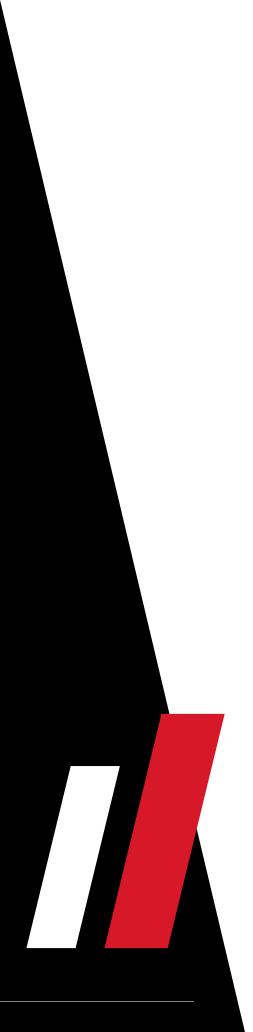


THE DEALERSHIP HIGH VELOCITY RECONDITIONING PLAYBOOK

JOIN THE RECON REVOLUTION!

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INTRODUCTION: WELCOME TO RECONVELOCITY'S RECON REVOLUTION

ReconVelocity is the industry's most advanced automotive reconditioning and dealership communication platform. It is the only true end-to-end recon management solution that provides total transparency into every step of recon, enables the selling process to begin at vehicle acquisition and tracks vehicles onand off-site in real-time. This state-of-the-art software delivers a superb user experience across desktops, tablets, and most importantly, mobile devices.

Founded by Hugh Hathcock, owner of ELEAD1ONE for more than 30 years, ReconVelocity was built and designed to help dealers increase their inventory turn rate and decrease the cost of reconditioning. The platform provides the tools that recon teams need to build streamlined recon workflows that result in improved efficiency and higher gross profits on used vehicles.

ReconVelocity offers the same support model that Hugh pioneered in the automotive industry at ELEAD1ONE. This partnership-based approach includes onsite training by automotive professionals coupled with performance coaching on a regular basis to ensure maximum software utilization and optimum return-on-investment (ROI) for the dealer. Dealer partners can expect regular feature updates and improved functionality, another core business tenet practiced by Hugh at ELEAD1ONE.

This Playbook outlines specific actions Dealer Principals and General Managers should take to build a high velocity, streamlined recon operation that enables managers to hold their teams accountable for specific performance benchmarks, including outside vendors, while working together toward continuous process improvements and profitability.

Our most valued asset at ReconVelocity is our PEOPLE! We are comprised of automotive professionals with decades of experience across all areas within the dealership. Our software platform emphasizes the features and tools a dealer needs to build a high velocity recon workflow. Our priority on face-to-face training, along with our recon process and automotive knowledge enables us to identify and improve very specific areas of improvement to positively impact the bottom-line results of the dealership's used car operation. Together, we can create a culture around recon that will revolutionize your reconditioning operation to stop profit leaks and boost used vehicle sales for maximum profit.

We invite all dealers to take the challenge and Join the Recon Revolution!



ATTENTION DEALER PRINCIPALS & GENERAL MANAGERS

All dealerships face a common realization each day – that profit margins are diminishing while operational costs are steadily increasing. To thrive in this ever-changing economy, Dealer Principals and General Managers must continually assess operations and processes for opportunities to manage resources more effectively and efficiently. While new, innovative software solutions have enabled dealers to achieve efficiencies throughout all other aspects of their operations, there have been minimal options for solutions that automate and streamline the complex workflows involved in automotive reconditioning.

ReconVelocity has changed this, providing you with a platform and an experienced partner that facilitates total visibility throughout the entire recon process so you can manage and measure every step and hold each individual accountable for predefined and aggressive performance benchmarks.

This Playbook provides the guidance needed to eliminate the constant finger-pointing between the used car department, the service department, detail, body shop, and vendors. It offers you the tools that are necessary to build automation and real-time communications into your recon workflows, allowing you to replace outdated tracking and reporting practices with accurate performance metrics so that you can make DATA-DRIVEN DECISIONS.

Imagine what it would be like to have a tool that would automatically transition a vehicle from one step to another in recon with the click of a button, and instantly send you a notification via a mobile app regarding the change that occurred. Then, every step thereafter records the exact time spent in each step of the recon process, allowing the management team to review and identify very specific breaks in the process that are costing them gross.

Building a high velocity recon operation requires support and involvement from the Dealer Principal, General Manager, or an appointed and empowered Velocity Manager. Changing the recon mindset in your dealership means new processes need to be defined, monitored, and constantly measured and improved. The "Recon Ship" needs to be steered in a mutual new direction with everyone striving for the same goal.

John Maxwell, one of the world's most influential leadership experts said: "Everything rises and falls on leadership." To his point, the success of your recon operation ultimately depends on your ability to lead your team to higher levels of performance. If you choose to appoint a Velocity Manager to champion the change, he or she must have your full support and be empowered to make decisions and take whatever actions necessary to achieve the dealership's reconditioning goals.

This Playbook contains key metrics needed to understand and measure your recon progress for continuous improvement. Times have changed; dealerships must operate leaner and meaner to thrive. Ensuring every dollar of your gross profits is protected is mission critical.

We are thankful to have the opportunity to continue to make a positive difference in the operations of dealers all over this great country and welcome you to the Recon Revolution!

Karla Guleserian, MSEC Dealership Process Ninja & Recon Expert ReconVelocity

WHY A **RECON** REVOLUTION?

for some brands, front end profits have almost completely diminished. It is not at all uncommon for dealers across the country to sell cars at a loss each day. Dealers are giving new cars away, chasing factory incentives in hopes of offsetting lost gross on deals to gain market share. More than ever, dealers are looking to the Used Car Department to make up for gross lost on new car sales, bringing in fresh trades and increased fixed ops revenue.

New car gross profits have steadily declined over the years;

For decades, managers have used spreadsheets, paper logs, and whiteboards to keep track of vehicles in recon and their progress to being Retail-Ready.

Imagine that your team uses a shared spreadsheet to keep track of inventory in recon and to monitor the progress toward getting your inventory Retail-Ready. Then, let's assume your goal is to sell 100 used cars a month at \$2,500 per copy. The month closes and, indeed, you achieved your goal, with CSI scores in line and the Service Department making money. Would it be hard for you to admit there are problems with the process of tracking and measuring recon performance with a spreadsheet? We consult with dealers every day who admit that if managers are "hitting the numbers", little consideration is given to figuring out how the team could have performed at a higher level.

Manual processes are prone to error. Without technology, automation, and real-time communication there is no way of knowing if you could have sold 130 used cars at \$3,200 per copy or 150 cars at \$3,600 per copy. Used car sales projections are based on "hope" and last year's numbers are most often used as the benchmark.

Proactive dealers are examining their recon processes to identify lost profit and missed opportunities for additional turns of inventory. We refer to this change as a Recon Revolution because it requires a complete overhaul of antiquated processes and competing departmental goals.

The fact is in recon **every minute counts** and equates to profit – either lost or retained. It is time for managers to shift concerns about the gross the Service Department is making on "their inventory" to the profits that are seeping out through ineffective recon processes and expenses that are increasing due to lost and idle vehicle time.

Embracing the Recon Revolution has motivated progressive dealers to break old habits and reap significant financial rewards by focusing on inefficiencies and process improvements. The time is now to turn wasted time in recon to profit that flows to the bottom line!

3d 12h 7m RETAIL-READY TIME

Od 2h 14m AVERAGE IDLE

EVERY

RECON

MINUTE

COUNTS.

TIME



KEY PRINCIPLES OF A HIGH VELOCITY RECON OPERATION

01

Use software

Use software to manage and measure the efficiency of reconditioning operations

02

Pre-define time thresholds

Pre-define time thresholds for each recon step and measure performance daily

03

Transparency across workflows

Have total transparency across recon workflows, including third-party vendors

04

Establish accountability

Establish individual accountability for each step of recon

05

Real-time communications

Have real-time communications across departments and vendors

06

Minimize vehicle erosion

Control Vehicle Value Erosion by minimizing your average Time-In-Recon

07

Sell upon acquisition

Start the sales process immediately upon vehicle acquisition

08

Dedicated management

Consider appointing a Velocity Manager to ensure that reconditioning progresses according to set goals

CONTROLLING COSTS & PLUGGING PROFIT HOLES

How do you control costs and plug profit holes while a unit is in recon? The answer lies in your used inventory turn rate, Vehicle Value Erosion, and your daily carrying costs.



INVENTOR TURN RATE

According to NCM Associates, your dealership has a 65-70% probability of selling a unit under 30-days old. Once a vehicle ages past the 30-day mark, the probability of a sale goes down to 25%. Once the unit ages into the 60 to 90-day mark, the probability of a sale then drops to a mere 10%. It should be every Used Car Manager's mission to sell every unit that comes into stock within the 30-day period! (You might be thinking, "That is not going to happen!") There is nothing wrong with striving for a 30-day turn – it can be done with a lot of individual work, team commitment and training

SUM OF ALL USED INVENTORY AGES / NUMBER OF USED VEHICLES IN STOCK = AVG AGE 365 DAYS / AVG AGE = INVENTORY TURN RATE

EXAMPLE:

100 Used Vehicles in Stock with a Sum of 4,000 Days Age 4,000 Days / 100 Vehicles in Stock = 40 Days Avg Age of Inventory 365 Days in a Year / 40 Days Avg Age of Inventory = 9.13 Inventory Turn Rate

AT A TURN OF 9.13, YOU WILL SELL AN AVERAGE OF 76 USED VEHICLES PER MONTH 9.13 / 12 (MONTHS IN A YEAR) = 76

If the same 100 vehicles had an average age of 30 days, the dealership would have an Inventory Turn Rate of 12.17 and sell 101 cars per month.

VEHICLE VALUE EROSION

Every day a vehicle sits on the lot, it depreciates. At ReconVelocity, we call this Vehicle Value Erosion. Vehicle Value Erosion chips away at your gross profit oneday-at-a-time.

Imagine it takes you 10 days to get a unit ready for the frontline and in that 10 days, while you are investing more into the vehicle through repairs, your profits are decreasing through Vehicle Value Erosion. On average, you can assume you have approximately 21-days from the point of acquisition as your best retail window to maximize your gross profit. If you have burned 10 days in recon and wait until recon is complete to begin efforts to sell the unit, you would only have about 11 selling days left to hold gross. You cannot stop Vehicle Value Erosion, but you can minimize it by getting the vehicle through recon as quickly as possible and starting the sales process the minute you own it. This means identifying used car buyers from your database to call and proactively set appointments for the vehicle!

DAILY CARRYING OR HOLDING COST

There is another brutal force that chips away at your profits on unsold inventory and that is your Daily Carrying or Holding Cost, which is made up of operating overhead, floorplan expenses, interest rates, and so forth – and varies by dealership. Here is how you calculate the average Daily Holding Cost Per Unit:



FIRST, CALCULATE YOUR DAILY INTEREST COST PER UNIT

AVG MONTHLY USED CAR INVENTORY COST X FLOORPLAN INTEREST RATE = ANNUAL INTEREST COST

> ANNUAL INTEREST COST / 365 DAYS = DAILY INTEREST COST

DAILY INTEREST COST / AVG # OF USED VEHICLES IN STOCK = DAILY INTEREST COST PER UNIT

EXAMPLE:

\$1,500,000 Inventory Cost x 6% Interest = \$90,000 Annual Interest Cost
\$90,000 Annual Interest Cost / 365 Days = \$246.58 Daily Interest Cost
\$246.58 Daily Interest Cost / 100 Units = \$2.47 Daily Interest Cost Per Unit

SECOND, CALCULATE YOUR AVG DAILY FIXED EXPENSE PER UNIT AND ADD THAT TO THE DAILY INTEREST COST PER UNIT.

> AVG MONTHLY FIXED EXPENSES / 30 DAYS = DAILY AVG FIXED EXPENSE

DAILY AVG FIXED EXPENSE / AVG # OF USED VEHICLES IN STOCK = DAILY FIXED EXPENSE PER UNIT

DAILY FIXED EXPENSE PER UNIT + DAILY INTEREST COST PER UNI = AVG DAILY HOLDING COST PER UNIT

EXAMPLE:

\$100,000 Avg Monthly Fixed Expenses / 30 Days = \$3,333 Daily Avg Fixed Expense

\$3,333 Daily Avg Fixed Expense / 100 Units = \$33.33 Daily Fixed Expense Per Unit

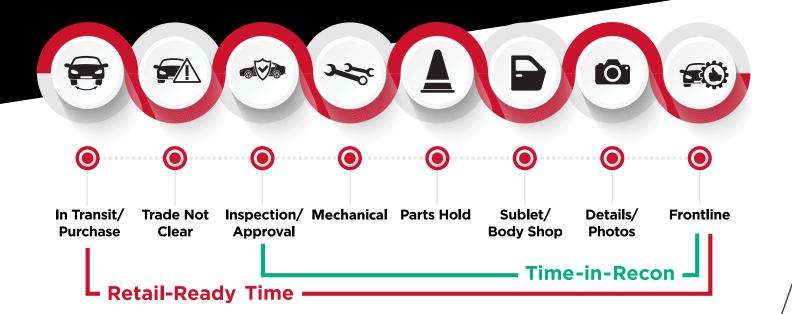
\$33.33 Daily Fixed Expense Per Unit + \$2.47 Daily Interest Cost Per Unit = \$35.80 Avg Daily Holding Cost Per Unit

Let us assume that your average daily carrying cost is \$40. Using this figure, you have already lost \$400 in gross profit on the unit that took you 10 days to get through recon along with its depreciation amount.

EXTENDED TIME-IN-RECON IS A GROSS PROFIT KILLER!

MANAGING BY THE NUMBERS

Once again, to identify areas of opportunity for process improvements in recon requires having valid measurement tools in place to accurately assess the time (down to the minute) that units stay within each step of your recon workflow. The following is a review of these key metrics and how they enable you to keep your recon operation on a high velocity Fast Track by holding people accountable for individualized performance goals.

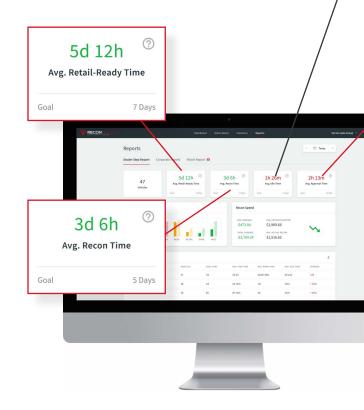


RETAIL-READY TIME & TIME-IN RECON METRICS

ReconVelocity's **Retail-Ready Time Metric** represents the amount of time it takes for a newly acquired vehicle to get to the frontline beginning at the point of acquisition (including transport time).

Our **Average Time-In-Recon Metric** represents the amount of time it takes for a vehicle to get from inspection to the frontline. We recommend dealerships target an Average Time-In-Recon of 2-4 days, but it is up to you to set specific goals for your recon operation based on resource availability.

It is important to closely monitor your Retail-Ready Time Metric and Average Time-In-Recon Metric daily. Doing so allows you to act before too much time has lapsed in a specific step by quickly identifying bottlenecks that require tweaks to processes or workflow. This often involves meeting with individuals who are causing unnecessary delays in certain steps, or vendors who are causing bottlenecks in the workflow. A vehicle is not truly Retail-Ready until all work has been completed.





AVERAGE IDLE TIME METRIC

The Average Idle Time Metric represents the average amount of time a vehicle sits idle, not being worked on. This includes time in between steps when the vehicle is sitting, collecting dust, waiting to be worked on. This can include a parts hold, resource issues, parking issues, and awaiting approval.

Let's imagine it is Tuesday morning and your technician has just inspected a new trade. The advisor then prices out the estimate and places it on the Used Car Manager's (UCM) desk, who is attending a required factory training for the rest of the day and tomorrow (Wednesday).

On Thursday, the UCM gets back from training but needs to first handle two customer complaints and then speak with a salesperson who keeps disappearing for hours at a time, following which the UCM has to attend a marketing presentation in the conference room. After the meeting, the UCM notices there are a couple of estimates on their desk but needs to catch up on a few other things first and appraise two cars. As the day went on, things became even more hectic and the UCM completely forgot about the estimates on their desk. Sound familiar?

Finally, Friday morning, the UCM realizes they forget about the estimates, so they take the time to review them and approve the repair work that needs to be done. Before going to lunch, the UCM drops the estimate off on the advisor's desk, who is now also at lunch. When the advisor returns, there is a line of customers needing help, so they are unable to look at the estimate until near the end of their shift. When they finally do, they take it to the technician then learn that the technician is scheduled off for the weekend, so they will not be able to start on it until they finish up a job Monday morning.

In this example, this recon unit has been idle from Tuesday morning through Friday evening, and now will wait until Monday for repairs to be started. The estimated Idle Time between inspection and shop has been nearly 5 days. Keeping a vehicle's idle time to a minimum is key. Having software to track this is a game changer.

AVERAGE APPROVAL TIME METRIC

(?)

30 Min

2h 13m

Avg. Approval Time

Goal

The Average Approval Time Metric represents the average time it takes to approve repairs on recon units. In the scenario above, it took from Tuesday morning to Friday for the manager to approve the needed repairs. It is imperative recon units progress through each step of recon with minimal "idle time"

Anything short of real-time communication among individuals across your recon operation is unacceptable – and that includes both on- and off-site vendor communications. Real-time app notifications and communications are necessary so managers can respond within minutes to work estimates – regardless of where they are or what they are doing. It is also necessary for managers be able to see cost and estimate information when looking at recommended repairs, so integration with the dealership's inventory management tool and recon mobile app is essential.

ReconVelocity provides real-time access to repair and cosmetic recommendations along with crucial decision-making data such as how much the dealership has invested in a vehicle, original appraisal notes, pack amounts, MPI results, appraisal notes, inspection photos, and more. Highly efficient recon operations process work approvals and denials instantly – even before the technician has time to pull a vehicle off the rack following inspection. Approved repair work should begin within minutes of receiving the approval via a real-time app notification to all parties involved, including parts.

RECONVELOCITY'S PROVEN IMPLEMENTATION & DEALERSHIP SUCCESS PLAN

BEST-IN-CLASS PERFORMANCE TEAM

THE RECONVELOCITY TEAM WORKS WITH OUR DEALER PARTNERS TO IMPLEMENT A PROVEN DEALERSHIP SUCCESS PLAN.

You are likely familiar with the scenario of paying for software your employees seldom or never use. Our Dealership Success Plan is designed to ensure employees and vendors who have a stake in your recon operation use the software to its fullest extent.

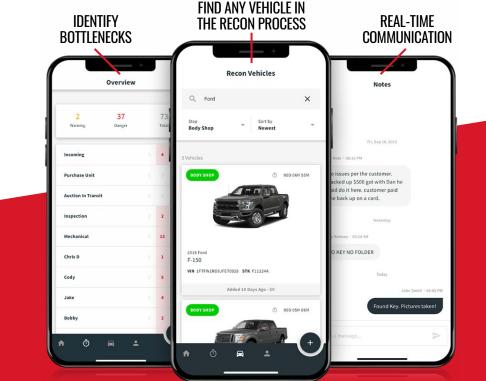


PROVEN RESULTS FROM BEST PRACTICES

AUTO RECONDITIONING PROCESS ASSESSMENT

We always begin with a thorough assessment of your current recon operation, including documenting the layout of your facilities, noting any constraints, listing resource limitations, identifying recon employees, vendors, and much more. Think about the following when doing your assessment:

- Software integrations (DMS, CRM, inventory management tool)
- Individuals accountable for steps and sub-steps (porters, techs, detailers)
- How long each recon step should take
- Vendors (body shop, windshield repair, detailer)
- The logistics of your recon operation
- Service advisor processes
- Technician processes
- Your MPI process for internals
- Vehicle photos process
- · Cross department communications



BEST PRACTICE RECON PROCESS RECOMMENDATIONS

We know there are many aspects of your recon workflow that are working, but we also know getting insight into best practices from dealers who have successfully joined the Recon Revolution and improved their recon time is also very useful. After all, there is no sense in reinventing the wheel, even though we realize every dealership environment is unique in one way or another. We work with independents, small, medium and large groups – so we have access to performance data and best practices from a wide range of scenarios to help you assess your own operation and map out a vision for what a high-performing recon operation at your dealership looks like.

GET EVERYONE ON-BOARD

A Kick-Off Meeting is a great way to get everyone excited about the change that is coming and to help each individual understand exactly what the dealership plans to accomplish, their role in the effort, and how they will benefit – making their job easier and making more money!

Revolutionizing your recon operation will be a team effort, there is no doubt about it. Encourage everyone involved and set expectations for new processes and responsibilities. Share performance metrics and show employees the potential for financial growth. Create a common shared goal and culture.

SOFTWARE USE ACCOUNTABILITY

ONE-ON-ONE TRAINING

THE VELOCITY MANAGER & RECON TEAM

Identify the Velocity Manager (VM) for your dealership and each member of the Recon Team. The VM will act as the ultimate supervisor responsible for the entire process; from Acquisition to Retail-Ready. This person serves as the bridge between service and sales to ensure both time and cost are minimized to increase overall dealership profitability. The VM should have the following responsibilities:

- To oversee and manage the process of getting vehicles through recon
- To make sure that an RO is created and the vehicle dispatched to the Service Department, as soon as the keys are available
- To make sure that the recon technician completes an inspection right away
- Once an inspection is complete, to build a complete quote for reconditioning
- To immediately send the quote to the decision maker once it is complete
- To oversee and make sure that all approved repair work is completed within the goal time

PERFORMANCE TRAINING

No one gets to be the best at anything without practice and repetition. Practice includes keeping your pulse on how you performed yesterday, last week, and last month and setting goals for continuous process improvement.

It is going to take practice and time to teach those involved in your recon operation new habits and processes; they need to train on these every day until the new becomes as natural as the old. It is imperative that training not be an option for anyone involved in the dealership's recon workflows – including outside vendors! In fact, it should be mandated for all vendors to attend a Recon Performance Meeting at least once-permonth, as they often contribute to Idle Time in recon and even numerous days lost. If it is discovered that a vendor is holding up progress, you should schedule a meeting right away to address the issue, rather than waiting for an entire month to go by.

VENDOR MANAGEMENT

You need to pay close attention to the time it takes vendors to complete work on recon units. When it is necessary to sublet work to another shop or mobile repairer, it is important to hold these individuals accountable for performing the work within the same time thresholds the dealership's service staff is required to meet. Every day, dealerships lose gross profit in time wasted while recon units sit idle waiting for vendor repairs to be completed.

When you acquire a new vehicle, within a couple of hours it should be inspected for necessary repairs. The work approval should happen within minutes after the inspection is complete and the repair items priced out. At this point, vendors should be notified immediately via real-time mobile app notifications of the impending work so they can prepare their workflow. The vendor should acknowledge the notification and either make plans in his/her workflow to get the job done on time, or immediately let you know when they are not going to be able to complete the work in an acceptable timeframe. Vendors should have a list of assignments rather than walking the lot and "finding work".

CUSTOMIZED SET-UP

BUY-IN FROM

YOUR TEAM



WEEKLY RECON TEAM MEETINGS

The Velocity Manager should review performance throughout the recon steps daily. Weekly meetings should be held to review performance at each step in the process with the entire recon team. Finally, a month-end review should be done to provide feedback to all team members regarding goal accomplishments as well as processes that might need tweaking. Each meeting should end with an action plan for improvement.

COLOR-CODED STEP TIME GOAL NOTIFICATIONS

EASILY IDENTIFY YOUR RECON STATUS

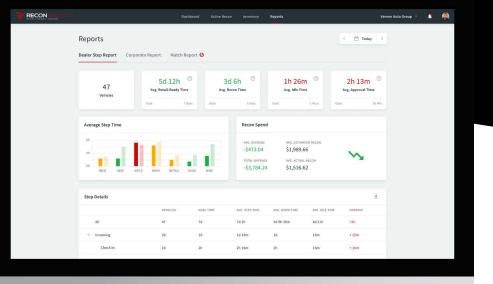
With ReconVelocity, you can easily identify the threshold status of each unit within your recon steps. Our platform automatically assigns colorcoding to highlight step time thresholds that are on pace and those that have exceeded the dealership's goals by a little or a lot as follows:

Green indicates the vehicles

where step time is within the

GRFFN

threshold





Yellow indicates those vehicles that are close to causing you to miss your overall step goal time

RED

Red indicates those vehicles that have exceeded your overall step goal time

Our Recon Experts work with the dealership to determine the individual and overall step goal times. Reporting should make it very easy for the Velocity Manager to identify step threshold issues so they can proactively take action to get things back on track.

JUMPSTART THE SALES PROCESS

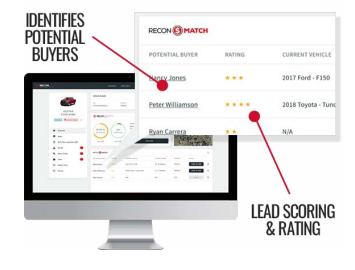
WITH RECONMATCH

SELL MORE USED CARS FASTER. HOLD MORE GROSS.

Getting to a streamlined and highly efficient recon workflow is vital, but there is still more that can be done to protect your gross profits. While waiting days to start selling newly acquired used vehicles is contrary to the entire mission of high velocity recon operations, adding days to the selling time brings additional fuel to the entire recon operation.

The ReconVelocity platform enables dealers to begin the sales process on units as soon as they arrive on the lot – before they are inspected – if it is determined the vehicle will be a retail unit. ReconMatch uses data intelligence to extract potential used car buyers from your CRM and DMS to begin the marketing and sales process within minutes of acquiring a unit. As prospects demonstrate interest in specific units, these units can be given priority in the recon progress to boost the possibility of a sale as soon as the vehicle is Retail-Ready! These opportunities can be pushed into the CRM for salespeople or BDC agents to immediately begin prospecting.





JOIN THE RECON REVOLUTION!





SUMMARY

By now you can see that ReconVelocity is much more than a recon process management tool. It is an advanced recon solution that brings automation and real-time tracking and communication to the entire recon process, enabling dealers to quickly identify process problems that result in costly bottlenecks so swift action can be taken to correct issues and get the process back on track. It enables you to identify process and people problems costing you gross!

Progressive dealers across the country are on their way to building some of the highest velocity-driven recon operations ever seen in this industry – and they are reaping the benefits of increased inventory turns and maximum gross profits. The end goal is to move recon units through an organized and streamlined workflow as efficiency as possible and to control costs, while simultaneously igniting the sales process at acquisition.

Revamping a dealership's recon operation takes time and training. Success requires support from the Dealer Principal and General Manager. Recon efforts must be supported by an experienced team of experts who are committed to the dealership and the success of the recon team



GET HELP & LEARN MORE

To learn more about how ReconVelocity can help you build a high velocity recon operation in your dealership or if you have questions about any of the topics covered in this Playbook, please contact us.

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