

JUNE 2009 e-WHITE PAPER

# Boating INDUSTRY

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How To Effectively  
**MANAGE**  
**YOUR**

**INVENTORY**

Tools of the trade  
Your key to survival  
Change your approach  
Don't forget the marketing  
16 steps to inventory success  
Powering profits through auctions  
The five C's of commercial lending  
Building an effective online inventory  
Inventory sharing: An emerging trend?  
Forecasting with retail registration data  
Leading indicator may signal turnaround  
20 questions for marketing aged inventory

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Dear boating industry professional:

In my 19 years in the auction industry, I've had the opportunity to speak with countless dealers about how best to manage their inventory. Especially these days, with challenging economic conditions driving down demand and increasing repossessions, the importance of creating and executing a successful inventory management strategy has never been greater.

Given this economic backdrop and the questions and issues we at Manheim see and hear on a weekly basis, we are honored and excited to work with *Boating Industry* to share a variety of suggestions on how best to manage your marine inventory. Whether you're looking to dispose of hard-to-sell units, working to satisfy customers with specific requests, or interested in expanding your dealership without taking on additional transportation costs, I hope you will consider auctions as a part of your inventory management plan.

In the last five years Manheim has listened to the unique challenges the marine dealers face, and have launched specific programs to help marine dealers power their profits through auctions. We offer a history of vehicle prices to help guide your buying and selling strategies, very affordable participation, inspections experts and online channels to expand your buyer base and/or increase the number of units you can search quickly and inexpensively. I hope you will visit Manheim at [www.manheimspecialtyauctions.com](http://www.manheimspecialtyauctions.com) to find out how we can help you increase your productivity and efficiency.

Enjoy this e-white paper, and I'll look forward to seeing you in person or virtually in the auction lanes.

Sincerely,

Karen Braddy  
*General Manager of Specialty and Heavy Truck & Equipment Sales*





There's no denying that inventory management is the single-most-important key to success for boating businesses. Just look at the dire state the marine industry's current inventory glut has put us in. Carrying inventory is dealers' largest monthly expense; and as the current climate has made abundantly clear, without proper supply chain management, boat builders face over-production issues extremely quickly when the market turns sour.

As important as this area of the business is to financial success, the marine industry is quite poor at managing it. Dealer inventory turns, on average, are historically low and not conducive to acceptable profitability. And while there are a handful of examples of partnership where dealers and builders have worked hand-in-hand to manage inventory on the ground and in the pipeline, such partnerships are much too rare.

Certainly, there are many reasons we could allege to be the culprit of our current predicament, but one thing we can say for sure is that dealers can – and *should* – manage their inventories better. Through reviewing more than 1,000 Top 100 Dealers applications over the last five years, our editorial team has recognized that there are, at minimum, 16 steps to a sound, year-long inventory management program.

Most of these dealers employ the best practices of only one, two or maybe three of these steps, which suggest to us that the average dealer has even more room for improvement.

This, *Boating Industry's* seventh e-white paper, seeks to put dealers on a better path toward inventory management. There's no better time than right now, when inventory management is such an industry focal point, for dealers to put a new program in place to ensure they do a better job. The pain and suffering of the last year or more – not to mention the months to come – should be an incredibly powerful reminder of its importance.

This e-white paper will be kicked off with an article on what those 16 steps are, and then we'll turn it over to the experts and the dealers themselves to show you how you can improve your inventory management efforts. We'll wrap it up with a couple of articles that will help you look forward: one on securing floor plan lending and another on how identifying the turn-around by comparing aging inventory to sales.

Good luck.

Matt Gruhn  
Associate Publisher/Editor-in-Chief  
*Boating Industry* magazine

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By Matt Gruhn, Boating Industry magazine

# 16 steps to inventory success

A year-long guide to managing your inventory, brought to you by the Top 100 Dealers.

**T**here are numerous philosophies available to tell you how to manage your inventory. But where the prop hits the water, you need results, not theories.

The marine industry's problems with managing inventory have never been more evident than they are today. And the prevailing philosophies and theories that we, as an industry, have subscribed to for decades have proven to not hold water.

Today, there's great talk of what the future of the marine industry may look like. We've found ourselves in the midst of such a horrible inventory glut that leaders in many camps believe that our distribution systems will need to be entirely overhauled. While their opinions may be relevant, we know that at the very least, we as an industry need to manage our current systems better.

It's rare to find a dealer out there who hasn't found themselves in an uncomfortable, if not altogether threatening inventory situation. Even if that's not you, available credit and the climbing floor plan rates don't discriminate. They've affected everyone.

For you, as a dealer your opportunities may never have been more clear. It's clear that what we're doing now isn't working, and we need to develop a new approach. As one dealer told us so succinctly, "This is the same game, but the rules have changed. Dealers who refuse to change with it may not survive."

Survival sounds so last month, though. Today, it's time to put thoughts of survival behind you, and it's time to take control of the future of your business. Inventory will take you down if you don't manage it properly, and the good news is, there is a definite method to its madness. There's a little-known, year-long process by which you could and *should* manage your inventory. And had you been following this process for the past few years, you would find yourself in a much better place.

The bits and pieces of this inventory puzzle are no secret, especially to those savvy dealers who have performed well with their inventory management. What we believe to be little-known, however, are the combined efforts of this plan I am about to present. These efforts represent a compilation of the best-of-the-best steps that the industry's leading dealers, the Top 100 Dealers, use to find success.

The interesting thing to note here is that even with these elite dealers, only a handful of the components are used by any one of them. One dealer, for example, may focus on two or three pieces of this program. Another may use four or five. But rarely did we see a dealer using more than five of these steps. That suggests to us that the marine industry has a long way to go in managing its inventory.

So without further adieu, here is an overview and some ideas on how you can incorporate these 16 steps, gleaned from more than 1,000 Top 100 Dealer applications, into your everyday business of managing inventory.

**1. Know your market.** How do you research your market? If you're like the average dealer, you merely ask walk-in visitors how they heard of you. That's not research. The best dealers are researching their market to great lengths. They buy lists and information from state boating agencies. They monitor registration data available from industry partners. And they conduct research themselves. If you're not conducting real research of your market's needs, how do you know how to plan your business?

**2. Set inventory goals.** The marine industry average for inventory turns is about 1.0. That's a sad reflection on our ability to truly manage inventory. If that's you, you need to develop a stronger understanding of what turns will do for your profitability and then set goals to attain the level of profitability that you expect. You should be striving for a minimum of 2.0 turns, but experts suggest savvy dealers could hit 3.0 or higher.

**3. Forecast for success.** In order to successfully turn your inventory, you need to accurately forecast what your market will bear. This requires a compilation of the first three steps in addition to other factors, such as your market's economic conditions, trends and other research. It also requires an accurate historical perspective of sales trends. Proper forecasting allows you to order the right boats in the right quantities. It also allows you to set realistic goals and be better prepared no matter what the economy throws at you.

**4. Set sales goals.** Obviously, in order to move inventory, you have to sell boats. So along with your inventory goals, you need to set sales goals. The best dealers don't just set top-line revenue goals; they break down goals by brand, by unit and by sales person. This aligns individual goals with company goals, and it puts your business on a better track for success.

**5. Track your progress.** To ensure you're following through on your goals, employ a proven sales tracking system. The first and most basic of these is your standard inventory spreadsheet. So long as you have the critical information – make and model, HIN number, days on books, and a flag to call attention to aging inventory – you can find great success in tracking inventory. For more "real time" tracking, some dealers have used a proprietary, Web-based system to help them monitor their inventory.

**6. Go real time.** No matter the direction you go, you need to be able to update your inventory immediately upon a change, whether that's a new unit that has just been delivered, a pre-owned boat that has just been trad-

ed in, or a new unit that has just had a deposit put down on it. It is of utmost importance that everyone has access to this file, no matter what type of document it is, at all times.

**7. Touch and feel.** To be truly knowledgeable about what's in inventory, you should have your sales team walk the lot each day. They should be intimately familiar with what's in stock, what options are on each boat, what its price point is, and what, if any, promotions are available on it. Strong sales teams walk the lot together.

**8. Hold meetings.** While some dealers suggest that they hold monthly sales meetings, the best dealers hold daily sales meetings. During these meetings, they discuss active leads, available trades and inventory on the lot. They take turns presenting or "selling" boats to the rest of the sales team, and the team critiques the sales presentations.

**9. Hold more meetings.** Managers at the top dealerships sit in on weekly sales meetings with the sales teams, as well. Here, management can make decisions on promotions and other markdowns for aging units. It's also a good time to ask sales people to take ownership in generating ideas on how to move aging units. Finally, fulfillment of training needs, which are uncovered in the daily sales meetings, is discussed and planned.

**10. Manage your leads.** If you think you're successful with your lead management, I challenge you to think again. Most dealers think they're doing well, but industry studies tell a different story. In fact, of all leads sent to marine dealers, on average, only 30 to 40 percent are ever responded to. And of the 60 percent or so that are responded to, nearly half of them provide the consumer with the wrong information. Clearly, there's room for improvement. You should be tracking every lead, ensuring that your sales team responds almost immediately, holding sales people accountable for this process, and you should be measuring (and improving on) your results.

**11. Use history as your guide.** Just as historical performance should lead your ordering process, it should also affect how you manage your inventory. Leading dealers work hard to retain an accurate history of inventory levels at specific dates throughout the year. Those dates can vary with your needs, but a common guide is to use the end of July (no more than 20 percent of current models in stock) because you're nearing the end of prime selling season, and then Labor Day (no more than 10 percent in stock) because your selling season is coming to a close. No matter what dates you use, keep a close eye on inventory levels and compare them to historical performance.

**12. Give birthday "gifts."** Nobody likes to pay curtailments. Dealers used to launch special promotions to move aging product before the boat's one-year birthday. Now, with curtailments moving up to nine months, consider launching special promotions to move product when the boat turns six months old. Consider such things as a "must-see" boat promoted on your Web site, special communications with past customers, requests for referral customers, special financing (when available again, of course) and so forth.

**13. Incentivize.** When the new boats come rolling onto the lot, it's easy for your sales people to overlook aging inventory. If only the accountants could overlook it as well. You need to jump into action to incentivize your sales team to move that older product. Don't pay them their regular commission structure because that oftentimes rewards them for selling new product. Create a bonus package that rewards them in relation to how you are rewarded when that old product is trailered off your books.

**14. Be creative.** We all know that boaters like to make their boats "their own." Very rarely do they take the stock product offered by the manufacturer and not modify it with some product that fits their lifestyle. Use this knowledge to help turn a prospect into a sale. Generate ideas at the sales meetings discussed earlier to figure out whether it's an electronics package, or a wake-board, or a stereo, or something else that could convert someone into a customer. There are many ways that you can help convince someone to buy. Throwing in some creativity, so long as it doesn't compromise your overall profitability, may be the key.

**15. Move inventory.** This tip can carry many meanings. First, you should be rotating inventory on your lot. Don't keep the same boat on the roadside or in the front-window display. Rotate what you're promoting. If you're a multi-location dealer, you should consider rotating inventory throughout your locations to give area prospects something new to look at. And finally, share your inventory with like-brand dealers. Some dealers make this happen over the phone. Some use manufacturer-provided resources. And still others have found options like MarineDealerTrader.com.

**16. Adjust as necessary.** You should remain in contact with your boat builder partners about your orders. Don't be afraid to reduce orders and lose an incentive if you're having trouble selling the boats you already have. Your manufacturers can work with you on adjusting the delivery schedule to help meet your needs. And let's not forget, especially in light of the current inventory glut we're facing, they are as interested in you moving boats out of inventory as you are.

In any dealer's inventory management program, there is room for more than merely these 16 items. And there are certainly some unique initiatives out there that can add to your inventory success. You may consider "selling" aging inventory to your own rental fleet. You may consider buying or selling through auction houses. Whatever elements you choose, we have seen that the more of these 16 steps that you can include in your arsenal, the better off you'll be in the changing game that is inventory control. ■

**Matt Gruhn** is Associate Publisher/Editor-in-Chief of *Boating Industry* magazine and the lead editor on this inventory management e-white paper. He has led the Boating Industry team that has reviewed more than a thousand Top 100 Dealer applications and published more than a thousand best practices. He can be reached at 763/383-4448 or [mgruhn@affinitygroup.com](mailto:mgruhn@affinitygroup.com).

By David Parker, Parker Business Planning

## Tools of the trade

The right plan, complemented by the right tools, will ensure inventory management success.

Effective inventory management is an integral part of any healthy boat dealership. It ensures that the proper amount of boats, motors and trailers will be on hand to achieve projected sales goals. It will also decrease the likelihood of having excess, non-current inventory at the end of the selling season. In my experience, here is the best method for successful inventory management:

**Project the Sales** – Good inventory management starts with realistic sales projections for the upcoming year. Begin with an analysis of the past year’s sales by brand and model. Now couple that with a good gut feel for what the market will be for the next year. It is wise to involve the sales team in the decision-making process to get both the benefit of their judgment, as well as their “buy in.”

**Project the Amount of Inventory** – After projecting the expected annual sales dollars of boats, motors and trailers (line 1 of worksheet below), you will then need to project the dollar amount of inventory it will require to support the sales volume on a monthly basis. To accomplish this, you will need to determine what the total cost of sales will be for the boats, motors and trailers. Using the sample worksheet below, estimate the expected gross margin percentage you intend to make on your unit sales (line 2). Multiply that percentage times the projected sales volume to get the estimated gross margin dollars (line 2). The difference between the two will yield the cost of sales (line 3).

**Determine the Expected Turnover Rate** – two or more is desirable (line 4).

**Divide the turnover rate into the cost of sales** – this determines the average dollar amount of inventory that needs to be on hand on a monthly basis (line 5). (For this example, we used the entire sales department; however, you can use the same process to project by manufacturer, model or category.)

Since inventory is typically higher in the winter and lower in the summer, determine which three or four months will be your high months and, correspondingly, which will be the three or four months of low inventory. For instance, January, February and March are typically high months for most dealers and June, July and August are typically low months (see

lines 11-22). I suggest you increase and decrease the average inventory by 25 percent to determine the high and low monthly amounts of inventory (line 6). Plug in the projected inventory according to its High, Average or Low amount and you will have a monthly projection of inventory for the sales department (lines 11-22).

Inventory Projection Calculator				
1	Projected Sales - # & \$		\$3,000,000	
2	- Gross Margin	20%	\$600,000	
3	= Cost of Sales	80%	\$2,400,000	
4	/ Turn Over		2	
5	= Average Inventory		1,200,000	
6	+ / -	25%	300,000	
<b>Inventory Levels</b>				
7		<b>High</b>	<b>Average</b>	<b>Low</b>
8		\$1,500,000	\$1,200,000	\$900,000
<b>Inventory Projections by Month</b>				
9		<b>Hi, Low, Avg</b>	<b>Inventory \$</b>	
10		<b>Months</b>		
11	Jan	H	\$1,500,000	
12	Feb	H	\$1,500,000	
13	Mar	H	\$1,500,000	
14	Apr	A	\$1,200,000	
15	May	A	\$1,200,000	
16	Jun	L	\$900,000	
17	Jul	L	\$900,000	
18	Aug	L	\$900,000	
19	Sep	A	\$1,200,000	
20	Oct	A	\$1,200,000	
21	Nov	A	\$1,200,000	
22	Dec	A	\$1,200,000	

*If you would like to use this spreadsheet that calculates the projected inventory, send me an email requesting our "Inventory Projection Calculator" and I will send it to you free of charge. Email: [david@parkerbusinessplanning.com](mailto:david@parkerbusinessplanning.com).*

**20/10 Rule** – The 20/10 rule helps to show if the dealership’s inventory is on track with sales. By the end of July, the goal is to have, in stock, no more than 20 percent of projected annual current units and no more than 10 percent after Labor Day. For example, if the plan is to sell 100 units of a particular brand or category, there should be no more than 20 units in stock by July 31st and no more than 10 in stock after Labor Day. Do not combine yachts and cruisers with runabouts when making this



calculation. Treat yachts/cruisers as their own category.

**Tracking In-Stock Inventory** – The best way to track inventory is to maintain a list or spreadsheet of all inventory by manufacturer and days in inventory. Many dealers will include other useful information such as year, model, options, MSRP, selling price and a minimum sell price. One of the most important tools for this worksheet is to color code the “days in inventory” column. Emphasize in red the oldest product on hand.

These inventory management concepts will hopefully make projecting and tracking inventory easier and more accurate, saving you time and money in the long run... Good Luck! ■

**David Parker** is president of Parker Business Planning, a consulting and 20 Group-hosting company that specializes in the marine industry. He is also a featured speaker at the annual Marine Dealer Conference & Expo. You can e-mail David at [david@parkerbusinessplanning.com](mailto:david@parkerbusinessplanning.com), call him at 407/843-8808 or learn more about his company at [www.parkerbusinessplanning.com](http://www.parkerbusinessplanning.com)

## EXPERT TIP:

If using an Excel spreadsheet the “Conditional Formatting” tool is awesome (go to Tools / Conditional Formatting). I suggest setting the conditions for the number of days in inventory in the following manner; 180 to 270 days = Yellow background, 271 to 365 = Orange background, and 365+ days in inventory a red background. A “Data Sort” on the “Days in Inventory” column of your spreadsheet will list first the oldest items. This is an excellent tool to monitor aging inventory. Put an extra sales incentive or spiff on the oldest inventory to help make sure it is sold first. Send me an email requesting a sample inventory spreadsheet and I will send you a free copy. Send to [david@parkerbusinessplanning.com](mailto:david@parkerbusinessplanning.com).

## COLOR BY NUMBERS

Best Practice

Throughout the United States, economic conditions have made it tough for many dealers to move boats. For states like Michigan and Ohio, the Great Lakes market has been tough, at best.

But out of those states has emerged a growing force along the southern shores of Lake Erie — South Shore Marine Service. This Huron, Ohio-based dealer has shown growth over the last few years. While much of that growth came through acquisition, between 20 and 25 percent of it was organic — and much of that can attributed, according to Tom Mack, president and owner, to its “aim to minimize hold time for each inventory unit.”

To that end, the company uses an inventory spreadsheet, and next to each listed unit is a bold number noting the number of days it has been on the company’s books. In fact, at the company’s Monday sales meetings, the spreadsheet is projected onto a wall for everyone to see and discuss at once. And every 90 days, this number changes colors, indicating the need to re-strategize the sales needs for each unit.

“This is a helpful tool for tracking our top leads, defining what’s in contract, pending, etc.,” Mack explains. “As an

inventory unit changes colors, it’s a very important reminder that 90 days of accumulated cost have been applied to that unit, and that awareness typically sparks some interesting team brainstorming.”

Often, it’s greater flexibility and creative thinking that makes the difference. No ideas are ruled out. And sometimes, the company has found, simply moving a boat, launching a new unit and telling a potential buyer that the boat they were considering was launched for a sea trial; taking a nice fishing boat out on for a few customer trips; or changing things up online can spark some buyer curiosity.

As an example, at 90 days or 180 days, the team might determine that it needs to take a closer look at potential trades, lower asking prices, enhance its marketing and advertising, move the boat to a different location, study prospect lists, put a unit on Ebay, or other wholesale options, or link special incentives to the sale of a specific unit.

“What we do not do however is to actually write a boat’s book value down to “change its position” as far as cost basis,” Mack says. “It’s certainly not always just about lowering the

price or linking any huge incentive to the deal — it’s just about discussing each unit weekly to keep the awareness of the unit’s age very clear in each person’s mind.”

At South Shore, the sales team’s commissions are typically partly linked to the gross profit on the transaction. But if market value appears to be less than anticipated and a sales person could view this inventory unit as not so fruitful, the company makes it clear to the sales team that its willingness to pay a set amount on a specific unit will happen regardless if gross profit looks tight on the deal.

And when it comes down to it, creatively structuring deals oftentimes is all it takes go get a buyer to move. From the simple things like making the boat “fit” the owner through simple adjustments or even including a free, special optional item all the way up to making the first couple months payments or offering free dockage for the balance of the summer are examples of what South Shore has done.

“We often figure the cost of something like this,” Mack explains, “could be no more than, say, the next few months of floor plan cost.” — Matt Gruhn

By Patrick Kennedy and John Spader, Spader Business Management

## The art and science of inventory management

How to master your inventory with a mix of precision and zen-like thinking.

Unit inventory is normally the largest asset on a dealer's balance sheet, normally one of the largest determinants of the dealer's future success or struggle, and – surprisingly – normally one of the least systematized components of the business. This article seeks to answer why, and lay out some key thought processes for successful inventory management.

Year after year, some dealers carry over more previous model year units than they want, watch a greater portion of their inventory age, and kick themselves as they are forced to sell aged inventory at a loss. Yet, because of a lack of an alternative system, these same dealers repeat the same ordering mistakes of past years: they buy too deep on the wrong deals, don't adjust fast enough to changes in the market, and don't have a feedback system strong enough to clearly indicate when they've got the wrong inventory in stock – until it's too late.

By our numbers the marine industry has averaged about a 2.0 turnover the past 15 years. However, with increased lending availability and historically low rates, as an industry we have gotten out of the habit of carefully managing our inventory. It shows in the numbers: for 2008 the average marine dealer's turnover was just over 1.0. In a normal to high floor-plan interest rate environment – which we are certainly heading into – dealer turnover will need to be at the historical average or above if dealers are to maintain survival net profits.

Inventory management is seemingly impossible in big-ticket sales. Consider the math variables alone – volume, margin, interest rates, market share, average unit cost, turnover, stocking requirements, discount programs, plus many more. That list alone is daunting.

But even if you have the greatest inventory calculation system ever devised and are able to master the data needed, you still haven't got all of the pieces of the puzzle. In addition to the math, the most consistently good inventory managers also seem to have almost a "sixth sense" ability to know when to buy more, or when to hold off. Defying math and what other businesses are doing, these dealers take risks that seem inconsistent with the current market but often turn out to have just the right merchandise at just the

right time. So how can one master a topic that is such a mix of precision and zen-like thinking?

Our experience tells us that inventory management is complicated because it is a mix of art and science. But it can be mastered. While there will always be surprises in any market, by learning the basics to both the art and the science of inventory control, dealers can protect themselves from serious inventory errors. We have identified some key thought processes of high performers, and have created assessments to give you a sense of what your current level of expertise is.

### THE SCIENCE

#### Key Point #1: Know the basic equations of inventory

First, there is the math of inventory control. Every dealer, no matter what size, should be proficient in the equations needed to effectively monitor inventory, project turnover, and monitor results. First, let's take a look at the basic equations of inventory:

1. Average Inventory =  $\frac{\$ \text{ Sales} \times (100\% - \text{GM}\%)}{\text{Turnover}}$
2. Sales \$ =  $\frac{\$ \text{ Average Inventory} \times \text{Turnover}}{(100\% - \text{GM}\%)}$
3. Turnover =  $\frac{\$ \text{ Sales} \times (100\% - \text{GM}\%)}{\$ \text{ Average Inventory}}$

By understanding and using these primary formulas, dealers can compute and project their inventory needs with clarity. Let's look at some examples:

First, let's say we know that we can do \$5 million in unit sales next year, and we believe we can achieve a 15-percent average margin. What average level of inventory should we have in stock if we'd like end up with a 2.5 turn?

Let's plug in the numbers into formula 1:

$$\frac{\$5,000,000 \times (100\% - 15\%)}{2.5} = \$1,700,000$$

Using formula 2, let's imagine a scenario where we already have \$2 million of inventory and would like to turn it twice at an 18-percent margin. What sales must we reach to support this inventory?

$$\frac{\$2,000,000 \times 2.0}{(100\% - 18\%)} = \$4,878,049$$

With from formula 3, we can determine what turnover we will end up with if we meet our sales plan. Let's say we plan to have an average of \$2.8 million in inventory and plan to sell \$4.5 million over the next year at a 10-percent margin because much of it is aged. The bank wants to know what our turnover will be if we meet our goal.

$$\frac{\$4,500,000 \times (100\% - 10\%)}{\$2,800,000} = 1.4$$

Too often in 20 Groups we find that the only time dealers are watching turnover is when we discuss it at the meetings. Bad idea! Inventory is one of the key drivers of our business: you need to monitor turnover monthly to be sure you are on track to meet your annual goals. Take time to plug your sales plan into these formulas and project in advance what your turnover will be.

### Key Point #2: Know what your numbers are.

When planning inventory for your business, make sure you know the details of your market and your historical

sales trends and factor these into your plan. Many times, we see unrealistic budgets from dealers – they either ignore the past history of their own business or do not take into account changing conditions in their market.

First, when you are analyzing a purchase plan for new product, don't assume changes in your volume or margin unless you are also making changes in the way you do things at your dealership. You will likely continue to get more or less what you've been getting if you don't change your approach to training, to prospecting, to closing, and to following up.

If you forecast and purchase based on an industry average of 3.0 turns, for example, but your store has averaged 1.5 for the past five years, it is unrealistic to expect much over 1.5 unless you are committed to doing something different that will bring the better result. Many manufacturers' projections are based on industry averages that may or may not apply to your business: before you sign, make sure you know what the historical average is for your store. If you don't like it, change it – but don't plan for something different without planning to do something different.

Second, be aware of the factors in play in your market. While it is certainly true that the most important impediments to our own success are internal, it is also true that you cannot be completely blind to the local market. If yacht sales are down 50 percent in your market, don't purchase inventory expecting to buck this general trend unless you have something very, very special.

Often, trying to meet personal ("Number one in the market!") or

## What's Your "Science of Inventory IQ"?

1. If I buy 3 units and sell 9 units I automatically have a three turn.

True or False

2. High gross Henry is planning on \$3,000,000 in retail sales of Cruiser Brand A at a 20% margin. If he wants a 3.0 turn, what should his average inventory level be?

- A. \$800,000
- B. \$1,000,000
- C. \$500,000

3. Low gross Leonard is also planning on selling \$3,000,000 worth of boats at a 3.0 turn. But he is going to shake up the market with his low pricing and only make 5% margin. How much does he need to stock on average?

- A. \$950,000
- B. \$1,000,000
- C. \$770,000

4. Even though he was a good customer, the flooring company just raised Henry's floorplan rate from 6% to 8.5%. Before he found out about this, he was planning on retail sales of \$3,000,000 at a 20% margin with 3.0 turns. What turnover will he need if he wants to sell the same amount of merchandise at the same margin, but keep his

interest expense dollars the same as it was before the increase?

- A. 2.5
- B. 3.5
- C. 4.25
- D. 5.0

5. Detail oriented Dave has made his complete forecast for the next twelve months.

Sales	\$4,500,000
Cost of Sales	\$3,750,000
Gross Profit	\$ 750,000
Average Inventory	\$1,600,000
Floorplan Rate	6%
Floorplan Expense Ratio	12% of the A.I. \$ (gross profit \$)

However, he has just been notified that his rate will be rising to 8.5% as well. Additionally, he noticed that if he adds the new flat charges onto the new rate, effectively his flooring rate is 9%. If he doesn't make any adjustments to his sales or inventory plan, what will his new expense ratio be?

- A. 10.8%
- B. 16.5%
- C. 19.2%
- D. No idea – just need to go sell some more!

### ANSWERS

manufacturer goals, dealers end up buying more merchandise than the market can bear. There is nothing wrong with the product, nothing wrong with the dealer, just that the local market will not support the volume required by the inventory level. As well as you are able, track local market conditions by dealer and product type. It is not a zero sum game, but you are also not operating in a vacuum.

**Key Point # 3: Include your existing inventory in your calculations for turnover and sales margins.**

Once you've determined what your historical margins are, and know what's happening in your market, you must include the effect of your current stock on your inventory projection. Yes, it may be true that if all you had to sell were brand new, factory fresh boats you might be able to increase your margins by five points. But the reality is that we are always selling a mix of brand new, slightly aged, and really aged inventory. The key to not being surprised at the end of the year is to plan for the sale of existing inventory as well as your new purchases. The best way is to create an easy tool to analyze the inventory by brand and by dating.

**Inventory of Product A – Existing and New Purchases**

Age	\$ of Inventory	GM%	Sales \$	Available Income (A.I.) \$
365 days +	\$800,000	4%	\$833,333	\$33,333
240 - 365	\$350,000	8%	\$380,435	\$30,435
180 - 240	\$400,000	12%	\$454,545	\$54,545
90 - 180	\$160,000	15%	\$188,235	\$28,235
New Purchases	\$2,000,000	20%	\$2,500,000	\$500,000
<b>Total</b>	<b>\$3,710,000</b>	<b>14%</b>	<b>\$4,356,548</b>	<b>\$646,548</b>

The key understanding about Product A sales is that we already have \$1,710,000 in stock. In other words, the average inventory that we already have is sufficient to reach our sales objective based on a 2.0 turn. However, without the new merchandise it is impossible to reach the margin targets with this product. By starting with a sales forecast for the year that is broken down by month, you can determine what average inventory you will have throughout the year – and decide what new units to order, and when you'd like them delivered so that your average inventory stays in line. So you have choices to make, but at least you know it before you start signing purchase orders. Many dealers order and plan without reference to the current inventory and are surprised when they have a lot of carryover or lower selling margins.



**ANSWERS:**

**1:** Usually false. Because of the tremendous variance in the average cost per unit and, more importantly, the average amount of inventory dollars in stock, it is highly recommended that dealers figure turnover on dollars, not units sold.

**2:** Henry should average \$800,000 in inventory to reach a 3.0 turn. Using inventory formula 1:

$$\text{Inventory} = \frac{\$ \text{Sales} \times (100\% - \text{GM}\%)}{\text{Turnover}}$$

$$\frac{\$3,000,000 \times (100\% - 20\%)}{3.0} = \$800,000$$

**3:** \$950,000. Same formula, different answer! Let's plug in the numbers and see why lower margins always equate into higher inventory if you wish to keep the same sales volume and turnover as a higher margin dealer.

$$\frac{\$3,000,000 \times (100\% - 5\%)}{3.0} = \$950,000$$

**4:** 4.25. First, we need to determine what Henry's original interest expense was. Annual Interest Expense = Average Inventory \$ x Interest Rate % We can determine the Average Inventory \$ by using formula 1 again.

$$\frac{\$3,000,000 \times 6 \times (100\% - 20\%)}{3.0} = \$800,000$$

Now we can calculate the Interest Expense:

$$\$800,000 \times 6\% = \$48,000$$

The next question is: with a higher floorplan rate, how much inventory can Henry stock on average to keep his expenses the same? The answer is \$48,000 / 8.5% = \$564,706. Using formula 3, we arrive at the new needed turnover:

$$\text{Turnover} = \frac{\$ \text{Sales} \times (100\% - \text{GM}\%)}{\$ \text{Average Inventory}}$$

$$\frac{\$3,000,000 \times (100\% - 20\%)}{\$564,706} = 4.25$$

**5:** 19.2%

$$\text{Interest Expense Ratio} = \frac{\text{Interest Expense } \$}{\text{Gross Margin } \$}$$

The new interest expense will be 9% times the average inventory of \$1,600,000, or \$144,000. Put this into the equation:

$$\text{Interest Expense Ratio} = \frac{\$144,000}{\$750,000} = 19.2\%$$

**ANSWER KEY:**

- 5 out of 5** You could be an inventory wizard
- 3 or 4 out of 5** Make sure you double check before you order
- 2 or 3 out of 5** No ordering unless your 20 Group approves!
- 0 or 1 out of 5** We'll see you at the workshop!

**Key Point #4: Play the game on paper before you play it with your life savings.**

Simply put, figure out your annual inventory plan before you ever order a single unit. It doesn't matter where you do it – Excel, one of our worksheets, or even a pad of paper – just lay it out in total before the ordering begins. Include inventory ordering with your sales plan and if sales change, so does your inventory plan. If the mix of inventory sold changes, so does your inventory plan. It needs to be by type, by brand, and by month.

**Key Point # 5: The anticipated increases in costs of flooring are likely not a short term phenomenon, and you will need to increase your turnover to keep your flooring costs in line.**

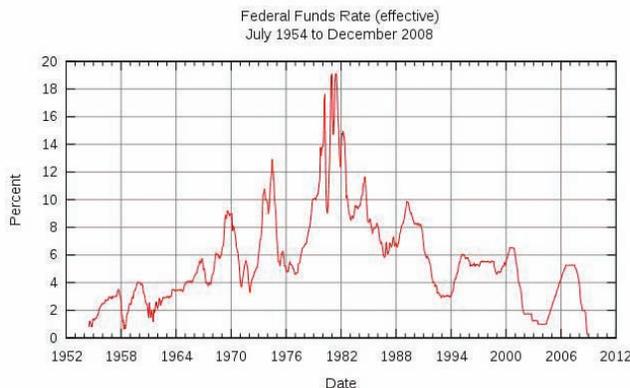
Anticipate higher costs this year and next, and build a plan around the higher costs. If you get a break and the costs go down, you're the winner. But if they increase as expected, you will have still built an inventory system that keeps your expenses in line.

In our financial management model, we coach dealers to monitor the percentage of sales department gross margin dollars they are spending on floorplan expense. The resulting "interest ratio" is a key profitability predictor. The calculation is easy to do with your own data:

$$\text{Interest Expense Ratio} = \frac{\text{Floorplan Expense (including fees)}}{\text{Sales Dept Gross Margin Dollars (excluding F \& I)}}$$

Our research shows that a ratio of 13 percent or lower is normally acceptable for marine dealers. Another key finding from our data is that when the interest ratio exceeds 18 percent it is nearly impossible for the sales department to maintain acceptable profitability. The last decade has been a relatively low to extremely low interest rate environment for commercial borrowing, as the chart below suggests. Looking at the general movement of rates in the recent past, it is easy to understand why dealers have generally not had to worry about interest expenses.

This current rate environment is likely unsustainable as inflationary pressures ultimately grow in the economy at large. In addition to pricing in new perceived risk in our industry, which has already happened to most dealers, lenders will be forced to increase rates as the cost of funds increas-



Here's a look at the Federal Funds Rate spanning from July 1954 to December 2008. Rates are at historic lows, and savvy planners are expecting higher interest costs this year and next and should build a plan around that expected cost.

es. By building anticipated increased costs of lending into their financial model, dealers protect themselves against a shocking surprise.

**THE ART OF INVENTORY CONTROL**

Our experience shows that the math is not enough to be a highly successful inventory manager over the long run. Instead, dealers with a long history of success with inventory and high turns over many years seem to have developed an extra sense, a "feel" for the market. They have a "knack" or "gut sense" of the market that is at least as important as the statistical facts.

How do they do it? Were they born with a highly developed genetic predisposition for inventory management? Is it purely instinct? Is it the result of years of being in the business? While that last item might be an important factor, watching our clients over a long period of time has shown that this seemingly unfathomable sense is really the result of some key principles that all could follow.

**Key Point # 1: Don't get drunk on flooring.**

It is very easy to lose sight of the fact that any single boat is an important purchase decision. With flooring availability of many millions, it is easy to buy boats as if you were shopping at the market – "I'll take two of these, and three of those, and better throw in one of those, too!" Even in tough times, we are meeting dealers at our workshops that are still buying this way. Not those with "the touch"; you rarely hear a dealer with quality buying habits being casual about any purchase. In fact, while they may look very cool and relaxed at dealer days, ask any dealer with long-standing success in inventory management about the products he or she sells and you will likely be surprised with the great detail of knowledge about the models, options, and accessories. What you don't know can put you out of business, so the masters of inventory make it a mission to know all they can about their products, and never buy casually.

**Key Point # 2: Tighten your margin of error on your order plan in tough times.**

Every order plan likely has some variability built into it. If the early shows are positive, a dealer might buy some more speculative models, for instance. In tough times, though, keep your buying to the known commodities. Even if there is a "hot new model" in difficult times often it is better to let others be the test markets for new equipment and play to your known strengths.

### Key Point # 3: Don't let the math run your business. People and judgment matter.

How good is your “human intelligence” about the market and the models that are selling? The best inventory managers have a careful ear to the ground to find out what the sentiment is before it becomes known to all. What are the drivers delivering to other dealers? What are the top models being ordered (not delivered) right now? What are the customers asking about that you don't have? What are the customers at the marina or at the lake talking about? What about your salespeople – do you have a formal way to involve them in an inventory feedback process?

The only way to know these things is to get yourself in a position to hear, and that's what the real pros do – they are involved with their customers, vendors, and their employees in such a way that they get real time feedback about what is interesting and important to the boating consumer. Its not rocket science, but it is a discipline that needs to be developed – through customer clubs, blogs, and online communities of boaters, by cultivating relationships at the plants and even with the delivery drivers, and by involving your sales staff in regular discussions about inventory. This “ear to the ground” mentality is a hallmark of quality inventory control.

### Key Point # 4: Know when bogey is a good score.

We all take economic risks every time we order something. No matter how much planning we can do, we sometimes make mistakes. The key is to know early when you've made a mistake and cut your losses quickly. Particularly when you've ordered extra product in exchange for a discount or holdback, make sure you

know what milestones you need to hit to get your ROI. If it's not happening, for whatever reason, take your lumps early and move on. Do not wait through the season hoping the bet will pay off.

### Key Point # 5: Know your inventory — not just on the printout, in person.

The very best inventory managers are regular visitors to their own lots. They take their inventory list and visit every single boat in stock, starting with the old age units, to make sure they are ready to be sold. Are all the parts there? Is it clean? If I were a customer would I be impressed by the way it's displayed? If the answer is “no” to any of these, do something – immediately. It is remarkable how many dealers do not monitor the condition of their inventory regularly. They complain about the market or the “dumb dealer down the street” or even their own sales team. But when the 20 Group shows up we find lots of dirty boats or boats missing parts or prices.

### Key Point # 6: Get it where you can.

Finally, the best inventory managers know when they've got a great product at a great value, and they make the best margins on it. If you'd like to average 20 percent margins through the year on a particular product, it means you better make 25 percent margin on the factory fresh models, to make up for the older units you will inevitably sell for 15 percent. Have discipline around your pricing systems, so that the newest and best units (the most valuable) are priced accordingly.

### Summation: Art and Science at Work in the Business

So it's not magic, but quality inventory management is a combination of rational and non-rational factors. Success in this market and over the long-term depends on being able to master both the science and the art of inventory. Dealers that can learn the math and forecasting of the “science” of inventory as well as create the discipline to develop the high touch, very

## Rate your Sixth Sense of Inventory Management

Rate yourself on a score of 1 – 5 in the following statements.

- 1 = Never
- 2 = Seldom
- 3 = Sometimes
- 4 = Usually
- 5 = Always

1. I talk to the delivery drivers from the factories to hear about what they're delivering a lot of and what there might be a lot of at the yard.
2. I regularly ask my customers what models they'd like to see or are interested in that they haven't seen in our inventory.
3. I know what models competitors are selling in my market.
4. I have a regular system of communicating with salespeople and getting their feedback about models, options, and colors.

5. I ask for and get a top ten selling models list from my manufacturers monthly.
6. I personally use the products I sell, and have a good feel for what customers “on the water” (as opposed to “in the showroom”) are really thinking.
7. I personally walk my inventory regularly.

### ANSWER KEY

**30 - 35 Points** Art of Inventory Guru status!

**25 - 34 Points** Need to refine your efforts

**15 - 25 Points** Commit to doing all the time what you do sometime!

**0 - 14 Points** Inventory is too important not to be making significant changes in your approach.

human opinion based “art” will succeed far better than those who focus on one or the other.

So what are the best practices for effective inventory management implementation? We recommend a very proactive scheduling of your time as the business leader for inventory management, and suggest the following guidelines for minimum focus:

## **Annually:**

- Create an inventory purchase plan as part of overall sales projection. Have inventory sales and purchases/deliveries determined by month, by brand.

- Decide in advance any special promotions you will have (i.e., \$9,999 lost leader at early shows) and budget these sales and purchases into your plan.

- Develop formal (survey in writing) or informal (part of the sales department discussions with customers) method of getting feedback from customers, vendors, and employees about potential future orders.

## **Monthly**

- Review your sales department scoreboard, and track deviations from your original plan. If you are behind forecast, consciously decide whether or not to delay or cancel orders.

- Review the feedback you’ve collected from your “human sources.” Is the future demand projected by these aligned to your existing order book? If not, consider making adjustments.

## **Weekly**

- Physically walk your inventory, inspecting all units personally.

- Review the 10 oldest boats in stock with the sales department, making sure not only that the boats are displayed perfectly and “ready to deliver”, but also that every salesperson is enthusiastically able to deliver a world-class presentation on each of these models. ■

An author, consultant and instructor, **John Spader** has worked with a host of individual companies (most frequently retail dealerships) in a variety of industries. Spader Business Management — and the network of 20 Groups for which it has largely become known — blends statistical analysis and hands-on coaching and consulting to assist clients in formulating proven business plans and increasing revenues.

**Patrick Kennedy** is a primary presenter for Spader’s Total Management 1 Workshop, a 20 Group facilitator and a consultant for Spader Business Management. Spader can be reached at 800/772-3377 or [www.spader.com](http://www.spader.com).

## **FORECASTING SUCCESS**

Best Practice

At George’s Marine & Sports, President Jeff Wilcox uses forecasting as the No. 1 component in his inventory management strategy.

The Ottawa, Ontario-based dealer, bases his purchasing on his current inventories and a comparison of sales to the past five years. By doing this, Wilcox says, “we are able to forecast our situation with simple math calculations.”

An accountant by trade, Wilcox has developed a detailed spreadsheet to monitor inventory levels, a practice modeled after that which auto dealers often use. Total sales for each of the past five years on the spreadsheet are broken down by month and by quarter. Wilcox can then evaluate the average percentage of sales that each month and quarter make up on an annual basis to help him forecast for the coming year.

Having this detailed information on hand prepares him to purchase what his business will need in the coming year as opposed to accepting what manufacturers may encourage them to buy.

“Manufacturers have had little to no interest in how we forecast,” he explains. “In fact, most of them, if not all, calculate a dealer’s purchases based on what was retailed the previous year. This does not take into account non-current inventory or slow-moving inventory.”

The truth is that very few dealers forecast the way George’s does. They normally accept what manufacturers recommend they purchase, or they buy into more product than they should because of discounts or extended flooring terms.

Because of the forecasting spreadsheet Wilcox has developed, he can use it to illustrate in black and white how much product he should buy: “I am not saying that I have an ability to circumvent a manufacturer’s program,” he explains, “but I have found it extremely useful when in negotiations about product purchases.”

But dealers using such a system must be dedicated to it, Wilcox warns. If you don’t have accurate raw numbers to input, he says, then what you will get out of it will be inaccurate and will cause more grief than it is worth. And that may be the most crucial component in determining what dealers purchase for the coming year.

The numbers don’t lie. It’s almost scary how accurate this method has proven to be from one year to the next, and the accuracy improves as you move through the year and additional data is compiled into the spreadsheet. Once you are a few months in, you will be able to better determine what the year may bring and then adjust — or hopefully add to — orders you’ve already placed.

Based on what the company has purchased vs. what its sell-through will be at the end of the year, Wilcox has a clear picture of what product should be discounted, moved to another dealer or which he should purchase more of. It’s become such a valuable tool, George’s now uses it throughout the dealership, including parts, service and even the F&I department.

“This is, without a doubt, one of the most useful tools we use,” he says. “We create monthly financial statements, and these, combined with our forecasting, provide an extremely good picture of what the future will hold. Averages are just that — averages. They change very little over the years and therefore allow us to get a very good picture of what is to come.” — *Matt Gruhn*

## Change your approach

Inventory control can be improved by simply changing the way you think about the process.

“Clean your room!” “Clean your desk!”  
“Organize the garage!”

What images, thoughts or memories come to mind when you hear these words? Why were you told to do these things? What was the point? And most importantly: How did you react?

It seems straightforward enough. It is better to live and be productive in a clean and organized space. But how did you react? Was there any rebellion to authority? Did you procrastinate or dread it? Warren Buffet put it well when he said, “The chains of habit are too light to be felt till they are too heavy to be broken.” Habits indeed travel with us unless we change them, and the same things that annoyed us when we were kids tend to keep following us through our careers unless we challenge and change them.

Could any of this explain how you, or members of your team, currently manage your inventory? Be it parts and accessories, new and used boats, or billable service hours? It is really amazing when you look at some of the parallels.

I know of a dealership, for example, that was losing sales and service productivity during their busy season because their lot had become so unorganized. Then one manager had an idea: Since the store was closed one day a week, he and another rotating staffer would take a couple hours on that “off day” to organize the lot.

It didn't take long to do, but it increased their productivity tremendously and really cut back on job stress during the week. When asked why he chose this approach, he mentioned that it occurred to him while reviewing his kids' weekly chore chart that, “If they don't clean their rooms and do their homework, they don't get paid their allowance. It just made sense that the same concept could be applied to the dealership.”

To really get to the root of your inventory management needs is to come to grips with the fact that almost all of our results in business come from our actions and almost all of our actions start with our thoughts. As Henry Ford put it: “Whether you believe you can or you can't, you are right”

There is not a dealership employee alive who has not impacted the business based on their thoughts or perception of any given situation. We don't always see the situation as it is; we see it from our perspective –

right or wrong; helpful or destructive.

Take a look at the following thoughts and see if any of these sound like something you may think that could be impacting your actions:

- I'll get the inventory under control when I have time.
- I need to hire someone to help control the inventory.
- We do as good a job as we can with what we have.
- We don't have the money to invest in the right kind of software to properly control our inventory.
- Our dealership is unique.

If any of these thoughts sound remotely like the soundtrack in your brain, you are a prime candidate to reprogram your thoughts to get you headed in a more profitable and organized direction. Try some of these on instead:

- It is wonderful, cleansing and productive to purge old inventory in sales, parts and accessories.
- It is so much easier to make good decisions when I have all the current information available to me.
- Every minute I spend getting organized pays dividends in dollars.
- Clearing this out is allowing a vacuum that is going to be filled with useful, fresh, exciting, new ideas, product and space.
- I can't change the economy or my market, but I will change the way I think about it, and that will provide my business with smarter actions and greater success.

Some people feel that these thoughts are part of our “subconscious,” and subsequently they are difficult or even impossible to control. The prefix “sub” suggests that it is “under” our conscious like a “subfloor” is under your carpet, wood or tile. How can it be “sub” anything when it is, in essence, running your life and dictating your level of success? It is time to bring that “sub” to the forefront. Just being aware of your mindset can do a lot to help turn it around.

This may sound a bit like brainwashing, but if your brain is dirty with negative content, that is hurting your bottom line. Isn't it important to wash that out and get on with some better results?

The purpose in making these changes is to strengthen and grow yourself and your dealership during this economic school of hard knocks. Learn its lessons well to be a better businessperson and enjoy watching your dealership emerge changed and stronger as a result.

Your character, mindset, and habits can all be improved by simply remembering that your thoughts lead to action and combined, they lead to your results. Take the time to look back and understand that inventory control is a means to an end, much like money is a means to an end. It is a tool that we use to help us achieve our goals. ■

**Valerie Ziebron is** President of VRZ Consulting, a training and education company. She can be reached at 313/506-8069 or [vrzconsulting@yahoo.com](mailto:vrzconsulting@yahoo.com).

By Noel Osborne, Yamaha Marine University

## Your key to survival

How current economics have turned inventory control from a game of profits to one of survival.

**J**ust a few short years ago the title of this article would probably have been “Your key to profitability.” Today, when it comes to inventory control, it is not about profitability as much as it is about staying solvent in these difficult times.

As we look at ways to improve solvency and cash flow, we recognize the fact that one of the biggest problems we have is how to manage our inventories. Inventory consumes cash in several ways, but the largest cash problem is floorplan costs.

Back in the good ol’ days we suggested that a profitable dealership should obtain a minimum of three inventory turns. This means that a boat should, on average, not be in your inventory more than four months. Most of the more profitable dealers recognized that this was the case and managed their inventory accordingly.

Now the game has changed. Sales are only at 30 percent to 40 percent of what they used to be, and inventory is sitting on your lot for a year or more.

Let’s look at an actual case study to fully understand the implications of lower inventory turn rates. We will use a boat that invoices to the dealer for \$30,000 and our floorplan interest rate is 8 percent. It will cost us \$30,000 times 8 percent or \$2,400 to keep that boat in stock for one year.

When our turns were three, that boat would have only been in stock for four months and would have cost us – \$2,400 divided by three – \$800 in floorplan interest. If we were to maintain the same dollar level of inventory now that we did when we turned our inventory three times, then our floorplan costs would be triple of what it used to be. I suggest that no dealership can survive with that kind of floorplan expense every month.

I believe that we all understand the necessity for reducing dealer inventory levels. Unfortunately that is easier said than done. We also must be cognizant of what the consumer wants to see when they walk into our showrooms. You can’t sell and can’t survive without stuff on the shelf. The key is to reengineer our dealership inventory systems to accommodate these changing times.

### First step to success

The first step must be the establishment of realistic

sales goals for the future. I do not have a crystal ball, so I cannot tell you what your sales potential might be in the near future. I can tell you that it will not be anywhere near what it was in the good ol’ days.

The current sales levels which are 60 percent to 70 percent lower than in the past should be a good indicator of what your target area might be. In other words if your dealership produced \$4 million in sales in the past, you should probably be looking at somewhere between \$1.6 million and \$2.4 million for the short-term future.

Now comes the tricky part, which is: what do I stock to keep my turns as high as possible without running out of inventory? I suggest that you need to keep your turns at a minimum of two so if your sales were at the higher end of the scale, or \$2.4 million, then your average inventory needs to be around \$1.2 million.

How do I know which models to stock and how many of them do I need? Those of you who have attended my symposium classes in the past know that I always preach that “you cannot manage what you do not measure.” It is no different for inventory management.

We know that, on average, 20 percent of your manufacturer’s models produce 80 percent of your sales. Do you know what those numbers are at your dealership? Which of those models are responsible for the lion’s share of your sales? I suggest that this issue is too critical for guess-work. Go back and examine your records to find out what that 20 percent is. Then put together a stocking plan that recognizes the fact that you need to inventory those models that make up the 20 percent.

I am sure you are asking, “What am I supposed to do for those customers who want one of the other models?” Well, first, if your turn’s goal allows you to stock some of the slower moving models, do it. Consider entering into an agreement with a fellow dealer in your geographic area who represents the same manufacturer, where you could stock some of the slower moving models and he could stock the others. Then, simply put your prospects in a car and drive them over to his showroom when you have a prospect for a model he has in stock.

### The future of marine inventory?

Maybe our industry has to make some changes on the manufacturer’s side? Why do we need 20 different models? Maybe we separate the models so that we offer a 20, 24, and 26 footer instead of offering six models between 20 and 26 feet? I am sure that our consumers can find a suitable model for their needs with a reduced model selection. I believe that the auto industry will lead the way for us. Look at what steps General Motors and the government take to make them more competitive. They will eliminate a lot of brands and a lot of models.

There is no question that manufacturers and dealers, together, are

 Your Key to Survival, cont’d on page 18

By Laura J. Feys, Statistical Surveys

# Forecasting with retail registration data

The step-by-step process for successfully predicting what you'll sell.

Successfully managing inventory has always been a challenging task, and in a down market, it's even more difficult. Ironically, strategic purchasing becomes more important during times of economic uncertainty. Funds are tight; what is the wisest spending plan? Seasonality exists, but how much can you factor it into your purchasing during difficult times? In a changing market, where should you look for guidance? How should you adjust your inventory plan based on increasing uncertainty?

Running retail registration data through a simple mathematical model that is tailored to your market

history. Combine these two factors of geography and product segment to determine your market.

After defining your market, you need to study how this market has performed in the past. Examine growth trends that are specific to your geographic areas and product segments. Your market's historical trends will likely look similar to national trends, but there can be significant differences in seasonality and product mix.

Determine which quarter's data is the most recently available, and which quarter you need to forecast. Formulate three numbers: the minimum, average, and maximum growth that has occurred between your current quarter and upcoming quarter over a period of time, for example, five years (see green arrows in diagram).



creates a strategic inventory management plan, which can help answer all of these important questions. This article outlines one forecasting solution; there are many variations on the same theme that can be explored.

The first step in creating an inventory plan is to identify your market. This is not a market that is determined for you by manufacturers or competitors; this is your market, which is defined by you. No one knows your market or your marketing capabilities better than you do. The market is made up of counties in your geographic area and product market segments. Choose to focus on the counties where your units have been placed historically, as well as counties that you see as potential sales areas.

Next, identify the product types that are represented in your sales. This may be a narrow selection of boat types, or it may be a generalized intersection of broader classifications. During this process, you may learn that your product mix should be adjusted according to what you have learned from the regis-

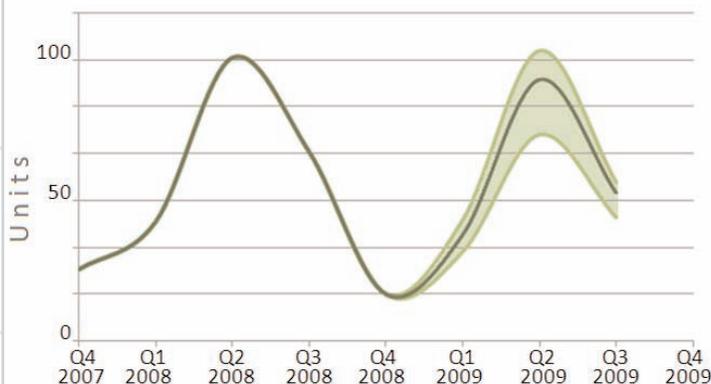
*Green arrows represent calculated quarterly growth over a time period; the minimum, maximum, and average growth percents are applied to the sales data of the quarter which is most recently available, creating an expectation interval for the upcoming quarter.*

Quarterly data is generally available one quarter (approx. 71-75 days) after the close of the quarter. If you need to order products at least one quarter in advance, you would be examining a rolling-three-quarter time interval. For example, at the end of quarter one, the most recent data accessible is quarter four, and you are firming up your inventory plans for the upcoming quarter three. At the end of a quarter, determine sales expectations for future quarters. Apply the three calculated growth percents (minimum, maximum, and average) to your most recent quarterly registration data to create a range of expectation for the upcoming quarter.

Historical trends paint a generalized picture of what to expect in upcoming quarters, but they cannot be used alone as a single means for planning. Applying the current state of your regional market to a historical view completes the strategic approach to market planning.

To fine-tune your forecast, you need to examine the current state of your regional market. Regional markets are unique and can vary from national trends. Apply your knowledge of the current state of the market to the average expectation and your expectation range, considering the fol-





*Example of Dealer's Market: At the end of the quarter, determine sales expectations for future quarters. The middle line on the graph shows actual sales through Q4 2008, and then projects average sales with minimums and maximums, calculated over 5 years, as shown in the table. Quarter two is used to project the upcoming quarter one, quarter three projects quarter two, and quarter four projects quarter three. When quarter one data becomes available, it will be used to project the expectations of the upcoming quarter four.*

Growth Period (calculated over 5 years)	Minimum Growth	Maximum Growth	Average Growth	Quarter	Reported Registrations	Minimum Expected Units	Maximum Expected Units	Average Expected Units
Quarter 2 to Quarter 1	-68.43%	-57.51%	-62.58%	2007 Quarter 4	31			
Quarter 3 to Quarter 2	9.20%	53.57%	38.13%	2008 Quarter 1	51			
Quarter 4 to Quarter 3	164.52%	238.74%	216.18%	2008 Quarter 2	121			
Quarter 1 to Quarter 4	-60.67%	-46.29%	-51.92%	2008 Quarter 3	81			
				2008 Quarter 4	20			
				2009 Quarter 1		38	51	45
				2009 Quarter 2		88	124	112
				2009 Quarter 3		53	68	63
				2009 Quarter 4				

lowing economic indicators:

- Regional employment changes;
- Local trade journals and industry trade magazine highlights;
- Regional interest rate trends;
- Lending policy issues

Use these indicators to determine whether you should expect your sales to be higher or lower than your estimated average for the upcoming quarter, and plan your inventory accordingly. Sales data for specific markets can be readily obtained through both public and private resources, depending upon your locale. ■

This brief forecasting instructional was written by **Laura J. Feys** and edited by Aarn D. Rosen at Statistical Surveys, Inc. For more information, contact them at 616/281-9898 or [www.statisticalsurveys.com](http://www.statisticalsurveys.com).

→ **Your Key to Survival, cont'd from page 16**

going to have to form a better pipeline chain if this industry is going to recover. Each must become more sensitive to their partners' needs.

Many industries utilize just-in-time inventory controls to maximize efficiency and reduce costs. We have to communicate our needs better than we have in the past. Dealers must continually update their inventories to meet their customer's needs at minimal cost, and the manufacturer needs to pay closer attention to those inventories and be flexible enough to meet the needs of the marketplace. ■

**Noel Osborne** is a seasoned marine industry veteran with more than 35 years of boating experience. He has owned and operated more than 10 dealerships during that time. Noel has been a key contributor to the success of Yamaha Marine University and Performance 500 educational series for the past eight years. He also owns his own consulting company, Osborne & Associates. He can be reached at 293/594-8873 or [janinedog@aol.com](mailto:janinedog@aol.com).

# FIND NEW WAYS TO POWER YOUR PROFITS WITH



Manheim provides a large collection of high-quality units with more services and national coverage to turn your trades into cash or supplement your pre-owned inventory.

- Online pre-sale listings with electronic condition reports and images
- Certified Inspectors
- Online and in-lane purchasing available
- Affordable participation
- Floor planning available from GE Capital Solutions



#### Manheim Daytona Beach

Daytona Beach, FL  
800-881-3233  
3rd Wed. (Monthly)

#### Manheim DRIVE Center

Stockbridge, GA  
678-284-4180  
3rd Tues. (Monthly)

#### Manheim Fort Worth

Ft. Worth, TX  
800-722-3922  
2nd & 4th Fri. (Monthly)

#### Manheim Lakeland

Lakeland, FL  
800-967-2886  
3rd Wed. (Monthly)

#### Manheim Minneapolis

Maple Grove, MN  
800-622-7653  
4th Wed. (Monthly)

#### Manheim Missouri

Springfield, MO  
800-641-4047  
1st & 3rd Thurs. (Monthly)

#### Manheim New York

Newburgh, NY  
800-671-0992  
3rd Tues. (Monthly)

#### Manheim Pensacola

Pensacola, FL  
850-477-3063  
Last Thurs. (Monthly)

#### Manheim Southern California

Fontana, CA  
909-822-2261  
1st Thurs. (Monthly)

#### Manheim Tucson

Tucson, AZ  
520-574-2222  
4th Wed. (Monthly)



Manheim

ManheimSpecialtyAuctions.com  
877-704-INFO (4636)



By Bob McCann, Channel Blade, an ARI company

## Building an effective online inventory

How to win over new customers by ensuring your Web site does its job.

**A**t Channel Blade, we work with hundreds of marine dealers on generating leads from proper inventory placement and promotion on their Web sites, and despite the differences in each dealership (variety of locations, brands, etc.), we have found similar, online inventory-related problems experienced by dealers:

- Not managing their online dealership as seriously as their brick-and-mortar store
- Not displaying their inventory effectively
- Not displaying prices online
- Not getting their inventory enough exposure via industry portals

Here, we will give you the first steps to effectively building your inventory online to help your dealership thrive in a down market by increasing Web site visitors, leads and sales.

### Consider your online dealership as your 24/7 showroom

When was the last time a customer visited your dealership raving about the building's architecture? Our guess is not recently – if at all. When customers arrive at your dealership, they want to see your inventory. The same concept applies when they visit your Web site.

Before buyers visit your Web site, they have most likely researched specific models on the manufacturers' Web sites – 76 percent of them to be exact (Source: JD Power and Associates). So when they get to your site, they want to get down to business and see if you have their dream boat in stock.

Your storefront and homepage serve the same purpose: to attract shoppers inside your store or deeper into the site. You only have seconds to keep them or lose them. We recommend keeping them by displaying a solid inventory online, just as you would in your showroom.

### Display picture-perfect inventory and detailed descriptions

Approach adding inventory to your Web site as if you didn't have a showroom and the only channel that prospects can use to view your boats is online. The pictures have to be perfect, the descriptions compelling, and the specifications complete. Digital photography

removes any excuse for posting poor photos. Set a goal to upload 20 images online, take 50 pictures and delete those that are less-than-appealing.

The boats should be clean, well-organized, cover-free, accessorized and positioned in front of a nice background. The background of each photo should be well-lit and not include other boats, dirty lots, junk, or clutter. Kill two birds with one stone and take the pictures when you are moving the boat, after reconditioning and detailing, to a slip or on the lot when the boat is separated from other boats. Eye-catching inventory photos will make you stand out from your competitors online and will keep consumers coming back to your site.

The visual presentation of inventory is the bait. Hook the buyers interested in your listings by including detailed, informative descriptions and specifications for every boat. It is not necessary to write a novel on each unit, but it is important to take some time to engage both the buyer and the search engines.

Instead of inserting "2009 Fiberglass Hull, trailer included", try "Want to make memories with your family year after year? Hitch up this 2009 X-Brand boat with the included trailer package and take your family fishing this weekend!" Not only have you given the consumer more information about the boat – you have also given the search engines more reason to rank your business higher on the search results for specific keywords.

All specifications, features and options for your boat listings should be available for your visitors to review in less than three clicks. Hopefully, your Web provider offers a solution that can automatically pre-load all this detailed information to your inventory, so your dealership can spend more time selling instead of uploading.

### Show pricing and promotions to eliminate buyer frustration

Boat buyers today are short on time and have high expectations. They expect your inventory to be posted with all the information needed to narrow down their search to less than two dealers and boats.

Now the million-dollar question: do you display the price? Think about the last time you noticed a great looking leather coat. The leather feels great, you reach for the price tag and you can't find it. You find a salesperson and ask for a price, they ignore your question and suggest you try on the coat. How do you feel? Chances are you are annoyed and rightfully so; this is not the way to begin a relationship with a potential customer.

The same situation applies to boat buyers that cannot find a price on your Web site. Most of them will not contact your dealership but rather move on to another site that displays the desired information.

Three best practices apply to pricing: It must comply with manufacturers' policies, keep prospects engaged and generate leads. How? Display the MSRP with a Request a Quote link or button close by. Most buyers know that the MSRP is negotiable, especially with a Request a Quote link posi-

tioned right next to the MSRP. Post a message indicating that the manufacturers allow your dealership to display MSRP online for comparison purposes only and direct them to the Request a Quote link for a local market price.

In addition, use the old “psychological pricing” strategy. If your Web site (or any Web site where your inventory is posted) has a price search criteria, make sure your inventory is included in the price range just below. For example, if a used boat is priced at \$22,000, have it listed as \$21,999. Studies have shown that buyers perceive oddly priced items as less expensive and a better deal compared to an item priced to the nearest round dollar. In addition, dropping the price by one or two dollars will allow the inventory to show up in more search result listings.

In this competitive landscape, it is important to include promotions, specials and coupons on your listings. A Sterling Commerce Study reveals that 81 percent of households with income over \$75,000 conducted research online before making an in-store purchase.

Even more important is that 32 percent of these households used a coupon or incentive to make their purchase. U.S. shoppers are looking for ways to save and are finding deals through online coupons. Post specials and coupons at the top of your inventory listings. Encourage buyers to download and print the coupon to bring it into the dealership so you can also better track the return on investment on your online initiatives.

Pricing your inventory correctly and incorporating coupons and specials enables buyers to find what they need, thereby increasing the chance of turning them into a lead, then a sale.

## Don't be shy

Now that you have compelling listings with attention-grabbing pictures, don't make it difficult for the customer to contact you. Tools to generate communication with buyers and methods of increasing exposure to your inventory are critical. Ensure that your phone number and several call to action links/buttons are visible on every page.

Examples of effective call to action links are “I'm Interested,” “Request More Information,” “Request a Quote,” “Trade-In Value Request,” “Buyer's Short Cut,” and “Credit Application.” Not only will the forms help the buyer

contact your dealership, but the information collected will also help you determine what stage of the buying cycle they are in.

Note that requesting versus requiring contact information makes a difference. Requiring too much information could scare off the lead. If you request the phone number, you may receive it half of the time; if you require a phone number, you will generate fewer leads. Make sure that your contact forms require name, e-mail and possibly zip code (for territory issues) so you can follow up with the lead.

You now have your listings in check so it is time to get them in front of potential buyers. Share your inventory with several marine classified portals. Consider two factors as you select them. One, will they accept a data feed from your Web solutions provider? If so, it will save you time and effort as boat descriptions and specifications will be automatically uploaded and updated. Two, try the portals and measure the results. Track the number of leads you receive and the number of sales generated from each of the portals and only remain in business with the portals that give you the return on investment you require.

Today, most dealers are wearing many hats and must take on more responsibilities within their businesses. Taking the time to perfect and control your online inventory will ensure that your business has the highest probability of winning over new customers and surviving in this market. ■

**Bob McCann** is Director of Client Education at Channel Blade, an online lead management solutions provider. You can reach the company at [www.channelblade.com](http://www.channelblade.com) or 877/242-5233, ext. 4.

## FINDING YOUR WAY: COUNT DOWN

Best Practice

In 2007, Quality Boats of Clearwater implemented a program that targets new boat inventory turns. At the beginning of the model year, goals are set within the sales department for targeted models and volume of each boat line. As a specific model is sold, one more is struck off of that particular goal's number, and the dealership counts down accordingly.

“Typically, as we have learned from our boat suppliers,” Quality's owners, Dan and David Bair, explain, “other dealer's sales departments that set goals for the year actually work up to that level of set goals. Our different type of psychological goal tracking has resulted in not only celebrating group successes and better accomplishment of our team-set goals, but it has also allowed us to

better manage our inventory by specifically identifying and tracking sales of each product line by manufacturer.”

The process – which Quality says allowed it to achieve the “lofty” goals it set for two of the three boat lines it represents in a down market – is now taught to other dealers by Quality's boat supplier sales representatives.

By David Bingham, Boat Trader

## Don't forget the marketing

As floorplan costs rise, savvy dealers will stay strong with their marketing efforts.

**D**iminishing floor plan financing and the loss of major players, including Textron and Key Bank, have erupted into the “perfect storm,” causing greater costs to dealerships as the remaining providers like GE begin demanding greater protections from the risks of financing. In the words of many dealerships, “When times were good, the lenders were much less demanding, and now when times are bad, they want more and more.”

As each of us can attest, the risks of being in business today are as great as they have ever been. How do we both save and sell our way out of this predicament? I have a few suggestions that may help.

The floor plan question is multi-faceted. For instance, the average percentage rate in 2008 was 6 percent, so the average boat cost you \$10 per day. Now that rates are jumping to 9 or 10 percent, that same boat will cost you closer to \$15 per day.

Based on units listed on BoatTrader.com, the average boat dealer has seen his inventory increase by 79 percent, so it's likely that this boat, now costing you 33-percent more each day, is just sitting on your lot, taking up valuable space. Furthermore, overall costs have increased 168 percent as a result of these two issues – an additional \$700 per day in expense for which none of us budgeted.

So what does this mean for your sales efforts? This added pressure to move inventory quickly motivates dealers to evaluate pricing strategies as \$400 of the \$700 increase is due to the languishing units on the lot. Just by selling the additional inventory, dealers can expect a savings of 64 percent on floor plan costs before margin on the sale. However, dealers are not seeing their units turn as quickly as they were in 2007 when inventory turned twice during the year. We can expect a slowing pace of inventory movement in 2009.

The most successful dealers are increasing efficiencies to maintain profitability. However, there are two types of efficiencies that should be evaluated for the best results because how we do things is just as important as what we do.

Many dealerships look at the service department as the first place to enhance efficiencies, but what about inventory management? The hottest prospects know what they want, but if your sales team is not

taking the opportunity to identify their needs and use the “just-in-time” inventory control method to find the boat of their dreams, then your dealership is probably losing sales.

### Inventory Control Method: Wholesale Solution

Dealers have traditionally used auctions to move inventory quickly, and that venue continues to be successful for buying and selling slow-moving units. There are also multiple opportunities for wholesale relationships that allow dealerships to work together and move inventory at cost-saving rates. Web sites like BoatTrader.com and Boats.com have built backend wholesale tools to facilitate such opportunities for dealers and brokers, respectively.

The question of advertising during recessionary periods is commonly discussed at length, but reluctantly acted upon. Studies have proven that companies who hunker down and wait for better times have diminished results compared to those who aggressively pursue market share.

Professor Andrew J. Razeghi wrote a compelling study entitled *Innovating Through Recession* where he relates comparative data between companies during The Great Depression and those in the 1980s and 1990s recessions. His findings show that companies who continued to market and advertise experienced increased market share, revenue growth and enhanced innovation and creativity. Furthermore, these companies sustained that growth post-recessionary period.

Since many of your competitors may choose to hunker down, recessionary periods are the best times to focus on growing market share. Launch new services, processes or products – new innovations could be as simple as a new event at the lake or as complex as a new service offering in your service department. Both options show that your dealership is still a lucrative place of business that will be around for years to come.

Prof. Razeghi's study relates this concept to the old saying, “the things we do not do sometimes speak louder than the things we do.” For instance, if you have always attended certain boat shows and suddenly do not go, be certain to evaluate the impact that decision has on your current and future customers.

Certainly your competitors will be thinking about the same issues during these tough economic times. Some will hunker down and hope for better days. Some will attack the market to gain more share, work with other dealers to develop better wholesale opportunities and make better days happen. Which one will you be? ■

**David Bingham** is General Manager of Boat Trader and Yacht Trader magazine, an online and in-print buying and selling resource for marine dealers, private party sellers and consumers. He can be reached at 877/354-4069 or [www.boattrader.com](http://www.boattrader.com).

By Edward Boncek, The Datum Group

# 20 questions for marketing aged inventory

Use this proven process for evaluating the impact of non-currents on your business and ensure you are marketing — and selling — them properly.

**A**re you ready for the new 2010's? The new model year is just around the corner. While some builders may have moved their model year introductions back to September, others will still ship new 2010s well before the July model year introduction. No matter which situation you face, the real question is: Are you ready for the impact of the new model year on your aged inventory?

Before we discuss marketing, let's review some of the basics and some of the pitfalls of aged inventory. All 2007, 2008 and 2009 models are no longer worth the original MSRP, meaning your original selling price and margin expectations are not realistic. My experience indicates most dealers handle floor planning as a separate expense. However, it is critical to understand the impact of floor plan costs on each specific unit. The sooner you sell non-current units the lower the loss.

Let's begin by looking at a process to evaluate the impact of non-current units on a dealer.

**1.** Determine current floor plan situation. What is your current floor plan in dollars? How much financing is available for new 2010 models? What is your current monthly floor plan payment? Answer those questions and then project your floor plan payments for the year.

**2.** What is the impact of non-current units on your floor plan? Determine what percentage of your floor plan is devoted to each non-current model year. Then, determine what the carrying cost is of each non-current model year.

**3.** Within each model year identify the carrying cost of each unit. Which units have the largest carrying cost? Which units have little or no remaining margin?

**4.** Use this analysis to prioritize units for marketing.

Since "new" tends to sell, dealers and builders focus on marketing the latest products and innovations. Now is the time for dealers and builders to develop marketing plans for the old inventory. It is important that you look objectively at your business and ask yourself if you are ready to sell your non-current units. This may appear to be a ridiculous question; however, being ready to sell means being prepared to sell. Therefore, we need to examine what it means to be prepared to

[Marketing aged inventory cont'd on page 27](#)

YES	NO		YES	NO	
		Have I evaluated the impact of non-current units as proposed?			Is my sales staff using a consistent approach to explain the value of a non-current unit without destroying the value of a similar new unit?
		Have I used that information to adjust unit pricing?			Is my sales staff using a consistent approach to explain the value of a non-current unit over a used unit, without destroying the value of a comparable used boat?
		Is all non-current inventory and pricing posted on my Web site and other popular boating search sites?			Do I compensate my sales staff for selling a non-current unit?
		Is my inventory properly entered into my dealer management systems?			Do I know how many customers were shown non-current units and which unit they were shown for each week?
		Is my non-current inventory clean and with all original equipment and parts?			Do I include non-current units in boat shows, advertising and Internet marketing?
		If a customer came into my showroom and wanted to see my third-oldest unit can I find it and show it to the customer in five minutes?			Have I asked my builders and engine suppliers for help in marketing non-current units?
		Are non-current units on display in the showroom or front lot?			Have I approached my lenders about assistance or reduced terms for my floor plan?
		Do I, on a weekly basis, feature a non-current unit specially priced, prominently displayed and advertised on my Web site and other popular sites?			Have I recognized that I will have to take some losses to move units?
		Does this unit change each week even if it did not sell?			Have I met with local auto dealerships, to learn how they are marketing and selling aged vehicles?
		Does my sales staff show a non-current model to as many shoppers as practical?			
		Will my sales staff remind customers that these are new boats, with the same warranty as a new boat?			

## Switch it up

An age-old technique with a new twist.

Switching is a technique that has been practiced in the business of sales for as long as salespeople have been selling. Unfortunately, the technique has only been used as part of the haphazard ideas of a desperate salesperson.

Selling is not a combination of haphazard ideas. It is an art and a science that must be practiced, drilled and rehearsed to give you the skills necessary to maximize every prospective opportunity. For years, salespeople have used the switch technique out of desperation; Why? To save the deal.

Think about it like this. A customer comes in to look at our inventory, normally with something specific in mind; the salesperson shows them to their selection and starts the presentation of the product. After a successful product presentation, we are then off to the write up and present the figures.

After presenting the numbers we get the objection. "The price is too high," or "The payment is too high," and we immediately start addressing the figures with cutting the price or payments, hoping for the magic number so we can close the deal. Remember this: When you offer up the numbers and then cut the price without defending it, you lose your credibility.

There are NO magic numbers in selling, only a magical process of building value that leads to a successful sale. When value exceeds the price, people buy, but only when it will fit into their budget.

One very important element in value building is setting the deal up so you have options in the closing booth. I propose that you offer the switch from the moment you meet the prospective customer. As soon as the prospect asks to see the product, offer something that would have a lot of the same features but would save them thousands of dollars.

Every piece of your inventory should have a switch counterpart. To know this is to know your inventory. The difference in offering the switch product at the start of the sale is offering them a way to save them money and sets you apart from the competition in a positive way. It also gives you somewhere to go in the closing booth in a very strategic way.

### FIVE STEPS TO SUCCESS

#### Here's how it works:

**Step 1:** Offer to show the customer something close to what they originally wanted to look at with the goal of saving them money. As an example of how to do this: "Mr. Customer, let me ask you this: If I could show you something very similar to what you would like to see with a lot of the same features and I could save you thousands of dollars, would you consider taking a look at it?"

**Step 2:** The customer has two potential responses: Yes or No. If the customer answers with a "yes," you can then respond, "Great, Mr. Customer. You know a lot of people come in looking for what you ask to see and end up buying the product I'm going to show you when they realize it has a lot of the same features and saves them thousands. You don't mind me saving you thousands now do you? No Problem. Saving you thousands is the easiest part of my job."

If the customer answers your first question with a "no," you can respond with: "No problem. Showing you that product is the easiest part of my job. Oh, by the way, if you do decide you would like to save the thousands I'm talking about we can always come back to it later, fair enough?"

**Step 3:** Do your very best product presentation. Remember: Build value because value perceived is value paid for.

**Step 4:** The write up and presentation of figures. Always believe you have a deal. Never underestimate the power of belief.

**Step 5:** Be prepared for the objection. If the customer then suggests that, "The price is too high," or "The payment is too high," you can now go back to your original suggestion. "I have an idea, let's take a look at the one I was talking about saving you thousands on. I know that one will fit into your budget and it has a lot of the same features you're looking for."

Remember, if you have built great repore and the customer respects and likes you, they will at least entertain looking at it even if they have no intention in buying it. This allows for the customer to mentally bump themselves after realizing the value in having what they originally wanted, but sometimes it will lead to selling them the switch product.

#### The keys to success in using this technique are as follows.

- A) Know your inventory.
- B) Understand the price and payment differences in your inventory
- C) Offer the switch every day, every time, without fail, no exceptions. ■

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By Candi Thayer, Marine Dealer Trader

## Inventory Sharing: An emerging trend?

Alternative buying options and inventory versatility backed by proven success.

The concept of inventory sharing is not new. It is a proven business model that has been successfully implemented for years by companies like Caterpillar, Regal Boats, John Deere and the companies formerly known as the big three automakers. Collectively, these companies and their dealers have quietly shared a little-known competitive edge in the global market.

With inventory sharing programs, these manufacturers and their dealers are able to list or upload their current inventories to a centralized location, which acts as a “virtual showroom” of sorts, where dealers can search for needed inventory.

The search results display the model requested, unit details and specifications, its location and contact information. The response time for the location of product is immediate, which can help to make or break any deal.

Using this type of program as a supplemental sales and management tool has far reaching benefits as well. It fosters a willingness of dealers to collaborate with each other to reach the common goal of profitability and a reduction in inventory and operating costs.

It helps to break down existing territorial barriers or stigmas amongst dealers, who in the past have prohibited themselves from working with other same-brand dealers. Instead of being in constant competition with each other, they work together as a team to enhance the selling of their brand. And by moving inventory from stock to the marketplace, this type of sharing program has helped to unlock huge savings in inventory management and enhance brand identification, all while easing the flow of goods.

In a study of supply chain inventory management and the value of shared information, The Wharton School professors Gerard Cachon and Marshall Fisher state that the value of information sharing is that it provides a faster and cheaper ordering process, shorter lead times and a reduction of costs, on average of 22% while accelerating the flow of goods.

In both good and bad economic conditions,

inventory-sharing programs provide many advantages for dealers and manufacturers. Dealers in high-demand areas can have immediate access to quick-selling inventory without waiting long periods of time to replenish needed products.

Imagine having the right product at the right time and never losing a retail sale because you hadn't stocked what the customer wanted. Inventory-sharing programs do that and much more.

Sharing programs offer smaller dealers alternative buying options, while giving all dealers flexibility, versatility and movement opportunities for their inventory. For inventories that have become stagnant in certain regions, it provides avenues of movement without the need to release products at a financial loss. This movement, then, releases dealers from the financial burdens of floor plan costs and curtailment.

These systems help to empower dealers to make good management decisions by giving them more control, flexibility, opportunities to move product into the marketplace at a lesser cost.

For manufacturers, the advantages can be both quantitative and qualitative when they use this type of sharing system and the information it can provide. The data can be tracked and broken apart to provide good business forecasting – based on supply and demand, market trends, saturation points and dealer movement of actual product.

It gives them accurate inventory levels and takes speculation out of future planning, preparation and projecting. By providing sharing opportunities for their dealers, manufacturers help build alliances and buying and selling opportunities, and they enhance their products' brand recognition while better covering the retail market. All attributes of innovation, needed for future successes in the next decade according to Deloitte Consulting's 2009 Automotive Industry Outlook.

With the prospects of growth and profitability dwindling in the economy we've known of late, it is imperative that dealers and manufacturers operate more efficiently, reduce costs, create industry alliances, enhance their brands and become innovative in their practices. The utilization of proven business practices such as inventory sharing will enhance a needed change in practice and help to ensure future success for the marine industry. ■

Candi Thayer is a partner at Marine Dealer Trader, an inventory-sharing Web site provider that focuses on the marine industry. The company was featured in the February 2008 issue of Boating Industry magazine, and it can be reached at 517/787-1979 or [www.marinedealrtrader.com](http://www.marinedealrtrader.com).

By Karen Braddy, Manheim Specialty Auctions

## Powering profits through auctions

Wholesale auctions give marine dealers an advantage to meet the growing demands of inventory management.

**A**s you know, there are many alternative methods for remarketing boats but none as efficient as the dynamic trading floor of the auction. Auctions are one of the oldest forms of commercial exchanges. They create a dynamic marketplace where bidding is fast paced and true market value is determined with each transaction. Auction remarketing services work well for marine dealers who want to move their inventories quickly and get full market value.

Today there are a variety of ways dealers can take advantage of the opportunities auctions provide. By buying pre-owned boats online or through the auction lanes, dealers can supplement their inventory during the busy sale months, and continue to meet the ever-growing demand at the dealership.

Auctions are just one of the ways dealers know they can maximize their profits and stay ahead of the competition. When managing pre-owned marine inventories, dealers should consider diversifying their selling portfolios. Adding auctions is a viable way to broaden customer reach as well as liquidate aged inventory to increase profits.

### Auction Benefits

There are many benefits for dealers who participate in the auction process including:

- **Critical Mass of Buyers and Sellers** – Dedicated specialty boat auctions provide an opportunity for multiple sellers to offer their boats to a large crowd of potential buyers.
- **Credible Pricing** – Auctions create an environment where supply and demand channels are at work to establish a fair market price.
- **Market Liquidity** – Auctions allow boat consignors to convert boats into cash quickly.
- **Affordable Participation** – Auction fees are a small percentage of the boat selling price and have gone down in the past 10 years.
- **Technology Applications** – Manheim has embraced technology to enhance the process for both buyers and sellers to reach new audiences and improve efficiencies for existing customers.

### Auction Process

When an auction receives a pre-owned boat for sale, the unit is checked in and an electronic condition report is created along with digital images and certification if applicable. In addition the unit is cleaned, minor mechanical work can be performed, and the unit is set for sale.

It is made available online on presale lists and inventory search tools, including Manheim Power Search and can be purchased through simulcast. Auctions market the product through a variety of channels, including telemarketing calls, faxes and e-mail. This increases the dealers' chances of selling the boat the first time. At Manheim, once the unit is sold, the buyer receives a guaranteed title and funds are transferred to the seller.

Mobile auctions are also an option for those sellers who have a large quantity of product in one place. Manheim actually "brings the auction to the customer," providing full service auction services onsite. These special event sales take place nationally throughout the year.

### Auction Tips

If you are new to auctions or simply new to a particular auction location, go ahead and plan a visit. Auction locations would gladly show you around, explain the details of the operation, let you meet the people, and get you comfortable with the process.

The auction process is easier than some might expect. Here are some tips on what you can do to get the most from your auction experience.

- **Choose an auction that matches your needs.** Manheim, for example, offers eight auction locations nationwide that specialize in monthly marine sales.
- **After deciding on an auction to attend, you will need to register in order to buy and sell.**
- **Preparation before attending an auction greatly affects a dealer's experience.** Preview units for sale and set realistic buying expectations to increase your chances of successfully purchasing the unit you want at a fair price. It's fairly easy to gauge pricing expectations when you plan your visit. The best gauge is the Market Reports from previous sales. These lists are available online, as well as in print. They describe the unit and what it sold for most recently.
- **Consult with the auction staff about your specific needs.** Employees are there to help dealers enjoy a positive customer experience.

### Additional Auction Benefits

- **Certified inspectors:** Auctions train their inspectors on what to look for on specific units to ensure that they are marketed properly,

increasing the chances of a sale.

■ Full service reconditioning and mechanical repair: Don't have time to prep a unit prior to a sale? Auctions provide a variety of levels of onsite reconditioning and mechanical repair options.

■ Guaranteed titles and checks: Most auctions will not offer a unit for sale unless the title and paperwork are all in order. Manheim guarantees not only the payment to the seller, but also the title and paperwork to the buyer.

■ Floor planning: Auctions provide floor planning options through GE.

Now, more than ever, marine dealers involved in

trading and selling previously owned boats are making auctions their number one method of buying and selling. And they are finding that auctions are by far the most efficient and cost-effective way of managing, shaping and re-shaping their inventory.

For more in-depth information, as well as answers to many of the most frequently asked questions, we encourage you to go to our Web site [www.ManheimSpecialtyAuctions.com](http://www.ManheimSpecialtyAuctions.com) and take a good look at our online Auction Handbook. Or you can call 877-704-4636. ■

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## Marketing aged inventory cont'd from page 23

market and sell your aged units.

The following checklist will help determine if you are ready to market and sell your non-current units.

I hope this article has triggered some thought and discussion about marketing and selling non-current units. There is no magic bullet to solve an aged inventory problem. Like the answer to so many other challenging situations, the answer lies in doing the basics: hard work and a commitment to getting it done. ■

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## KEYS TO INVENTORY CONTROL

Best Practice

At Seattle Boat Co., president Alan Bohling knows there are several keys to successful inventory management.

In his perspective, those keys include maintaining a great relationship with manufacturer partners, including shared trust and respect; a precise annual history of inventory levels at a specific date; set annual unit and model goals that involve every sales team member; a precise ordering plan for the entire year ahead, complete with a week-by-week delivery schedule; regular reviews of inventory and production and no fear to make adjustments, providing ample advance notification to manufacturers; and substantial pre-sold activity with sales programs designed around special order offers.

While all of these things have contributed to an incredible year for the second-ranked dealer in *Boating Industry's* 2008 list of Top 100 Dealers, one program stood out as a best practice among all of this dealer's inventory management efforts: it's Order Smart Fall/Winter Layaway program.

With Order Smart, Seattle Boat Co. allows its customers to order their favorite Cobalt or Sunseeker boat and receive the best discounts for the coming year. And it guarantees those boat buyers with an additional 5-percent discount compared to January boat show prices.

By putting only 10 percent down, customers are guaranteed delivery with no payments until April of the following year,

and the program protects them from any year-end factory increases.

For Bohling and Seattle Boat Co., the proof is in the purchases. This program, which was formally named after years of standing on its own simply as a layaway program, now accounts for 20 to 25 percent of the company's annual new boat sales. The dealer focuses all of its Fall events on this sales program and has realized myriad other efficiencies including taking customers off the market before boat show season and providing additional income for sales reps during a traditionally down time.

And that is ordering smart.

— Matt Gruhn

By Bill Thompson, Cardinal Points Network

## The five Cs of commercial lending

What you need to know about how to obtain the financing you need.

Over the past 15 years, the recreational marine industry has experienced growth in sales as well as corresponding lending portfolios. During this time the marine lending community became dominated by a small number of lenders. In the last nine months, though, things have changed.

Most bankers are not familiar with the boating business. From a commercial lending point of view, they see leveraged businesses with high inventory levels and little capital. This is a different industry for “business bankers.” Add to that a down economy resulting in declining financial statements and you end up with a lending community that is resistant to enter our industry.

When approaching new lenders, it is necessary to educate the lender about the boat business. This includes detailed information on the dealership, region, manufacturers and the overall industry. Floor plan lenders rely upon the dealership and the manufacturer. The relationship between the three parties provides a balance of risk and responsibility for each party.



One of the challenges in the marine industry is convincing lenders that, while a dealer’s financial statement may look different than a typical business banking client, it doesn’t necessarily mean more risk.

Ask any lender what the basics of underwriting any business or a retail customer are and they will refer to the five Cs of credit. They are Capacity, Capital, Collateral, Conditions and Character. They are just as important to what a dealership looks like to a lender as they are to a retail buyer looking to finance a new boat.

**CAPACITY** is determined primarily from the income statement and answers the question: “Can you comfortably make the payments on the loan?” In the case of a floor plan line of credit, payments consist of interest and probable curtailments. Secondly, the lender will look at the cash available in the company in the event that income wanes for a period of time.

**CAPITAL** is from the dealership’s Balance Sheet. While Capacity is the most important attribute, the Balance Sheet is the most important document to a banker. How much ownership has invested in the company and the portions of profits retained are key indicators. If the owner won’t or can’t invest in the company to grow its net worth, the lender will not invest, either.

**COLLATERAL** reflects what the business is lending against, in this case inventory. If the collateral isn’t worth the balance on the line of credit, then the lender will require additional collateral. This often includes mortgages on real property, notes against receivables or personal assets. When it comes to inventory lending, the current wholesale value is important.

Inventory management is a focal point to your lender. They will inquire about inventory turns; about whether the product is marketable in your territory; about inventory aging; and about the accurate value and condition. A lender will look at what your plan is to move specific pieces of aged inventory, and you should be prepared to provide a detailed plan for each piece of inventory that is beyond 180 days old.

Lenders understand that previous model year products lose value. New lenders will only finance the product’s wholesale value. This provides the dealership with the opportunity to educate new lenders on the value of inventory. Doing so will not only help the lender, but will also provide information necessary to have objective expectations for moving aged products.

The strength of the manufacturer is an important component to the value of the product. Often the lender will require a repurchase or remarketing agreement from the manufacturer. Lenders realize that a manufacturer has to be financially viable for this agreement to be valuable. Additionally, they look for warranty support. Manufacturers boasting high CSI and JD Power ratings further prove product that is able to hold its value.

**CONDITION** describes the purpose and structure of the loan and the condition of the marketplace. Utilizing leverage is straight forward with lenders. The lender will need detailed information on market data, historical perspective and trends.

**CHARACTER** is as much about credit ratings as it is about reputation, experience and how the dealership conducts business. Those who have survived past downturns can use this opportunity to provide how

the dealership is using wisdom to thrive in today's economy. Personal resumes for owners and management help solidify your dealer's strength of character.

Lenders require prospects provide financial statements, details on business plans including pro-forma income statement, balance sheets and detailed inventory plans. This includes strategies for the next 90, 180 and 360 days as well as the next three years. These should include best case, likely case and worst-case scenarios.

The business that provides their prospective lender with a complete loan application package

including details on the dealership, manufacturer and industry increases the likelihood of obtaining favorable financing. Issues such as economic downturns and aged inventory need to be addressed head on. This only helps convince the lender to do business with the dealership while providing a realistic view of the opportunities ahead. ■

**Bill Thompson** is Principal at Cardinal Points Network, LLC a lending consulting and training company serving the marine and RV markets. He's also the author of a marine lending white paper ([www.marinebankers.org](http://www.marinebankers.org)) distributed by the National Marine Bankers Association. You can reach Bill at [williamrthompson@sbcglobal.net](mailto:williamrthompson@sbcglobal.net).

## ONE-THIRD BOAT

Best Practice

When it comes to moving inventory off the lot, most sales people are going to walk right past that aged unit and push hard to sell the new product. It makes sense. The product is newer and flashier, carries better features and benefits, and oh yeah, better commissions most of the time as well.

As is the case at most dealerships, Randy Kelly, owner of Kelly's Port, struggled to find a way to move the expense-ridden older boats. And although he jokes that he hasn't had another original idea for a number of years, his inventory-reduction idea has been a key to driving down inventory expenses.

By developing a new program that Kelly coined One-Third Boat, the owner prioritizes specific units in its aging inventory and provides a much more enticing commission structure for his sales reps.

"We call them one-third boats," Kelly

**"We call them one-third boats. And whatever gross profits are on that boat, the sales person gets one-third of it."**

explains. "And whatever gross profits are on that boat, the sales person gets one-third of it."

So if the invoice on an older boat was \$110,000, for example, and the sales person sells that unit for \$116,000, the sales person takes home one-third of the margin, or \$2,000. Otherwise, Kelly explains, you've got a 2006 model sitting

around and the guys know that no one's going to make anything on it. And if they sold a 2008 model, they all know they would make drastically more money.

"What I like about it," he says, "is it creates the team spirit. I keep asking them to dump all this old inventory, and with this program, I'm pitching in with you. I don't expect you to just dump it and only make \$200 commission to 'help Randy out.' This way, it's a two-way street."

And the rewards for such a program, which Kelly has used for the better part of the last 15 years, add up quickly for both the sales reps and the company overall.

"If you can wave a bone under their nose and incentivize them on a boat they've been walking around for a year and a half," he concludes, "it works."

— Matt Gruhn

By Peter Houseworth, Info-Link

## Leading indicator may signal turnaround

By monitoring the disconnect between the unit sales decline and the age of the units being sold, you may be able to identify when the market begins to turn around.

The recreational marine industry has been under unprecedented pressure, the majority of which actually began in late 2005. Initially, new boat sales declines were most pronounced in Florida and California, which are obviously two of the key boating states, but over time, weakness spread to other markets across the country as the national economic situation deteriorated.

While the current cycle has not been uniform – enthusiast segments and certain geographies have performed better than others – all boat sales have been hampered by consumers cutting back on discretionary spending.

At Info-Link, we are frequently asked when the current situation will return to “normal.” To be certain, marine retailing is undergoing the most dramatic changes we have seen since we started following and reporting on the boat market some 13 years ago.

Predicting future boat sales is a daunting task, due in large part to the discretionary nature of boating. In terms of prediction, the fact of the matter is that no one knows for sure when or if retail boating markets will function as they used to.

Obviously, a sustained return to higher new boat sales levels would require improved consumer confidence as well as improved access to both wholesale and retail credit. While in our view it is highly unlikely that this will be a “dog leg” turnaround, we did want to share with the industry one of the factors that we are following as a leading indicator of improving conditions.

The chart that accompanies this article provides a more in-depth look at the current dislocation in the new boat market, and more importantly, will ultimately provide an advance measure of when our current inventory situation begins to improve.

In terms of new boat sales, the left-hand axis plots the percentage change in unit sales (based on a three-month moving average) for all Info-Link reporting states. The right-hand axis plots the average days in inventory for vessels that were retailed during that period. The average days in inventory is calculated based on when the boat was built and when it was retailed to the end consumer.

Despite the fact that many manufacturers have



On the left vertical axis, sales trends, noted by the blue line, are charted by percentage of growth on a quarterly basis, dating back to January of 2003. On the right vertical axis, noted by the red line, those units sold are charted by the number of days each unit (on average) had been in a dealer's inventory. Info-Link believes that monitoring the red line on this graphic may help the marine industry recognize when the turnaround in unit sales has begun.

curtailed production for some time now, this information indicates that the curtailments have not been sufficient. The average “days in inventory” has increased from a “normal” state somewhere between 200 and 250 days and continues to deteriorate, rising to more than 360 days through March 2009.

When the average age of retailed vessels reverses direction and begins to decline, we believe that it will be an early indicator that conditions are beginning to improve and that supply and demand are, in fact, coming back into balance. While history indicates that days in inventory fluctuates somewhat, given the very sharp deterioration over the last year and a half, a consecutive three-month downward trend in inventory should be sufficient to confirm that the industry has turned the corner.

The information in this chart contains data for all 15-foot-plus aluminum and fiberglass power vessels. Market dynamics can vary substantially for individual boat brands, boat types and market segments, and this information can be broken down by performance for specific categories and brands. ■

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