

# On Track

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By Tiger Shaw, COO and Co-Founder of DealerWire

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## Finding and Keeping Hidden Net Profits in a New Car Dealership Service Department

*Ray Branch, President and CEO,  
The KEEPS Corporation*

Managing a new car Service Department while producing a 20% Net to Gross Profit ratio is not a simple task. This article will outline one (of about 14) key ingredients that must be in place to truly maximize net profits.

### 1. Customer Pay Effective Labor Rate Daily Management

First, let's cover the basics. The Effective Labor Rate (ELR) is defined as "Labor sales dollars collected from the customer divided by the flat rate hours (not clock hours) paid to the technician to get the work/repair done."

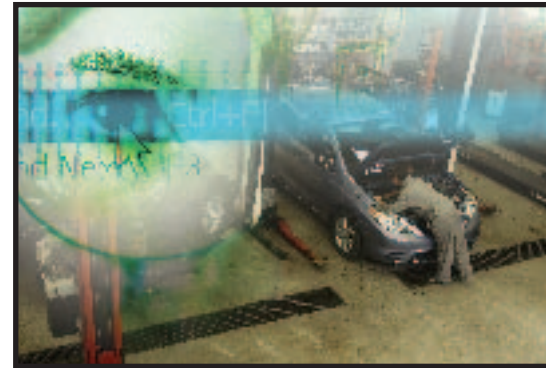
In many service departments around the country it is common to find the customer pay effective labor rate below the stated/door rate by \$9.00 to \$16.00 and in many cases \$20.00 or more below!

The main causes are:

- Service consultants discounting labor dollars to compensate for incorrect repair estimates.
- Technicians lobbying/negotiating with new or low skilled service consultants for more flat rate time AFTER the customer repair estimate has been presented and agreed upon by the customer.
- Service consultants letting customers redeem expired discount coupons that reduce labor dollars by 10 to 15 percent.
- Service managers feeling the market pricing pressures from the nearby service providers, therefore discounting labor dollars without adjusting flat rate hours paid to the technicians.
- NO effective labor rate monitoring or control system in place for improving ELR.

If, in the course of doing business with a new car dealership, we were to ask the dealer, office manager or service manager, "What is your current customer pay effective labor rate?" You will get somewhere between a "deer in the headlights" look to "It is exactly \$72.82 this month." A lot of service managers can tell you what the number is, but 95 percent of the time NO ONE can tell you what the formula is or how to manage or improve ELR by \$9.50 (or more) over the next 30 days.

Effective Labor Rate is one of the most powerful yet allusive business management equations in the service department today.



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# How an Inventory Management System Can Drive Profits

By Tiger Shaw, COO and Co-Founder of DealerWire

For more than two decades now, retail businesses have had computer systems that measure sales rates, inventory levels, profits and returns on investment. These systems allow the retailer to optimize their inventory levels and mixes, to ensure the very highest possible profit levels given the constraints: limited shelf and display space, aging or seasonality of inventory items, limited financial resources, and merchandising capabilities. Big-box retailers have grown profitability through the maximization of these systems, and adherence to the principles that drive them.

Why hasn't the car automotive industry had such systems in the past? It surely isn't because the automotive industry is small, unless you consider more than one-half trillion dollars small. It surely isn't because it's a simplistic problem, unworthy of the application of science and computer algorithms.

In fact the opposite is true - even today. Dealers find optimal inventory management complicated and confusing. And to boot, the tens of thousands of dollars they spend on their dealer management systems (DMS) generally do not address the problem properly. They try to throw a few simplistic reports at a complex and evolving need. Most would term the DMS supplier's attempts to address this need for vehicle sales business intelligence as woefully inadequate.

**So what's a dealer to do?** Get an Inventory Management System (IMS) to sit on top of their DMS! There are many systems available today.

Inventory Management Systems have been developed to address these gaps between functionality and reality, and are sold by several companies. They vary widely in cost, complexity, functionality, and usability. Any modern IMS will be web-based (accessible via the world wide web), and will pull the information from the DMS daily. The advantage of web-based systems is that they eliminate the need for software or hardware in the dealership (and the configuration and maintenance headaches that go with those things), they allow instant version updates by the vendor, thereby improving the system, and the system is available to all users from any computer connected to the internet.

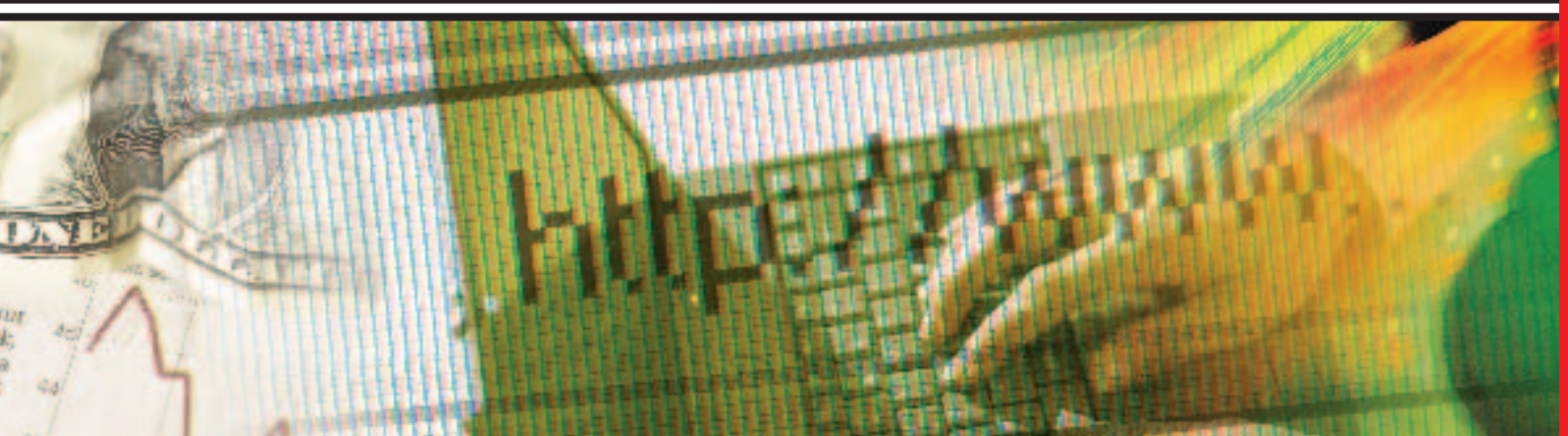
These management systems pull a dealer's current inventory and past sales history. Then, they offer reports and analyses that help the dealer understand the optimal inventory mix for their dealership. They also guide buy and sell decisions, and new vehicle swapping and ordering decisions. They also help track appraisals and appraisers.

**Most of IMS systems have three major areas of functionality:**

- Ideal Inventory model and buy/sell lists. The system continuously builds the ideal inventory mix, examines profitability, days to turn and other important factors and compares this information to current inventory to help dealers make clear buy and sell decisions. The system provides the dealer a tool to help in getting closer to that ideal mix, and then measures how well the dealership adheres to it. Maximum profitability and inventory turn (reduced aging) are the result of managing this well.
- Valuation tools. Many of these tools provide auction-type value lists that show what dealers own the same cars for, what they are trading them for, and what they are buying them for. This can be used to supplement the appraisal process.
- Buy and sell with other dealers. The ability to search for cars at another dealership helps in many instances. From helping sister dealerships work together to sell, to limiting the time it takes to locate a car for a buyer, this is a valuable tool. Why? Because it ensures the right cars are on the ground at the right dealerships. The right cars in the right place sell like crazy, but the right cars in the wrong place age.

Whichever system you decide to try, evaluate cost, functionality and ease of use to determine the best fit. The K.I.S.S. (keep it simple silly) principle is king here, as a complicated system will not be adopted by key used car managers. The value of a frequently used IMS could be tens of thousands of dollars per month in gross profit for the new and used car departments. Another benefit is lower sales staff turnover. Why would a salesperson leave a dealership if they have high inventory turns, fresh, high grossing cars readily available to sell, all the time? There are many other benefits, but to see them in action, you'll have to give an IMS a try!

*Tiger Shaw is COO and co-founder of DealerWire, a 5 year old IMS with nearly 1,000 people using it today. DealerWire allows dealers to actually test the system with their data on it, before they decide to enroll. This allows for the ultimate test drive, resulting in no miscommunication as to what they system can and can't do. DealerWire has a modest installation, training and support fee, and then costs \$399 per month for the used car department, and \$199 per month for the new car department, with no contract term. Tiger can be reached at [tshaw@dealerwire.com](mailto:tshaw@dealerwire.com) or 603-298-7450 x 102.*





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