How to Make Sense of Metrics

By Don Ray
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As I read 20 Group composites, factory financials and even reports from Wall Street analysts, I've learned what may of you have known for some time.

There are thousands of published “metrics” in the retail car business. Some people can fish through these massive quantities of numbers and determine what they mean and even what they were for the same period last year.

But many of us just do not have the ability to hook into that much data and convert it to knowledge.

So if we can't reel in these multitudes of metrics, are we doomed to fail in the car business? No. There is hope. Rather than attempt to grapple with all these metrics for each month of each store, I suggest you consider paring these metrics down to what I refer to as key indicators.

When you spot a problem with the key indicators, you have a staring point for a deep dive with the appropriate department manager or managers. To match your priorities, style and management team you will want to develop your own key indicators.

These and other metrics may have different goals depending on the number of stores, size of the store, franchise, location, current level of performance and even corporate culture. Determine what is acceptable to you. As a launching point, consider using the following:

- Net Income as a % of Dealership Gross Profit
- Personnel Cost as a % of Dealership Gross
- Used Vehicle and Fixed Operations Gross Absorption
- Free Cash Flow
- Frozen Capital
- Working Capital

Let's look at each one.

Net income as a percentage of dealership gross profit is a measurement with which most of you are familiar. We would like see 30% and, yes, some of you would be ashamed of that number, so set your own goal.

Some prefer to use a net-to-sales percentage. I prefer net-to-gross because it diminishes the impact of fleet sales by a dealership. In other words, you can fleet vehicles to satisfy the manufacturer and still have good way to measure overall retail performance.

For personnel cost as a percentage of dealership gross, look to keep this south of 35%. Some folks prefer to use an equivalent measurement of gross profit per full-time employee.

But I prefer the former measurement since it considers salaries and benefits as a percentage of gross, not just the number of heads. You might have the right number of heads, but be paying them too much.

The translation for used-vehicle and fixed-operations gross absorption is total gross other than gross related to new vehicle less all expenses other than new-vehicle variable expenses and other deductions.

The goal here is to measure your dependence on new-car profitability. As a measurement, this factor should be greater than 100%.

Free cash flow may be a new one for you. This measurement looks at how much cash you are generating to pay debt principal and profit distributions to owners. So how much is enough? You know your debt load and lifestyle needs. So who better to make this determination than you? Below is a basic formula for the calculation.

Net income + Depreciation/Amortization - Increase (+ Decrease) in Working Capital - Capital Expenditures = Free Cash Flow

Frozen capital measures how well you manage your inventories and receivables. For more information on how this works and a format I refer you to my February, 2004 column in Dealer Business. (Go to www.wardsauto.com)

Working capital numbers are something you probably look each month on page one of your factory financial statement. The goal here is growth and compliance with your factory standard.

I hope this helps dealers, general managers, chief financial officers, controllers and others evaluate dealership performance by using key indicators.

If you think I missed something, let me know.

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