

Comparatively Speaking: Examining Best Practices and Benchmarks

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Perhaps now more than any other time in history, it is imperative that dealerships operate at peak performance. Margins are slim and getting slimmer. Even when a dealership seems to be doing everything right, the returns still aren't where they need to be.

Given the unprecedented economic environment, what exactly does qualify as peak performance these days? More importantly, wouldn't you like to know what the high-performing dealerships in your market are doing to achieve and sustain their success?

The good news is you can.

Understanding and adopting best practices is the key to bringing more revenue to your bottom line. It's also the driving force behind our Top 7 Peer Analysis (see chart*).

	Top 7	Your Dealership
Total Sales	\$52,548,913	\$48,535,386
Total Gross Profit	\$7,316,695	\$6,766,766
Gross Profit per Employee	\$7,415	\$6,813
Net Income	\$958,094	\$633,059
Net to Gross %	13.1%	9.4%

* For discussion purposes only

The Top 7 analysis is a statistical report that compares your dealership with the aggregate, quarterly financial data of the top seven high-performing dealerships within your regional marketplace. It's an invaluable tool for determining how your dealership stacks up against the best in your area, shedding light on opportunities for improvement.

The report provides an aggregate look at key metrics resulting from best practices. It takes the seven best dealerships in your area and averages their financial data without revealing sensitive information. In other words, it presents a true financial performance picture of what top performers are doing, yet still maintains their utmost confidentiality.

Most importantly, it offers a bottom-line view of overall performance, not a top-line take on activity (because we all know that the highest-volume dealers aren't necessarily the most profitable ones).

The Top 7 Peer Analysis can provide any dealership with the answers to the two biggest questions that matter: How are we doing in our marketplace, and how are we doing compared to our competition?

Lining Up the Data

One of the key ways to scrutinize performance is to consider a dealership's net-to-gross percentage. For every one dollar of gross profit that comes into a dealership, it's critical to determine how much of it actually makes its way to bottom-line profits. And reaching that all-important bottom line depends on the expenses encountered along the way.

Some expenses are controllable; some are beyond a dealership's control. Good performance depends on differentiating what is and isn't controllable—then aggressively managing those controllable expenses.

Controllable expenses are reflected in five key profit centers: variable expenses; personnel expenses; advertising; interest; and service, parts, and collision expenses (see chart*).

	Top 7	Your Dealership
Variable Expenses	\$794,130	\$760,807
Personnel Expenses	\$2,843,322	\$2,666,396
Service, Parts, and Body Policy Expenses	\$62,731	\$61,239
Advertising	\$327,602	\$360,536
Interest	\$161,283	\$257,354
Controllable Income	\$3,127,627	\$2,660,433
Controllable Income to Gross Profit %	42.7%	39.3%

* For discussion purposes only

By benchmarking the data on peers within your marketplace, you can quickly decipher and deal with gaps in your own operations, particularly within any of the five profit centers.

One consistent fact that continues to resurface in repeated Top 7 analyses is that the best-performing dealerships in net to gross are those that maintain a healthy balance between the main five profit centers.

Striving for balance compels dealerships to recognize and address issues before they occur. By carefully watching the numbers, you can have critical discussions about possible weaknesses in your operations and take swift and positive action accordingly.

Maintaining balance is particularly vital in today's economy, where the pendulum has swung in favor of higher used car sales versus new. The best dealerships improved their bottom lines in 2008 and continue to do so in 2009, despite the economy, with two simple moves: quickly recognizing the opportunities in pre-owned vehicles

and improving operations therein; and doing a better job managing inventory levels.

Benefiting From Peer Pressure

Ours is an interesting time. Contractual agreements with manufacturers are squeezing profitability. Banks are guarded with credit and cautious regarding liquidity, preferring to see dealerships run their operations with existing cash flow. These challenges and others will continue for the foreseeable future.

Knowledge is your best weapon in the days ahead. Having sound information that helps you benchmark against peers in your marketplace is critical to survival. Dealerships that are not committed to and passionate about achieving best practices in each of their five profit centers may soon find themselves out of business.

Know how your financial performance compares to other dealerships. Know which strategies and improvements to make. Know how to grow your sales and increase your market penetration. Know what the Top 7 dealerships are doing today—and monthly or quarterly thereafter.

Need to improve performance? We can help you move the needle.

About the Author

Steve Hewitt leads Wipfli LLP's dealership practice. The practice serves approximately 250 retail rooftops across 25 states. Steve consults on numerous dealership transactions each year and assists dealers in achieving their specific goals. He also serves on Wipfli's board of directors. Contact Steve at 952.548.3355, or e-mail him at shewitt@wipfli.com.

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