1-2019

Variable Operations Basic Handbook

Kendrick W. Brunson
Liberty University, kwbrunson@liberty.edu

VARIABLE OPERATIONS BASIC HANDBOOK – BUSI 476

By Dr. Kendrick Brunson

January 2019

TABLE OF CONTENTS

PROLOGUE ***5***

CHAPTER 1: VARIABLE OPERATIONS ***6***

Overview **6**

Future Trends **8**

Automotive Manufacturer Roles & Responsibilities **9**

CHAPTER 1 ASSIGNMENT: **12**

CHAPTER 2: FINANCIAL REPORT ANALYSIS ***13***

Overview **13**

Dealership Financial Statements **13**

Balance Sheet **14**

- **Assets** 14
- **Liabilities** 17
- **Net Worth (Owners' Equity)** 18

Profit & Loss Statement **19**

Financial Report Analysis **21**

- **Financial Ratios.** 21
- **Industry Application of Financial Analysis.** 23

CHAPTER 2 ASSIGNMENT: **25**

CHAPTER 3: FINANCE & INSURANCE DEPARTMENT ***26***

Overview **26**

Financial Transaction Process Flow **26**

Important Factors to Remember **30**

Qualifications to be a Financial Services Agent **31**

Legal Considerations **32**

Functions of a Financial Services Agent **32**

CHAPTER 3 ASSIGNMENT: **36**

CHAPTER 4: NEW VEHICLE SALES DEPARTMENT ***42***

Overview **42**

New Vehicle Sales Process **44**

New Vehicle Arrival on Dealership Lot **45**

New Vehicle Inventory Management Strategies **47**

Financials of New Vehicle Sales **50**

New Vehicle Sales Incentives **51**

CHAPTER 4 ASSIGNMENT: 53
CHAPTER 5: PRE-OWNED VEHICLE SALES DEPARTMENT *54*
Overview 54
Comparisons between New and Used Car Processes 54
Process of Buying Used Cars 55
Time Cycle for Selling Pre-Owned Vehicles 58
Process for Adding Used Vehicle into Inventory 59
Buying Used Vehicles at Auctions 60
Competition in Used Cars 62
CHAPTER 5 ASSIGNMENT: 64
CHAPTER 6: FACILITIES, STAFFING, & COMPENSATION *66*
Overview 66
Facilities 66
Staffing 67
Staffing for Work Shifts 69
Compensation 71
CHAPTER 6 ASSIGNMENT: 75
CHAPTER 7: INTER-DEPARTMENTAL RELATIONSHIPS *76*
Overview 76
Sales and Service 76
Sales and Collision 77
New Sales and Pre-Owned Sales 77
Sales and the Business Development Center (BDC) 78
Variable Operations and the Accounting Department 79
Variable Operations and the Finance Department 80
CHAPTER 7 ASSIGNMENT: 81
APPENDIX A: REYNOLDS DOCUPAD PROCESS *82*
In the Financial Services Office 82
Part 1 – Preparing the Deal 82
Part 2 – Working the Deal with the customer 83
Part 3 – Preparing Contracts 83
Part 4 – Signing and Printing Forms 84
Part 5 – Wrapping Up the Deal 84
Additional Info 85
Special Deal Processes 86

In the Accounting Office **88**
Part 1 – Transaction Processing 88
Part 2 – Titling 88
Part 3 – Billing 88
APPENDIX B: F & I WORKSHEET ***90***
NADA DEALERSHIP MANAGEMENT GUIDES: VARIABLE OPERATIONS ***91***

PROLOGUE

In this handbook, the fundamental principles of running variable operations within an American franchised automotive dealership are discussed to provide a foundation for Liberty University students taking the Variable Operations course in the Automotive Dealership Management program. The content in this handbook are taken from recorded video sessions during the 2018 spring semester when various management employees and executives of the Hendrick Automotive Group spoke in the residential class of this course. The information contained in this handbook is deemed to be the mutual intellectual property of Liberty University and Hendrick Automotive Group. Students are expected to expand their knowledge beyond the topics covered in this handbook through their research conducted online.

The handbook is divided into seven (7) chapters related to variable operations: (1) an overview of variable operations, (2) dealership financial reports, (3) finance and insurance operations, (4) new vehicle sales operations, (5) pre-owned vehicle sales operations, (6) staffing and compensation, and (7) relationships with other dealership operations. These chapters coincide with the 8-week format for the online program whereas the 16-week format for the residential program will still align with the same order of discussion only over a longer time period.

This handbook is not intended to provide all information needed to successfully complete the assignments in BUSI 476. Students will need to conduct research on the Internet to augment the content of this handbook. Good websites to use are nada.org and coxautoinc.com. If you are an employee of an automotive dealership, you might have access through your dealership to NADA resources (see a listing of suggested Dealership Management Guides in the Appendix of this Handbook).

CHAPTER 1: VARIABLE OPERATIONS

Overview

In an American automotive franchised dealership, there are three primary departments: variable operations, fixed operations, and administrative operations. The variable operations consist of sales, both new vehicle and pre-owned (used) sales, and finance & insurance (or financial services). Fixed operations consist of service, parts, and collision centers. Administrative operations consist of the headquarters group and includes accounting, finance, and other support departments for the products and services provided by the dealership.

The origins of the terms “variable” and “fixed” are multiple but the consensus of thought is from the customer perspective. When customers purchase their next vehicle is dependent upon many factors and ***varies*** by customers as to the time spans between purchases. However, most adult citizens of the United States own a vehicle and that vehicle needs to be maintained for long-term protection of the investment and sometimes repaired when things go wrong. These events related to maintenance are considered ***fixed*** in terms of time periods between visits to the dealership. While all dealerships desire robust ***variable*** sales operations, the key to a profitable and thus successful dealership depends often upon robust and steady ***fixed*** service operations, and by extension parts operations.

In this handbook, the topic will be directed to running a successful variable operations consisting of sales in both the new vehicle and in the pre-owned (used) vehicle categories. Each category has its unique characteristics. In the United States automotive market, the common retail outlet for new vehicles is through a franchised dealership authorized by the manufacturer of a given brand of vehicles. That is not the case for retail outlets of pre-owned vehicles where multiple competing brands may be found on dealership lots. There are a few exceptions such as Tesla that has direct sale retail outlets in locations where state laws permit the bypass of the franchise dealership law.

The dealership franchise law has been in existence for over 100 years and, for the moment, does not appear to be in jeopardy of being dissolved. Part of the rationale for this reluctance to change the retail model for new vehicles is that manufacturers do not want to service vehicles, they only want to produce them. At the same time, dealerships do not want to be responsible for designing and manufacturing vehicles, only to have a relationship with the local customer market and sell and service those vehicles. Automotive manufacturers certainly desire a more direct relationship with their loyal brand customers and achieve that goal through the manufacturers' websites. Often, consumers will assemble their preferred package of vehicle model, trim, color, and accessories online and then take the suggestion of a local dealership to have the selected vehicle available there.

Unlike some franchised corporations where the "franchise owners" do not actually own the retail store but are "franchise operators" instead, the franchised automotive dealerships are owned by individuals, private investment groups, or publicly owned corporations. However, the manufacturer of the vehicle brand has a strong position in dictating the terms of the franchise contract to include the appearance of the dealership lot facilities, the location of the dealership lot, who the general manager will be, and often which vehicles will be delivered to a dealership lot on a regular basis. Maintaining a strong, positive relationship by the dealership management team with the vehicle brand manufacturer is essential for the dealership to be in a position to prosper in its variable operations.

The number one criterion for experiencing a strong, positive relationship by the dealership with its manufacturer is in the area of Customer Satisfaction Index scores (CSI). The manufacturer is responsible for surveying customers, usually after customer contact visits for sales and service needs. A poor CSI average can create follow up by the manufacturer to the dealership management for corrective action and can affect the amount of rewards given by the manufacturer to the dealership. In the past, CSI surveys were sent electronically to customers after dealership visits, but today manufacturers are using performance analytics more to determine customer satisfaction (e.g., number of vehicle purchases over time from the same dealership, number of referrals to friends and family, using the dealership for service visits, number of revisits to fix the same problem, etc.)

Another critical success factor for an automotive dealership from an internal perspective is having all dealership operational units (sales, service, parts, marketing, etc.) working together to achieve the mutual goals of the dealership. The common thread for all departments is high volume of profitable activity. The service bays need to be full of paying customers or vehicles being prepared for sale. Parts need to be on hand to keep technicians completing repair orders.

Sales need to be made to grow the number of regular service customers. When all departments are experiencing high volumes of activity, profitability is generally available as long as wise decisions are made in the operations of the dealership. In this handbook, the discussion will be focused on running a successful variable operation.

Future Trends

With the advent of technology, any desire of manufacturers to remove some of the supply chain role of dealerships and work directly with customers can be achieved. As stated previously, many customers already use the Internet to begin their search for the ideal new vehicle or even pre-owned vehicles. It is conceivable that the customer could order the specific model with all of the desired components online, have the manufacturer build that precise vehicle, and deliver it to a local dealership to convert the vehicle from its transport condition to “ready-to-roll” off the dealership lot. The additional benefit to the customer would be that the “paperwork” could be completed prior to pick up of the vehicle resulting in a more convenient, simple, and fast turnaround on the dealership lot.

There was a discussion within the automotive industry back in 1974 that projected by 1980 customers would walk into a dealership, order their desired vehicle by kiosk, and wait to have the vehicle delivered to that dealership. Today, over 40 years later, consumers may be purchasing more items on the Internet but still going to dealership lots to purchase vehicles in the more traditional way. Why? One reason is consumers’ desire for immediacy of ownership (instant gratification). The typical wait time for a vehicle to be manufactured and delivered is 6 – 10 weeks. Often, the desired vehicle has been produced already but is sitting on a different dealership lot and the local dealership can have that vehicle on its lot within days through a dealership transfer arrangement. Another reason for consumers going to a dealership lot is their desire to touch the vehicle and drive it first to validate their perceptions from the online search experience.

The question might be whether or not the dealerships would prefer a purchase model whereby they are drop off points for pre-sold new vehicles instead of the current sales model. Many dealerships probably would embrace such a pre-purchased sales concept because (a) there is little profit made in new vehicle sales anyway, (b) a smaller inventory of new vehicles on hand would be required freeing up valuable real estate space, (c) fewer sales personnel would be required, and (d) the dealership still would have the opportunity to continue the relationship with the consumer through a service program.

One future trend that may come sooner rather than later would be a move to standardized pricing. In the pre-owned vehicle world, CarMax uses this pricing strategy and prior to CarMax the Saturn brand used no-haggle pricing for its new vehicles. In some cases today, high demand vehicles sell at manufacturer suggested retail prices (sticker prices) with no room for negotiations. Studies have shown that many automotive consumers prefer to avoid sales negotiations and rather be offered a reasonable price for the value of the vehicle. For now, the existing process for automotive manufacturers to deliver volumes of new-model vehicles ordered by franchised dealerships and delivered to their lots appears to be continuing unchanged.

Automotive Manufacturer Roles & Responsibilities

The relationship between automotive manufacturers and dealerships in the United States is a unique one that spans over 100 years. The dealerships serve as the retail outlet for the manufacturers in terms of new automobiles and trucks. The relationships are controlled through a contractual relationship between the manufacturer’s brand and either a private owner, a private consortium of owners, or a publicly-traded ownership group. Manufacturers have much control over the franchised dealership operations to include location, appearance of the property and facilities, who the general manager is, inventory levels, etc. Audits are conducted periodically by the manufacturer on the dealership to ensure that its operations are being conducted in accordance with manufacturer policies. Background checks and historical performance records of a dealership General Manager candidate are conducted by manufacturers to determine whether or not the candidate will be approved.

The opportunity to purchase a franchised automotive dealership for a particular brand’s new model cars can occur in one of two ways: (1) Open Point or (2) “Blue Sky/Goodwill”. Open point opportunities exist when the manufacturer desires to establish a new “store” in a particular market. The manufacturer will publish the specifications of what the eventual dealership owner will need to fulfill in that open point franchised dealership. Included in the financial investment for the new dealership owner will be the purchase of land, building facilities, initial inventories of vehicles and parts, etc. In “Blue Sky” or “Goodwill” purchases, an existing franchised dealership is up for sale and the purchaser is buying in excess of net book value of assets at projected multiple annual revenue numbers. One of the key criteria used by manufacturers to approve a dealership purchase, in addition to financial solvency, is any historical Customer Satisfaction Index (CSI) scores. It would be very difficult for a new owner who has never been in the automotive business to gain acceptance by a manufacturer in purchasing one of its franchised dealership stores.

In the past, relationships between manufacturers and franchised dealerships have not always been positive, but today, thanks in part to better information systems, relationships are better. Manufacturers are interested in robust inventory turnover in new model vehicles and in certified pre-owned vehicles. The main reason for this interest is that customers tend to prefer purchasing their service and installing genuine manufacturer's parts in their late model vehicles. A certified pre-owned vehicle is attractive to customers because it carries a warranty period from the manufacturer, a benefit not available on pre-owned vehicles that are not certified. When a late model pre-owned vehicle is to be certified, it goes through an extensive inspection by a certified manufacturer brand technician and any parts replaced on the vehicle will be new manufacturer-branded parts. The dealership will pay the manufacturer a certification fee to be able to use the CPO certification. Needless to say, CPO vehicles bring a higher price and usually a correspondingly higher profit than non-CPO used vehicles.

It is surprising to many that new vehicle sales do not bring the dealership much profit margin from the customer's purchase. This is due in large part to the information available to consumers on the Internet of what the dealership paid for the vehicle and what incentives are given by the manufacturer to the dealership. Customers demand lower prices based on knowing this information. Higher profit margins exist for trucks than for cars and higher margins exist for highline vs. domestic or import vehicle categories. Even pre-owned vehicles can bring a higher profit margin than new vehicles if the pre-owned inventory is managed well. More will be discussed in the chapter on Pre-Owned Vehicle Sales.

Some incentives paid by the manufacturers to the dealerships for the sale of new vehicles are (1) floor plan interest, (2) bonus money for certain models at specific times of the year, (3) higher volume bonuses, (4) cooperative advertisement dollars, etc. Floor plan interest money usually is provided for the first 30 days the vehicle is being floor planned with the dealership's lending institution. Therefore, if a vehicle can be sold before 30 days of purchase by the dealership from the manufacturer, the dealership can keep the additional incentive money. Obviously, if the new vehicle is sold after the first 30 days, the dealership must absorb the additional floor plan interest. Cooperative ad dollars are paid by the OEM to the dealership when the dealership submits proof of local advertising dollars spent to promote the automotive brand.

Incentive money is paid quarterly in arrears by the manufacturer to ensure that all accounting measurements have been verified. If the dealership is experiencing low CSI scores, the manufacturer may withhold some of the incentive money scheduled to be paid. It would be safe to say that customer satisfaction is the number one measurement today because it is an indicator of the potential for future repeat purchases with a goal of establishing a lifetime loyal customer for both the manufacturer and the franchise dealership.

In the upcoming chapters of this handbook will be the in-depth discussion of how the different departments within the variable operations of an automotive dealership function and more will be discussed about the roles of the manufacturers in the process of providing new vehicles for sales.

CHAPTER 1 ASSIGNMENT:
Roles of Variable Operations in an Automotive Dealership

The purpose of this one Discussion Board in the course is to review 3 key concepts related to Variable Operations in an Automotive Dealership. For this module/week's discussion, read Chapter 1 in the assigned reading document for Questions 1 and 2 below. For Question 3, you will need to research on the Internet to locate the current discussion on the future of automotive manufacturer and dealership relationships. The copyright of these sources should be within the past 2 years to be considered relevant.

1. Describe the unique characteristics of Variable Operations when compared with Fixed Operations in an automotive dealership. (Chapter 1)
2. Describe the unique characteristics of each of the 4 categories of automotive vehicles (Highline, Domestic, Import, and Exotic) in terms of (a) expectations of customers who purchase the vehicles, (b) expectations of manufacturers on the franchsed dealerships, and (c) how the dealership should respond to both sets of these expectations. (Chapter 1)
3. Report on what the automotive industry is saying about the future of the franchised dealership model given the movement like Carvana and Tesla to remove the middle man (Dealership). Will the current model remain or will it change? (External Research)

Submit your thread by **11:59 p.m.** (ET) on **Thursday** of Module/Week 1 and your replies to 2 classmates by **11:59 p.m.** (ET) on **Monday** of Week 1. Your original thread must contain a minimum of 500 words and include at least 2 reference citations for Question 3. Each reply post must contain a minimum of 250 words and include at least 1 reference citation for Question 3.

CHAPTER 2: FINANCIAL REPORT ANALYSIS

Overview

Because the automotive industry is so different in its 12 independent sales cycles per year, that places a stronger demand on the Accounting Department of dealerships to turn around its official financial reports within the first part of the following month. It has been said that automotive dealership accounting is one of the most complex systems in business. In addition to the formal monthly accounting reports, each department within the dealership has its own set of accounts and managers review the previous day's transactions each day the dealership is open to discover any areas of concern that need to be discussed with the departmental team. The goal behind this activity is to prevent problems from continuing to fester without taking immediate corrective actions.

In this chapter, students will examine how financial reports in the automotive dealership are the same as generally accepted accounting principles (GAAP) and how they differ from other standard accounting practices. In addition, there will be a graded assignment to evaluate a highline dealership's financial statements and identify areas of concern along with where the dealership is performing well in the same way that a dealership manager would review the financial reports. The discussion will include definitions of potentially unfamiliar terms, step-by-step explanation of line items on the Profit & Loss Statement, Asset and Liability sides of the Balance Sheet, how to analyze the reports data, and how to manage financials of the dealership.

Dealership Financial Statements

The primary financial statements that will be discussed in this handbook are the Balance Sheet (Assets, Liabilities, and Owners' Equity) and the Profit/Loss Statement (Income and Expense). The basic concepts of the reports are similar to standard financial reports in that the Balance Sheet represents the current values of the key categories (Assets, Liabilities, and Net Worth) on the last day of the financial period. The P&L Statement represents the cumulative value of the line items for the reporting period. The key difference in automotive dealership financial statements is that the reporting period is for the previous month rather than 12 months reported on the last day of the fiscal year. Students should open the Lexus financial report document to use as an example of the discussion to follow. This financial report is typical of automotive dealership reports.

Assets appear on the first page in the left margin and Liabilities/Net Worth appear in the right margin on the first page. Assets are considered the "uses of funds" acquired in the dealership and the value represented in this report was assessed at the end of the month of December in 2016, which means that this particular Balance Sheet report would be no different than an end-of-fiscal-year Balance Sheet report from any other company given the nature of a Balance Sheet representing the current values on the last day of the fiscal year. The same would not be true if the Balance Sheet report were from any other month of the year for the dealership or for the P&L Statement in the example provided. The values represented in the example financial report are measured in actual dollars vs. thousands. Not all line items will be described in the discussion that follows.

Balance Sheet

Assets

The Assets category is divided into two segments: Cash/Cash Equivalents, and Receivables. Cash/Cash Equivalents have 3 items: Petty Cash Fund, Cash in the Bank and Temporary Cash Investments, and Contracts in Transit. Current Assets are listed in descending order from most liquid (convertible to cash) to least liquid. Unlike standard definitions of "current" where liquidation should occur within 12 months, in the automotive environment, "current" represents expectations that liquidation of assets to cash will occur within the next month.

The first two items should be self-explanatory where Petty Cash is on the premise of the dealership for miscellaneous disbursement needs, and cash in the bank represents significant cash reserves to pay most current obligations. Temporary cash investments could be any one of a number of options used by the dealership Finance Department to earn additional interest above standard checking account rates. Contracts in Transit (CIT) represent a sale of a vehicle that has been driven off the dealership lot after all the paperwork has been signed but the paperwork process has not been completed. Reasons for CITs could include documents not yet filed with governmental agencies for tags or title, money from a trade not being deposited yet in the dealership's bank account, etc. Note that the CIT value is almost as high as the Cash in Bank value for the example Lexus dealership.

While CIT relates to vehicle sales, Receivables relate to both Fixed and Variable receivables (Service/Parts, Retail Vehicles, and Wholesale Vehicles). Service/Parts Receivables would be items purchased but not paid yet by customers. Retail Vehicle Receivables typically would represent accessories purchased by customers to be installed on their vehicles and have not been paid yet. Wholesale or Dealer Transfer items would be used vehicles sold to auction or other dealerships that have not been paid yet.

The remaining line items in the Receivables section of the example report represent amounts owed by the manufacturer (Lexus) for various incentives. Warranty claims represent maintenance and/or repair work performed by the dealership Service Department and parts provided by the dealership Parts Department on vehicles still within warranty. Pre-Delivery Service represents what the OEM pays the dealership to prepare the new vehicle for delivery to the customer. Vehicle Incentives are "trunk money" bonuses paid by the manufacturer to the dealership for sales of new vehicles. Service Efficiency Bonus is awarded when dealerships perform well in their service departments often based on turnaround time for maintenance and repairs and customer satisfaction ratings. The Direct Marketing Covenant Bonus is cooperative advertising dollars not yet paid. The final line item in the example report (OEM bonus money) is to compensate the dealership for employees who deliver vehicles to customers and show them how to use the technology in their new vehicle.

The Allowance for Doubtful Accounts is an amount set aside to cover debts that are not paid. The next line item is the sum of receivables related to customers and distributors. The other receivable on the example report is Finance & Insurance that represents payments that have not been made for after-market sales conducted at the time of closing the sales transaction. The total amount of receivables is reported and represents obligations that should be paid by the end of the next month's sales cycle though that is not always the case. An effective manager will compare the dealership's Total Receivables against Sales with the industry average for highline vehicles in general, Lexus specifically, and maybe within the regional market to determine how well Receivables are being managed. The goal is to keep Receivables as low as possible.

The next significant category of Current Assets (those assets that should be converted to cash within 12 months) is Inventories. Inventory is divided into New Vehicle, Pre-Owned Vehicle, Parts/Accessories, Tires, Gas/Oil/Grease, and miscellaneous items. Under New Vehicle inventory, there are Demo vehicles and vehicles for sale reported in both units and dollar value. Pre-Owned vehicles are divided by Lexus non-certified, Lexus Certified, and Other brands. There are two columns of units reported for each of these three categories. The column on the left represents pre-owned vehicles that have been on the dealership lot less than 45 days. The units in the right column have been on the dealership lot over 45 days. Because pre-owned vehicles depreciate rapidly, identifying the number of pre-owned vehicle inventory in jeopardy is important to report in the financial statements.

Below the vehicle inventory is the line item for Parts and Accessories from the Lexus manufacturer in inventory except for Tires, which is itemized on the next line. Account 2419 reports on Parts/Accessories not from Lexus. There appears to be a misprint on the financial report where it states “including tires” for Account 2419. It should state “excluding tires”. Gas/Oil/Grease represents the consumable products that go into maintenance and repairs vs. the more tangible hard goods stated previously. Because this Lexus dealership does not own a Collision Center, there are no Body Shop Materials reported. The inventory miscellaneous items are Sublet Repairs, Work in Progress (WIP) – Labor, and Other Inventory. It is interesting to note that WIP Labor is part of the inventory category.

The other Current Assets include Pre-Paid Expenses (Taxes, Insurance, Rent/Interest, Advertising, and Other), and the Loaner Fleet operated by this Lexus dealership consisting of 141 vehicles valued at over $5 million. In the highline category of vehicles, customers expect for the dealership to have new comparable vehicles available to drive when the vehicle they own is in the shop for maintenance and/or repairs. These loaner vehicles usually have less than 10,000 miles on them and are placed in the certified pre-owned vehicle sales lot at the end of their life cycle as a loaner vehicle. Some dealerships outside of the highline category may also operate a loaner fleet but usually they have a rental car company co-located on the dealership lot.

The next section consists of Fixed Assets and includes Buildings/Improvements, Service Equipment, Parts & Accessories Equipment, Furnishings/Signs/Fixtures, Company Vehicles and Leaseholds. In the left column is the actual cost of those fixed asset items and in the second column is the Accumulated Depreciation values of those Fixed Assets. The amount recorded in the third column is the net value (Cost less Accumulated Depreciation). The last section below Fixed Costs is Miscellaneous Assets. The Total Assets will equal the sum of Total Liabilities and Net Worth (Owners' Equity).

Liabilities

Liabilities and Net Worth are considered the sources of funds used by the organization. Liabilities represent debt owed for obligations and Net Worth is the value remaining after Liabilities have been satisfied for the ownership of the organization. Like Assets, the term "current" for Liabilities represents what should be paid within the next monthly cycle. The significant components of the Liabilities section are Accounts Payable, Accrued Liabilities, Inventory Finance Liabilities and Other Vehicle Liabilities all under Current Liabilities and Long-Term Debt. Current liabilities are listed from the shortest-term liabilities to the longest-term liabilities (most pressing to least pressing).

In Accounts Payable, the first line item is Trade Creditors, which represents janitorial, utilities, operating bills to be paid, etc. Vehicle Lien Payoff represents the money owed by the dealership to pay off customers' trade-in vehicles to the banks or manufacturer credit companies. Customer Deposit/Advances can represent a utility company holding a deposit when the account was established. License and Title Fees are due to the various governmental agencies.

Under Accrued Liabilities, Interest represents the accrued "floor plan" interest that the dealership owes the bank for the floor plan inventory. This is a critical line item for a dealership manager to monitor because even a slight increase in interest rates can have a tremendous impact on interest expense. For example, a dealership conglomerate could possess $1 billion in inventory and a 1% increase in the interest rate for the floor plan inventory could cost the dealership an additional $10 million in annual interest expense. That is why dealerships emphasize the sale of new vehicles during the first 30 days when the manufacturer provides the floor plan inventory interest as an incentive. The dealership can "pocket" the difference in what the OEM pays in interest incentives and what is owed to the bank for the daily interest. On the other hand, the dealership would pay "out of pocket" the additional interest past 30 days.

Insurance owed is self-explanatory but the minus $71,527 is unusual. The explanation given by an automotive accountant was that it probably was a pre-payment of an insurance bill and, if so, it should have been placed on the Asset side of the Balance Sheet. Normally, this number for Insurance would be positive indicating the amount of Insurance payment owed. The remaining items in Accrued Liabilities should be self-explanatory (Payroll, Payroll Taxes, Sales Taxes, Bonuses for Employees, and Pension Fund/Profit Sharing.

The New Vehicles and Demonstrators represent what is owed on the “floored inventory”. There is a difference between the New Vehicle Inventory (almost $11 million) on the Asset side of the Balance Sheet and the $12 million of New Vehicle Liabilities. This is normal because of the float time between the sale and delivery of a vehicle to the customer and the time that the floor-planned vehicle loan is paid. Dealership managers pay close attention to these two numbers to ensure that financial liability does not exceed the value of the inventory by too much. This could be an indication of an “out of trust” situation where the dealership is not paying the bank for the sold vehicle in a timely manner. If the “out of trust” situation were to become a regular problem, banks have been known to show up at the dealership and change the locks and/or have bank employees collect every dollar of a sale until the “out of trust” condition diminishes. In rare occasions, the bank will shut down the dealership entirely requiring the manufacturer to locate another franchisee. More on “out of trust” conditions will be discussed later in this handbook.

Typically, automotive dealerships do not carry long-term liability unless there was a loan given by the automotive group in which the individual dealership is a part. This situation would have occurred when the Finance Department of the automotive group extended credit to cover a low capitalized position such as a start-up dealership site, a site where a significant expansion was made of the dealership facilities, or poor management of cash flow. A startup dealership is expected to be self-sufficient in cash flow within 90 days of opening its doors and remain so throughout its operational existence. In the example Lexus dealership, there is almost $1 million in long-term debt.

Net Worth (Owners’ Equity)

The final section of the Balance Sheet is the Net Worth section and the example Lexus financial report illustrates how this section is reported. The first line in the Net Worth section contains two columns: Net Working Capital Requirement and Net Working Capital (on hand).

Working Capital = Current Assets – Current Liabilities and represents how quickly the dealership is paying the bills and generating cash. The minimum capital requirement has been established by OEM policies set forth in the franchised dealership guides. The dealership does not want to go below that guide or it will risk disenfranchisement by the manufacturer. Manufacturers monitor dealerships' financial statements in real time through connected Dealership Management Systems. The example Lexus dealership has 2.3 times the Net Working Capital Requirement and thus is in good financial condition in this area. Of the over $13 million Net Working Capital, $419,661 is held in Inventory Reserve as divided by the three categories of New Vehicles, Pre-Owned Vehicles, and Parts inventories. The reserve amounts are cash to cover purchases of inventory prior to being sold and paid by the end customers.

Below Working Capital are Investments and Dividends that comprise the Investments made into the dealership by its owners whether privately owned or publicly traded. The final component to equal Total Net Worth of the dealership is Current Profit/Loss numbers from the P&L Statement. The P&L report is provided in monthly increments for the past 12 months. The columns to the left represent sales units and the right column represents the dollar value of the sales. The categories are New Lexus, Pre-Owned Certified, and Pre-Owned Other. The "bottom line" for the sources of funds side of the Balance Sheet include Total Liabilities (Line 42) plus Inventory Reserve (Line 49 – money set aside to cover cash needs to purchase inventory) plus Total Net Worth (Line 77).

Profit & Loss Statement

The Profit & Loss Statement provides details of the operations of the dealership because the data are cumulative vs. a stagnate number on a specific date. In the example P&L Statement for the Lexus dealership, the first pages provide a macro view of the dealership as an enterprise and each major department in both Variable and Fixed Operations. After the macro views, more details are provided into each of the major departments down to the individual vehicle model. Both the Month-to-Date and the Year-to-Date data are provided. To the right of each dollar amount is the percentage of Sales for the Gross Profit line and the percentage of Gross Profit for each Expense line. Assume a decimal two places to the left. For example, "1043" = 10.43% and "14" = 0.14%. Because of the numerous line items on these reports, only the more significant ones will be discussed in this section of the handbook.

The Total Sales line is self-explanatory, and the Total Gross Profit line is the net result after the variable costs of goods sold has been removed. In some P&L Statements from other industries, the Cost of Goods Sold (COGS) are listed but not so in the automotive industry. On the same page as the Total Dealership are the New Vehicle Sales and Pre-Owned Vehicle Sales data for a side-by-side comparison. The Fixed Operations departments of Service and Parts/Accessories are on the following page. The variable expenses associated with overall sales are itemized and summarized below the Total Gross Profit line. Expense categories include Selling Expenses, Operating Expenses, and Overhead Expenses. Selling and Operating Expenses are connected to the departmental profit/loss with Overhead Expenses allocated proportionately among all departments.

Sales Expenses include compensation paid to the sales force and sales managers, delivery expense of the vehicles by the dealership to the customers (delivery expense from manufacturer to dealership is included in the variable costs before Gross Profit), financial compensation, advertising expense, and floor plan interest. Departmental Operational Expenses include items not directly related to the sales of products (salaries of employees within the department, training, supplies, uniforms, vacation time off, etc.). Overhead Expenses include office supplies, utilities, general dealership advertising allocations, etc. Notice that there is a Net Profit/Loss before bonus with bonuses listed below that line. Bonuses paid by manufacturers for sales employees is not factored as revenue into what the dealership pays in taxes, but rather individual employees must pay the taxes.

The Finance & Insurance Profit & Loss Statement (Page 5) includes after-market sales of Extended Service Contracts, Prepaid Maintenance, Financial Income, Insurance Income, Lease Income, Gap Insurance, and Tire & Wheel Protection. Under each line item is a “Net of Chargeback” line. Chargebacks occur when customers decide to drop the policies they purchased at the time of sale, possibly just to get the financial agent off their backs. Extended Service Contracts covers repairs that might be required on a vehicle after the manufacturer’s warranty expires. Many Lexus owners do not pay for extended service contracts because of the quality in the manufacturing of the vehicles. Prepaid Maintenance covers standard oil changes and routine maintenance calls for an extended period of time. Financial Income represents the interest to be paid the dealership over the term of the purchase/lease contract. Gap Insurance covers the full value of the vehicle should the market value be below the value owed the bank or lease company and the car is damaged or totaled. Often highline owners do select Gap insurance although there are no revenue figures for that after-market product on the financial report of this Lexus dealership.

Financial Report Analysis

Financial Ratios.

There are four primary sets of ratios used to analyze the overall performance of an organization like a dealership. They are (a) ***Profitability***, (b) ***Liquidity***, (c) ***Efficiency***, and (d) ***Stability***. Profitability ratios indicate whether a business can take in more revenues than it costs to run the enterprise. Liquidity measurements indicate whether the dealership can meet its short-term obligations without needing to borrow funds from outside of the dealership's operations. Efficiency is an indication of how much productivity is derived from the dealership's Assets with the goal to minimize waste of those resources. Stability measurements indicate the overall financial health of the dealership for the long term.

The three primary ***Profitability*** ratios used are ***Return on Assets*** (ROA), ***Return on Equity*** (ROE), and ***Profit Margin***. All three ratios use Net Income (bottom line) from the Income Statement as the numerator. Net Income is what is left over, if anything, from the annual sales revenues after all of the bills have been paid for the designated time period (month, quarter, or year). In ***Return on Assets*** **(Net Income / Total Assets)**, the Total Assets side of the Balance Sheet is used to indicate how much profit was made from all of the assets owned by the dealership for the designated time period. ***Return on Equity*** **(Net Income / Net Worth)** uses the Net Worth value of the ***right side of the Balance Sheet*** and excludes the Total Liabilities portion of the Balance Sheet. This measurement indicates the profitability to the Owners' investment whether they are privately owned or owned publicly by stockholders. The final ***Profit Margin*** ratio **(Net Income / Net Sales)** uses two components from the Income Statement only: Net Income divided by Net Sales to indicate how profitable the dealership was over the designated time period in its costs of operations. The advantage of using a ratio over just using the dollar value of Net Income is that one can compare the results of the enterprise equally with other enterprises using a percentage measurement.

There are two primary ratios used to indicate ***Liquidity*** of the dealership, whether or not it can meet its short-term obligations from internal operational funding: ***Current Ratio*** and ***Quick Ratio***. ***Current Ratio*** uses **Current Assets** divided by **Current Liabilities** from the Balance Sheet. The word ***current*** represents those Assets and Liabilities that can be liquidated to cash within 12 months of the date the Balance Sheet data is published. The ratio should be a value greater than 1.0 if the dealership is liquid, the higher the number, the better the financial condition. ***Quick Ratio*** is a subset of ***Current Ratio*** in that the numerator consists of those assets that can be liquidated within 30 days vs. 12 months. The Quick Assets Ratio excludes inventories and includes Cash, Contracts, and Accounts Receivable less allowance for doubtful accounts. The result is a stronger test of ***Liquidity*** with the desired outcome of a number greater than 1.0 if the dealership is liquid, the higher the number, the better the financial condition. If a dealership had a positive ***Current Ratio*** but a ***negative Quick Ratio***, that would indicate too much dependence upon selling the inventory to cover the current liabilities.

The ***Efficiency Ratio*** uses Inventory Turnover rates as a measurement. To calculate Inventory Turnover, divide the **Current Inventory** units (located on the **Assets** side of the **Balance Sheet**) into the **Total Units Sold** for the year (located in the **Income Statement**). The ideal goal is for dealerships to turn over their entire inventory of new and pre-owned vehicles within a month. This is a more aggressive goal than used in other retail markets where four turnovers of inventory in a year or quarter might be the desired result. On the other hand, many items in a grocery store might turnover 30 times in a month. Inventory turnover rates for the example dealership is provided as a separate table of data in the Appendix. As in most cases, knowing the inventory turn rate for the dealership in comparison with other dealerships of similar brand or category, and with the industry, are key to understanding how effectively the dealership is purchasing the right inventory to sell in its market space. With each vehicle category, the expectations of inventory turn will vary. For example, the turn rate for Exotic vehicles will be very low but profitable. Turn rates for Domestic and Import vehicles should be approximately the same and larger than the Highline dealership used in the example. The good result in inventory turn ratios is a higher number than the average industry turn ratios.

The final financial ratio category is ***Stability***, the ability to survive long term financially. The two primary ratios used for ***Stability*** are ***Debt-to-Assets*** and ***Debt-to-Equity***. The ***Debt-to-***

Assets ratio uses the **Long-Term Liabilities** value divided by **Total Assets**. This measurement is an indication of how much value all assets the company owns is being financed by long-term debt obligations. Long-term financing of real property (e.g., land, buildings, and equipment) is normal. The warning signal to investors occurs when Current Assets are being funded by Long-Term Liabilities (e.g., when inventories are being funded by long-term financing, etc.).

The ***Debt-to-Equity*** ratio uses **Total Liabilities** (to include Current Liabilities) divided by **Owner Equity** (**Net Worth** in the example Balance Sheet). This measurement is an indication of the balance between borrowing for assets vs. using past profits from operations to fund assets. A 50/50 ***Debt-to-Equity*** ratio is normally acceptable to investors to provide more funding to the enterprise through debt, but greater than 50% existing long-term debt could provide a warning signal to investors that the enterprise is being over-leveraged and thus becoming more of a risky investment. On the other hand, if all assets were financed from profits and no long-term debt was in the portfolio, some stockholders would be concerned that the dealership was not taking advantage of leveraging ***other people's money*** vs. their ownership capital to fund Assets.

Trade Debt is based on a different principle than Consumer Debt. In Consumer Debt, the individual is acquiring an asset today on the promise of future earnings. Often the acquired asset depreciates in value to a zero value before the debt is paid and interest rates are higher than available in Trade Debt. In Trade Debt, the enterprise is borrowing cash at the available financial market rate and anticipating that it can use the cash to achieve a higher rate of return than what is owed to the lender. The major problem with Trade Debt is if the organization fails to sell the Assets in the marketplace before the debt is due.

Industry Application of Financial Analysis.

This section covers a few areas of analysis from the provided financial reports of the Lexus dealership. Typically, departmental managers of the dealership meet daily with the General Manager to discuss the financial reports but at a minimum twice per week, usually on Tuesdays and Fridays. In addition to the financial reports, emphasis in these meetings is on Contracts-In-Transit (CIT) and Contracts-Not-in-Accounting (CNIA – those contracts still being held by the financial agent that have not arrived in the Accounting Department to close out the sale with the floor plan lender in the case of new vehicle sales). The below-the-line amounts paid by manufacturers to dealerships are 100% profit and not expensed against the sales revenues.

Work-in-Process numbers are watched closely because they can get out of hand significantly if allowed to build up over the year. There have been examples of some dealerships required to adjust one-half million dollars, usually on the loss side rarely on the profit side. On Page 4 of the example Lexus dealership financial reports, Line 64 shows the value of total incentives that have been paid by the manufacturer to this dealership ($320,388). Compared with Line 43 where all vehicles sold netted a loss of $183,629, when the incentives were applied, there was a net profit for the Lexus dealership in the amount of $136,759 (Line 65). This illustrates the dynamic of new vehicle sales whereby market pressures drive down sales prices to the extent that the dealership may take a loss on the sale from the customer side (average of $879 per vehicle sold) but be profitable if the dealership maintains high customer satisfaction scores and maintains high volumes of units purchased from the manufacturer. The exception of vehicle models that were sold at a profit were the upper end of the price points (LS and LS Hybrid for the sedan and LX and GX SUVs).

One method of manufacturers incentivizing dealerships is called a Stairstep Program. For example, if a dealership meets its assigned quota from the manufacturer, it may be given $500 per vehicle sold. If the dealership meets 110% of its assigned quota, the bonus might be $1,500 - $2,000 per vehicle sold. It is conceivable that one-third of a dealership’s net profit would derive from the manufacturer’s incentive program.

The primary financial measurements for automotive managers are ***Profitability*** and ***Efficiency***. ***Profitability*** is measuring Net Income against Total Sales, Gross Profit, and the profitability of each model being sold after accounting for manufacturer bonuses. ***Efficiency*** measurements focus on Vehicle sales in units compared with average sales units for the Industry, OEM Brand nationally and regionally, general regional market. The ideal goal is for dealerships to turn over their entire inventory of new and pre-owned vehicles within a month.

CHAPTER 2 ASSIGNMENT:
FINANCIAL REPORT ANALYSIS INSTRUCTIONS

Using the financial reports provided in Blackboard and based upon the information provided in the textbook on analyzing financial reports (Chapter 2), analyze the reports to determine (a) Profitability, (b) Liquidity, (c) Efficiency, and (d) Stability. The following specific analyses need to be included. The textbook provides assistance in how to calculate the required analyses.

Highline Dealership:

a) ROA: Return on Assets: ___________

b) ROE: Return on Equity: ___________

c) Profit Margin: ___________________

d) Current Ratio: ___________________

e) Quick Ratio: ____________________

f) Inventory Turns: _________________

g) Debt/Assets Ratio: _______________

h) Debt/Equity Ratio: _______________

1. Describe the ***Profitability*** status of the Highline dealership and cite the comparisons with the industry averages.
2. Describe the ***Liquidity*** status of the Highline dealership and cite the comparisons with the industry averages.
3. Describe the ***Efficiency*** status of the Highline dealership and cite the comparisons with the industry averages.
4. Describe the ***Stability*** status of the Highline dealership and cite the comparisons with the industry averages.
5. Describe what actions you would take as the General Manager of the dealership to improve the financial health of the dealership. Explain your rationale based on the financial data provided.

Submit the Financial Report Analysis by 11:59 p.m. (ET) on Monday of Week 2.

CHAPTER 3: FINANCE & INSURANCE DEPARTMENT

Overview

The Finance & Insurance (currently called Financial Services) agent in an automotive dealership is an employee of the dealership but acts as an indirect lender of the various lending institutions that finance and insure both new and pre-owned vehicle transactions. In addition to local and regional banks, the financial services agent works with the manufacturer's financial company (e.g., GMAC, Toyota Financial, etc.) called "captive lenders". At the same time, the financial services agent is authorized by the dealership to sell after-market products usually associated with customers' needs to maintain the value of their new investment in an automobile or truck. These after-market products (e.g., gap insurance, extended service contracts, roadside assistance, etc.) can be some of the more profitable items sold in a dealership. Automotive dealerships process more contracts in a month that most large law firms. In this chapter, the discussion will include the qualifications of a financial services agent, the typical process that is involved in a financial contract for a vehicle, and the transition to digital transactions vs. paper transactions.

Financial services agents must be certified by the Association of Financial and Insurance Professionals (AFIP). Most dealerships will pay to train employees who wish to serve in the customer financial function. Usually, dealerships want financial services agents to have a year of sales experience before shifting to the financial side so as to gain skills in negotiations, working the numbers of a deal, and computer skills. Good financial services agents are extremely customer friendly, self-motivated, team players, and have integrity. This last point is crucial because financial services agents usually are notary publics and even required by some state laws. The main purpose of the notary is to confirm the identity of the individual in the transaction. Financial services agents are not under any of the sales managers but are considered their own managers within the customer financial area.

Financial Transaction Process Flow

The financial services agent is the lynchpin between the Sales Departments and the Accounting Department and is a critical part of the process that both pays off floor plan loans to lenders for new vehicles and pays the dealership for the value of the sale. In addition, the financial services agent is responsible for submitting the required forms to state and local governmental agencies to record the transactions.

One of the job pressures on the financial services agent is the time it takes to complete a sales transaction with the customer. The quicker that an agent can complete the “paperwork”, the sooner the customer can get the keys to their “new” vehicle and drive off the lot. This point cannot be understated especially in light of the increased speed on the front end of the sales process cycle whereby a large majority of customers come to the dealership lot ready to purchase the vehicle they have researched online previously, and some have even located the specific vehicle they want in the dealership’s inventory. They may have reserved that vehicle already. Now comes the time it takes to complete all of the documentation accurately and have those discussions about potential after-market products.

At the beginning of the process, the salesperson often will obtain a preliminary set of information from the customer before taking a test drive so that the financial services agent can begin running a credit report on the customer. The salesperson will obtain the customer’s driver’s license, Social Security Number as a minimum. When the customer says “Yes” to the deal that has been negotiated, the salesperson will identify to the financial services agent the vehicle being purchased and the vehicle being sold to the dealership through the vehicle registration document. The financial services agent will pull the information of the vehicle to be purchased by the customer from the dealership’s DMS (Dealership Management System) and enter the vehicle being sold to the dealership from the Sales Manager or salesperson from the online system being used to appraise the value of the pre-owned vehicle.

Questions that need to be answered by the customer for the financial services agent are listed below. These can be asked by the salesperson, by the financial services agent, or have the customer fill out the form to give to the agent to begin processing the best financial arrangements for that specific customers’ circumstances.

1. Customer information: full name, SSN, address, etc.
2. How many miles are driven per year and how many years the customer anticipates owning the vehicle? (This provides clues to the agent on which after-market products to sell. For example, if they plan to drive past the manufacturer’s warranty period in terms

of years and miles, then the customer would be a good candidate for an extended service contract that begins when the manufacturer's warranty expires.)

3. Does the customer plan to have his/her vehicle serviced at the dealership?
4. Who called to verify the customer's vehicle being sold to the dealership?
5. What are the current monthly payment obligations the customer is making? (Remember that the financial services agent is acting as an indirect lender of the potential bank that will be financing the deal and must obtain the same information as if the customer was talking with a bank loan officer.)
6. Who filled out the credit application – the customer or the salesperson? (checking for potential inaccuracy in the communications process)
7. Did the customer bring documentation to verify the application data (e.g., monthly statements of income, monthly bill obligations, etc.)?

The financial services agent will go over the details of the credit application document with the customer to ensure that the information on the forms is accurate. If there are any inconsistencies discovered, the agent will clarify those with the customer. Part of the skill set required of an effective financial agent is "bedside manner" – asking personal questions in a friendly manner without offending. The final step is to determine which, if any, of the after-market products may be of interest to the customer. This step is required to arrive at a final purchase price that will be financed.

When the information has been completed and verified, the financial services agent will consult the listing of banks and captive lender (OEM financial company) to determine which of the organizations would accept this customer's credit status. If the customer has a high Beacon Credit Score, almost all lenders would be interested, and the agent can select the one or two with the best rates and terms for the customer to select. If the customer has a low Beacon Credit Score, the options for the customer may be limited or there may be a requirement on the part of the customer to invest more down payment or obtain a co-signer, etc. in order to close the deal. The financial services agent will submit the customer's credit information and often will receive offers within minutes from various lenders via either telephone or digitally that the loan has been accepted the loan outright or if there are conditions required of the customer to close the deal.

The agent will review those offers with the customer and assist him/her in selecting which offer would meet the customer's needs best.

Among recent documents required of financial agents are related to two issues – privacy and the war on terror. The Graham-Leech-Bliley Act specified that verification of the person making the transaction is the actual person to guard against identity theft. The method used is simply verifying with a photo ID and notarizing the signature on one of the forms. The other requirement under the Office of Foreign Asset Control is to verify that the potential customer's name does not appear on a federal government watch list. If there is a concern, the financial agent will ask the applicant questions that only the actual person would know. The agent would get those questions from the credit report (e.g., places that the actual person has lived, vehicles that the person has owned, etc.). There are programs like Route One and Dealer Track that can provide information on questions to be asked in order to comply with the regulations.

Once the financial arrangements are established, the financial services agent will begin producing the documentation that must be signed by the customer and the agent to complete the transaction and establish the contract. In previous days, all documentation was conducted via printed paper, a lengthy process with potential for many errors. Today, more dealerships are going digital in the documentation (e.g., Reynolds & Reynolds' DocuPad program). By using this program, the interaction time with the customer goes much quicker, there are fewer errors because the system checks for them and will not allow the transaction process to continue until a blank line is filled in or incorrect information on another line is corrected. The customer actually signs a pad with a plastic stylus. All documents are displayed on a monitor for both the financial services agent and the customer to read before signing.

The one area where digital documentation is not 100% is usually in the governmental documents required. Some states are transitioning to digital titles and license tag documentation, but many have not converted and still require a "wet signature" (ink on paper) with their documentation. When the last document is signed, the financial services agent has the package ready to submit to Accounting vs. having to separate various pages for each department to receive.

Important Factors to Remember

When all transactional documents have been completed, the financial services agent will contact the salesperson to come to the office and take the customer to his or her new vehicle. The agent will give the customer the document packet and send him/her off with a warm farewell. Now the time pressure is on the agent to get all documentation to the Accounting Department. Typically, the time frame to have the document package to Accounting is same day of the transaction. This occurs when there are no issues with the lending institution. When using DocuPad, the initial transaction package is immediately transferred to Accounting. What should be in the transaction package are (1) verification of insurance held by the customer, (2) evidence of lender approval, (3) all required documents signed properly by customer, and (4) any evidence required by the lending institution for stipulations ("Stips") to complete the deal (e.g., proof of income, verification of residency, etc.).

If there are stipulations before the loan transaction can be finalized, the dealership management must determine whether to permit the potential new owner drive off the lot with the purchased vehicle. This situation is called a "spot delivery". The risk is that something could require the customer return to the dealership with more documentation or a down payment to complete the stipulations from the lender. Dealerships rarely use the spot delivery unless confident that there will be no further stipulations, or they want to avoid the risk of losing the customer to another dealership if the vehicle is not allowed to leave the lot at the time of the sale. Often the dealership management will have the customer sign a Conditional Delivery Document stipulating that there may be a reason that requires the customer to return to the lot to renegotiate the contract or otherwise turn in the vehicle.

The primary interest in the financial services agent submitting the transaction documentation to Accounting correctly and in a timely manner is that the dealership is waiting to be paid. For new vehicles, the lending institution that financed the floor plan has been informed of the sale of the vehicle and expects to receive payment within a few business days. That payment will drain the cash level of the dealership, but the dealership will not be paid until the lending institution representing the customer pays for the transaction. The payment for the transaction will not be released until the lender has proof of the lien on the vehicle title from the state. For pre-owned vehicle sales, the steps are the same except that pre-owned vehicles in inventory were not financed by the dealership through local banks like new vehicles but were purchased with cash and the dealership has been waiting to be reimbursed. In addition, if the customer used his/her vehicle as part of the deal, payoff cash is needed from the customer's lending institution that financed the vehicle that is now being purchased by the dealership.

Qualifications to be a Financial Services Agent

Dealerships do more contracts in a month than most large law firms. Therefore, it is important for dealership management to have qualified individuals serving as independent financial services agents. Requirements for certification include the following "Must Haves":

- Sales experience (1 year is a preferred minimum) because of negotiating contracts/numbers
- Computer skills (DocuPad, extremely customer friendly and interactive)
- Management/leadership skills (self-motivated)
- The ability to be a team member
- Integrity
- Eligible to become a notary public as required by some state laws to confirm the identity of the person signing the official contract document
- Become AFIP (Association of Financial and Insurance Professionals) certified (know the laws in order to remain in compliance).

Dealership financial services agents work on their own and not under the sales manager. Instead, they serve as the manager or an indirect agent representing the various financial institutions available for consumer lending of the new and pre-owned vehicles sold by the dealership. With the introduction of digital financial processes, some of the stress on the financial services agent for accuracy has been relieved because the digital systems should detect any errors in the data being entered into the system. How long a financial services agent spends on each component of the sales closure process is monitored by the system. The ultimate goal is to be accurate but also fast so that the customer can drive off in the new vehicle as soon as possible.

A typical agent will handle approximately 70 transactions per month. Therefore, the Variable Operations Manager will need to hire the number of agents to handle the average monthly volume of both new and pre-owned vehicle sales. Sometimes agents in multi-dealership variable operations will float to other dealerships within the group to cover for vacations, etc. Typically, the financial services agents will stay within the same Manufacturer-branded stores (e.g., BMW) because Manufacturers like to have their captive financial sources as the primary loans selected by customers.

Legal Considerations

Because of past legal issues involved with the purchase of vehicles, various federal laws have been enacted, and it is the responsibility of the financial services agent to ensure compliance with those laws to prevent the dealership from becoming liable. One such law is the Graham-Leech-Bliley Act that focuses on safeguarding customer private information during the transaction. This includes ensuring that the person in front of the agent is the actual person he or she professes to be. Another regulation is from the Office of Foreign Asset Control (OFAC), which is applied when running a credit report to determine if the loan applicant is on a federal government watch list. If someone is suspected, the financial services agent will ask questions that the person would only know if it was him/her and not an imposter. The Route One or Dealer Track systems used by many dealerships actually can produce these questions from the customer's credit history for the agent to ask of the customer.

Functions of a Financial Services Agent

The two primary functions of a financial services agent are to sell finance (convert from a purchase contract to cash for the dealership) and to ensure legal compliance (keep the dealership out of legal trouble). The primary function of selling finance is to retrieve consumer credit bureau information in an effort to determine what financial terms can be obtained in the purchase of the new or pre-owned vehicle. The tools available to the agent derive from 3 possible credit reporting agencies: Equifax (usually the one for automotive vehicle deals), Experian, and TransUnion. If an applicant's request for credit is denied, an Adverse Action Notice will be produced for the agent to examine and see what other options may be available for the applicant (e.g., more down payment, a co-signer, etc.) to obtain credit. There are 4 tiers of customer credit status: A Tier (no stipulations are required), B Tier (possibly no stipulations are required but some effort needs to be taken to ensure that condition), C Tier (questionable credit and stipulations will be required), and D Tier (same as sub-prime loans where probably no credit will be extended even with a qualified co-signer).

There are situations where the financial services agent realizes that it will take more time for the lending institutions to provide the credit needed to complete the loan application. The customer is waiting to drive the newly-purchased vehicle off the lot. In these situations, an option sometimes used is called “a spot delivery” whereby the vehicle is delivered to the customer even though the deal is not finalized but the dealership feels mostly certain that something will be worked out. This may require the customer to return to the dealership and renegotiate financing if the original financing request is not accepted. It is sometimes better to use a spot delivery occasionally and go through the process of inviting the customer back rather than lose that customer to another dealership that is willing to do the deal conditionally. To proceed with a spot delivery, a Conditional Delivery Document is signed by the customer stating that there may be a reason to call them back in to renegotiate the deal or the dealership to take back the vehicle.

Another method for the dealership to earn money on the financing products is when the lending institutions provide a Finance Reserve to the dealership. This is achieved when the lending institution charges the dealership a lower rate (usually ¼ to ½ percentage point) than the rate being paid by the vehicle owner. While this may not appear to be a significant amount, when considering all of the financial deals each financial services agent writes in a year, the amount to the dealership could be in the millions of dollars. Even with the added percentage points to the loan amount, the dealership can still offer its customers a better annual percentage rate (APR) than the customer could get because of the volume of lending conducted by the dealership with the lending institutions annually. The one risk that the dealership has in taking the Finance Reserve is if the borrower closes the loan earlier than the original contract term. In those situations, the lender will issue a Charge Back to the dealership for the prorated amount of what the lending institution paid to the dealership but was not paid by the customer over the life of the loan.

Dealerships can avoid Charge Backs if they are willing to accept only partial payment at the beginning of the loan (usually accepting 70-80% of the Finance Reserve amount). If the loan is not prematurely terminated within 90 days, the lending institution will not issue a Charge Back later to the dealership if the customer were to pay off or default on the loan earlier than the maturity date of the loan. The goal of dealerships is to earn profit primarily through product sales but typically the Finance Reserve component contributes to half of the profits earned in the Financial Services office.

In addition to selling finance and ensuring legal compliance, the agent has the opportunity to sell After-Market products. Because the agent is working with the potential vehicle owner in the last stage of the selling cycle, now is the opportunity to offer the customer additional protection of the new investment the customer is making in the automotive vehicle. Examples of After-Market Products are (a) extended service agreements (extending the Manufacturer's original factory warranties on repairs for a set number of years and mileage), (b) service maintenance programs (oil changes), (c) paint and/or dent repair, and (d) wheel and tire protection (road hazard insurance). A popular After-Market Product for the more expensive vehicles is GAP (Guaranteed Asset Protection) Insurance. GAP Insurance covers vehicles that have been totaled in an accident where more is owed on the vehicle to the financial lending organization than the vehicle is valued in the appraisal. GAP Insurance pays off the difference of what is owed to the lending institution. GAP insurance is included in all leases to protect the lease company on its asset.

Another popular After-Market products is the Extended Service policy. Dealerships cannot offer Extended Warranty policies because warranties come from manufacturers only. The average length of time that customers keep their vehicles today is 71 months (almost 6 years). Extended Service policies can be considered selling "Peace of Mind" to avoid unexpected major repairs after the Manufacturer's original warranty expires. Extended Service policies for new vehicles covers repairs on mechanical parts for the number of years and miles stipulated by the policy purchased by the customer. The extended service coverage begins when the manufacturer's warranty stops paying. Some customers may negotiate for different terms like lower years but more mileage (7 years / 120,000 miles) depending on the customer's driving patterns.

Pre-owned vehicle extended service policies also can be offered as an After-Market sale. These policies begin on the in-service date (when the vehicle is purchased) vs. after the manufacturer warranty expires for new vehicles although, if the warranty period has not expired, the extended service policy can be written in a similar way as the new vehicle policy. Extended Service policies are not written on vehicles beyond 80,000– 100,000 miles depending on guidelines held by the dealership. The dealership may offer a brief 12-month – 12,000-mile policy on just the powertrain as an alternate policy to provide “peace of mind” for the customer. Exclusions of the Extended-Service policies are wear-and-tear items, accident-caused items, cracked windshields, rubber strips that wear out, etc. Those should be covered by the insurance company.

CHAPTER 3 ASSIGNMENT:
Written Report 1 (Module 3): Finance & Insurance (F&I) Case

OVERVIEW: You are the F&I agent for a dealership. You will complete the following calculations based on the information that you are given. Place the calculations on the appropriate line of the Deal Structure Worksheet that is provided as a separate document. In addition, you will answer the following questions about the functions of the F&I agent within the dealership. The written report must contain a minimum of 500 words and is worth 100 points. A grading rubric is provided for the written reports. You will submit Report 1 in its designated SafeAssign link under Assignments for Module 3.

INSTRUCTIONS:
1. Describe the functions and process steps of the F&I agent in working with the sales person prior to the customer meeting (Chapter 3).
2. Describe the administrative functions of the F&I agent with the customer (Chapter 3).
3. Describe the opportunities the F&I agent has to sell after-market products and services (Chap 3).
4. Describe the functions of the F&I agent with the Accounting Department of the dealership (Chapter 3).

Submit Written Report 1 by 11:59 p.m. (ET) on Monday of Week 3.

Financial Services Exercise Instructions

In this exercise, you will review the first case study of a prospective vehicle customer (Tracy Truman) who needs financing. Then you will review the information provided for two more customers (Terry M. Smith and Pat E. Jones) and answer the questions provided in the Worksheet for this assignment. You will need to download the Microsoft Word document for the Worksheet to submit your answers and then post the completed document to the link provided in Module 3 Assignments on Blackboard.

SCENARIO #1: Example

Customer Name: Tracy Truman
Trade-In Car: 2008 Ford Taurus, 2Dr, White, Mileage: 77,050, Payoff: Ford Motor Credit, $9,738.08
Car to be Purchased: 2018 Ford Fusion, Black, Mileage: 10

Invoice Price:	$25,589.00
Allowance:	$ 6,886.00
Net Difference:	$18,703.00
DMV Fees:	$ 75.00
Document Fees:	$ 150.00
6% Sales Tax:	$ 1,122.18
Total Price:	$20,050.18
Pay-Off Balance:	$ 9,738.08
Sub Total:	$29,788.26
Less Deposit of:	$ 1,000.00
Unpaid Balance:	$28,788.26

<u>Credit Application Information:</u>
Monthly Rental Housing @ $850 for past 2 years
Occupation: County Bus Driver for past 3 years with current annual salary of $48,500
Credit Cards:

Visa: balance of $1,200
American Express: balance of $359
Mastercard: balance of $4,000
Sears: balance of 3,200

<u>Credit Report Data Summary:</u>
Real Estate: 1 account, $0 balance, $850 monthly payments
Installment: 1 account, $9,738 balance, $423 monthly payments
Revolving: 3 accounts, $8,619 balance, $240 monthly payments
Other: 2 accounts, $1,098 balance, $348 monthly payments
TOTAL: 7 accounts, $19,455 balance, $1,861 monthly payments

BEACON SCORE: 520

<u>Credit Details:</u>
QVC, Ind., 2yrs, High: $2,000, Pymt: $75, Bal: $1,278, MOP: R-9, COLL, 30d: 1x, 60d: 1x, 90d: 2x
EMERGI-MD, Joint, 8mos, High: $750, Pymt: N/A, Bal: $750, MOP: O-9, COLL, 30d: 1x, 60d: 0x, 90d: 0x
Sears, Ind., 4yrs, High: $3,200, Pymt: $75, Bal: $3,213, MOP: R-3, DEL, 30d: 2x, 60d: 1x, 90d: 3x
Mastercard, Ind., 3yrs, High: $4,000, Pymt: $90, Bal: $4,128, MOP: R-9, COLL, 30d: 6x, 60d: 3x, 90d: 4x
Ford Motor Credit, Joint, 4yrs, High: $20,050, Pymt: $423, MOP: I-3, CURR, 30d: 0x, 60d: 0x, 90d: 0x
AMEX, Ind., 5yrs, High: N/A, Pymt: $348, Bal: $348, MOP: O-1, CURR, 30d: 0x, 60d: 0x, 90d: 0x

<u>NOTES:</u>
BEACON SCORE Ranges: 550 & Below (BAD), 551-649 (POOR), 650-699 (FAIR), 700-749 (GOOD), 750+ (EXCELLENT)
Ind. = Individual Account
MOP = Method of Payment (R=Revolving, I=Installment, O=Other)
Status: COLL=turned over to Collection Agency; DEL=Delinquent; CURR=Current; CLSD=Closed

The following Deal Structure Worksheet is used to build a profile for the banks to consider in terms of whether or not they will extend credit to the applicant.

<u>112.5%</u> LTV Loan to Value (Amount Financed divided by Invoice Price) or (Unpaid Balance / Invoice)
<u>11.87%</u> PTI Payment to Income (Monthly Payments divided by Monthly Income)

[Note: Assume 60-mo @ 0% APR]
<u>47.46%</u> DTI Debt to Income (Total of Monthly Obligations divided by Monthly Income)
[Note: Remove old car payment of $423 and add new car payment of $480 (rounded) first.]
<u>$4042</u> BUYER'S MONTHLY SALARY
<u>3 yrs.</u> JOB TIME (TOTAL TIME IN CURRENT OCCUPATION)
<u>520</u> BUYER'S BEACON SCORE
___<u>6</u>__ NUMBER OF ACCOUNTS____<u>3</u>___ # OF POSITIVE ACCOUNTS (*Not in Collections*)
___<u>48</u>_ CAR CREDIT (in months)
<u>$30,000</u> HIGH CREDIT (Total of High Dollars in Profile)

There are five banks available to lend credit to the buyers of your dealership's vehicles. Each bank is listed below with their requirements to qualify and the amounts they would lend.

Bank Name	Max LTV	Max PTI	Max DTI	Min BEACON	Max Term
A-B-C	130%	20%	45%	640	75mos
D-E-F	135%	20%	<740=65%, >740=80%	620	84mos
G-H-I	175%	20%	50%	500	84mos
J-K-L	140%	20%	65%	No Minimum	72mos
M-N-O	150%	18%	50%	580	75mos

Which banks would approve the loan for Tracy Truman where all criteria are met?

A-B-C: YES: _____ NO: __X___ (DTI and BEACON)
D-E-F: YES: _____ NO: __X___ (BEACON only)
G-H-I: YES: __X___ NO: _____
J-K-L: YES: __X___ NO: _____
M-N-O: YES: _____ NO: __X___ (BEACON only)

If Tracy wanted a longer-term loan, she would select G-H-I. The one item not mentioned is the APR, which would be higher with the two banks accepting lower BEACON Scores.

<u>SCENARIO #2:</u>
Customer Name: Terry M. Smith
Trade-In Car: 2008 Toyota Camry, 4Dr, Silver, Mileage: 67,987, Payoff: Toyota Motor Credit, $9,597
Car to be Purchased: 2018 Hyundai Santa Fe, Red, Mileage: 26,863

Invoice Price:	$24,125.00
Allowance:	$ 6,200.00
Net Difference:	$17,925.00
DMV Fees:	$ 75.00
Document Fees:	$ 150.00
6% Sales Tax:	$ 1,075.50
Total Price:	$19,225.50

Pay-Off Balance: $ 9,597.00
Sub Total: $28,822.50
Less Deposit of: $ 3,000.00
Unpaid Balance: $25,822.50

Credit Application Information:
Monthly Rental Housing @ $718for past 7 months
Occupation: Maintenance Technician for past 6 years, 3 months with current annual salary of $52,600
Credit Cards:
Visa: balance of $6,230
American Express: balance of $1,601
Mastercard: balance of $2,000
Credit Report Data Summary:
Real Estate: 1 account, $0 balance, $716 monthly payments
Installment: 1 account, $5,597 balance, $423 monthly payments
Revolving: 3 accounts, $5,032 balance, $350 monthly payments
Other: 2 accounts, $1,153 balance, $148 monthly payments
TOTAL: 7 accounts, $11,752 balance, $1,637 monthly payments

BEACON SCORE: 650

Credit Details:
World TV, Ind., 6yrs, High: $2,000, Pymt: N/A, Bal: $1,278, MOP: R-9, COLL, 30d: 1x, 60d: 1x, 90d: 2x
Furniture Co., Joint, 8mos, High: $1,153, Pymt: N/A, Bal: $1,153, MOP: O-9, COLL, no payments
Toyota Credit, 4yrs, High: $20,050, Pymt: $423, Bal: $5,597, MOP: I-3, DEL, 30d: 4x, 60d: 0x, 90d: 0x
Mastercard, Ind., 3yrs, High: $6,000, Pymt: $200, Bal: $0, MOP: R-1 CURR, 30d: 2x, 60d: 1x, 90d: 0x
Citibank Visa, Ind., 4yrs, High: $5,000, Pymt: $150, Bal: $3,754, MOP: R-1, CURR, 30d: 0x, 60d: 0x, 90d: 0x
AMEX, Ind., 5yrs, High: N/A, Pymt: $148, Bal: $1,669, MOP: O-1, CURR, 30d: 0x, 60d: 0x, 90d: 0x

NOTES:
BEACON SCORE Ranges: 550 & Below (BAD), 551-649 (POOR), 650-699 (FAIR), 700-749 (GOOD), 750+ (EXCELLENT)
Ind. = Individual Account
MOP = Method of Payment (R=Revolving, I=Installment, O=Other)
Status: COLL=turned over to Collection Agency; DEL=Delinquent; CURR=Current; CLSD=Closed

SCENARIO #3:
Customer Name: Pat E. Jones

Trade-In Car: 2009 Dodge Stratus, 4Dr, White, Mileage: 62,698, Payoff: None
Car to be Purchased: 2018 Toyota Sequoia, Beige, Mileage: 10

Invoice Price:	$40,892.00
Allowance:	$ 7,000.00
Net Difference:	$33,892.00
DMV Fees:	$ 75.00
Document Fees:	$ 150.00
6% Sales Tax:	$ 2,046.02
Total Price:	$36,164.02
Pay-Off Balance:	$ 0.00
Sub Total:	$36,164.02
Less Deposit of:	$10,000.00
Unpaid Balance:	$26,164.02

Credit Application Information:

Monthly House Payment @ $2,716 for past 8 years
Occupation: Sales & Marketing VP for past 6 years and 3 months with current annual salary of $285,000
Credit Cards:

- Visa: balance of $3,754
- American Express: balance of $1,669
- Mastercard: balance of $1,000

Credit Report Data Summary:

Real Estate: 1 account, $339,000 balance, $2,716 monthly payments
Installment: 0 accounts, $0 balance, $0 monthly payments
Revolving: 3 accounts, $6,423 balance, $373 monthly payments
Other: 0 accounts, $0 balance, $0 monthly payments
TOTAL: 4 accounts, $345,423 balance, $3,089 monthly payments

BEACON SCORE: 765

Credit Details:

Citibank Visa, Ind., 4yrs, High: $5,000, Pymt: $150, Bal: $3,754, MOP: R-1, CURR, 30d: 2x, 60d: 0x, 90d: 0x
Wells Fargo Mortgage, Joint, 8yrs, High: $300,000, Pymt: $2,716, Bal: $258,000, MOP: I-1, CURR, 30d: 0x, 60d: 0x, 90d: 0x
Chrysler Credit, Ind., 4yrs, High: $16,800, Pymt: $358, Bal: $0, MOP: I-1, CLSD, 30d: 0x, 60d: 0x, 90d: 0x
Fifth Third, Ind., 3yrs, High: $6,000, Pymt: $200, Bal: $0, MOP: R-1, CLSD, 30d: 0x, 60d: 0x, 90d: 0x
Macy’s, Ind., 6yrs, High: $4,000, Pymt: $75, Bal: $1,000, MOP: R-1, CURR, 30d: 0x, 60d: 0x, 90d: 0x
AMEX, Ind., 5yrs, High: N/A, Pymt: $148, Bal: $1,669, MOP: R-1, CURR, 30d: 0x, 60d: 0x, 90d: 0x

NOTES:

BEACON SCORE Ranges: 550 & Below (BAD), 551-649 (POOR), 650-699 (FAIR), 700-749 (GOOD), 750+ (EXCELLENT)
Ind. = Individual Account
MOP = Method of Payment (R=Revolving, I=Installment, O=Other)
Status: COLL=turned over to Collection Agency; DEL=Delinquent; CURR=Current; CLSD=Closed

CHAPTER 4: NEW VEHICLE SALES DEPARTMENT

Overview

When one thinks of an automotive dealership, the first thought usually goes to the vehicle inventory sitting on the front of the dealership lot – those shiny vehicles with balloons attached or the large signs on the side of them announcing the great deals available right now. Without the current automotive manufacturer franchise contracts in the country, that dealership would only be selling pre-owned vehicles. For now, the only place where consumers can purchase new automotive vehicles is from a franchised dealership. An exception exists with Tesla, as a manufacturer, that has set up its own managed dealership lots but only in states that have allowed this exception to the standard industry setup. In other words, the primary reason for the existence of these Manufacturer-branded dealership lots is to sell new vehicles for the brand. Every other department in the dealership is in support of the New Vehicle Sales Department. Interestingly, the New Vehicle Sales Department is probably the least profitable department in the dealership.

In most dealerships, Fixed Operations provide the basic financial support to keep the dealership open for business regardless of what is happening in the sales cycle. Any profits generated from Variable Operations should provide surplus above the costs of running the dealership. Part of the term used as Variable Operations derives from the concept that consumers will purchase a vehicle only occasionally but maintain and repair the vehicle on a fixed schedule. In fact, the current average Product Cadence of time when consumers are trading in their current vehicles and purchasing a different vehicle is 4-6 years. This Product Cadence of 4-6 years is used by manufacturers in their schedule to introduce new models that will encourage an increase in sales. For those years in between a complete model upgrade, the manufacturers will make some minor adjustments in style and function to entice consumer interest. Consumers like new things. The main reason behind this cadence principle vs. coming out with a new model each year involves the tremendous cost of retooling the manufacturer’s assembly line whenever new models are introduced.

Because of this dynamic, it is incumbent upon manufacturers to learn what consumers will want six years from now. At the time of this writing, several domestic manufacturers have announced that they will discontinue producing sedans in the future because the market demand is moving more toward trucks, vans, SUVs, CUVs (Compact Utility Vehicles, etc. The market in

2017 for new vehicles was 17.5 million vehicles with only 34% sedans, and the other 66% in light trucks (vans, SUVs, CUVs, trucks, etc.). The Ford Motor Company, for example, announced that it would only be making the Ford Mustang in the car category going forward.

Within a typical production year, manufacturers know that the supply of new vehicles needs to be higher in the winter months as yearend sales attribute to a significant number of annual sales. Though the supply is needed to be distributed more rapidly during the winter months, the manufacturer usually produces at the same rate to keep costs down by avoiding – work shifts paying overtime, extra payments made to suppliers for rush shipments of parts, incentives for dealerships to take on more inventory, etc. Typically, the lag time between current production levels and making an adjustment of the commitment to suppliers is 90-120 days. At the same time, if new vehicles are not moving off dealership lots because of sales, the supply chain begins to clog and can affect the slowing down of the production assembly line. In these situations, Manufacturers will park the excess inventory of vehicles in a leased storage lot somewhere near its supply points. A recent example of an interruption in the supply chain was when the Takada airbags needed to be replaced because of safety issues. No new vehicles could be produced until the airbag problem was resolved.

Other considerations for manufacturers in their determination of where to set up production facilities include the following items:

- Tax incentives offered by local, state, and/or national governmental organizations.
- Availability of the needed skill sets among local citizens
- Low potential for organized labor relations issues that could disrupt the production based on contract negotiations
- Costs of the Supply Chain – Inbound from parts suppliers and Outbound distribution to the dealerships
- Stability of the government where the factory is located
- Regulatory restrictions by local governments
- Governmental-imposed tariffs for importing vehicles to the market
- Potential for natural disasters – tsunamis in Japan, flooding in Thailand etc.
- Currency exchange rates – decision involving producing outside of the sales market area

- Willingness of parts suppliers to locate within 150 miles of the assembly plant to provide Just-In-Time inventory replenishment – Manufacturers usually store parts supplies of 2-3 days from its vendors

New Vehicle Sales Process

The new vehicle sales process begins 90-120 days prior to the vehicle being ready to be sold when the dealership determines the number of vehicle models, trims, colors and accessories it knows it can sell. The manufacturer representative will review the sales history of the dealership in terms of the "travel rate" (the rate at which the franchised dealership has sold specific models of vehicles in the past). From that information, the manufacturer will send the dealership General Manager a report telling the dealership what additional model inventory it has earned and what vehicle models with colors, trim, and accessories will be included in the vehicles to be ordered. These ordered vehicles will not arrive for 30 days to 4 months depending on the location of the production plant in relationship to the location of the market.

The dealership has the option of declining vehicles on the authorization report but incurs some risks in doing so because of the need to remain in good standing with the manufacturer. Dealerships in good standing with the manufacturer get higher priority in the delivery of the "hot vehicles" in the market. Dealerships that are not in good standing may receive only a partial fulfillment of orders placed because manufacturers want to place their inventory where the vehicles have a better chance of being sold quickly. Sometimes, to remain in good standing, means that the dealership may have to accept some models that are not selling well and then figuring out how to find a buyer somewhere for them, even another dealership in trade.

Other requirements set by Manufacturers on franchised dealerships, in addition to New Vehicle inventory levels, include:

- Minimum Working Capital levels to pay the dealership bills on time
- Facility Requirements (minimum land size and building square footage) – a rural store needs less land and building than a metro store due to potential volume differences
- Similar store façade and store layouts among all franchised stores of the same manufacturer brand so traveling customers recognize the brand from its familiar surroundings

- Accounting Standards within the monthly financial statements passed on from dealership to the manufacturer – using standard account codes recognized by the manufacturer among all of its franchised dealerships
- Ownership at the key manager levels, specifically the General Manager and sometimes the managers reporting to the GM – persons being considered for placement in these positions must be approved by the manufacturer based on personal resources, experience, character, etc.

The dealership will place the order with the manufacturer for the vehicles it needs. When the manufacturer receives the order, it will compare what is being ordered with the current production schedule to see if there are any gaps where fewer units are being produced than listed on the order. Dealerships will receive reports from the manufacturer on the order status (paperwork approval), the pre-manufacturing status (when the vehicles are scheduled to begin on the assembly line), the build status while in production, the completed build status, and the shipping status. Once the vehicle has cleared quality control at the factory, it is stored on the manufacturer's storage lot and prepared for transportation to the local railhead near the manufacturer's assembly plant. The typical shipping method is to start on a railhead to a regional location where the vehicles are transferred from railroad car to a carrier truck. Vehicles built within the continental United States take from 12-28 days to ship from manufacturer to the dealership. Vehicles built outside the country could take twice the amount of time plus the shipping costs are higher. The decision made by the manufacturer of where to produce the vehicles primarily depends on proximity to the largest markets where the vehicles ultimately will be sold and can be produced at the lowest costs.

New Vehicle Arrival on Dealership Lot

The dealership should know when a shipment of new vehicles is scheduled to arrive at the dealership lot based on the reports published by the manufacturer. The dealership will designate an employee to receive the shipment. This process involves a walk-around inspection to ensure there were no physical damages incurred in transit. Items to be inspected on the exterior of the vehicle include general appearance of the vehicle, door tolerance, fenders, trunk lids, seat gaps. Then the receiving employee will inspect the interior of the vehicle to include the dashboard, seat positions, and will drive the vehicle for one-quarter to one-half mile to determine if there are any drivability issues. If all areas pass inspection, the employee will accept the vehicle on a form to be sent to the manufacturer and the vehicle is moved to a parking space on the dealership lot. At some point within the first few days in inventory, a dealership Master Service Technician will connect the new vehicle to a diagnostic test to ensure that there are no hidden issues within the vehicle. This diagnostic test may occur sooner if there is an interested buyer before that test can be run by the Service Department. In this situation, the test will occur as part of the vehicle preparation steps at the time of sale.

It is a rare occurrence that a vehicle is delivered with manufacturing defects. The Manufacturer has a Quality Control function at the end of the assembly line in the production plant. Approximately 10% of the approximately 1,500 vehicles produced per day will have some detected defects in the Quality Control inspection. These vehicles that did not pass the QC inspection are sent to the "hospital" for service technicians at the assembly plant to repair the defects prior to shipment. Dealerships are not informed of those vehicles that required additional repairs by the manufacturer because no vehicle leaves the assembly plant that does not eventually pass the same Quality Control standards.

One of the first steps performed on the new vehicle placed into the dealership inventory is to have the vehicle washed and digital photographs taken of the exterior and interior of the vehicle from many different angles. A vehicle profile is developed with the listed specifications of the vehicle and the photos that were taken. The vehicle profile will be posted on the dealership's website and on various national websites (e.g., AutoTrader.com) so that potential buyers can be notified of its existence on the dealership lot. The goal is to complete these preparatory steps within the first two days the vehicle is received into inventory.

There are many occasions when the potential buyer is interested in a specific vehicle model, color, with specific accessories that is not available on the local dealership's lot. Today, this occurs often because over 90% of customers in the market for purchasing a new vehicle begin their research on the Internet and know specifically what they want. Obtaining the requested vehicle at the local dealership obviously does not go through the manufacturer because of the length of time involved in the ordering, assembling, and shipping of new vehicles not. Therefore, Retailer-to-Retailer Transfers are used. Because dealership vehicle inventories are posted on the Internet, the local salesperson can locate the exact vehicle with requested specifications somewhere in the franchised dealership network.

Once the desired vehicle is located, the salesperson will call the dealership that has the vehicle in its inventory and negotiate a trade or purchase of the vehicle. It may be that the local dealership has a vehicle that the remote dealership knows it can sell in its market so a trade would be in order. Otherwise, the local dealership will just purchase the desired vehicle from the other dealership and usually pay for it by having the remote dealership notify its floor plan lender to transfer the loan to the buying dealership floor plan lender. Included on all vehicle invoices from the manufacturers are all charges in terms of hold backs or debits and credits for each vehicle. If the vehicles being traded are equal in value, then the vehicle swap takes place. If the two vehicles are not equal in value, then the difference in cash value will be written in the form of a check from the dealership receiving a vehicle of greater value to balance the deal.

New Vehicle Inventory Management Strategies

In this section, the concepts of inventory management of new vehicles are discussed. The decisions of acquiring the vehicle inventory have been stated in the previous section but not how to manage the inventory on hand. The primary difference between new vehicles and pre-owned vehicles in determining which vehicles need to be sold first is the concept of depreciation. New vehicles technically do not depreciate regardless of how long they sit on the dealership lot. On the other hand, pre-owned vehicles depreciate significantly on a daily basis based on market value perceptions. The other significant difference between new and pre-owned vehicles is that new vehicles are floor-planned for the first 45 days and pre-owned vehicle inventory is paid for in cash by the dealership. This means that managing pre-owned inventory requires a higher skill set to manage effectively than new vehicle inventory to avoid impacts of negative cash flow on the dealership.

Before beginning the discussion, it should be noted that the sales strategy is to sell any vehicle, new or pre-owned, as soon as possible when there is an interested buyer. Beyond that basic principle, there are situations that require prioritization of when vehicles in inventory should be sold. For example, selling the new vehicle as soon as possible (First-In-First-Out or FIFO) is a good strategy because the dealership has the potential to “pocket” any additional floor plan interest incentive from the manufacturer not required in the payoff of the floor plan loan.

This discussion concentrates on decisions by the New Sales Manager to make better deals for moving inventory that is in danger of costing the dealership financially.

If there were to be an inventory management priority, it would be Last-In-First-Out (LIFO). Those new vehicles on the dealership lot that are approaching 45 days in inventory will be running out of financing terms with the floor plan lender (a local bank) and the note for the new vehicle will come due requiring the dealership to pay back the floor plan loan in full and in cash. A new vehicle goes onto a floor plan when the dealership receives the invoice from the manufacturer (when the car leaves the last facility before it arrives at the dealership). This typically is 2-3 days before the vehicle arrives at the dealership lot (it could be up to a week). The vehicle is accruing daily interest during those last shipment dates before the vehicle arrives at the dealership lot and until it is sold. Manufacturers often provide incentives that cover the first 30 days of floor plan interest, some may even offer the full 45 days of interest. If the floor plan note becomes due, the dealership must pay the lender in full plus accrued interest for the new vehicle. This is a drain on the cash reserves of the dealership and now the new vehicle is in the same category as a pre-owned vehicle in terms of frozen cash assets of the dealership except often more expensive than pre-owned vehicles.

Other issues that arise with aging new-vehicle inventory is that salespeople often begin to ignore the older vehicles in inventory that have not sold or attracted interest from potential buyers. Salespeople will often walk right by the aging vehicle because of the over-familiarity with its existence on the lot. To offset this phenomenon, dealerships often rotate the inventory to different parking spaces both to generate more awareness among customers and salespersons. Vehicles that sit on dealership lots for a length of time begin to have other issues: getting dirty, batteries on pre-owned vehicles needing to be recharged, doors experiencing nicks and dings, etc. The “nicks and dings” aspect is a problem because new vehicles are not expected to have them and thus can affect negatively on the price that can be charged for the new vehicle. If there are two vehicles of the same model but from two model years sitting on the lot, there are two price points involved. The goal for the New Vehicle Sales Manager would be to move the older model first and eventually remove the two-price point issue on the lot. In some large dealerships, there are specialized inventory managers whose sole function is to manage both new and pre-owned vehicle inventories.

Considerations of how many vehicles to include in the inventory stocking levels are determined by (a) average number of vehicles sold daily, (b) the amount of investment in cash, (c) average profitability of the inventory, and (d) season of the year. The average number of vehicles sold daily is derived from historical sales reports for the past 30, 60, and 90 days, and is combined with the forecasted sales numbers for the next 30 days. A major adjustment in the forecasted number would be the time of year that occurs in the next 30 days. For example, the last week of December for many dealerships is equivalent to the best months in sales during the other times of the year. Other examples of unusually high sales periods would be at the change of model years and when the Manufacturer holds annual sales promotions. Running out of inventory to sell is a problem to be avoided at all costs.

Inventory units sold is often measured in Core Inventory (those vehicles from which the majority of sales for the dealership occur historically). Inventory Mix is measured on how many units of each model are in the dealership's inventory. From the manufacturer's perspective, Inventory Mix is not as important as the raw numbers of units sold because bragging rights among manufacturers are about market share (who sold the most vehicles). They would prefer more vehicles sold at $25,000 price tags than fewer vehicles sold at $75,000 price tags.

Dealerships, on the other hand, need to be concerned about the potential profitability of the vehicles sold. For example, dealerships in rural areas need to have an ample supply of trucks in inventory because of the local demand for those vehicles and because trucks generally bring higher profit margins on new vehicle sales than cars. Another concern is the amount of cash invested in the inventory. It is common for up to $2.5 million in cash to be tied up in both new and pre-owned vehicle inventory. A valuable report available to sales managers to monitor inventory value is the "Water Report" that determines which vehicles in the inventory are in a negative equity position (more is invested by the dealership on the vehicle than will be recovered when the vehicle is sold) and ultimately whether the right inventory for the dealership is sitting on the lot or not. A dealership wants to avoid the condition of "being underwater" (or having too much water on the lot) when it comes to the vehicle inventory.

A key report used by Sales Managers to forecast vehicle sales in their market areas is the SAAR (Seasonally Adjusted Annual Rate) of Vehicle Sales forecasting the number of estimated number of vehicles to be sold in the current year – month by month adjusted. For example, the

2017 SAAR forecasted 17.1 – 17.2 million vehicles to be sold in the USA, which is a rather flat number from previous years. In addition, the forecast was for profit margins to be down due to lower prices needed to make the sales. One factor that caused 2017 forecasts to be exceeded was the natural disasters that occurred in 2017 requiring replacement vehicles for owners who suffered major damages. A forecasted shift, as reported in the recent SAAR, is occurring with the significant population increase in the younger than 35 age group as a portion of the entire population. Younger buyers tend to purchase more affordable vehicles in the early stages of their lives.

Financials of New Vehicle Sales

As mentioned previously, new vehicles are financed on short-term loans called floor plans and pre-owned vehicles are paid for in cash. A major business principle that explains this phenomenon is that assets (like pre-owned vehicles) that have a depreciating value are not financed. New vehicles, on the other hand, are not depreciating and have a high potential of being sold prior to the floor plan loan being due to the lender. When a new vehicle is sold, the bank requires full payment of the floor plan loan within a few days. When the dealership does not have the cash to pay off the loan (for example, because of too many sales recently that have not been finalized in payments to the dealership), the situation is called “Out of Trust”. Dealerships want to avoid having Out-of-Trust situations because, if it happens too often, the lender has the authority under federal banking regulations to come in and take over handling the financial payments of their collateral assets on site at the dealership. The last thing that a dealership wants it customers to experience from a long-term-relationship basis is a bank on site handling the financial arrangements for each deal.

The condition where a sales contract has been signed and the floor plan loan has been paid off, but the dealership has not been paid yet is called “Contracts-In-Transit”. Reasons for the delay in the dealership being paid could be problems with titling the vehicle or delays in being paid by the financial organization that is financing the purchaser’s loan. Though vehicle purchasers are free to acquire their own personal financing of the vehicles, usually the dealership controls 75-80% of financing because it can get better rates than individual purchasers can get on their own. The standard used to determine current interest rates is the LIBOR (London Interbank Overnight Rates). One percentage point in interest rates is equal to 100 LIBOR points. Floor

Plan rates are usually based on LIBOR rates plus a contracted rate above LIBOR (e.g., one-half percent). Dealerships will negotiate rates with banks and use those banks where even a quarter point difference is offered. When a large dealership group like Hendrick Automotive is selling cars in the billions of dollars annually, a quarter point can result in savings multi-millions of dollars annually.

New Vehicle Sales Incentives

The discussion in this section focuses on what manufacturers and dealerships offer to incentivize potential purchasers to buy now vs. later. The manufacturers offer Pull and Push incentives. Pull options are Customer-oriented (or “hood money”). These consist of lower Annual Percentage Rates for financing, cash back (rebates), major discounts on vehicles and/or accessory packages. When given the option of cash back or taking a lower interest rate, the customer should always take the cash and reduce the payoff of the principle of the loan if the customer expects to sell or trade the vehicle before the maturity date of the loan. Otherwise, the customer does not benefit fully from taking the reduced interest rates if the loan does not go to full term. The majority of customers use the cash back for applying to the loan vs. walking out of the dealership with a check in hand. Sometimes Manufacturers offer 0% financing, which is a significant incentive to sell vehicles, but the same principle applies that, if the vehicle is sold or traded before the loan term ends, the cash back would have been a better offer.

The dealerships do not receive any benefit from manufacturer’s Pull incentives for customers except for the increased number of vehicles sold. The manufacturer Push incentives (or “trunk money”) do benefit the dealerships directly. These consist of cash bonuses paid to dealerships for selling volume over the established goals, cooperative advertising (dollar-for-dollar match for targeted ads), stretch incentives on selling specific models, upgrades to the dealership’s facilities, and providing additional desired inventory to sell. Manufacturer representatives visit franchised dealerships within their region often and are asking dealerships to take more of the manufacturer inventory sitting in storage lots near the assembly plant. Some of the Push incentives provided by the manufacturer to the dealership are provided “below-the-line” meaning that automotive consumer publications are not aware of them and thus cannot publish them. When consumers are unaware of the additional incentives provided to the dealership by the manufacturer, the dealerships are not at a disadvantage when negotiating the final price of the vehicle.

The amount of Push incentives provided by manufacturers annually can reach billions of dollars, and dealerships build in these annual incentives to their annual forecasts of profits. Another Push incentive offered are bonuses (SPIFF) paid directly to sales personnel and/or sales managers for exemplary sales volume and for participating in manufacturer-sponsored training. There are recognition awards (Pinnacle Award, for example) where the top 10% of franchised dealerships within the brand receive a special all-expense paid trip for the qualified employee and a guest. Most rewards in the automotive industry include both cash money and recognition awards. There are conditions in which manufacturer incentives may be withheld: low Customer Satisfaction Index scores, low volumes of sales, etc. It behooves the dealership sales management team to ensure that relationships with the franchised manufacturer remain healthy.

CHAPTER 4 ASSIGNMENT:
Written Report 2 (Module 4): New Vehicle Sales

OVERVIEW: You are the New Vehicle Sales Department Manager in an automotive dealership. You will answer the following questions about the functions of the New Vehicle Sales Department within the dealership. The written report must contain a minimum of 500 words and is worth 100 points. A grading rubric is provided for the written reports. You will submit Written Report 2 in its designated SafeAssign link under Assignments for Module 4.

INSTRUCTIONS:

1. Describe the relationship with the manufacturer for key success factors in new vehicle sales of a dealership (Chapter 4).
2. Describe the process of obtaining new vehicles in inventory from the manufacturer's assembly line to the dealership lot (Chapter 4).
3. How are the new vehicles financed? Please explain the process of funding from the moment the vehicle is ordered until the sales contract is closed (Chapter 4).
4. What are the ways that a dealership can lose profit on the sale price to the new vehicle customer and still make a profit overall (Chapter 4)?
5. What options are available if the dealership does not have the specific vehicle in inventory that is being requested by the customer (Chapter 4)?

Submit Written Report 2 by 11:59 p.m. (ET) on Monday of Week 4.

CHAPTER 5: PRE-OWNED VEHICLE SALES DEPARTMENT

Overview

One may wonder why a separate chapter is needed in this handbook for the Pre-Owned Sales Department because, after all, what can be so different between New and Pre-Owned Sales? Actually, though both departments involve most of the same processes of selling and the same responsibilities for the financial services agent, what is being sold varies greatly. Some distinctions have been made in the previous chapter about floor plan lending for new vehicles vs. the dealership paying cash for pre-owned vehicles. There are more differences that need to be established in this chapter: (a) comparisons between new and used vehicle sales processes, (b) determinations of whether to sell trade-in vehicles at retail or wholesale, (c) process of selling and buying at auctions, (d) pre-owned vehicle value assessment, (e) competitors in pre-owned vehicle sales, and (f) the reconditioning process to prepare pre-owned vehicles for sale.

Comparisons between New and Used Car Processes

One of the primary differences between New and Pre-Owned vehicle sales is the known value of the vehicle being sold. New vehicles have Manufacturer Suggested Retail Prices (MSRP) based on make, model, trim, accessories, etc. Pre-Owned vehicles start with those same variables but then add mileage driven, condition of tires and batteries, perceived market value, involvement in accidents or Acts of God, care by owners, even the smells within the vehicle, etc. to consider. These variances require special consideration by the Pre-Owned Sales Manager in accepting a vehicle to sell in the dealership's pre-owned inventory. Dealerships have different ratios of new inventory to pre-owned inventory, but a standard ratio would be 3 New vehicles to 2 Used vehicles. The rationale behind this ratio would be cash flow where New vehicles are placed on a floor plan financing schedule and Used vehicles are paid for in cash. Another reason for having more New-Vehicle inventory than Used-Vehicle inventory is the time pressure to sell. Used vehicles are depreciating daily with the optimum selling time being within the first 21 days whereas New vehicles have 45 days before the note is due with the floor plan lender.

When assigning sales personnel to the two departments, the newer salespeople will be assigned to New Vehicle Sales and the more experienced salespeople assigned to the Pre-Owned Vehicle Sales Department. It is important for either sales department to turn over inventory often and rapidly but doing so in the Pre-Owned Sales Department also affects the profitability of the Service and Parts Departments when they recondition the Pre-Owned vehicles being added to the inventory. Having a Pre-Owned Vehicle Sales Department supports New Vehicle Sales by providing an incentive for existing vehicle owners to offload their current vehicles and drive off in a new model vehicle.

Process of Buying Used Cars

So, what is the process for a dealership to purchase pre-owned vehicles? There are two primary methods: from customers' trade-ins and from auction. The auction method will be discussed later in the chapter. When a customer is ready to purchase a vehicle from the dealership, either a New model vehicle or even sometimes a newer model pre-owned vehicle, the Pre-Owned Sales Manager must make a decision of what to do with the trade. The choices are to accept the vehicle into the dealership inventory, sell wholesale to other dealerships directly, or sell wholesale at auction. The determination of which of these options to take is based on multiple variables.

First, the Sales Manager will need to appraise the value of the vehicle being offered for sale to the dealership. In the past, these Sales Managers would walk around the lots with a Kelly Blue Book in the pocket and look up generic price values based on age, mileage and condition. Today, there are numerous software programs available to provide even more detailed information specific to the vehicle in question by looking up the Vehicle Identification Number (VIN). For consumers, a popular program is CarFax. Dealerships can use that program or others at their disposal. Time pressure is exerted on the Pre-Owned Sales Manager or designate employee to perform the appraisal quickly. Often the appraisal is being conducted while the customer is test driving a new vehicle. What the dealership is willing to offer the customer for the trade needs to be established in order to complete the total deal negotiation.

Some of the database resources available to dealerships for determining the value of a pre-owned vehicle are (a) Manheim Valuations (values from recent Manheim car auctions), Kelly Blue Book (values from retail transactional data across the nation), Black Book (values from all auction houses – not just Manheim auctions), NADA (from multiple sources and transactional – wholesale, retail, loan value), First Look (by Max Digital) and V-Auto owned by Cox Automotive (recent values of transactions within the local market of the dealership). The

First Look program also views how the individual dealership has done with selling the particular model and how "sister dealerships" within the same market have done in sales with the same model.

The Sales Manager considers three price points: Wholesale value for the dealership to determine the purchase price to offer the seller, Retail value for what an equivalent vehicle is selling for in the market, and Loan value for what banks will finance. The Sales Manager will usually determine the average numbers from multiple sources and have the sales person report all three numbers to the potential customer for consideration. On occasion, when customers are not willing to accept the price point offered, the Sales Manager may elect to raise the purchase price to avoid the customer walking away from the New Vehicle contract with the dealership and going to a competitor to work a deal.

Other considerations for whether or not to accept a trade-in to be added to the dealership used-vehicle inventory include Market Day Supply – how many vehicles matching the specifications of the vehicle in question sold within the local marketplace within a specific time period (e.g., 90 days)? Is anyone from the local marketplace searching for that vehicle online? What percentage of searches online clicked through onto the dealership's web page – this would indicate potential interest in the dealership and a possible visit)? Anything over 2% is good. If the vehicle model in question is receiving above 2% viewing, the price may not be a problem. A "Water Analysis" is performed to determine the number of negative equity vehicles in the current pre-owned vehicle inventory. All used-car inventory has some degree of negative equity (final sales price compared with original market value estimation) but controlling the inventory to minimize the "Under Water" status is critical and leads to prioritizing the sale of those vehicles that are the "wettest" (greatest negative equity) first.

The Sales Manager may look up comparable listings to see who else is selling the same car within the marketplace. The first items to look for in the comparative search are the mileage, how long the competitors' cars have been posted online. This process is similar to the real estate business when agents are looking for comparatives of what has sold recently in the market. Sales Managers generally know what sells in their market. For example, in one market area, red-colored vehicles may average selling every 45 days at a loss of $27 in value so why would the Sales Manager want to accept a red vehicle into inventory unless there is a specific request for that precise make, model, and mileage range? Bear in mind that a healthy portfolio of pre-owned vehicle inventory will include some higher-mileage vehicles to satisfy the buying needs of those who cannot afford a more recent model, low-mileage vehicle.

If the Sales Manager determines that accepting the purchase of the customer's vehicle into the dealership pre-owned vehicle inventory is not feasible, the deal can still be made with the customer on the trade but his or her vehicle will be traded to a dealership that is looking for that specific vehicle description or will be sold wholesale at auction. Selling a vehicle at auction is the least desirable of the options available because of the nature of auctions whereby the lowest price is being offered and then the auction company commissions must be paid along with the transportation fees to move the vehicle to the auction. Often, the Sales Manager will call dealerships that are known to sell certain vehicles well in their market and negotiate a price by which the other dealership can purchase the vehicle in question. Sometimes the two dealerships may own vehicles that the other dealership wants, so a swap is arranged. Because there is an established market value for each specific pre-owned vehicle, any differences in values with a swap will be handled with a dealership check for the value difference.

The key determination for a Pre-Owned Vehicle Sales Manager to accept a vehicle into inventory is whether or not it can be sold at a profit within a short time period. In addition to the cost for purchasing the vehicle, there are costs for reconditioning it so that customers will buy it. The optimum time to sell a pre-owned vehicle is the first 21 days it is available in the inventory. A few of those days on the front end will be required for the Service Department to recondition the vehicle. However, the dealership will move quickly to take photos of it and place the vehicle on the dealership's website so that potential customers will know of its availability. If an interested buyer is identified before the vehicle is ready for reconditioning, it will be moved ahead of other vehicles to avoid the potential loss of a sale. Sometimes the decision to value the trade-in may be subjective (e.g., the salesperson has made only 3 sales this month and needs a $500 higher value given to the customer on the trade-in to make the new car sale deal).

In the case of Manufacturer's Certified Pre-Owned Vehicles (CPO), additional reconditioning may occur that would not otherwise happen. CPO vehicles are preferred by those consumers who do not want to pay full retail on a New vehicle but still want some manufacturer warranty on it and are willing to pay more for the certified status than those pre-owned vehicles not certified by the manufacturer. For this reason, the additional reconditioning tasks might be to replace all four tires, perform thorough maintenance on standard parts like replacing air filters, and repair any cosmetic blemishes. Each manufacturer has its own checklists required of the dealerships to fulfill before the vehicle can earn its certification by the manufacturer. These additional costs are usually more than covered by the premium prices that can be charged for CPO vehicles.

The key to successful pre-owned vehicle sales is quickly selling inventory at a profit. Fortunately, pre-owned vehicles are typically sold at higher profit margins than new vehicles. With new vehicles, the buying public has information on what the dealership is paying for those vehicles and the knowledge that the dealership is under pressure from the manufacturer to meet sales quotas. On the other hand, pre-owned vehicles are purchased at a lower depreciated cost and are sold at standard market value prices. It is better to sell more vehicles at a lower profit than fewer vehicles at a higher profit. For example, selling vehicles at $800 profit every 20 days is better than selling vehicles at $1,500 profit every 45 days. This concept aligns with the Price/Demand Curve principle (the lower the price, the higher the demand). The faster turnover rate also contributes to better cash flow for the dealership – less time that the cash tied up in the vehicle is held captive.

Time Cycle for Selling Pre-Owned Vehicles

As stated previously, the optimum time when a pre-owned vehicle is able to be sold at the highest profit margins is within the first 21 days the vehicle is in the inventory. The absolute end of the selling cycle for a single pre-owned vehicle needs to be 60 days. After that, the Sales Manager needs to find another buyer at whatever price the vehicle can bring. Part of the time pressure is similar to the perception of value in real estate when homes have been on the market for an extended period of time. Consumers begin to think something is wrong with the product. There are four “age buckets” associated with pre-owned inventory that are listed in daily reports to sales managers. Vehicles with less than 21 days in inventory are in good standing. Those vehicles between 22 days and 30 days are on a watch list where interested buyers may receive a discount. Vehicles between 31 days and 45 days will have discounts publicized on the vehicles and on the dealership website. Vehicles in inventory between 46 days and 60 days will require the Sales Manager to actively search for a retail buyer at a deep price discount or begin preparations to swap the vehicle to another dealership or sell it wholesale at auction.

An exception to this time cycle could occur if the vehicle in question is a scarcity car. Most vehicles would be considered commodity cars, but some vehicles have high demand and low supply making them a scarcity car. For these cars, potential buyers have been known to fly to a distant location, purchase the vehicle and drive it home. In these situations, the time frames may go beyond the 60-day limit. A good benchmark for selling pre-owned vehicles within the first 30 days is 50% as a minimum acceptable level. If a dealership is at 65%, it would be in a good status and at 85% would be a top performer.

Process for Adding Used Vehicle into Inventory

Because time is of the essence when a pre-owned vehicle has been purchased to be entered into the dealership's inventory, the steps to prepare the vehicle for purchase need to be completed as soon as possible. The Gold Standard in the industry is having the vehicle reconditioned for sale within 3-4 days from the time it was accepted in inventory. However, the first step is to advertise the vehicle being available for sale. Initial photos (usually around 8 photos of both exterior and interior angles) are taken before reconditioning begins preferably on Day 1, and the photos are published online along with the vehicle description and price.

Eventually, there will be 31-50 photos taken outside and inside the car for the final vehicle portfolio online. Many dealerships use a photo booth with internal employees from the service department. Sometimes an outside service performs the task for taking the photos. Until recently, dealerships would not post the price of a pre-owned vehicle in any of its promotional portals as an effort to entice customers to come to the lot and check out the price vs. price shopping multiple dealership websites without visiting the dealership lot. Today, in the Information Age, that concept is unnecessary because everyone is price shopping. If a potential buyer shows immediate interest in a particular pre-owned vehicle, the dealership may clean it before the potential customer arrives on the lot but will hold on any identified reconditioning needs until after the buyer commits to purchasing it. Then the vehicle is put at the front of the service line to complete all reconditioning tasks. Otherwise, if there is no immediate buyer, after the reconditioning steps have been completed, the vehicle is moved to the used-car inventory lot.

Buying Used Vehicles at Auctions

The discussion to this point has been focused on pre-owned vehicles purchased from customers who are buying a new or newer vehicle from the dealership. Another significant source of increasing a dealership's pre-owned vehicle inventory is purchasing vehicles at wholesale from a car auction. These auctions are being conducted regularly on a weekly basis and sometimes multiple times per week. Auctions are where cars not wanted by dealerships in their own inventory go to be purchased by both manufacturer-franchised dealerships and strictly used-car sales organizations (e.g., CarMax being the largest national chain by far). Rental car companies also use auction houses to sell their pre-owned fleet. Car auctions are attractive to those dealerships that do not have an inbound flow of pre-owned vehicles that are popular in the dealership's marketplace.

While there are some auction houses where buyers can go physically to bid on the vehicles, many auction houses offer the extra convenience of online vehicle exchange (OVE). Typically, two-thirds of the auction participants are watching via Internet simulcast with only one-third physically at the auction. Some Sales Managers may participate in as many as 6 auctions at once via OVE simulcasts. A strategy for acquiring used car inventory is not to purchase 15 cars in a single day because that would create a "bubble" of aging cars at the same age bucket going through the calendar, but rather the strategy would be to purchase a few cars every day (3-4 cars). This explains why an ongoing function by the Pre-Owned Sales Manager is to participate in car auctions.

Only registered participants can bid in the auction, and only dealerships that are licensed by their states can register. Qualified, registered bidders will obtain their official dealer badges and bid number cards on the day of the auction. In addition to qualifying as a registered bidder, the dealership must establish a credit limit with the auction company. To establish the credit limit with the auction house the first time, a credit check will be conducted. Typical credit limits for independent dealerships might be $100,000 whereas a major dealership chain might receive a credit limit $2-$3 million. Whatever is bought each day at the auction must be settled with payment before the end of the business day.

The first step of the day at the physical auction facility is for potential bidders to inspect the inventory from the "Run List" that has the inventory number and the lane in which each vehicle will be presented. Potential bidders will be looking for missing spare tires or jacks in the trunk or ability of the vehicle to be driven. Even if remote bidders do not position someone on the lot to physically inspect the vehicles, most auction firms publish an accurate standard condition code that serves to minimize the fluctuation of bids because buyers know the true value of the car. Online bidders may pay an agency to inspect the inventory that will be auctioned on a given day and report back the conditions found. Sometimes, a Pre-Owned Sales Manager will send employees to attend various auctions in person and inspect the vehicles while the Manager remains back at the dealership on the day of the auction. Occasionally, a practice known as "shilling" occurs whereby a representative of the seller bids on the vehicle being sold in order to raise the bidding price artificially. This practice is unacceptable, and if discovered, will result in the shill bidders losing their certification with that auction house.

The auction will begin and occurs at a rapid pace. There will be multiple lanes of vehicles being auctioned at the same time. The length of time a vehicle is on the auction block is very short. There have been occasions when a bidder thought he was bidding on one car (a Toyota Camry) when actually he bought a (Volvo) that was being bid on after the Camry. Included in the bidding lanes may be a "junk car" lane where the vehicle values are low. and the fees are lower to entice some bidders. These vehicles usually are those that have low condition scores and/or are not popular in the market. Small independent used-car lots may purchase these vehicles for bargain-seeking customers (e.g., first-time teenage owner).

Once vehicles have been purchased, the buyer must pay for them before leaving the auction house, arrange for transportation to have the vehicles transferred to the buyer's lot, and then return home to wait for them to be delivered. Most payments are done by Electronic Funds Transfer. Other methods of payment are by credit card from the buyer's bank. Someone in the lane confirms the price and the buy order. You have a choice of using their transportation or your own. The auction house will send the seller the sales price less their selling fee and the buyer will pay the bid price plus transportation fee (if using their transportation) and buy fees to the invoice.

Included in the amount to be paid at the auction house is the auctioneer's commission. Auctioneers receive set fees from both the sellers and the buyers vs. commissions based on the gross value of the sale. Therefore, it benefits the auction house to have the most buyers in each lane because it raises sales prices from the competitive environment. A vehicle can be returned to the auction company within a short period of time if the vehicle did not meet the published standard condition score given at the time of the auction. Money paid for the vehicle will be refunded and the vehicle will be re-auctioned with a different condition score.

Competition in Used Cars

There are four basic categories of pre-owned vehicle sales outlets: (a) manufacturer-franchised dealerships, (b) large independent pre-owned vehicle sales chains, (c) small independent local used-car sales lots, and (d) “front yard” lots. The manufacturer-franchised dealership lots have been discussed in detail. The large independent pre-owned vehicle companies are represented primarily by CarMax. It is the Number 1 seller of used cars in the nation. Where a dealership might sell 75-100 used cars in a month, a typical CarMax dealership will sell over 400 used cars in a month. Because CarMax does not sell new vehicles, it has a completely different sales model than franchised dealerships.

Selling pre-owned vehicles only puts CarMax and the other used-car sales organizations at a profit per vehicle advantage because of the higher margins involved with pre-owned vs. new vehicle sales. CarMax offers the buyer one price only, non-negotiable, based on average market value. This works well with most car buyers because they do not like the price haggling process. CarMax offers its national inventory to customers who shop online first. If a desired vehicle is not on the nearby CarMax lot, it will be brought to the nearby store and held for a short period of time for the customer without obligation to purchase it.

Much of the stress involved with a vehicle purchase has been removed from the shopping experience at CarMax. Salespeople are not incentivized to be aggressive in making a sale but rather to assist potential customers with finding the vehicle that meets their needs. Customers do not enter the vehicle inventory lot but rather walk through the building from their parked vehicle first and are placed with a salesperson to assist them. This is called the “fish basket layout” of the showroom. Then the assigned salesperson will escort the potential customers to the vehicles that match what is of interest to the customers.

CarMax will buy most of the desired pre-owned vehicles at auction vs. taking trade-ins into the inventory and distribute the vehicles to their lots in markets where that specific make, model, trim, and color sells best. The reconditioning costs for CarMax are lower than for franchised dealerships because of fewer inspection requirements from Manufacturers, especially for Certified Pre-Owned vehicles. CarMax does not advertise about its prices but rather about the purchasing experience (the value, relationship, making the process easy, etc.) to contrast with the screaming “Come on down and take advantage of me” ads seen in some local markets.

For smaller, independent pre-owned vehicle sales lots, they typically buy and sell in local auctions vs. auctions managed by large companies. It is even more critical for these sales organizations to know what sells in their local markets than for franchised dealerships or the CarMax companies because the local sales organizations only reach local customers. Typically, these sales organizations are offering pre-owned vehicles at lower prices than the other competitors. Depending on the state, a private citizen can sell a few cars per year without being required to obtain an independent dealership license, usually around 5 cars per year (e.g., Virginia, North Carolina). The cars sold in the private lots usually are sold in “As Is” condition or “Buyer Beware” condition.

CHAPTER 5 ASSIGNMENT:
Written Report 3 (Module 5): Pre-Owned Vehicle Sales

OVERVIEW: You are the Pre-Owned Vehicle Sales Department Manager in an automotive dealership. You will answer the following questions about the functions of the Pre-Owned Vehicle Sales Department within the dealership. The written report must contain a minimum of 500 words and is worth 100 points. A grading rubric is provided for the written reports. You will submit Written Report 3 in its designated SafeAssign link under Assignments for Module 5.

INSTRUCTIONS:
1. Describe the various channels through which a Sales Manager acquires the dealership's pre-owned vehicle inventory. What are the advantages and disadvantages of each channel for the dealership (Chapter 5)?
2. What criteria should the Manager use in determining which pre-owned vehicles to place in inventory (Chapter 5)?
3. Using the provided inventory report below, analyze the current status of the inventory and identify any issues that should concern the Manager (Chapter 5).

Submit Written Report 3 by 11:59 p.m. (ET) on Monday of Week 5.

<u>Situation:</u> The pre-owned manager of this department has just resigned and you have been transferred in from another dealership in your company. There are 15 other dealerships within the company. These dealerships represent 6 brands and are located in 3 markets.

Inventory:
Units in stock - 124
Average cost - $14,271
Total inventory cost - $1,769,644

Age buckets:

	0-21 days	22-30 days	31-45 days	46-60 days
Units in stock	64	32	16	12
Average cost	13,464	15,111	13,657	17,153
Total inventory	861,696	483,552	218,512	205,884
Equity (water)	129,280	42,520	6,555	-14,400
Cost to market	85%	88%	97%	107%

Average cost of vehicle sold over last 6 months - $12,726

Average vehicles sold over last 6 months - 93

Time to market (TTM) – 12 days (Target is 3 days) *This is the time it takes to get a vehicle ready for sale, including online and physically on the lot.*

Cost to market – *Cost of inventory, including reconditioning, in relation to the average cost of the same inventory in the same market.*

Exercise:

- Identify problems with:
    - Average cost of sales
    - Cost to market
- Create a plan to get your inventory in line in the following areas:
    - Average cost of sales
    - Cost to market

CHAPTER 6: FACILITIES, STAFFING, & COMPENSATION

Overview

Previous chapters in this handbook focused on the more strategic level of managing new and pre-owned vehicle sales. In this chapter, the focus of the discussion is on the more tactical and operational components of the two sales departments, specifically the areas of facility layouts, how to staff, and how to compensate sales personnel.

Facilities

Sales Departments are positioned at the front of the dealership building, usually encased with high glass walls for customers to see the featured New vehicles in the showroom. Pre-Owned vehicles, unless a high-priced specialty vehicle, will be in the parking lot of the dealership, usually in their own segregated area from the New vehicles. Sometimes featured Pre-Owned vehicles will be placed at the front of the dealership lot nearest the main road in front of the dealership. Vehicles are rotated often so that drivers who pass the dealership lot will have a change of scenery every few days – something to attract their attention. New vehicles on the lot are usually organized so that all similar models are located together for easy comparisons once the salesperson and customer have narrowed down the preferred choices.

Inside the showroom area are working stations for the salespeople. Some dealerships still use designated office space with walls and a door for each salesperson while other dealerships use cubicles with an opening and still other dealerships use open sitting areas with high tables and chairs. There are different opinions of what is the best arrangement for a dealership because there are “pros” and “cons” to each arrangement. Those who prefer the privacy of an office are focused on helping customers feel “safe” that private discussions with the salesperson will not be overheard by others. While cubicles provide some visual privacy, they do not offer verbal privacy. Having assigned offices or cubicles presents a resource allocation problem in that those spaces remain vacant when the salesperson is not on duty. Having floating space removes that problem but adds the problem of not allowing each salesperson his or her own storage of personal items and documentation.

The key to locating whatever space for salespeople is to be in the line of sight for customers walking into the showroom area and a view of the main parking lot area where customers tend to visit first. Another consideration is placing the showroom floor in close proximity to the Customer Lounge area for customers who are waiting for their vehicles to be serviced. Some customers may be motivated to browse through the new-vehicle inventory while waiting. As they wander into the sales area, they should be detected by the salespeople who can initiate an interaction. In the same way, proximity between the Sales Department and the Customer Service Lounge facilitates those interactions initiated by the Sales Department when they know of a vehicle in for service that has a positive equity position and an opportune time exists to offer the customer a deal to drive off in a new vehicle that day.

Basically, there is no perfect solution to how a dealership should arrange its facilities for New and Pre-Owned Sales space. The decision needs to be made, as in most areas of management, by balancing what is best for the customers, employees, and even to support what the Manufacturer wants the dealerships to maintain in terms of physical appearance of the showroom areas of the dealership facilities.

Staffing

Choosing the right individuals to staff a Sales Department is critical to the department's success. Turnover in automotive sales positions can be high and thus costly to a dealership. Not everyone has the ability to succeed in automotive sales. Often individuals take sales positions in a dealership temporarily until they can find something better. In growth economic times, this phenomenon is even more pronounced when there are many job opportunities available from which to choose. The key attributes of good salespeople historically are (a) they want to be rewarded for what they achieve, (b) trustworthiness, (c) possessing people skills – the ability to communicate and to relate empathetically with others, (d) self-motivated – requiring minimal supervision by the manager, and (e) naturally talented in the art of the sale. The debate has been over whether Talent or Skills is the more important determining factor in hiring good salespeople. Most concur that it is raw talent because skills can be taught, talent cannot. Hendrick Automotive has a slogan that says, "Hire tough, manage easy", meaning it is better to wait until the right individual is identified in order to reduce future sales management problems with the employee.

Another set of criteria used by the Hendrick Automotive Group for hiring salespeople is five-fold: (a) Are they ***Students*** (willing to learn and actively engaged in learning), (b) Do they have an ***Ability to articulate concepts*** (making information easily understood, clarity), (c) Are they ***Self-starters*** (to avoid the need to micromanage the salespeople), (d) Do they have a ***Servant's heart*** (can they empathize with the needs of others), and (e) Do they possess the necessary ***Skill*** (knowledge of the automotive business) to be successful? Skills can be divided into sub-categories:

- The ability to organize one's time and responsibilities in order to achieve results effectively and efficiently
- The ability to negotiate to a final resolution that benefits all parties – Win/Win
- The ability to understand the process in which one is engaged, where in the process one is situated and how to get back to where one should be in the process if not already there
- The ability to avoid making life's situations personal – to remain objective
- Divergent Thinking – the ability to think in a different way – non-linearly
- Grooming – the ability to present oneself in a professional appearance that represents the employer in a positive way
- Confidence – the ability to be confident and to portray confidence to others
- Punctuality – the ability to manage one's time and be on time at all times
- The ability to recognize the different temperaments (Management by Strengths – MBS) in others and to deal uniquely with other people,
- The ability to interpret body language – non-verbal communications
- Math skills – to accurately and quickly calculate the financials of sales deals

This list appears to be exhaustive but should be used as a checklist for hiring in most job areas but especially for sales positions. The more skills that the job applicant possesses the better the hiring decision and the potential for fewer issues requiring management intervention. A problem that occurs often is that Sales Managers tend to hire people like themselves thinking, "I was successful so hiring someone just like me is how it should be done." The truth is that most temperaments can perform successfully in different job positions. For example, the stereotypical temperament for salespeople is the Direct temperament (Red in the MBS model). However, with the advent of the Internet-based research performed by over 90% of customers today prior to arriving at the dealership lot, some of the more successful temperaments now are Paced (Blue) and Extrovert (Green).

When hiring for Sales Managers, one would think that the highest-performing salespeople would make the best Sales Managers. This can be true but only if combined with other skillsets such as being able to pass along success traits to others, which requires excellent communication skills, the ability to empathize with others, the ability to motivate or encourage others to perform to their best abilities, etc. Sales Managers must be good role models for their sales employees. Their employees need to be able to trust that the Sales Manager understands their working conditions and can find solutions to help them through difficult sales situations. In addition, Sales Managers need to have excellent analytical skills to determine the conditions presented at the time and know what is required to achieve higher sales volume with those conditions in play.

One key difference in hiring salespeople and sales managers for New vs. Pre-Owned vehicle sales is the employee's knowledge of vehicles in general. Typically, salespeople and sales managers begin in the New Vehicle Sales Department because one only needs to study the unique specifications of each make and model vehicle with the various accessory packages. A pre-owned vehicle sales person or sales manager needs to know many brands and models and to interpret the market values based on age, mileage, and conditions.

Staffing for Work Shifts

Beyond recruiting and placing qualified individuals into Sales Department positions, there are key considerations for managing the number of sales personnel per work shift within the dealership. The goal is to have sufficient sales staff on hand so that no customer visits the dealership lot and leaves without someone from the dealership offering assistance to the visitor. At the same time, having idle sales personnel during a work shift is being inefficient and can lead to low morale among the sales force. What should go into the considerations for establishing the number of sales personnel per work shift?

The first level of review is at the weekly sales cycle level. The busiest days of the week for potential customers viewing the vehicle inventory are usually on the weekends (Saturdays and Sundays). They look but do not always buy on those days. That is why many dealerships still do not open on Sundays because it offers a stress-free time when potential customers can visit the lot and not be concerned with a salesperson approaching them. Customers buy cars at various times with no particular rationale during weekdays other than after work hours and often on holidays.

In the past, typical work hours during a week for a salesperson would be 50-60 hours. Some dealerships still run their operations on this model, however, younger salespeople who want more of a quality of life shun dealerships with expectations of those long hours. Most younger salespeople prefer 40-45 hours per week. Though this will mean that the dealership will need to hire more salespeople and possibly even part-time salespeople to cover the hours the dealership Sales Department is open, the overall labor cost to the dealership should be no different and the results should be a more satisfied salesforce less likely to leave. Many dealerships use a 3-team rotational schedule (A, B, C teams) where one team will work mornings until mid-afternoon, another team works mid-afternoon until close, and the third team works all day for one week. Then the teams will shift and rotate days off within that schedule in the ensuing weeks.

There are standard work hour schedules throughout the majority of the calendar year, but these may vary during specific peak selling times. For example, the last week of each month tends to have more sales due to the advertising push by the manufacturers (typically what volume has been sold by the 18th or 19th of the month will be duplicated in the last 11-12 days of the month). The largest sales period is between Thanksgiving and the first of the new year. In December, what has been sold before Christmas can be duplicated in the short time after Christmas because of all the sales promotional incentives and because of income tax implications (e.g., taking advantage of tax credits for alternative fuel models, etc.). January/February tend to be slower because of cold months and after Christmas slump. Other high sales time periods include:

- Tax rebate times in March through April typically affecting pre-owned sales more than new vehicle sales
- Times when manufacturers are offering customer incentives on price and financing – often at the change of model years. Though manufacturers probably would prefer not offering incentives, it has been 50 years since there were no incentives, so the public has come to expect them.

Determining the number of sales personnel to assign to each work shift is based on a simple math formula. The Sales Manager needs to determine the number of vehicles that need to be sold to reach dealership objectives within a specific time period (day or week) and divide by the average number of vehicles sold per salesperson during the same time period over the last 12 months. The results of this mathematical calculation will determine the minimum number of salespeople to staff per work shift. Another method often used instead of using a simple average sales production per salesperson is to calculate the average sales production for the top 10% performers of the sales force and for the bottom 10% performers of the sales force. Then remove the two outlier groups and average the remaining 80% of the sales force in terms of 12-month historical sales performance. This latter method removes some of the skewing that occurs in the two outlier groups of salespeople.

Compensation

The standard expectation of those individuals who choose sales as a profession is that they will be compensated in cash for their performance. Unlike many other professions, salespeople typically are willing to take some risk in the potential loss of income when sales are not produced in order to be eligible for high compensation when sales are high in volume through their efforts. Historically, automotive salespeople were paid on a strict commission basis with not baseline guarantees of income other than when they started their sales jobs. In those occasions, they might be paid on a "draw" basis for the first few months (typically up to 90 days) so that the sales person can become acclimated to the job. In a draw compensation plan, standard sales volume goals are established and measured for the new salesperson. If the actual sales volume produced is below the goal, the new salesperson is still paid the amount agreed to for the draw, but the deficit commission earned is considered a loan that is due back to the dealership for the overpayment to the employee. Over time, the new salesperson should be earning more than the minimum draw commission, and after the deficit commissions have been reimbursed to the dealership, the new salesperson is removed from the draw payment plan and placed on a standard compensation plan.

Today, some younger salespeople want more security than the older straight-commission compensation programs offered. To attract these younger salespeople, dealerships have adapted to offering hybrid compensation plans whereby a portion of the salesperson's compensation is based on a set salary with expectations of a minimum number of hours worked each week, and the balance of compensation is at risk and based solely on sales commissions. In addition, salespeople can receive manufacturer incentives (bonuses) for sales volume of targeted vehicles or during special promotions. These incentives can be both individually awarded and for team sales awards if a target volume level is achieved. The team awards promote team performance and cooperation among the salesforce vs. aggressive competition among them.

Rather than pay a percentage sales commission based on the retail price of the sale, most dealerships will pay a flat commission per vehicle (e.g., $200). This method avoids influencing the sales person trying to sell the most expensive vehicles to customers in order to gain a higher sales commission. Dealerships prefer salespeople working with customers to find what the customer desires without pressuring them to purchase something they may not want. Some dealerships have even omitted the commission platform altogether and just paid salespeople on a flat salary basis similar to the CarMax payment model. The obvious disadvantage to the all-salaried compensation plan is that it could produce salespeople who do not perform at expected levels. For many dealerships, what the salesperson earns on a Customer Satisfaction Index (CSI) is a basis for how much compensation is paid, usually 20-30% basis points at risk. In other words, a sales person may achieve over 100% of the assigned sales goals but if there are customer complaints, up to 30% of the sales commission could be forfeited because of low CSI scores.

Other benefits offered by manufacturers could include specifications of the sales person having attended and been certified in Manufacturer-sponsored training classes where an additional $50 could be added to the standard bonus paid for the sale of a specific qualified vehicle. Sometimes dealerships provide monthly sales awards ceremonies where salespeople who qualified can have a free spin on a wheel of prizes – some cash and some other rewards like a free vacation trip. In addition to cash benefits for compensation plans, there are other valuable incentives available to the Sales Manager to offer the salesforce. These could include time off, flexible schedules, the location of their office space, etc. The key to success in setting up Reward programs is that everyone has a chance to win, not just the consistent top performers, otherwise, the Reward program could result in demoralizing vs. incentivizing the sales force.

General Managers usually work with the Sales Managers to build compensation plans for the dealership so as to ensure fairness and balance, being competitive and challenging without overspending. All compensation needs to be based on not only revenue generation but also profitable transactions. If salespeople are overcompensated for performance not related to the profitability of the dealership, an expectation sets in the minds of employees that they should always receive the levels of compensation paid in the past. This creates a scenario where it is hard for the dealership to reduce future compensation plans without risking disgruntled employees who might leave the dealership.

Typical measurements that are kept by Sales Managers to determine the levels of compensation for individual sales personnel include:

- Ratios in Selling: how many people walk through the door – how many opportunities to sell. Down time for sales people should be used in making contacts for potential customers to visit the dealership.
- Closing Ratio: number of closed deals to number of sales opportunities
- Number of Demo/Test Drives: measuring the engagement level of the salesperson in a meaningful way with the customer – if they drive it, the closing ratio should improve
- Number of Written Contracts Proposed: get the prospective deals on paper by presenting the numbers and talking about payments

Criteria for some compensation plans are based on productive activities of salespeople vs. measuring the results achieved. The rationale behind these plans is that, if salespeople engage in the right amount of appropriate activity, sales results should follow. For example, it has been shown that 80-90% of visitors to the dealership lots result in test drives. Of those test drives, half of them result in contracts being offered (customers giving their personal information and a formal verbal offer is made). Of those verbal contract offers, half end up in final written sales contracts (the other half fell through because of possible bad credit or upside down on equity for trade in car, etc.). This process is called the Sales Funnel model. The key to measuring the sales person is to reward for working the opportunity window that can result in more sales and to ignore the percentage of actual sales contracts written.

In most dealership scenarios where commissions are paid, the top-performing salespeople will earn more than the front office management team members. One salesperson in the

Charlotte, North Carolina market earned over a half-million dollars one year. This salesperson was Hispanic and owned the Charlotte Hispanic market. He even set up a company to loan money to prospective buyers for their down payment of the vehicles he sold them.

Sales Managers are compensated based on the group sales and often blended sales revenue performance results New and Pre-Owned sales results. In addition, Sales Managers are compensated based on gross profit numbers of the Sales Department they manage. Net profit results are a function of the dealership overall performance and could be used as a minor criterion for determining the Sales Manager compensation because of the lack of direct control over all the influences related to the Net Profit bottom line. As with the compensation plans for the individual salespeople, Customer Satisfaction scores can influence how much compensation is awarded based on sales revenues and profits production.

CHAPTER 6 ASSIGNMENT:
Written Report 4 (Module 6): Facilities, Staffing, Compensation

OVERVIEW: You are a Vehicle Sales Department Manager in an automotive dealership. You will answer the following questions based on the New Vehicle Sales Department within the dealership. The written report must contain a minimum of 500 words and is worth 100 points. A grading rubric is provided for the written reports. You will submit Written Report 4 in its designated SafeAssign link under Assignments for Module 6.

INSTRUCTIONS:

1. Describe the physical layout of the dealership showroom. How many vehicles can you park in the showroom of the dealership? Which vehicles will be placed in the showroom and why? How often will the vehicles be rotated to the showroom floor and why? (Chapter 6)
2. Describe the layout of the dealership vehicles on the lot. Where are the new vehicles parked and by what criteria (e.g., body style, colors, model years, etc.)? Where are the pre-owned vehicles parked and by what criteria (Chapter 6)?
3. Describe the work-flow layout of the other areas of a dealership showroom that accommodate customers' transactions (e.g., F&I, customer lounge, reception area, etc.). Describe the atmosphere that is created by the furnishings (Chapter 6).
4. Describe the key characteristics that are sought in hiring the following Variable Ops employees: New Vehicle Salespeople, Pre-Owned Vehicle Salespeople, Finance & Insurance Agents (Chapter 6).
5. Describe how each of the employee types listed in the previous question will be compensated in concepts vs. actual dollars (e.g., 100% salary, x% salary/y% commission, etc.) (Chapter 6).

Submit Written Report 4 by 11:59 p.m. (ET) on Monday of Week 6.

CHAPTER 7: INTER-DEPARTMENTAL RELATIONSHIPS

Overview

In this final chapter, it is good to review how the various departments of the automotive dealership specific to the Variable Operations' departments must coordinate their activities so that the entire dealership benefits from an effectiveness (achieving the dealership's goals and mission) and from an efficiency (achieving the goals with the least amount of resources required) perspectives that will lead to the dealership growing and prospering into the future. Primarily, the relationships that will be covered in this brief chapter are as follows, in no particular order:

- Sales and Service
- Sales and Collision
- New Sales and Pre-Owned Sales
- Sales and Business Development Center (BDC)
- Variable Operations and the Accounting Department
- Variable Operations and the Finance Department

Sales and Service

The relationship between the Sales Department and the Service Department primarily is focused on Pre-Owned Vehicles because of the extent of work that is needed to recondition vehicles to be placed in the Pre-Owned Vehicle inventory. For New Vehicles, the extent of the work for the Service Department involves the lower-paid staff responsible for washing and detailing the vehicle, filling the gas tank, etc. so that the vehicle can be presented to the purchaser in top condition. Any efforts by a Service Technician on a New Vehicle occurs when the vehicle arrives on the dealership lot and is inspected with a diagnostics test to ensure that all internal systems are fully functioning. Because of high quality control standards at the Manufacturer, it is rare for a new vehicle to be delivered with mechanical issues. Another possible problem area for any vehicle, new or pre-owned, being added to the inventory would be if a safety recall has been issued on the vehicle model in question.

To achieve optimum coordination between the two departments involves effective 2-way communications and making collaborative decisions. Most dealerships provide the environment for the 2-way communications through having regularly-schedule meetings among key dealership management employees, often on a weekly basis. In these meetings, the financial reports are reviewed and the implications of situations occurring in the day-to-day operations are discussed. Key topics to be discussed that involve Sales and Service are the volume of Pre-Owned vehicles planned for addition to the inventory and the volume of Repair Orders being handled by the Service Department. If the Service Manager is in a situation where resources are not able to keep up with current Repair Order demand, the Pre-Owned Sales Manager especially needs to be informed of a potential backlog in getting the recently acquired vehicles ready for sale in the inventory. Similarly, if there is a major push on for New Vehicle sales that often result in more vehicles being traded in, the Pre-Owned Sales Manager needs to collaborate with the Service Manager to determine what volume of vehicles being added to the inventory can be handled effectively.

Sales and Collision

The primary relationship between the Sales Department and the Collision Center is with New Vehicle Sales. If the Collision Center is connected with a dealership and shares the Dealership Management System (DMS), it is possible that the New Vehicle Sales Department may become award of a sales opportunity from a wrecked vehicle sitting in the Collision Center. However, it would be more advantageous if the dealership had a policy whereby the Collision Center would proactively contact the New Vehicle Sales Department in those situations where a damaged vehicle in the Collision Center will be considered a total loss by the insurance provider of the vehicle. Rather than risk losing that sales opportunity to a competitor, it would be helpful if someone from the Sales Department, even Pre-Owned Sales, made a contact with the vehicle owner to determine if a vehicle could be sold.

New Sales and Pre-Owned Sales

The relationship between the New Vehicle Sales Department and the Pre-Owned Vehicle Sales Department is often seamless whereby salespeople can sell either category of vehicle depending on how the conversation goes with potential buyers. In some situations, the Pre-Owned Vehicle Sales Department is a separate unit and even sometimes remotely located from the New Vehicle inventory lot. In those latter situations, more communications are necessary between the two organizations to ensure that a prospective buyer is not lost to the competition due to not completing the sales opportunity that matches the customer’s identified needs. For example, a customer may desire a new vehicle but cannot afford the cost of one. In this situation, the salesperson should focus the customer's attention on a similar vehicle in the pre-owned lot that meets the transportation needs and basic trim and accessories packages the customer desires but at a more affordable price.

Conversely, a customer may first approach the Pre-Owned Vehicle lot with the anticipation that he or she cannot afford a new vehicle. During the conversation with the customer, the pre-owned salesperson may determine that a new vehicle might be affordable because of a special promotion that is in effect of which the customer may not be aware. In both scenarios, either the salesperson will stay with the customer to the deal's closing or handoff the deal to the appropriate salesperson if a distinct divide exists between the new and pre-owned departments. Typically, the dealership's compensation plan will accommodate both salespeople so that they are incentivized to take care of the customer's needs and ultimately close the deal with the dealership and not one of its competitors.

Sales and the Business Development Center (BDC)

Not all dealerships use a Business Development Center (BDC) to manage sales appointments. In fact, fewer dealerships use BDCs for sales than for service appointments. The major difference in rationale for these decisions is that dealerships do not want to tie up Service Advisors with inbound telephone calls asking for appointments, but, at the same time, do not want to remove salespeople from direct contact with customers who have visited the dealership lot recently. The sales BDC function primarily is an outbound call center that follows up on individuals who have visited the dealership's website or the dealership's lot within the past few months. The purpose of these outbound calls is to schedule a visit by the potential customer to the dealership lot to meet with an assigned sales representative.

The two key responsibilities in this relationship is to ensure that the Sales Department accurately informs the BDC call center of the sales personnel who are available and at what times for scheduling appointments on a given day, and the BDC call center immediately confirming with the Sales Department if the sales representative is still available for that appointment. If the sales representative is not available when the BDC representative calls, the Sales Department needs to select a better time for the appointment with the designated sales representative or determine a substitute sales representative. These conversations between the

BDC and the Sales Department need to occur while the customer is on hold or in a manner that allows the BDC representative to call back the customer while the opportunity is fresh. Delays can cause the potential customer to change his or her mind.

Variable Operations and the Accounting Department

The primary relationship between Variable Operations and the Accounting Department is between the Financial Services Agent and Accounting. However, the Financial Services Agent is dependent upon the Sales Department representative to gather the needed information from the potential customer quickly and in accurate form to avoid confusion and delays in processing the sales contract. All financial transactions conducted by the various departments of the dealership flow through the Accounting Department. According to a professional accounting firm, in the automotive dealership industry, the Accounting function is second only to a hospital accounting system in its complexity. Add to that fact that automotive dealerships operate on 12 individual sales cycles within a calendar year, the complexity intensifies with time pressures. The Accounting Department is the final stop on the dealership being paid for products sold or services rendered. The Accounting Department produces valuable financial reports that managers of each department use to measure their performance.

To maintain a successful relationship between the individual Variable Operations Departments and the Accounting Department requires that detailed information associated with any business transaction within the department be reported accurately and quickly. These functions usually are produced through the Dealership Management System (DMS). One of the benefits of the DMS is the capability to discover data entry errors so that the input is correct the first time it is submitted. The data that are entered can be viewed by all relevant departments once the transaction is in the system. The weak link that is controllable by each employee with responsibility to perform data entry into the DMS is to not delay in doing so. If the employee has the information that is needed to be entered and is distracted with another task before entering it, there is potential for missing transactional information requiring excessive manpower to locate it and complete the transactions.

In the same way, the Accounting Department needs to ensure accuracy of data and to produce timely reports for managers. When discrepancies occur, the Accounting Department needs to work with managers to resolve them.

Variable Operations and the Finance Department

The relationship between the Finance Department of the dealership and any of the Variable Operations is on an occasional vs. a regular basis. The Finance Department's primary role is to ensure that the dealership's cash flow is not restricted and that the assets of the dealership are producing desired returns on the investment. The Finance Department provides the initial capital funding for the departments of the dealership when it opens. This capital funding includes initial inventories, furniture and fixtures, and initial working capital until the department can become self-sufficient from the sales generated by the department (usually 45-60 days). On occasions, when some departments exhaust cash reserves and are thus in financial crisis, the Finance Department may be called upon to advance additional capital funding on an interest-bearing loan basis to the imperiled department for a limited time to be restored to financial health.

It is incumbent upon managers within the various Variable Operations departments to manage the resources of the department in a manner that does not reach a crisis situation that needs the extra assistance of the Finance Department to rescue it. This effort can be achieved by maintaining an operation where customers continue to want to bring their business and thus sales are healthy and growing, by controlling labor and inventory costs, and by reducing waste or write-offs of vehicles that cannot be sold. In addition, Variable Operations managers need to be vigilant on studying financial reports produced by the Accounting Department and looking for areas where problems could be arising. Early detection and correction can save major embarrassment and emergency responses later. Variable Operations managers should seek assistance and/or advice when they need help rather than to hide or delay because of fear or pride. Everyone in the dealership is on the same team, and the team can only be as strong as its weakest member.

CHAPTER 7 ASSIGNMENT:
Written Report 5 (Module 7): Variable Support Relationships

OVERVIEW: You are the New Vehicle Sales Department Manager in an automotive dealership. You will answer the following questions about how the New Vehicle Sales Department supports and is supported by other departments within the dealership. The written report must contain a minimum of 500 words and is worth 100 points. A grading rubric is provided for the written reports. You will submit Written Report 5 in its designated SafeAssign link under Assignments for Module 7.

INSTRUCTIONS:

1. Describe how New Vehicle Sales supports the Pre-Owned Sales Department. The F&I Department. How do those 2 departments support the New Vehicle Sales Department (Chapter 7)?
2. Describe how New Vehicle Sales supports the Service Department. The Parts Department. How do those departments support the New Vehicle Sales Department (Chapter 7)?
3. Describe how the Business Development Center (BDC) can benefit the vehicle sales departments (new and pre-owned). What dealership scenario supports using a BDC? What dealership scenario supports following up on appointments directly from the dealership sales departments? Please provide your rationale for both scenarios (Chapter 7).
4. Describe how after-market sales from the F&I agent benefit the Service and Parts departments (Chapter 7).

Submit Written Report 5 by 11:59 p.m. (ET) on Monday of Week 7.

APPENDIX A: REYNOLDS DOCUPAD PROCESS

In the Financial Services Office

Part 1 – Preparing the Deal

1. **The deal arrives in the Financial Services office.**
    - *a.* Using the Deal Verification Checklist verify that you have all necessary documents, checking them off and putting them in order according to scanning packets.
    - *b.* Verify that all information is properly loaded into the deal in Desking/IGNITE.
    - *c.* Conduct interview with the customer.
        - *i.* Verify ownership & vehicle information (including trade-in, if any)
        - *ii.* Inquire about length of ownership, miles driven per year and servicing needs (where do they have vehicle serviced?)
        - *iii.* Review insurance, agreed upon terms, and down payment
        - *iv.* Review credit application & customer's credit profile
        - *v.* Build additional rapport if necessary. Go to the Financial Services Office and prepare transaction accordingly.
2. **Build the docuPAD Menu.**
    - *a.* From your deal in Desking/IGNITE, click the "dP button" → "Attach docuPAD® Menu".
    - *b.* The "Aftermarket Sales and Review" screen appears if there are any pre-sold products.
    - *c.* To edit product terms and pricing, click the "Select Coverage" button on the bottom right of each product.
        - *i.* If a product is eligible for rating, click the "Get Pricing" button. In the pop-up window, choose the product you wish to rate then click "Get Pricing". After choosing the appropriate plan and deductible, click the "Save Product (F12)" button.
        - *ii.* If a product is not eligible for rating, manually enter the necessary product information.
        - *iii.* To save, click "Save to all options" (every option) or "Save to this option" (only one option).
    - *d.* Right-click on the menu option column to add or remove products (products cannot be added or removed from the "Preferred" option). Click "Replace" on the bottom left of a product to swap it for a similar one. Click and drag a product up or down to reorder the products.
    - *e.* Click "Recalculate (F5)" to verify payment options and then "Ready for docuPAD (F8)" to send the deal to the docuPAD system.
    - *f.* Go get customer and transition to the Financial Services Office.

2. **Prepare docuPAD First Forms**
    - *a.* Click "FINANCIAL Forms Screen" within the dP modal (window).
    - *b.* Click the SmartForms drop down list and select "docuPAD First Forms".
    - *c.* Click the "Select All" checkbox, then click "Prepare docuPAD Forms (F8)".
    - *d.* Complete form prompts if necessary, and press "OK" (F12) for each form.

3. **Turn to the docuPAD workstation.**
    - *a.* Select the "Ready to Menu" tab, if already on the "Ready to Menu" tab, click the "Refresh List" button. Then select your deal from the list.
    - *b.* Select "Deal Jacket" to open the deal.

Part 2 – Working the Deal with the customer

4. **In the "Customer Review" screen:**
    a. Have the customer review their personal information and deal information.
    b. If any changes need to be made click "Edit Deal" in the control panel on the right.
    c. Click into the desired field, correct changes and click "OK."
    d. Click "Close Editor" after completing all changes.
    e. To save changes, select the "Commit Changes" button.
    f. Once all information is verified have the customer click "Continue".
5. **In the "Forms & Documents" screen:**
    ****At this time, any required Wet Ink documents will print. They need to be signed by the customer. IDM barcode patch sheets will also print, if applicable.****
    a. Select the first form in the list and review and sign each form with the customer.
    b. Once a form is signed click "Continue" to go to the next form. If there are other pages with yellow dots, click on those pages or click "Next Page" to sign them.
    c. Print Impact forms for customer to sign (DMV paperwork).
    d. Once all First Forms and Impact forms have been signed, have the customer click "Continue".
6. **Have the customer read and accept the Electronic Records and Consent Screen**
7. **In the "Menu of Options" screen:**
    a. Click on a product to display relevant Sales Tools and present the benefits of the product.
    b. To edit the terms or pricing of a product, flip the screen and click the "Edit" button next to the product you want to change. Click "Get Product Pricing", if applicable, for PRB/PEN products.
    c. Use the "Customize Menu" screen to add or remove products from a package.
        i. Click the "Customize" button at the top of any package.
        ii. Have the customer select a desired product and click "Add Items" or "Remove Items".
        iii. Click "Save and Return to Menu Options" when done.
    d. Have customer select an Option Package.
    e. Overcome customer objection(s) using the Columbo and core closes. Also utilize sales tools and media with DocuPAD.
8. **In the "Deal Review" screen:**
    a. Review the results of the menu consultation with the customer and have the customer review their personal information one more time.
    b. Have the customer sign in the product/payment disclaimer, click "OK", and then "Continue".
    ******The deal is now locked; deal information and products cannot be edited unless the customer clears the signature box******

Part 3 – Preparing Contracts

9. **Prepare RouteOne forms (if applicable).**
    a. Click on "Transmit Contract Validation" in the dP modal within Desking/IGNITE
    b. Select "Route One" from the "Vendor" drop down menu
    c. Select appropriate contract and enter any prompts that appear
    d. Click "Transmit" - Transmission receipt will automatically generate
    e. In the RouteOne portal, hover over "Contracts" and click on "Contract Manager"
    f. Select the desired deal from the list (newest deals will be on top)
    g. Fill in all required information (highlighted in yellow)
    h. Click on "Generate Contract" at the bottom of the page
    i. Print the review copy of the contract from RouteOne

10. Prepare docuPAD forms.

  a. Return to Desking/IGNITE and click "FINANCIAL Forms Screen" within the dP modal (window).
  b. Check the box next to all forms not already signed (First Forms will have a Status of "Signed on docuPAD"), then click "Prepare docuPAD Forms (F8)".
  If you need to re-prepare any First Forms, check the box next to those as well.
  c. Complete form prompts if necessary and press "OK (F12)" for each form.
  d. If you have rated any products available for booking, the product's contract will display under the "Aftermarket Product Booking and Reprint" section.
    i. Check the box next to a product's contract.
    ii. Click the "Book Contract (F9)" button.
    iii. A pop-up window will appear. Click "Yes" to continue." The contract will be available to sign on the workstation.
  e. Access the RouteOne eContract Forms tab and select "Generate for docuPAD (F4)". No forms will appear until "Generate for docuPAD (F4)" is selected.
  f. When the Form prompts are finished, turn back to the docuPAD system workstation.

Part 4 – Signing and Printing Forms

11. In the "Menu Complete" screen click "Continue".

  a. This will be done after all forms are prepared AND the custom video of Mr. Hendrick has completed (once the video is available)

12. In the "Forms & Documents" screen:

  a. Select the first form in the list and review and sign each form with the customer.
    i. Remember that RouteOne forms will require you to click on the signature area, opening a separate signature box for the customer to sign.
  b. Select "Continue" to go to the next form. If there are other pages with yellow dots, select those pages or select "Next Page" to sign them also.
  c. Before printing/saving the customer's copies, go back to the FINANCIAL Forms screen in Desking/IGNITE. In the RouteOne eContract Forms tab, select 'Request Signed Copy (F11)'. This will allow you to print the RouteOne forms with signatures instead of timestamps.
  d. To save the customer's copies to a USB Flash Drive click the "Save to USB" button. To print hard copies for the customer click "Print All Forms".
  e. Have customer click "Continue".

13. Watch Thank-you Video and Complete Survey

  a. While the customer watches the video of Mr. Brown and completes the survey, make sure all Wet Ink and Impact forms have been signed. (Video of Mr. Brown not yet available)

Part 5 – Wrapping Up the Deal

14. Click "Close (F8)" within the dP modal.

15. Put the deal in "Spot Delivered" status.

  a. If there is a delay on any one of the steps to wrap up the deal, add a Heat Sheet note explaining why.
    i. In Desking/IGNITE click "FIN Functions" → "Heat Sheet".
    ii. Add necessary note(s) and click "OK (F12)".

16. Get out of the deal on the docuPAD system by selecting "Dash" → "Deal Selector".

17. Send the Funding Packet:

  a. If eContracting through RouteOne:
    i. Click on "eDocs" in the dP Modal.
    ii. Click the "Auto-Link (F4)" button.

- iii. Click “Select All” and then “Transmit”
- iv. In the RouteOne Portal, select ‘Update Contract Package’ to verify the documents were uploaded.

b. If Sending the funding packet:
- i. In the “FINANCIAL Forms” screen go to the SmartForms drop down and select “Finance Source”
- ii. Click “Select All Forms” and “Print Queue”.
- iii. Remit funding packet per lienholder requirements

c. Once completed, update the Heat Sheet “Contract to Lender” field.
- i. In Desking/IGNITE click “FIN Functions” → “Heat Sheet”.
- ii. Enter today’s date in the Date field next to “Contract to Lender” and click “OK (F12)”.

18. Scan additional documents:

a. On the docuPAD workstation click on “Dash” → “Scanned Documents”.
b. Check the “Scan all pages as one document” button.
c. Scan in the packets according to the Deal Verification Checklist using the Quick Codes.
d. Update the “Deal Check Complete” field in the Heat Sheet

19. Complete all other closing procedures in Desking/IGNITE as before.

a. When everything is complete for the deal put it in “Closed Status”.

20. Send physical deal jacket to accounting with all Impact and Wet Ink forms (DMV Forms Only)

a. Update the “Titlework to Office” field in the Heat Sheet

21. ***Shred all non-essential deal documents after scanning is complete and physical deal jacket with required state forms is sent to accounting.***

22. Once funding is received, update the “DT R1 Funded” date in the Heat Sheet.

Additional Info

- **Releasing the deal - If a change is needed that cannot be made in the “Edit Deal” screen, follow these steps:**

  a. Select “Release Deal” on the workstation.
  If you need to void any prepared forms you will be prompted to do so here.
  b. Do **not** select to exit the deal on the workstation. Instead, turn back to Desking/IGNITE, click “Refresh (F5)” within the dP modal to refresh the deal worksheet.
  c. Make necessary changes in the deal worksheet and subscreens and SAVE.
  d. Click “Customize docuPAD Menu” in the dP modal then “R**e**ady for docuPAD (F8)”. On the workstation, select “Refresh” to return to the updated Reynolds docuPAD system deal.
  **** You may only release a deal if there is no signature on the Deal Review screen****

- ***Re-contracting – Follow these steps when re-contracting:***

  1. **Open the deal in IGNITE, click “status” and select “reverse deal”. This will change it from closed to stored status.**
  2. **Send the deal back to docuPAD system.**
     - a. You will need to select the dP modal, then select “Reopen”.
     - b. Turn towards the docuPAD system. Your deal will be on the Menu Complete tab of the Deal Selector screen.
     - c. Select your deal and then select "docuPAD Deal Jacket".
     - d. Go to the Deal Review screen and clear the signature.
     - e. There will be a prompt to void signed forms. Select “No”.
  3. **Make your changes**
     - a. Go to Edit Deal to make your changes. If you are not able to make your edits on the Edit Deal screen you will need to release it by selecting “Release Deal”.

   b. Another prompt to void forms will appear. Again, you will NOT need to void them at this time.
   c. After making your changes in IGNITE, click the dP modal. Select "Customize Menu" and then select "Ready for docuPAD".
4. **Once you turn back to the docuPAD system click "Refresh".**
   a. Have the customer resign the signature box in the "Deal Review" screen and lock it.
5. **Go to ANY/ALL forms that may have been altered due to your changes.**
   a. Old info will still be on the form when it first comes up. Click "Void" and this will generate a corrected version of the form for the customer to sign.
   b. Make sure you do this for every form that may have changed.
   c. If you need a Wet Ink version of the form (odom, title app etc.) simply turn back to IGNITE, select the form, and print the third party copy.
6. **Close the deal once all of your new/changed forms are signed.**

- ***Voiding RouteOne Forms***
  1. In RouteOne, go to Contract Worksheet.
  2. If you need to make a change in Desking, select 'Delete Contract'
     - Click OK. This will delete the contract record from RouteOne.
     - Follow the above steps for releasing the deal.
     - Resume the docuPAD system process at step 5.
  3. If you need to make a change in RouteOne, select 'Edit Contract'
     - Click OK. This will delete the RouteOne forms, but not all of the contract information.

Special Deal Processes

- ***Offsite Delivery:***
  1. **Load the Deal and Attach the docuPAD Menu as normal.**
  2. **On the docuPAD system:**
     a. Go through to the "Menu Of Options" screen.
     b. Call the customer and do your menu consultation by phone, making any necessary adjustments on the docuPAD workstation.
     c. Once the customer has chosen a package select the package for them and click "Continue".
     d. On the "Deal Review" screen click the print icon at the top of the screen and print the screen for the customer to sign with the rest of the paperwork.
     e. Sign the signature box on the Deal Review Screen with "Offsite Delivery". Next to the product/payment disclaimer, click "OK", and then "Continue"
  3. **In the "FINANCIAL Forms" screen in Desking/Ignite:**
     a. Click "Select All Forms" and then "Prepare docuPAD Forms (F8)"
     b. Complete all forms prompts as normal.
     c. Turn towards the docuPAD workstation and continue to the "Forms and Documents" screen.
     d. Once the forms populate into this screen you may close the deal off of the docuPAD system and turn back to Desking/IGNITE.
     e. Using the SmartForms drop down, print both the Finance Source and the Third Party lists.
     f. In the Product Booking and Reprint tab check the box next to any products and click the "Reprint Contract" button.
  4. **Send all paperwork to the customer to be signed.**
  5. **Once the paperwork is returned:**
     a. Scan in all docuPAD forms using the barcodes.

b. Scan additional paperwork into the docuPAD system as normal.
c. Update the "Contract to Lender" and "Deal Check Complete" dates in the Heat Sheet as normal.

6. **Make necessary Customer and Lender copies of paperwork.**
7. **Wrap up deal as normal.**
8. **Update the "Titlework to Office" date in the Heat Sheet and "DT R1 Funded" dates in the Heat Sheet as normal.**

- ***Deals where Co-Buyer is not present***

1. **Load the deal and Attach the docuPAD Menu as normal.**
2. **Go through the deal on the docuPAD system as normal with the Customer who is present.**
   a. When signing forms on the docuPAD workstation be sure to leave the signature boxes for the customer who is not present completely blank.
3. **Once you have completed the deal:**
   a. If the second customer is coming in later:
      i. Get out of the deal on the docuPAD system by selecting "Dash" → "Deal Selector".
      ii. Once the other customer arrives, on the "Deal Selector" screen find the correct deal, select it and click the "Forms" button.
      iii. Finish signing all necessary forms. Pay attention that all documents are signed even the ones that are no longer marked yellow, as the first signer may have carried over into the other signer's field.
      iv. Save/Print customer copies.
      v. Continue wrapping up the deal as normal
   b. If the second customer is not coming in (paperwork is being sent), continue with the deal as if it were an offsite delivery.
   c. Make sure that you put the deal in "Spot Delivered" status as soon as the customer takes delivery of the vehicle.
   d. Make sure to add a Heat Sheet notes explaining the reason for the delay.

- ***Locate Deal:***

1. **Load the Deal and Attach the docuPAD Menu as normal.**
   a. Manually load the vehicle into ERA IGNITE
   b. You will need to put an approximate odometer reading.
   c. In place of the Stock #, put "LOCATE".
2. **Present the menu to the Customer on the docuPAD system as normal.**
3. **Once you have presented the menu and the Customer selects an option, prepare the Retail Installment Contract, Vehicle buyers Order and Menu Review Screen.**
   a. Include receipts for deposit if applicable
   b. No other forms needed.
   c. Inform the customer that they will have to return once the vehicle arrives to sign the rest of the paperwork.
   d. Close deal on docuPAD until vehicle arrives – do not close in ERA-IGNITE.
4. **Once the vehicle is stocked in Re-Open the deal on docuPAD:**
   a. Send the deal back to docuPAD system. You will need to select the dP modal, then select "Reopen".
   b. Turn towards the docuPAD system. Your deal will be on the Menu Complete tab of the Deal Selector screen.
   c. Select your deal and then select "docuPAD Deal Jacket".
   d. Go to the Deal Review screen and clear the signature.

   e. There will be a prompt to void signed forms. Select “yes” and void the first Retail Contract.
   f. Click “Release Deal” and turn back to Desking/IGNITE.
5. **In Desking/IGNITE:**
   a. Replace the Locate vehicle in the deal with the real vehicle.
   b. Complete the rest of the deal as a normal re-contracted deal on the docuPAD system.

In the Accounting Office

Part 1 – Transaction Processing

1. **Verify the deal:**
   a. Run the Heat Sheet Report to check on current deal statuses:
      i. A deal in “Spot Delivered” status indicates it is not ready for processing.
      ii. A deal in “Closed Status” indicates it is ready for processing.
      iii. Verify the “Contract to Lender”, “Deal Check Complete” and “Titlework to Office” dates have been entered in the Heat Sheet.
      iv. The Financial Services Office will add a Heat Sheet note for any significant delay
   b. Using the Deal Verification Checklist verify that all necessary documents have been scanned into the packets. Once complete, update the “Compliance Complete” date in the Heat Sheet.
   c. If there are compliance concerns, add the appropriate Quick Code in the Heat Sheet notes field.
2. **Prepare Title Work:**
   a. Once physical deal jacket arrives with all Impact and Wet Ink forms, put together the title work to send to the title clerks.
      i. If any additional documents need to be printed, open the electronic Deal Jacket in Desking/Ignite, check the box next to all needed forms and click “Print F10”.
      ii. In the Print Destination window select “Third Party” and then click “OK”.
      iii. Select the Lexmark C748de (this printer may be mapped under a different name) and click “Print”.
      iv. Update the appropriate field in the Heat Sheet.

Part 2 – Titling

1. **Send title work as normal:**
2. **Once title work has been sent to the DMV, update the “Titlework to Office” field in the Heat Sheet.**
3. **Once the title work is returned from the DMV:**
   a. Scan the returned title work into the Electronic Deal Jacket:
      i. In Deal Jacket in Desking/IGNITE click the “Scan” button.
      ii. Place the documents in the scanner (head up facing you).
      iii. In the Scan window, check the “Scan all pages and save as one document” box.
      iv. Click “Scan (F12)”
      v. After all the pages have been scanned click “Close”.

Part 3 – Billing

1. **Post the deal:**
   a. Run the Heat Sheet Report to check on current deal statuses:
      i. A deal in “Spot Delivered” status indicates it is not ready for processing.
      ii. A deal in “Closed Status” indicates it is ready for processing.
      iii. The Business office should add a Heat Sheet note for any significant delay explaining why.
   b. Open the deal in the accounting application on your second monitor.

   c. In the Heat Sheet Report click the deal number of the deal you are ready to post. It will open that deal in FINANCIAL Desking on your first monitor.
   d. From the Deal Jacket screen in FINANCIAL Desking, click view next to the needed documents to view them.
   e. You may view documents on one monitor and post the deal on your second monitor as normal.
   f. Once complete, update the “Deal Billed” date in the Heat Sheet

2. **Verify funding received.**
   a. Once funding has been received, the Financial Services manager will update the appropriate field in the Heat Sheet.

APPENDIX B: F & I WORKSHEET

DEAL STRUCTURE **Deal #_________Name____________________**

_______ LTV Loan to value (amount financed minus products divided by invoice/NADA/MSRP)

_______ PTI Payment to income (Payment divided by income) 0-20%

_______ DTI Debt to income (total of monthly obligations divided by total monthly gross income)

_______ BUYER'S TOTAL GROSS MONTHLY SALARY

_______ CO-BUYER'S TOTAL GROSS MONTHLY SALARY

_______ CURRENT RESIDENCE (RENT OR OWN)

_______ JOB TIME (TOTAL TIME IN CURRENT OCCUPATION)

_______ BUYER'S BEACON SCORE _______ CO-BUYER'S BEACON SCORE

_______ NUMBER OF ACCOUNTS_______ # OF POSITIVE ACCOUNTS

_______ CAR CREDIT ACCOUNTS _______ PAID AS AGREED

_______ TIME IN THE BUREAU _______HIGH CREDIT

OTHER NOTES:

LENDER'S CALL (ATTACH ALL DECISIONS)

LENDER	LENDER	LENDER
LENDER	LENDER	LENDER

Missing Docs: 1)_____________________ 2)___________________________ 3) ____________________

NADA DEALERSHIP MANAGEMENT GUIDES: VARIABLE OPERATIONS

Sales Department (New and Preowned):

- SL43: A Dealer Guide to Stepping Up Foot Traffic
- SL42: A Dealer Guide to the Internet Challenge
- SL40: A Dealer Guide to the Trade Appraisal Process in a Transparent Market
- SL41: Appraisal to Trade Ratios
- SL17: Auctions: Controlling Inventory, Increasing Profits
- SL18: Increasing Sales through Prospecting
- SL39: Save-a-Deal Meetings
- CR08: Automotive CRM
- CR2: Customer Relations Checklist
- BM41: Leveraging the Internet to Drive Sales
- SP30: Top Five Ideas for Managing Parts Department Inventory Performance

Financial Services:

- SL38: A Dealer Guide to Building a Special Finance Department
- SL34: A Dealer Guide to F&I: Selling to All Customers
- SL20: A Dealer Guide to Leasing as a Finance Alternative