



# Monthly Automotive Outlook

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## Introduction

Despite the high hopes for 2011, this year has proved to be a very trying time for American consumers and investors alike. A year that was supposed to be a time of growth and recovery has turned out to be anything but, and current economic data shows signs that the U.S. economy may again be slowing down and is even threatening a second recession similar to the 1979-81 U.S. “Stagflation” only at a more severe level and on a global scale. In the Bureau of Economic Analysis’s recently revised GDP data, growth for the second quarter came in at a meager 1.0 percent. Additionally, 1<sup>st</sup> Quarter GDP growth was revised downward from 1.9 percent to just .4 percent. Inflation rose slightly to 3.77 percent in August even with gold and silver prices receding over the same period. The end of September finds the U.S. Congress once again debating the federal budget. If a resolution is not found soon, the threat of a federal government shutdown looms just one month after the August debate and the raising of the federal debt ceiling.

## Key August/September 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 August Conference Board Global Leading Economic Indicators Report shows the U.S. and China as positive at .3 percent and .5 percent respectively, while Europe was down one percent. The U.S. savings rate remained high at 5 percent in August, down from 5.4 percent in July. Automobile, SUV and light truck sales were up 1.2 percent in August relative to both July 2011 and up 7.5 percent relative to August 2010. Over 6.5 million units have been sold during March, April, May, June, July and August which is the largest six month cumulative level since the end of the Cash for Clunkers program in 2008. Consumer Confidence declined

dramatically from July’s level of 59.5 to an August of 45.2, while showing a slight improvement in September 2011 at 45.4. Average disposable income was up slightly in August marking the tenth consecutive month that disposable income has increased. The average thirty-year fixed mortgage interest rate is at a near record low at 4.05 percent with the fifteen year fixed mortgage interest rate at 3.33 percent. The U.S. dollar index has been moving up consistently since August, increasing more than 6 percent to date.

### Negative Signs

The Dow Jones Industrial Average fell 519 points or 4.3 percent in August and is down 205 points in late September. The unemployment rate was at 9.1 percent again in August with nonfarm payroll unchanged and private sector employment up 91,000 in August. 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 \$1.2 trillion overseas as a result. While gas and oil prices have eased slightly over the last couple months, the threat of a global inflationary period is still very real with the potential for “Stagflation” and recession more likely than ever. According to the latest manufacturing PMI Report on Business, the Manufacturing sector of the U.S. economy fell from 50.9 in July to 50.6 in August, continuing its downward trend that was momentarily broken in June of 2011. The pending home sale index fell 1.3 percent in July to 89.7 from 90.9 in June.

## Current Issues

If there ever was anything anyone could ever say about people in the auto industry, it’s that “they sure are a positive bunch. Those car guys never have problems, they

only have opportunities.” Well today, one of the opportunities we have a problem with might be the lack of floor traffic. Let’s face it, it has been one heck of a challenging year with the “opportunity” of next year remaining about the same. What will your strategy be to build traffic that might not come or quite frankly might not even be there due to harsh economic realities? Will you advertise more? Will you tell your people to be more aggressive and make more phone calls? What if these efforts didn’t equate to more floor traffic?

What would happen if instead of advertising more (to a market that won’t respond), your strategy would instead be, to be more effective with the floor traffic you do receive each month. It’s not a surprise (only a sad fact) that in North America the number of potential customers or up’s that are sold on the first visit to a dealership still hovers at an amazingly low 19%. What that means is that 81% of the potential customers that visit any one particular dealership for the first time, do not make a purchase. Closing only 19% of the potential buyers that come into a dealership places a tremendous amount of pressure on daily operations. Here’s an example of what I mean; let’s say, a dealership wants to sell 49 vehicles in a month. Assuming a 19% closing rate on fresh ups, that would mean the dealership would have to generate 257 fresh ups that month, translating to no less than ten fresh ups per day (assuming a six day work week).

What would happen if sales managers and salespeople truly focused their efforts on improving their; counseling skills with customers, product knowledge skills, rapport building skills, communication skills, feature presentation and value building skills and by doing so increased the overall closing percentage from a mere 19% to an improved 26%. Here’s what would happen if you wanted to sell that same 49 vehicles in a month; the dealership would only need to generate 188 fresh ups that month or seven fresh ups per day. Just by doing a little better job and taking perhaps a little more time with each guest.

What would happen if you could only see 212 potential customers each month and instead of having an effective closing rate of a mere 19%, giving you approximately 40 sales, you actually improved your closing rate on that same number of 212 potential customers? I’ll tell you what

would happen, you would sell 15 more vehicles giving you 55 vehicles sales instead of the 40. The secret to a successful sales month is not in the ability to generate more floor traffic but rather to be more effective with the floor traffic you already have.

While the reality of today’s economy is that a dealership really can’t control the quantity of floor traffic that enters the dealership, the dealership certainly can take control of the quality of the selling processing when working with any limited quantity of floor traffic. What would happen if....**(to be continued)**

## Contact Us

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