadership from Pollak, Conquest challenged dealers to leave their old new car thinking behind and embrace new directives that lead to greater volume and profitability — from advanced stocking and pricing strategies to an innovative approach to managing incentives.