



Analyze Your Inventory to Maximize Used-Vehicle Profits

An NADA White Paper



NATIONAL
AUTOMOBILE
DEALERS
ASSOCIATION

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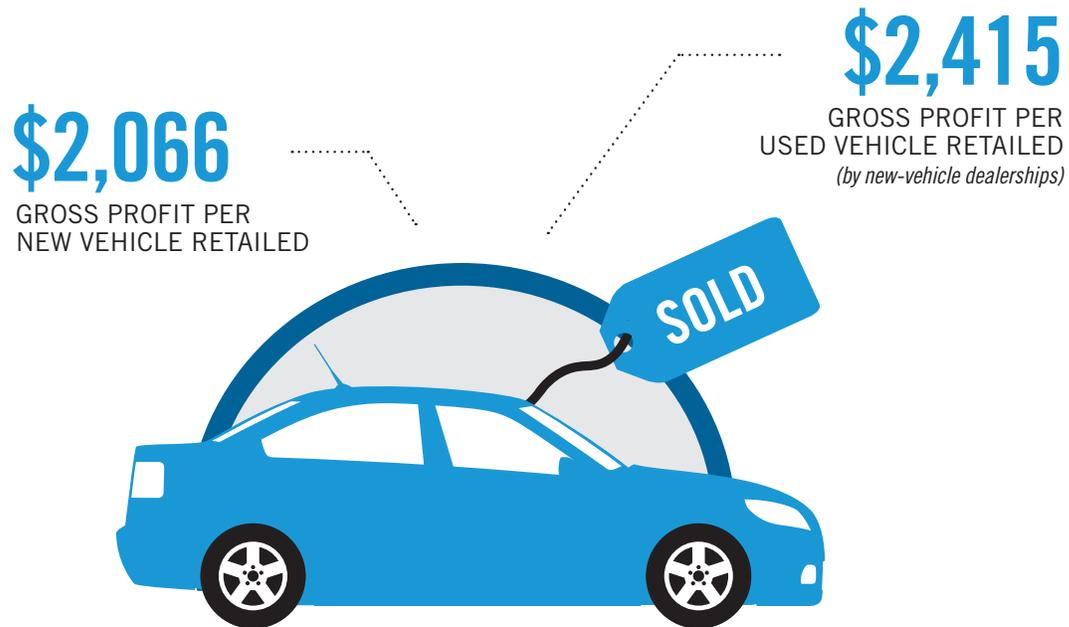
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The National Automobile Dealers Association (NADA) has prepared this white paper to assist its dealer members in being as efficient as possible in the operation of their dealerships. The presentation of this information is not intended to encourage concerted action among competitors or any other action on the part of dealers that would in any manner fix or stabilize the price or any element of the price of any good or service.

USED CARS ARE MORE PROFITABLE FOR DEALERS THAN NEW CARS

Both figures below include F&I (*NADA Data 2016*).



To maximize your dealership's profits from used-vehicle sales, start by asking yourself these questions:

- How many possible trade-ins were appraised in your new-vehicle department last week?
- How many of those new-vehicle buyers actually traded in their old cars?
- Does your compensation plan for the new-car salesperson encourage or discourage the acceptance of trade-ins?
- Are you missing good trade-ins and getting only rejects because your salespeople are telling customers they can "get more for the car" by selling it themselves?
- What new sources of used cars have you developed in the past year?
- Do you know what impact different sources of used cars have on costs, reconditioning and gross profits?

USED-VEHICLE SOURCES: A LAUNDRY LIST

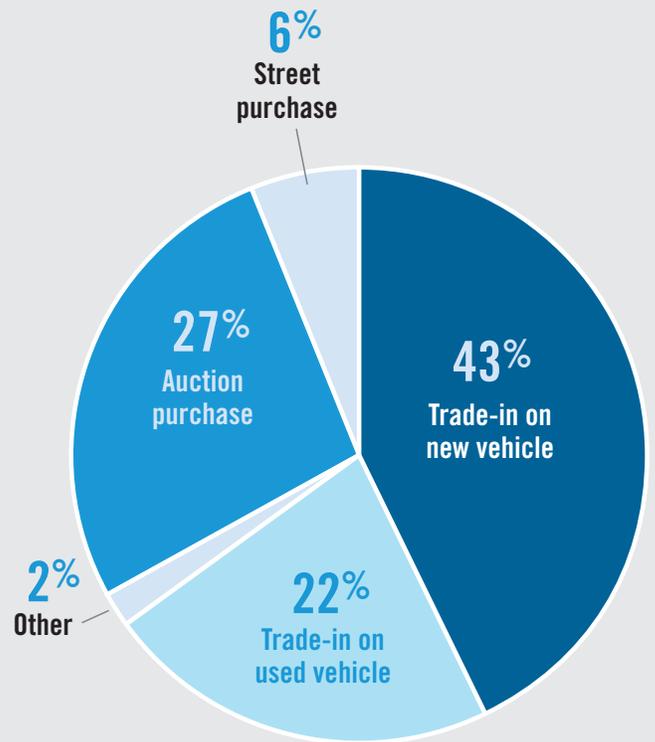
When acquiring your used-vehicle inventory, consider all the sources available to you:

- New-vehicle trade-ins
- Used-vehicle trade-ins
- Street purchases
- Off-lease purchases
- Wholesalers
- Other dealers
- Digital media
- Rental fleets (consider dealer-direct purchase options)
- Front line (you can search online local auctions to buy front-line-ready inventory)
- Newspapers, trade papers
- Networking
- Auction purchases, including:
 - ~ Factory “brass hats” (vehicles used for factory demos)
 - ~ Dealer consignments
 - ~ Major financial companies
 - ~ Repossessions
 - ~ Program units
 - ~ Risk units
 - ~ National fleet accounts

As the graphic shows, trade-ins on new vehicles represented the biggest slice of used-vehicle acquisitions, at 43% of the pie. The second-biggest contributor to used-vehicle inventory— auction purchases—came in at a distant 27%. Close behind were trade-ins on used vehicles, at 22% of acquisitions.

The question of whether to retail or wholesale a vehicle can be a difficult one, and the decision must be made based on customer appeal, predicted turn time and the cost of reconditioning for each vehicle. (For more information, see NADA *Driven* guide SL17, *A Dealer Guide to Auctions: Controlling Inventory, Increasing Profits*.)

SOURCES OF USED VEHICLES RETAILED BY NEW-VEHICLE DEALERSHIPS, 2016



Source: NADA

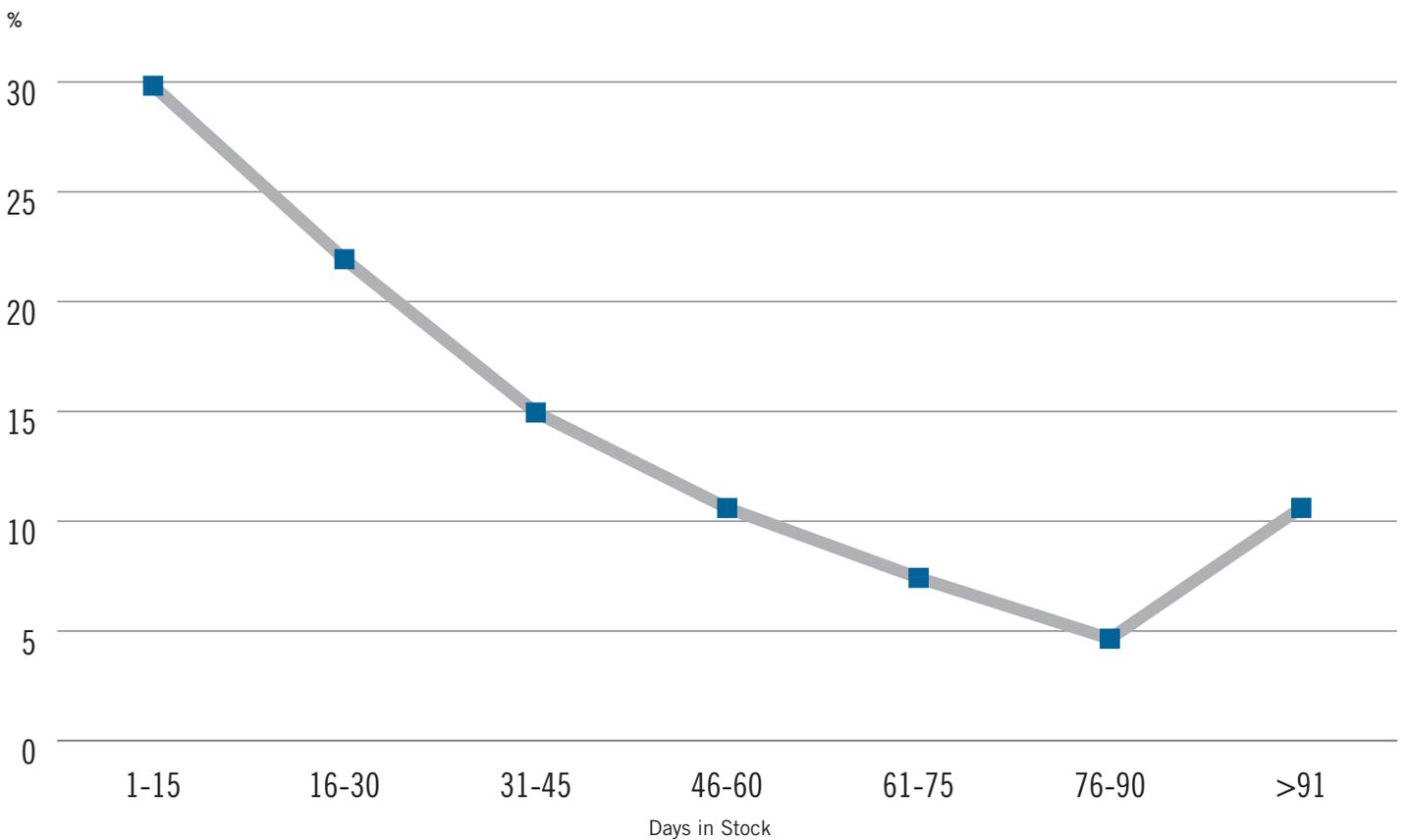
TURN TIME

Turn time is critical to your profitability. As long as used vehicles remain unsold, your gross profit margin deteriorates. Thirty days is a reasonable turn time. The chart below, based on NADA 20 Group data, shows that just about half of all used vehicles are sold in their first 30 days on the lot.

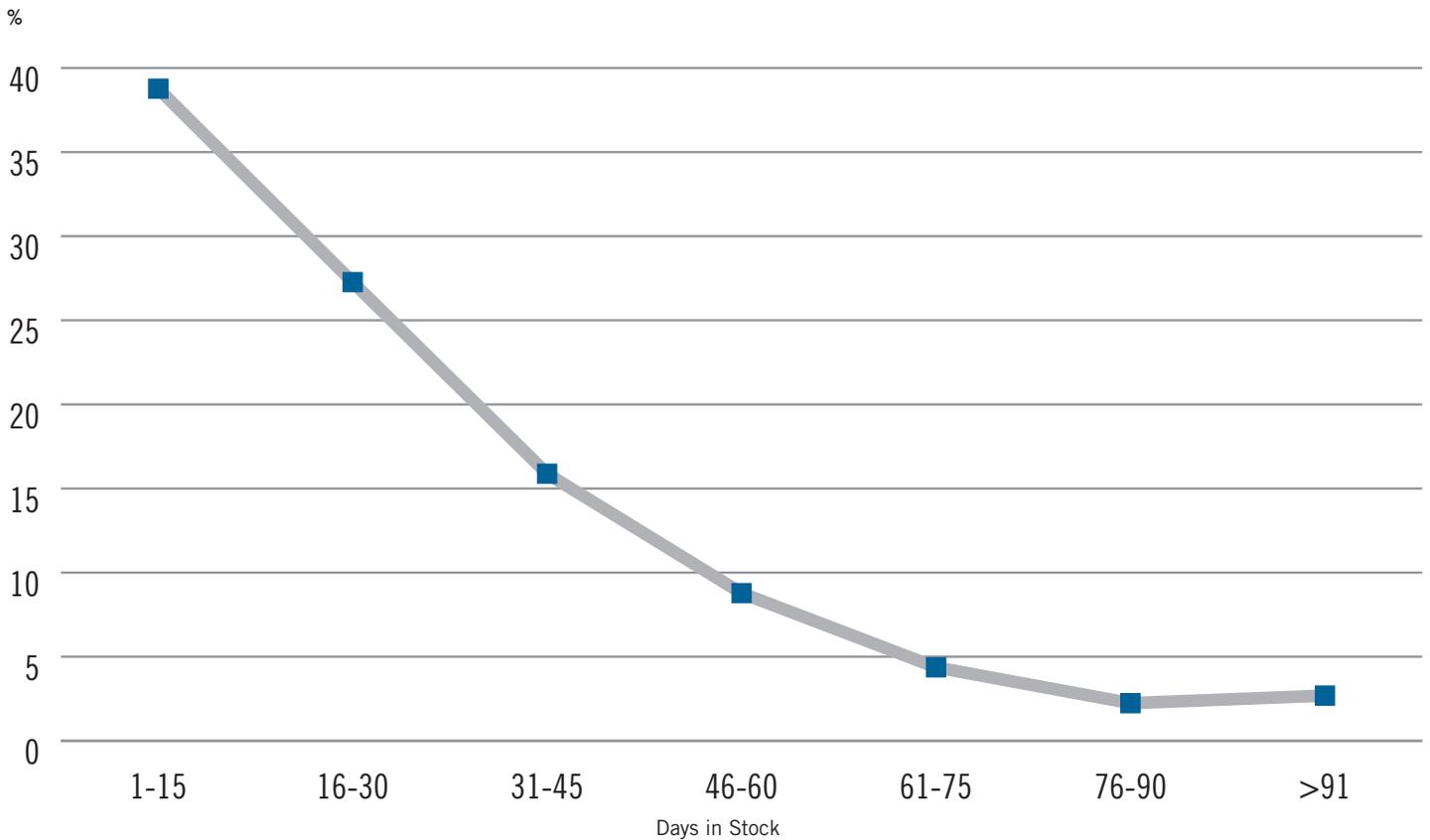
	1-15 Days	16-30 Days	31-45 Days	46-60 Days	61-75 Days	76-90 Days	>91 Days
% total units	29.83%	21.93%	14.95%	10.60%	7.42%	4.65%	10.61%

Twelve turns per year is the NADA guide.

PERCENTAGE OF UNITS SOLD BY DAYS IN STOCK



USED UNITS' SHARE OF GROSS MARGINS BY DAYS IN STOCK



Overaged units reduce profits and tie up inventory dollars. Use the following form to find out how much of your inventory is overaged.

Inventory Age	No. of Units	% of Total	Dollars in Inventory	% of Total
0-30 days		%	\$	%
31-60 days		%	\$	%
61-90 days		%	\$	%
Over 90 days		%	\$	%
Totals		100%		100%

INVENTORY QUICK ANALYSIS FORM

To generate profit consistently, you need to track the make, model, age, classification and value of the used vehicles you're offering. Then compare your stock with what is selling. Doing so will alert you to the most requested vehicle models, preferred price ranges, which vehicles to wholesale and when, and so forth.

Create a form modeled on the form below to compare the inventory you stock with the sales it generates. The following pages further explain the form.

A	Date																			
	<input type="checkbox"/> Age group <input type="checkbox"/> Market segment <input type="checkbox"/> Sales price <input type="checkbox"/> Vehicle source <input type="checkbox"/> Inventory ACV <input type="checkbox"/> Manufacturer <input type="checkbox"/> In-line																			
B	Subcategory																			
C	I		N		V		E		N		T		O		R		Y			
D	Inv.		Inv.		Inv.		Inv.		Inv.		Inv.		Inv.		Inv.		Inv.			
E	Sales		Sales		Sales		Sales		Sales		Sales		Sales		Sales		Sales			
		Ratio		Ratio		Ratio		Ratio		Ratio		Ratio		Ratio		Ratio		Ratio		
F	S				A				L				E				S			

SAMPLE INVENTORY QUICK ANALYSIS FORM

Below is a Sample Inventory Quick Analysis Form and instructions on how to use it.

Row A. Fill in the current date, and check the box for the category you want to track.

Row B. Fill in the subcategories (see next page) for the category you have chosen.

Row C. Print your current retail inventory and sales records. Using that information, make a tally mark in Row C Inventory to indicate each inventory unit that falls under the subcategory of Row B.

Row D. Total the number of inventory units per subcategory and enter the total in the corresponding Inv. field.

Row E. Make a tally mark in the Sales row to indicate each sold unit for each subcategory.

Row F. Total the number of units sold per subcategory and enter the totals in the Sales row.

Row E. Divide the Inv. total (Row D) by the Sales total (Row F) under each subcategory (Row B). The result is your inventory-to-sales ratio. Write this number in the corresponding Ratio field. Strive for a 1:1 ratio for each subcategory.

A	Date <i>July 20, 2017</i>																	
	<input type="checkbox"/> Age group <input type="checkbox"/> Market segment <input type="checkbox"/> Sales price <input type="checkbox"/> Vehicle source <input type="checkbox"/> Inventory ACV <input type="checkbox"/> Manufacturer <input type="checkbox"/> In-line																	
B	\$0-\$5,000		\$5,001-\$7,500		\$7,501-\$10,000		\$10,001-\$11,000		\$11,001-\$12,000		\$12,001-\$13,000		\$13,001-\$14,000		\$14,001-\$15,000		\$15,001 +	
	I		N		V		E		N		T		O		R		Y	
C	///		///						///		///		//				/	
D	Inv.	5		Inv.	8		Inv.			Inv.	10		Inv.	2		Inv.	1	
	Sales	//		Sales	///		Sales			Sales	///		Sales	//		Sales	0	
E	2.5:1 Ratio		2.7:1 Ratio		Ratio		Ratio		Ratio		3.3:1 Ratio		1:1 Ratio		Ratio		Ratio	
F	S		A		L		E		S									
	2		3						3		2						0	

You might want to use multiple copies of the form to track trends in different categories, such as age group, vehicle source, market segment, inventory actual cash value (ACV), sales price and manufacturer. Under each of these categories are several subcategories. Select a category and insert the associated subheadings at the top of the form.

Category	Subcategory Examples
Age group	2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009/Older, Total
Vehicle source	Trade-in on New, Trade-in on Used, Street Purchase, Auction Purchase, Finance Company at Auction, Program/Company Vehicle, Off-Lease Unit, Risk Purchase, Total
Market segment	Luxury, Standard, Intermediate, Compact, Subcompact, Pickup, Van, Sport-Utility, Total
Inventory ACV	\$0-\$5,000; \$5,001-\$7,500; \$7,501-\$10,000; \$10,001-\$11,000; \$11,001-\$12,000; \$12,001-\$13,000; \$13,001-\$14,000; \$14,001-\$15,000; Over \$15,000
Sales price	\$0-\$5,000; \$5,001-\$7,500; \$7,501-\$10,000; \$10,001-\$11,000; \$11,001-\$12,000; \$12,001-\$13,000; \$13,001-\$14,000; \$14,001-\$15,000; Over \$15,000
Manufacturer	Cadillac, Chevrolet, Ford, Lincoln, Mercury, etc.

Note: You can complete another form to keep track of your in-line inventory/sales as well. Use the names of all models in your inventory as subheadings.

CALENDAR-YEAR INVENTORY TURN RATE

Another useful calculation is the formula that determines your calendar-year inventory turn rate. Use the form below to learn how quickly your inventory turns each year.

		Sample Figures*		Your Figures	
Step 1					
Total used-vehicle sales in dollars (include retail and wholesale figures, but not F&I)		\$585,038		\$ _____	
Total vehicle gross	-	\$39,922	-	\$ _____	
Cost of sales	=	\$545,116	=	\$ _____	
Number of months during which the sales occurred		2	÷	_____	
Average-month cost of sales	=	\$272,558	=	\$ _____	
Step 2					
Total used-vehicle inventory in dollars		\$291,436		\$ _____	
Average month cost of sales (total from Step 1)	÷	\$272,558	÷	\$ _____	
Months' supply	=	1.07	=	_____	
Net return on inventory investment*	=	18.2%	=	_____	
Step 3					
Number of months in year		12		12	
Months' supply (total from Step 2)	÷	1.07	÷	_____	
Days' supply =	Months' supply**	x	30	=	_____
Inventory turns†	=	11.2	=	_____	

*Sample figures are taken from a NADA Academy student. They are provided here and on the next page to illustrate how to perform these calculations.

**NADA guide for days' supply for used-vehicle inventory is 30 days.

†Data provided by NADA Academy students showed an average turn of nine times per year, or every 40 days. Successful NADA 20 Group members turned their inventory 12 times a year, or every 30 days. The NADA guide is 12 turns per year.

NET RETURN ON INVENTORY INVESTMENT

By now, you should know more about your inventory and how it relates to your sales. But do you know what kind of return you're earning on your investment?

You soon will, if you use the following formula to calculate the net return on your inventory investment.

		Example Figures		Your Figures
Departmental gross		\$174,050		\$ _____
Departmental expenses	-	\$153,026	-	\$ _____
Total	=	\$21,024	=	\$ _____
Prorate unallocated expense (if applicable)	-	\$0	-	\$ _____
Operating profit	=	\$21,024	=	\$ _____
Number of months you are reviewing	÷	2	÷	_____
Average month net	=	\$10,512	=	\$ _____
Times 12	x	12	x	12
Annualized net	=	\$126,144	=	\$ _____
Used-vehicle inventory in dollars	÷	\$3,021,710	÷	\$ _____
Net return on inventory investment*	=	4.2%	=	_____

*The NADA guide is 17% - 25% percent.

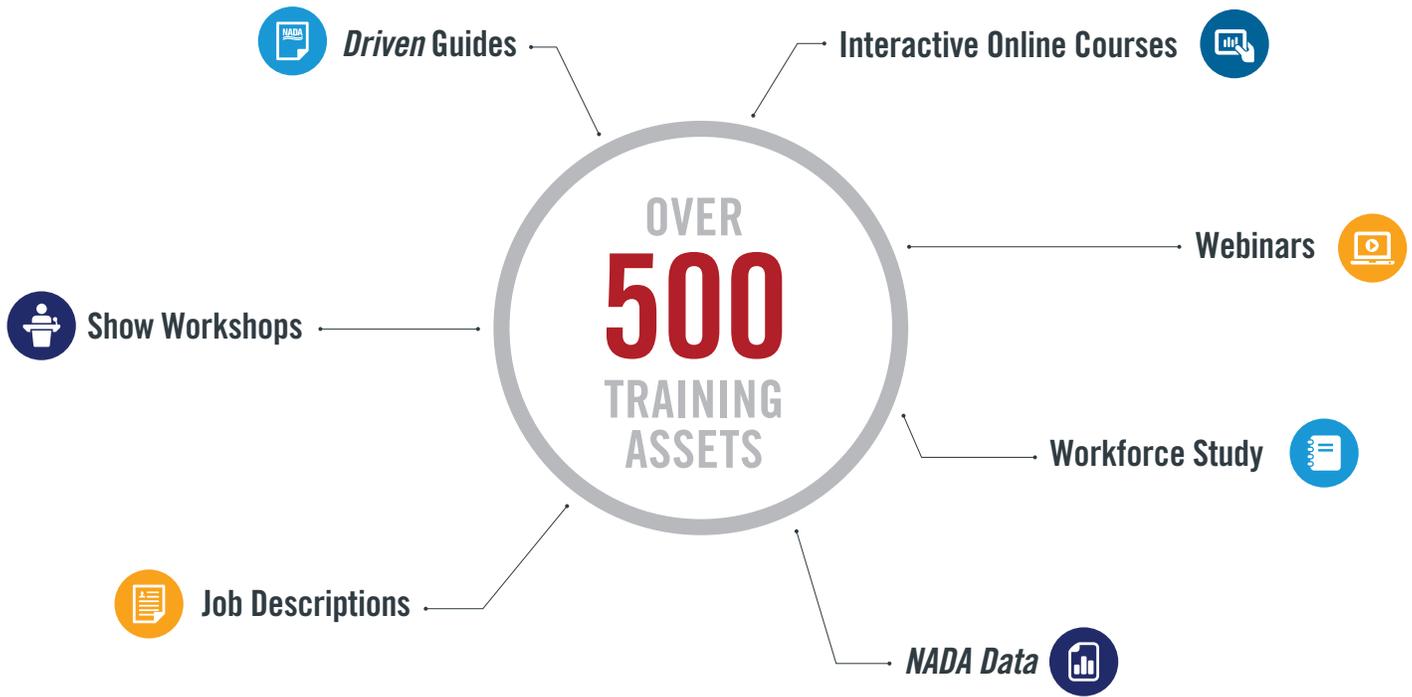
By performing the calculations in this publication, you should learn a great deal about the financial state of your dealership. Then you can apply this knowledge to improve your performance, profit and competitiveness.

ACKNOWLEDGMENTS

David Alexander
Online Composite Specialist, NADA 20 Group
dalexander@nada.org

Joel Dalbo
Instructor, NADA Academy
jdalbo@nada.org

Patrick Manzi
Senior Economist, NADA
pmanzi@nada.org



Additional NADA Resources

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