



# Monthly Automotive Outlook

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## Introduction

The U.S. economy appears to be at an economic crossroad: to the right light lies recovery and prosperity and to the left awaits a second recession, a plummeting stock market and rising unemployment. With current economic data that points in the direction of each of these paths, it becomes difficult to predict which outcome is more likely for the United States in the coming months. In the Bureau of Economic Analysis's most recent release they announced an advance estimate of U.S. GDP for the 3<sup>rd</sup> Quarter of 2.5 percent. This follows an even weaker 2<sup>nd</sup> Quarter GDP which settled at a lowly 1.3 percent. Inflation increased in September to 3.9 percent. This is combined with gold and silver prices which are again on the rise after sliding directly following the United States' credit downgrade. Together these metrics suggest higher inflation in the U.S.'s future.

## Key September/October Data

### Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at nearly \$2 trillion. The October Conference Board Global Leading Economic Indicators Report shows the U.S. and China increased at .2 percent and .5 percent respectively, while Europe decreased by .6 percent. The U.S. savings rate settled at 4.5 percent in September, down from 4.7 percent in August. The savings rate continues to slide and is down nearly a percent from July. Although automobile, SUV and light truck sales were down 1.7 percent in September relative to August 2011, they were up 9.9 percent relative to September 2010.

Monthly total light vehicles sales has exceeded one million units for the last seven months. Personal disposable

income is up 3.2 percent relative to September 2010 and now sits at \$968.3 billion. Construction spending increased further in September and is now 48 percent higher than January 2011. While the pending home sales index fell 4.6 percent in September relative to August, the September 2011 level of 84.5 is still 6.4 percent higher than the September 2010 level. August durable goods orders and shipments soared in September, each increasing by more than 10 percent relative to August 2011. The Dow Jones Industrial average finished September down 580 points (5.1 percent), which finished a two and a half month slide. The Dow rebounded in October and is up more than 1,500 points (14.6 percent).

### Negative Signs

The unemployment rate remained unchanged at 9.1 percent in September as nonfarm payroll employment increased by 103,000 and private sector employment increase by 91,000. Despite President Obama's job-creation focus, all progress seems to be eluding him. The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.27 percent with U.S. companies holding more than \$1.3 trillion overseas as a result. Oil prices have climbed in October, surpassing \$90 a barrel. Likewise, gold and silver prices reversed their downward slide and have begun trending upward again reaching over \$1,700 and \$35 per ounce, respectively. According to the latest manufacturing ISM Report on Business, the Manufacturing sector of the U.S. economy increased to 51.6 in September from 50.6 in August, but is still very close to falling below 50 which signals trouble in the manufacturing sector. Housing starts slide for the second straight month settling at 53.1. Consumer Confidence dropped considerably in October, reaching its lowest level since March 2009. The dollar index is also down about 4 percent so far through October.

## Current Issues

Of all my years in the retail auto industry and of all the things I've learned and experienced in selling vehicles I can honestly say, the most impactful way to generate more sales is to follow-up with guests who do not purchase the first time they visit your dealership. That's right. Study after study (I do a lot of it) clearly has shown that a typical retail dealership, whether franchised or independent, only effectively manage to achieve a 25% "be-back" rate of guests who leave without making a purchase on their first visit. Can you imagine, that says that 75% of the guests who visit a dealership are not returning to that dealership to make a purchase. Yet, studies clearly show that guests who do return to a dealership to gather more information or to re-evaluate their first visit, are closed 50% of the time versus 19% on that initial visit. So the real question is, "why are these high percentage closing rate types of potential customers not returning?" The answer is....they were never asked to return. No one ever followed up with them. Over the years I have been able to track many of these guests with a follow up call regarding their initial visit. In over 80% of the cases when I ask, "has anyone contacted you since your visit to the dealership" the resounding answer is an emphatic "NO".

I wanted to put some teeth into my research in an attempt to determine the financial impact should a dealership develop and implement a consistent (consistency is essential) follow up procedure for guests that visit the dealership but do not make an initial purchase. I selected a dealership averaging forty-nine retail used vehicle sales per month and was turning their used vehicle inventory at a minimum of four times per year on average. Their average front end gross profit per retail used unit sold was \$1,427. Like many dealers, they were averaging approximately 25% return rate on guests who visited the dealership within the last 30 days. With a clear focus on getting more guests back into the dealership for a "second shot" the management team agreed to practice a very rigid and dedicated system of having managers following up with

the guests rather than the sales team (just for a controlled benchmark, the sales staff eventually got the deal if the returning customer made a purchase). Here are the results: Management involvement improved the return rate of guests from 25% to 34% within 7 days leading to a 31.5% increase in the effective closing rate, which lead to a 30% increase in the used vehicle inventory turn rate. By getting management more involved in the follow-up process, monthly used vehicle sales went from 49 retail units to 64 retail units by months' end generating an additional \$31,105 in gross and reducing operating expenses by approximately \$2,795.00 in that same time period. All because management got more involved in the follow up process of guests who visited the dealership but did not make a purchase on that initial visit.

What would happen if....your management team and sales team followed up, followed up, followed up and followed up?

## Contact Us

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