

# Sandi Jerome's

## Profit Retention Newsletter

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### Looking at Expenses and Gross Differently

When Jack and I were working on the Super DOC that we released last month, one of my favorite pages was the analysis page. Although the Charts and DOC page are visual and easy to read – it was the analysis page that caught my eye; especially when it comes to expenses. By looking at just one department like the Pre-Owned/Used Vehicles, you can better understand how the type of expenses and various metrics can help control and eventually reduce expenses.

Pre-Owned	
Sales	1,434,132
<b>Gross Profit</b>	<b>200,330</b>
Gross % of Sales	14.0%
Selling Exp	71,818
Operating Exp	19,100
Overhead Exp	57,505
(Unused)	0
<b>Total Exp</b>	<b>148,423</b>
Exp % of Sales	10.3%
Exp % of Gross	74.1%
<b>Dept. Net</b>	<b>51,907</b>

One of the most important metrics that you track is your **Expense as a percent of gross**. It is most reflective indicator of net profit for our industry. When **Exp % of Gross** goes over 100%, then you lose money. Typically the parts department has the lowest expense as a percent of gross – at 50-60%. Why? Because they don't pay high commissions or have much selling expense. Much of this is due to the fact that a great percentage of parts are not sold by the parts department. The parts department tends to be more of an order fulfillment department. That could change if we started selling parts, but that is a topic for another newsletter! Let's compare this to

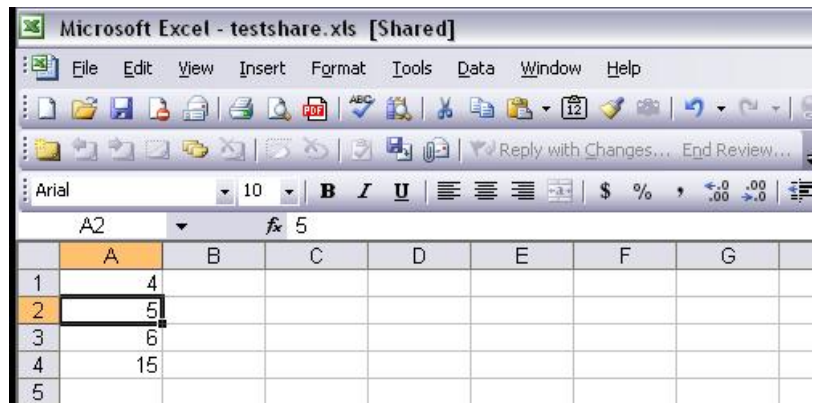
the Pre-Owned department that can have between 60-80% of expense as a percent of gross. Looking at the above example from our Super DOC, you can see there is over \$70,000 in selling expense. Selling expense is a Ford concept that I really liked after many years of being a GM controller. Typically expenses like advertising, floor plan, commissions, delivery, and managers' bonuses are in selling expense. There should be a direct correlation between the amount of Selling Expense and Gross profit and it ends up being about ½ of your total expense (35%.) If you pay 25% in commission, that doesn't seem like much left for advertising, floor plan interest, and delivery expense – but remember that the gross profit amount in the sales departments is huge compared to the parts department gross profit. One of your problems might be matching expenses. For example, if you are charging items to delivery

expense when you receive vehicles instead of when you sell them, maybe find a better way to match them. Can you do a better job of making sure that the selling expense truly goes up and down with your sales variations? If you sell fewer pre-owned vehicles in the fall and winter, can you make sure you carry fewer vehicles in stock to reduce floor plan interest? Can you budget advertising to better reflect the slower buying months? Are your pay plans truly reflective of the production from salespeople? I used to have a general manager that would always debate with me when I told him that selling expenses were high. He'd say, "No, gross profit is too low!" He always felt it was easier to increase gross than reduce expenses and thus the reason why I like the **Gross % of Sales** metric. Can you develop a method to even out your gross profit in the upcoming fall and winter slow months, by increasing customer retention? If there is truly less floor traffic in the fall and winter, can you allocate fewer floor salespeople to the phone/BDC rooms to do some data mining? You might want to consider getting my **Data Mining made Easy** next month to get ideas. I think that your goal next month is to pick one department and analyze these two metrics; Exp % of Gross (74.1%) and Gross % of Sales (14%). How have these two metrics increased or decreased during the year and what can you do to improve and stabilize the metrics? By looking at these two items; gross and expenses differently (as a percent) it might point out some potential for better profit retention.

## Techno Tip - Sharing your Workbook over a Network

By Jack Ross

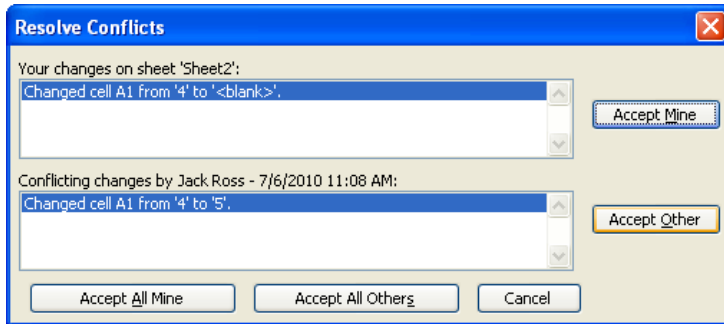
There are many times that departments need to work together specifically on one project, for example, next year's budget or departmental numbers that must be submitted to an external source (auditors, manufacturer, etc.) One way to streamline the process for these situations is to set up a shared workbook on your dealership's network. For a simple sharing scenario, the process is really pretty simple. You create your master workbook as you need it (perhaps with tabs for each department's numbers and a summary tab to link those numbers together.) When you're ready to save the workbook, click Tools on the menu bar, then "Share Workbook...". Check the box to Allow changes by more than one user at a time, then click OK. You will then be prompted to save the workbook. Navigate to your network's server and save the file. This will normally be a shared folder on the server that the necessary personnel have access to. From then on, whoever opens the workbook will see a notification at the top that the workbook is being shared:



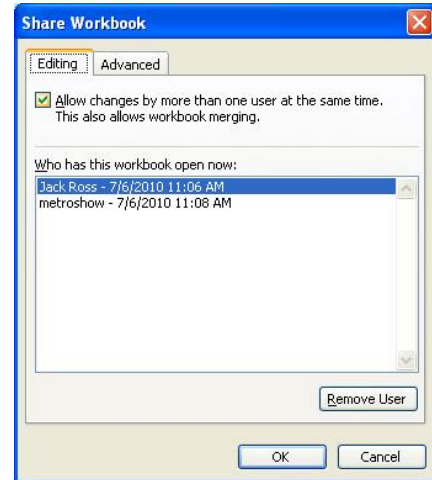
Your departments can enter the numbers they need to on their tabs just as they would do with any other workbook. And because the workbook is set to allow multiple-user access, no one has to wait

until someone else has closed the workbook before they can open it. What happens though if someone makes a change to the same cell that someone else is changing? Excel tracks everything that's going on with a shared workbook, including multiple users accessing the same cell or range.

If two people change a number in the same cell, the second user will receive a message when he attempts to save the workbook: This allows the user to decide whether to accept the other users'



entries or to overwrite it with his own. Additionally, each user can see who is in a shared workbook at any given time by



clicking Tools, Share Workbook. The dialog box will show who currently has the workbook open:

There are several options for fine-tuning the way a shared workbook can be used. Check the Advanced tab to see additional choices, and view some of the online articles about sharing workbooks on a network.

## Saving Money – Free Shipping

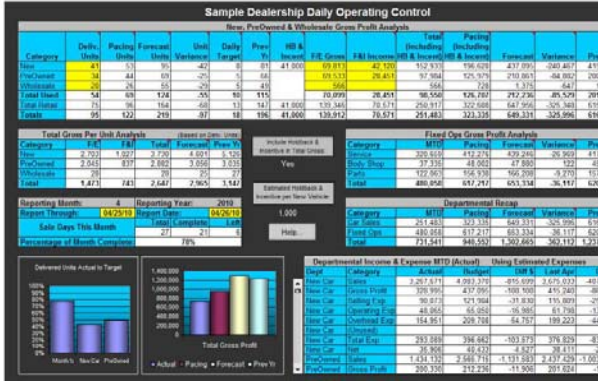
One of the hidden expenses that you pay is freight. When I looked at a recent computer billing for a client, I found that most supplies and forms have a freight amount tacked onto them. I then pulled a few office supply invoices along with shop supplies. The freight amount was over \$1,000 for the small sampling that I did. Unfortunately, this amount does not show up on the financial statement as freight because we charge the total amount to the account that the goods were charged to. The best way to save on freight is to not pay it. I have a Prime account at Amazon that lets me buy everything with 2<sup>nd</sup> day air free shipping. When I order envelopes or business cards from 123Print, I wait until I get an email for “free shipping” and usually a 20% off coupon. Make sure you always give an email address so you can get the coupons! I also order in bulk to get better savings. For example, 1000 envelopes cost \$79 per 1000, but ordering 5000 envelopes at a time only costs \$23 per 1000 and have free shipping! If you want to work on your freight costs, you might start charging the cost of freight to the actual freight account (yes, not a normal practice) to see how much you are really paying and then you work on reducing it by combining shipments, or getting free shipping specials that will save you this growing expense.

## Time Saver – Get to the End

In Excel, press Control, Shift, End to highlight all your data, and Control End to jump to the last cell in your data.

# Super DOC

Do you need a better DOC? Let's change to daily reporting instead of monthly!



Are you tired of trying to use your DMS system's DOC? Do you need better reporting - more visual for your managers?

**The DOC page.** An overview analysis of your dealership's gross profit. Includes a per-unit analysis for vehicles, and GP snapshots of all departments. A series of charts allow you to instantly see where you are compared to your target and last year's numbers.

**The Analysis page.** Examines the numbers extracted from your income and expense report. Compares current numbers with last year's and current year targets. Handy feature allows you to switch between actual and estimated expenses, which you can fine-tune, based on your expense expectations!

**The Charts page.** Here you can see timelines for current year against target and last year for any department or total dealership. Select the department and category (sales, GP, expenses, or net), and all charts on the page instantly update to examine your selection.

Has import instructions for most DMS systems to make daily updates easy!

## Super Tip – Easy Vacation Pay

In response to my article last month about making vacation pay easier, **Steve Roe of Roe Motors** in Grants Pass, Oregon suggested that you pay the employees vacation pay on their anniversary date. According to Steve, "The employee can take their vacation when they want (as long it meets the criteria that we set to maintain a staffed dealership). The other thing we find is the employees may have already spent their money and may not take their full vacation time due by a few days because they already spent the money. **It has really avoided a lot of headaches for us.**" Thanks to Steve for this great tip from his 20 group!

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