

2015 ATD PERFORMANCE MEASUREMENT

NADA's *2015 ATD Performance Measurement* provides medium- and heavy-duty truck dealers with relevant comparative performance guides, including parts, service and body shop information. To gain insight into your dealership and employee performance, combine knowledge of your own market with aggregated ATD 20 Group and Academy data and industry information below.

State of the Industry

In 2015, the trend of consolidation continues in the commercial truck dealership industry, with a movement toward fewer, larger customers and fewer, larger dealers. This pattern gained even more momentum in 2014 as private equity entered the market, large groups combined to form larger dealership groups and publicly-traded entities in other transportation markets entered the truck dealership industry. In addition, truck manufacturers continue to push consolidation, as well as other programs, such as vendor management parts inventory and service department downtime.

Fuel closed at the lowest levels since February 2011 and prices are expected to keep falling (*Transport Topics*, 12/15/14). Tonnage continues to increase, while supply of transportation continues to tighten. Freight rates, for the first time in many years, have

been able to advance, albeit slowly. Driver shortages are still a concern. Stock prices for trucking companies continued to advance, with an average 36-percent gain in stock price (*Transport Topics*, 1/5/15).

Dealership Performance

Net profit as a percentage of sales increased from 2013 to 2014, but there are reasons for concern. Gross per employee decreased slightly. Expense per employee increased, with total expense percentage of gross profit increasing 3 points. Absorption dropped between 7 and 10 points. Collection cycles increased, as did past due receivables (for customer accounts). On the other hand, warranty collection cycle time decreased.

New-truck sales department gross profit dollars and percentage per unit were similar to 2013 results. However, Class 8 registrations were the strongest

since 2006, up 18.9 percent through October 2014, when Class 8 orders were the second highest ever at 46,200. The overall Class 8 population is the largest on record, and in 2015 these registrations should continue to grow. Trailer orders continue to grow as well, which signals continued strength among end users. The outlook for new truck replacement sales remains favorable, assuming economic stability and a continuing upward trend of freight tonnage. U.S. GDP shows continued growth and diesel prices continue to drop.

Through October 2014, used-truck sales continued to be strong. 2014 was a record year for used retail sleeper (3- to 5-year-old trucks) pricing. Supply of late-model tractors showed signs of increasing, and average mileage dropped below 500,000 miles for the first time since 2010, according to *ATD/NADA Official Commercial*

Truck Guide® Trends. According to ACT Research, used-truck values are continuing to rise (*Transport Topics*, 1/5/15). Used-truck gross profit percentage and dollars per unit both increased for 2014 vs. 2013. It's expected that both the supply and quality of used trucks will improve in 2015.

F&I income per unit increased for both new- and used- truck sales. Providers of F&I have stabilized, but it appears that larger dealer groups are looking into entering the finance market on a "private brand" basis. Further, competition continues from non-traditional sources such as regional and local financial institutions. Dealers still look to other products and services that can be sold with new or used trucks.

Service department gross profit percentage increased in all categories, and customer labor sales volume rose as well. Sales and gross per employee increased but service absorption held steady. Process efficiencies appear to be improving for many dealerships, but the quantity of labor volume—not enough work or insufficient numbers of technicians to do the work—is a concern for many dealerships. OEM pressure for improved throughput (decreased downtime for the truck) is being felt by many dealerships. Further, the shortage of qualified technicians is still a concern. Because of these factors, along with the continued stress of customers pushing for less downtime, efficiencies in the repair order process are vital for dealers to maximize output and performance in this department.

Parts department results improved marginally overall. Parts gross profit as a percent of parts sales increased overall, as did customer RO and counter retail. Sales and gross profit per employee improved, indicating improved efficiency and sales growth. However, parts absorption also decreased slightly from 2013 (although the 2013 result was a significant increase from 2012). In addition, turns increased significantly for 2014. DMS utilization and Vendor Managed Inventory (VMI) continue to represent both challenge and opportunity for dealerships as several OEMs changed their VMI system. Dealers are feeling the impact of continued pressure on pricing from national fleet pricing relationships with manufacturers and vendors, as well as some manufacturers and vendors selling directly to large fleets. To counter this trend, some larger dealer groups are offering "private label" parts.

Body shop labor gross profit as a percentage of body shop labor sales climbed in all areas except warranty. Sales and gross per employee and body shop absorption, however, fell.

Outlook for 2015 and Beyond

In 2015 we should see a slight uptick in Class 8 sales. Used-truck sales should also remain strong, although the impact of supply will have a direct effect on sales volume.

It's estimated that over 12 million businesses owned by Baby Boomers will change hands over the next 10 years. This translates to approximately 10 trillion dollars' worth of companies

changing hands, according to experts. Forty percent of family-owned businesses will experience a leadership change (*Generational Equity*, 8/2/13).

The truck dealership industry is not immune to this sea change. A massive shift in ownership transitions will have a significant impact on this industry, affecting manufacturers as well as individual dealerships. Transitions that are not well planned and executed may result in underperforming entities. With the change of ownership, there is the potential for many more significant ownership reductions. We may also see the mass entry into this industry of professional investment firms looking for places to invest and generate yield.

The upcoming decade of transition holds many opportunities for the industry, as well as many pitfalls. For better or worse, the coming decade is sure to be an exciting and eventful time for dealerships. Attracting qualified people to this industry continues to be the biggest challenge facing dealers today. We need not only qualified technicians, but qualified personnel for all areas of the business.

Differentiate your dealership by the quality of your employees—and maintain that quality through continuous training in the most up-to-date and effective tools and technology, and the most efficient processes. Finally, measure performance on a consistent hourly, daily and weekly basis for the best financial results.

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Keep these factors in mind when reviewing our analysis of 60 Critical Operating Variables (COVs) from ATD 20 Group members and Academy participants for calendar years 2012 through 2014. The COVs are proven financial result measures—past, current and future—of economic performance for a medium- or heavy-duty truck dealership. These measures indicate overall financial results (e.g., total dealership net profit as a percentage of sales) and project potential cash flow issues (e.g., parts and service receivables past due). They provide an excellent indication of employee productivity (e.g., sales, gross and expense per employee) and overall asset performance (i.e., return on assets).

The COVs are grouped according to two categories: All-Dealers Average and Best-of-Class Average. The All-Dealers Average is the average ATD 20 Group and Academy results for each critical variable. The Best-of-Class Average does not represent all ATD 20 Group and Academy dealerships, but rather is the average of the top-performing 20 percent of ATD 20 Group and Academy dealerships in each of seven categories. The first category, for example, comprises COVs 1 through 13. Best-of-Class dealerships in one category may or may not be the same Best-of-Class dealerships for another category.

The COVs are best used to compare your dealership results against average and best-of-class results. We have provided the formulas used in our calculations; use them to calculate your dealership's actual results.

Financial results are driven by operation activities performance. One number by itself does not mean anything—high parts and service absorption, for example, does not directly indicate a strong cash flow. But a careful examination of factors influencing the COV, comparison of our averages against actual dealership results, and designing and consistently implementing a tracking system should lead to improved department and dealership results.

When comparing your dealership's results, start with All-Dealers Average. Understand what each COV indicates and, most importantly, what affects the COV. For example, if you are comparing parts inventory turns, there

are several factors to consider, such as OE vendor-managed inventory programs, dealership distance from the parts distribution center, stock order frequency and DMS computer settings.

Recognize what the COV does *not* indicate; e.g., the COV does not indicate parts inventory fill rate or parts inventory aging. Consider how employee education, DMS utilization, and process measures and improvement affect the COV. Determine and measure your overall penetration of customer wallet share. And know that by definition, achieving All-Dealers Average performance brings your dealership only to the average. Continually strive to attain Best-of-Class Average, and beyond.

Key COVs are:

Average	All-Dealers Average	Best-of-Class
<i>Return on assets</i>		
2014	9.35%	13.3%
2013	9.03%	18.08%
<i>Total dealership net profit % sales</i>		
2014	3.97%	7.33%
2013	3.60%	7.38%
<i>Parts & service absorption</i>		
2014	96.05%	114.62%
2013	95.56%	120.76%
<i>Parts & service receivables % past due</i>		
2014	23.95%	
2013	23.13%	
<i>Warranty receivables % sales</i>		
2014	116.05%	
2013	129.24%	

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CRITICAL OPERATING VARIABLES FORMULAS

1. Net Profit After Bonuses ÷ Total Dealership Sales
2. Annualized Net Profit After Bonuses ÷ (Total Assets + LIFO)
3. Annualized Net Profit After Bonuses ÷ (Net Worth + LIFO)
4. (Net Worth + LIFO) ÷ (Total Assets + LIFO)
5. Total Dealership Sales ÷ Total Dealership Employees
6. Total Dealership Gross Profit ÷ Total Dealership Employees
7. Total Dealership Expenses ÷ Total Employees
8. Total Dealership Expenses ÷ Total Dealership Sales
9. Total Dealership Expenses ÷ Total Dealership Gross Profit
10. (Total Cash - Customer Deposits) ÷ Average Month Total Dealership Expenses
11. Parts, Service and Body Shop Receivables ÷ (Parts Sales + Service Sales + Body Shop Sales (excluding warranty and internal sales))
12. Parts, Service and Body Shop Receivables Over 30 Days ÷ (Parts Sales + Service Sales + Body Shop Sales (excluding warranty and internal sales))
13. Warranty Receivables ÷ (Parts Warranty Sales + Service Warranty Sales + Body Shop Warranty Sales)
14. New Truck Sales ÷ New Truck Units Sold
15. New Truck Gross Profit ÷ New Truck Units Sold
16. New Truck Gross Profit ÷ New Truck Sales
17. New Truck Finance, Insurance, and Net Other Income ÷ New Truck Units Sold
18. New Truck Inventory ÷ New Truck Units in Inventory
19. New Truck Cost of Sales (New Truck Sales - New Truck Gross Profit) Annualized ÷ New Truck Inventory
20. New Truck Operating Profit (New Truck Gross Profit - Total New Truck Expenses) Annualized ÷ New Truck Inventory.
Note: Departmental expense includes a percent of unapplied expense; the proration of the unapplied is based on the percentage of total expense each department incurs.
Therefore, New Truck Expense = Total New Truck Expense + ((Total New Truck Expense ÷ (Total Dealership Expense - Unapplied Expense)) x Unapplied Expense.
21. New Truck Sales ÷ number of New Truck Employees
22. New Truck Department Operating Income (New Truck Total Gross Profit + New Truck Total F&I Income) ÷ New Truck Employees
23. Used Truck Sales ÷ Used Truck Units Sold
24. Used Truck Gross Profit ÷ Used Truck Units Sold
25. Used Truck Gross Profit ÷ Used Truck \$ Sales
26. Used Truck Finance, Insurance, and Net Other Income ÷ Used Truck Units Sold
27. Used Truck Inventory ÷ Used Truck Units in Inventory
28. Used Truck Cost of Sales (Used Truck Sales - Used Truck Gross Profit) Annualized ÷ Used Truck Inventory
29. Used Truck Operating Profit (Used Truck Gross Profit - Total Used Truck Expenses) Annualized ÷ Used Truck Inventory.
Note: Departmental expense includes a percent of unapplied expense; the proration of the unapplied is based on the percentage of total expense each department incurs.
Therefore, Used Truck Expense = Total Used Truck Expense + ((Total Used Truck Expense ÷ (Total Dealership Expense - Unapplied Expense)) x Unapplied Expense.
30. Used Truck Sales ÷ Used Truck Employees
31. Used Truck Department Operating Income (Used Truck Total Gross Profit + Used Truck Total F&I Income) ÷ Used Truck Employees
32. Service Mechanical Customer Labor Sales ÷ Service Mechanical Total Labor Sales
33. Service Customer Mechanical Labor Gross ÷ Customer Mechanical Labor Sales
34. Service Warranty Mechanical Labor Gross ÷ Warranty Mechanical Labor Sales
35. Service Internal Mechanical Labor Gross ÷ Internal Mechanical Labor Sales
36. Total Service Mechanical Sales ÷ Service Mechanical Employees
37. Total Service Mechanical Gross Profit ÷ Service Mechanical Employees
38. Service Mechanical Gross Profit ÷ Total Dealership Expense
39. Parts Gross Profit ÷ Parts Sales
40. Total Parts Expense ÷ Total Parts Sales
41. Customer Mechanical Parts Gross Profit ÷ Customer Mechanical Parts Sales
42. Warranty Mechanical Parts Gross Profit ÷ Warranty Mechanical Parts Sales
43. Internal Mechanical Parts Gross Profit ÷ Internal Mechanical Parts Sales
44. Parts Counter Retail Gross Profit ÷ Parts Counter Retail Sales
45. Parts Wholesale Gross Profit ÷ Parts Wholesale Sales
46. Parts Cost of Sales (Parts Sales - Parts Gross) Annualized ÷ Parts Inventory
47. Parts Operating Profit (Parts Gross Profit - Total Parts Expense) ÷ Parts Inventory. For proration of unapplied expenses see Line 29.
48. Parts Cost of Sales (Parts Sales - Parts Gross) Annualized ÷ Parts Inventory x Parts Gross Profit ÷ Parts Sales
49. Total Parts Sales ÷ Parts Employees
50. Total Parts Gross Profit ÷ Parts Employees
51. Parts Gross Profit ÷ Total Dealership Expense
52. Body Shop Customer Labor Sales ÷ Body Shop Total Labor Sales
53. Body Shop Customer Labor Gross ÷ Body Shop Customer Labor Sales
54. Body Shop Warranty Labor Gross ÷ Body Shop Warranty Labor Sales
55. Body Shop Internal Labor Gross ÷ Body Shop Internal Labor Sales
56. Total Body Shop Sales ÷ Body Shop Employees
57. Total Body Shop Gross Profit ÷ Body Shop Employees
58. Body Shop Gross Profit ÷ Total Dealership Expense
59. (Parts Gross Profit + Service Gross Profit + Body Shop Gross Profit) ÷ Total Dealership Expense
60. (Used Truck Gross Profit + Parts Gross Profit + Service Gross Profit + Body Shop Gross Profit) ÷ Total Dealership Expense

CRITICAL OPERATING VARIABLES

	CRITICAL OPERATING VARIABLES	2013 ALL-DEALERS AVERAGE	2013 BEST-OF-CLASS AVERAGE	2014 ALL-DEALERS AVERAGE	2014 BEST-OF-CLASS AVERAGE
1	TOTAL DEALERSHIP NET PROFIT % SALES	3.60%	7.38%	3.97%	7.33%
2	RETURN ON ASSETS	9.03%	18.08%	9.35%	13.30%
3	RETURN ON NET WORTH	32.10%	40.89%	42.31%	51.33%
4	PERCENT ASSETS OWNED	28.14%	44.21%	22.09%	25.91%
5	TOTAL DEALERSHIP SALES PER EMPLOYEE	56,671	65,823	60,108	59,828
6	TOTAL DEALERSHIP GROSS PER EMPLOYEE	8,799	11,400	9,961	11,350
7	TOTAL DEALERSHIP EXPENSE PER EMPLOYEE	6,822	6,957	7,620	7,278
8	TOTAL DEALERSHIP EXPENSE % SALES	12.04%	10.57%	12.68%	12.16%
9	TOTAL DEALERSHIP EXPENSE % GROSS	77.53%	61.03%	76.50%	64.12%
10	CASH MONTHS' SUPPLY	1.83	2.12	2.27	2.41
11	PARTS & SERVICE RECEIVABLES % SALES	110.49%	111.98%	103.29%	121.17%
12	PARTS & SERVICE RECEIVABLES % PAST DUE	23.13%	27.77%	23.95%	33.93%
13	WARRANTY RECEIVABLES % SALES	129.24%	129.09%	116.05%	114.17%
14	NEW TRUCK SALES PER NEW UNIT SOLD	107,181	109,485	113,308	114,489
15	NEW TRUCK GROSS PER NEW UNIT SOLD	5,594	6,599	5,961	5,992
16	NEW TRUCK GROSS % SALES	5.11%	5.70%	5.25%	5.23%
17	NEW F&I INCOME PER NEW TRUCK SOLD	528	881	673	721
18	NEW TRUCK INVENTORY PER UNIT	104,733	114,662	108,586	108,551
19	NEW TRUCK INVENTORY TURNS	4.5	5.4	3.5	3.3
20	NET RETURN ON NEW INVENTORY	4.92%	16.07%	3.34%	7.83%
21	NEW TRUCK SALES PER EMPLOYEE	396,915	584,184	417,134	813,457
22	NEW TRUCK GROSS PER EMPLOYEE	20,265	33,271	21,865	42,506
23	USED TRUCK SALES PER USED UNIT SOLD	38,869	39,034	44,101	47,272
24	USED TRUCK GROSS PER USED UNIT SOLD	2,759	4,092	3,262	4,582
25	USED TRUCK GROSS % SALES	7.16%	10.28%	7.57%	9.71%
26	USED F&I INCOME PER USED TRUCK SOLD	295	513	324	490
27	USED TRUCK INVENTORY PER UNIT	38,865	35,961	43,328	37,235
28	USED TRUCK INVENTORY TURNS	3.1	3.5	3.0	3.3
29	NET RETURN ON USED INVENTORY	-6.60%	20.21%	-2.46%	17.72%
30	USED TRUCK SALES PER EMPLOYEE	108,979	231,714	194,368	302,560
31	USED TRUCK GROSS PER EMPLOYEE	7,790	22,890	15,816	32,847
32	SERVICE CUSTOMER LABOR SALES % TOTAL LABOR SALES	65.36%	61.06%	67.54%	63.27%
33	SERVICE CUSTOMER LABOR GROSS % SALES	71.95%	72.74%	72.66%	72.62%
34	SERVICE WARRANTY LABOR GROSS % SALES	69.70%	72.20%	69.66%	70.75%
35	SERVICE INTERNAL LABOR GROSS % SALES	68.41%	72.18%	70.25%	73.19%
36	SERVICE SALES PER EMPLOYEE	9,300	11,753	10,095	11,898
37	SERVICE GROSS PER EMPLOYEE	6,212	8,048	6,805	8,168
38	SERVICE ABSORPTION	38.74%	49.47%	40.11%	47.71%
39	PARTS GROSS % SALES	26.72%	27.91%	26.88%	27.95%
40	PARTS GROSS % TO BREAK EVEN	17.96%	14.18%	18.09%	14.83%
41	PARTS CUSTOMER RO GROSS % SALES	27.27%	26.85%	27.64%	27.33%
42	PARTS WARRANTY RO GROSS % SALES	20.48%	20.16%	20.23%	20.13%
43	PARTS INTERNAL RO GROSS % SALES	22.99%	24.36%	23.11%	25.73%
44	PARTS COUNTER RETAIL GROSS % SALES	26.01%	27.17%	25.29%	26.42%
45	PARTS WHOLESALE GROSS % SALES	20.61%	21.96%	21.02%	22.32%
46	PARTS INVENTORY TURNS	5.1	5.7	5.4	6.7
47	NET RETURN ON PARTS INVENTORY	58.67%	100.96%	62.40%	118.29%
48	PARTS INVENTORY PERFORMANCE	137.54%	159.57%	144.71%	186.00%
49	PARTS SALES PER EMPLOYEE	46,998	55,313	51,376	68,016
50	PARTS GROSS PER EMPLOYEE	12,560	15,438	13,811	19,011
51	PARTS ABSORPTION	53.78%	67.58%	53.22%	65.11%
52	BODY SHOP CUSTOMER LABOR SALES % TOTAL LABOR SALES	77.04%	70.13%	82.25%	82.93%
53	BODY SHOP CUSTOMER LABOR GROSS % SALES	69.71%	67.97%	70.14%	69.72%
54	BODY SHOP WARRANTY LABOR GROSS % SALES	80.67%	82.71%	74.56%	66.66%
55	BODY SHOP INTERNAL LABOR GROSS % SALES	65.82%	68.67%	64.65%	68.56%
56	BODY SHOP SALES PER EMPLOYEE	9,376	14,370	9,180	12,405
57	BODY SHOP GROSS PER EMPLOYEE	5,982	9,907	5,837	8,170
58	BODY SHOP ABSORPTION	3.04%	5.34%	2.71%	4.81%
59	PARTS & SERVICE ABSORPTION	95.56%	120.76%	96.05%	114.62%
60	PRESCRIPTION ABSORPTION	100.18%	124.87%	100.87%	117.15%

Finally, understand your market. For example, your dealership may have a significant volume of wholesale used-truck sales where the used truck has a limited cycle time. The wholesale gross profit percentage typically would be lower than the All-Dealers Average or Best-of-Class Average used-truck gross percent of sales. Because of the quick cycle time and low inventory, however, the net return on used inventory could be very high. It's vital to understand the COVs; your dealership market; and how your dealership strategy, customer service, and operating processes affect a particular COV result.

The operating guides suggested by ATD for selected COVs are as follows. Performance guides can also be found in the *2015 ATD Slide Guide*.

1. **Return on assets:** return percentage sufficient to justify operations: 17-25%
2. **Cash months' supply:** 1 month (3 months recommended)
3. **Parts and service receivables as a percentage of average month customer parts and customer service sales:** 85%
 - Past due <15%
4. **Warranty receivables as a percentage of average month warranty parts and warranty service sales:** 100%
 - Past due: <10%
5. **Used truck inventory turns:** 6 times per year
 - Over 120 days: 0%
6. **Service total labor gross % total labor sales:** 73%
7. **Parts sales per employee:** \$50,000 per month
8. **Parts inventory turns:** 6-8 times per year
9. **Parts inventory performance:** 168% minimum
10. **Fixed absorption:** 115%

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