How Digital Retailing Impacts Dealership Profitability

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Agenda (40 minutes)

- How does digital retailing impact dealership profitability?
  - PVR
  - Personnel Productivity
- Case Studies

<table>
<thead>
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Previous NADA Webinar

Digital Retailing Disruption: The Dealer Perspective

Safety + Efficiency + Personalization = Customer Engagement = Employee Engagement = Growth of Net Profits

NADA Dealership Lifeline Webinars
Previous NADA Webinar Comments

Part 1- Profitability Per Vehicle Retailed

“I personally think it will provide the industry with yet another race to the bottom and customers will begin to use the retail tools dealers are scrambling to install against us even more so than customers do now when they walk into the showroom. At least now when a customer walks in holding another dealers quote we know with better probability that they at least went to another dealer. Now they don't even have to have communication with a dealer to get a final out the door figure and they can now walk in to our dealership with a "final quote" in their hand that they created solely using an online tool! Not ideal at all!! And I am 30 yrs old and I think it’s bad news!!"

-NADA Academy Graduate

Part 2- Organizational Structure- Staffing

“...This allowed us to keep top producers only, ensure they are more productive, and achieve greater sales with less people and less expenses.”

-NADA Academy Graduate
Improving Your Dealership

1. Vision
2. Process
3. Structure
4. People
5. Inventory
6. Marketing
Why now?

Current state restrictions
(as of May 4, 2020)

- Showroom closed, online sales only, 26%
- Fully open for business, 47%
- Showroom by appointment only, 27%

27% of total cars sold mostly online
(Roadster Dealers – May 4, 2020)
### Dealer Profitability

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How does digital retailing impact dealership profitability?
Ways to Increase Variable Operations Profitability

- **Sales**: Sell More Volume
- **Gross**: Increase PVR: Front and Back
- **Expenses**: Reduce Expenses: Personnel, Advertising, Floorplan
- **Operating Profit**: Increase OVI: Admin Fees, Packs, OEM Incentives
- **Other Income**:
- **Net Profit**:
Dealer Survey

• Sent to Roadster Clients, NADA Academy Students and Recent NADA Academy Alumni, 20 Group Members
• Time Period May 6th, 2020 to May 10th 2020
• 236 Responses
• Email michelle@roadster.com for a pdf copy of survey results
Survey Results - Qualitative PVR Impact

- “Definitely selling less cars, but holding more gross.”
- “Sales and total gross is down. Store is profitable as a result of reduced expense.”
- “Until we can do face to face back end gross has suffered trying to do menu's via phone or facetime”
- “Overall grosses held, but we saw a shift to a lower front-end gross with a higher back-end gross.”
- “We're not taking the more aggressive deals with larger losses.”
- “Marked all used inventory acquired pre-COVID-19 down considerably to restock with new market value inventory.”
- “With strong incentives from the manufacturer we were able to raise our prices and the focus was on the incentives”
Survey Results - Quantitative
Front End PVR Increases

% of dealers pre COVID-19 vs. April

New Car Front End Gross

- Positive
- Negative

Used Car Front End Gross

- Positive
- Negative

Roadster + NADA Dealer Impact Survey May 2020
Survey Results - Quantitative
Backend End PVR Increase

% of dealers pre COVID-19 vs. April

New Car Backend Gross

Used Car Backend Gross

ALL | No DR | DR Enabled
Dealer Profitability
Reduce Expenses

• Top 3 Controllable Expenses
  – Floorplan
  – Advertising
  – Personnel
Dealer Profitability
Reduce Expenses

• Top 3 Controllable Expenses
  – Floorplan- $82,979
  – Advertising
  – Personnel

Average Dealership Floorplan Expense 2010 – 2019
Dealer Profitability
Reduce Expenses

• Top 3 Controllable Expenses
  – Floorplan
  – Advertising- $554,292
  – Personnel
Top 3 Controllable Expenses

- Floorplan
- Advertising
- Personnel ($4.09M)
Dealer Profitability
Employee Productivity

• Metrics to Consider Monthly
  – Units Sold per Salesperson
  – Gross Per Employee
  – Net Profit Per Employee
  – New and Used Department Personnel Cost / Unit Sold
"Despite all the training, all the pay plans and all the IT tools provided, dealership salespeople have not seen any fundamental improvement in productivity (cars sold per head)."

<table>
<thead>
<tr>
<th></th>
<th>Units Sold/ Salesperson</th>
</tr>
</thead>
<tbody>
<tr>
<td>NADA Average</td>
<td>9</td>
</tr>
<tr>
<td>NADA Guide</td>
<td>13</td>
</tr>
<tr>
<td>Surveyed Dealers Before COVID-19</td>
<td>13</td>
</tr>
<tr>
<td>Surveyed Dealers Now</td>
<td>18</td>
</tr>
</tbody>
</table>

Dealership of Tomorrow Study - NADA and Mercer

Notes: Headcounts are from BLS NAICS code 441100, categories 41-0000 and 11-2022 (sales and sales managers); in earlier years mapped to SIC 551. Includes independent as well as franchised dealers. Units are from various sources (e.g., Manheim) and include used sales as both kinds of dealers but excluded person-to-person used sales.
Gross Profit Per Employee

Tips

- Compare by Brand
- Compare by Department
- Compare in Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Gross Profit Per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$8601</td>
</tr>
<tr>
<td>2018</td>
<td>$8380</td>
</tr>
<tr>
<td>2019</td>
<td>$8197</td>
</tr>
</tbody>
</table>
Dealer Profitability
Employee Productivity

Net Profit Per Employee

Tips
• Compare by Brand
• Compare by Department
• Compare in Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Net Profit Per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$1382</td>
</tr>
<tr>
<td>2018</td>
<td>$1381</td>
</tr>
<tr>
<td>2019</td>
<td>$1473</td>
</tr>
</tbody>
</table>
Dealer Profitability
Employee Productivity

Tips

- Compare by Brand
- Compare by Department
- Compare in Trend
- This will help with classification differences on Financial Statements with different structures

<table>
<thead>
<tr>
<th>Year</th>
<th>New and Used Department Personnel Cost / Unit Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$1542</td>
</tr>
<tr>
<td>2018</td>
<td>$1570</td>
</tr>
<tr>
<td>2019</td>
<td>$1600</td>
</tr>
</tbody>
</table>
April 2020 Dealer Survey: Active Sales Count

Count of As of right now what % of your Sales Team is actively operating?

- 0-25%: 35.7%
- 25-50%: 21.1%
- 50-75%: 18.4%
- 75-100%: 26.8%
May 2020 Dealer Survey: Active Sales Count

Count as of right now, what % of your sales team is actively operating?

- 0-25%: 13%
- 25-50%: 49%
- 50-75%: 13%
- 75-100%: 21%
Survey Results- Qualitative
Employee Productivity

• “This allowed us to keep top producers only, ensure they are more productive, and achieve greater sales with less people and less expenses. Sales associates will be handling deals from start to finish”

• “With the shift going to digital retail requires less management”

• “The decrease in expenses and the urgency in ensuring all remaining staff are 'producers' has increased our profitability.”

• We initiated speeding up sales in November with process and with digital retailing we can do that post Covid-19 at an even quicker pace.

• “More staffing focus on BDC as a direct result of lessons taught from shopping by appointment only mandate and the comfort/convenience/acceptance by consumers of shopping & transacting online with delivery & paperwork done door to door”
Survey Results - Qualitative
Employee Productivity

Digital Retailing Benefits – Roadster Customer Survey Results

<table>
<thead>
<tr>
<th>Benefit</th>
<th>% agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>My customers were able to do more of the buying process online</td>
<td>88%</td>
</tr>
<tr>
<td>It enabled me to engage more with my online customers</td>
<td>76%</td>
</tr>
<tr>
<td>Customers could build their own dealers after hours</td>
<td>61%</td>
</tr>
<tr>
<td>It made my sales process more efficient (saved time)</td>
<td>61%</td>
</tr>
<tr>
<td>It allowed my team to sell more cars per person</td>
<td>24%</td>
</tr>
</tbody>
</table>
Survey Results - Quantitative
Employee Productivity

Additional Sales Per Person w/ Reduced Staff

- >75% (2)
- 50-75% (0)
- 25-50% (6)
- 0-25% (20+)

Roadster + NADA Dealer Impact Survey May 2020
Dealer Profitability
Employee Productivity

Overall Time to Transact Is Shrinking

April transaction time in dealership is 36 minutes shorter than February

<table>
<thead>
<tr>
<th>Average Time To Purchase</th>
<th>Average</th>
<th>&lt;1</th>
<th>1-2</th>
<th>2-3</th>
<th>3-4</th>
<th>4+</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>2.31</td>
<td>9%</td>
<td>34%</td>
<td>30%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>April</td>
<td>1.71</td>
<td>33%</td>
<td>35%</td>
<td>15%</td>
<td>7%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Roadster Customer Data Feb vs. April 2020
### Survey Results - Quantitative

#### Employee Productivity

**Roles likely to be modified in the future...**

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>BDC/Internet</td>
<td>23%</td>
</tr>
<tr>
<td>Showroom Sales</td>
<td>20%</td>
</tr>
<tr>
<td>Sales Managers</td>
<td>11%</td>
</tr>
<tr>
<td>F&amp;I</td>
<td>12%</td>
</tr>
<tr>
<td>None</td>
<td>56%</td>
</tr>
</tbody>
</table>
Case Studies

Knowledge

Wisdom

Insight
What does this mean?

Dealers Re-Imagining Roles

TRADITIONAL DEALER – NPS 38

- Consumer hits dead end with lead submission
- BDC sets appointment
- Goal of BDC is to set an appointment

Omnichannel DEALER – NPS 85

- eCommerce enabled Express Storefront
- Dealer Concierge for Assisted Buying
- Omnichannel – Complete transaction 100% at home

- One person selling in-store via shared iPad/kiosk/desktop
- Empowered Salesperson
- Omnichannel – 1-hour Express Buying in-store

Broken online to in-store handoff

- 1 sale
- 5+ hours
- 6+ people
- 7+ systems

- 1 sale
- 1 hour
- 1-2 people
- 1 system

Goal of BDC is to set an appointment

Average 5+ hours physically at the dealership to buy a car
Empower the team to do more

BUSINESS DEVELOPMENT CENTER
- Appointment Setting → Deal Concierge

THE INTERNET TEAM
- Static Quote → Interactive Deal Sheet

THE SHOWROOM TEAM
- First Point Of Contact → Only Contact

THE SALES MANAGER
- Desking → Sales Coach

F&I MANAGER
- Closer → Product Educator

TRADE PROCESS
- Manager Valuation → Centralized Valuation
Sequential Tasks vs. Parallel Deals
Concurrent Deals Leads to Higher Volume

- Been at Rallye BMW for over 7 years

- Express Storefront launched 2 years ago to help make their sales process more efficient and to modernize their customer experience

- Gabe uses it to concurrently guides his customers through each step of their purchases online, from home or from their mobile devices.

- Sold 61 cars in December of 2018 and is on a 3-month streak of selling over 40 cars/month. On target to a 400+ unit year!

“
I simply would not be able to handle the amount of transactions I am managing every month with the traditional sales process.

Gable Hale
Sales @Rallye BMW
Omnichannel Commerce Unlocks Earning Potential

- Been in the industry for 15+ years
- Started with Sun Auto before they went One Price, One Person & stayed during the transition
- Used to work long hours, working one deal at a time
- Took the culture from appointment setting to one of online ordering and customer empowerment with the launch of their Express Store in December, 2018
- Went from selling 10-15 cars/month to 36+ and is working less hours.

"Using Roadster I’m not really working much more than 40 hours per week.

Dustin Dutterer
Sun Automotive Group
Case Study: Easterns Automotive Group

- One of the top 50 independents in the U.S.
- Wanted to expand beyond subprime customer base
- Centralized BDC, encourages customers to do most, if not all, of the process online, including F&I – treats store like delivery center
- Heavily uses the backend tool to see what customers did online & takes action
- Results:
  - +60% increase in sales; best salespeople 30+cars/month
  - Reduced transaction time by 60 minutes
  - F&I Penetration up to 68% from 30%
  - +83 NPS score vs. +39 industry average
Easterns Automotive Group

Their website is their dealership and their stores are their delivery centers.
Case Study: Paragon Honda

- Online Only Sales (Queens, NY)
- Sold 255 cars in April - 100% online
- Significant cuts to workforce; Working in pods of 3 (2 sales + manager)
- Guiding customers all the way through to F&I online, including early F&I intro
- Top salesperson sold & delivered 46 cars on his own; #1 in backend gross
Case Study: Sun Auto Group

“If you aren’t a tech person in the car business, you aren’t going to be in the car business anymore.”

- Online Sales Only – Upstate NY
- Sold 268 cars in April across 4 stores (down 48%)
- Went from 60 employees to 20 due to COVID-19
  Most working from home unless delivery scheduled
- Each person selling 2.5x pre COVID-19 levels
- 3 people in variable ops per store
  - 1 sales manager (handling leads)
  - 1 auto advisor (selling cars)
  - 1 finance (hanging paper)
- Biggest change: Guiding customer online
  vs. appointment setting + attracting out of state
Dealer Profitability

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How does digital retailing impact dealership profitability?
Summary

• We can still sell cars when showrooms are closed
• There are multiple ways to gauge profitability
  – Increase Gross Per Vehicle Retailed
  – Reduce Expenses (Personnel)
• Consider metrics when changing sales organizational structure
  – Gross Profit per Employee
  – Net Profit per Employee
  – Personnel Expense per Unit Sold
• Overall Digital Retailing deals can be more profitable (Based on Survey Results) but process matters
• Digital Retailing is more efficient for the customer and the employee which has created an opportunity around personnel productivity
Questions?
How Digital Retailing Impacts Dealership Profitability

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