

# Automotive Digest

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## Dealer Digest Daily

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IMPACTING DEALER PROFITS & SALES

### Where the Auto Industry Should be Going

IDEAS & STRATEGIES FROM FORWARD THINKING INDUSTRY



#### Reducing the Cash Crunch for Auto Dealers

*Commentary and Opinion by Philip Moorcroft*

Automotive dealers are facing a unique challenge in the age of "Cash for Clunkers": Sales have increased but a cash crunch could jeopardize future business. The program has stimulated sales from an atypical consumer, namely those individuals who purchased cars due only to the incentive.

Unfortunately, because the government has been slow in compensating dealers, a serious cash flow crisis has ensued. Auto dealers have only a few options if they hope to stay in the program.

First, they need to get rid of their 'clunker' inventory. Some dealers have gone so far as to rent lot space in order to store their clunkers before they are sent off to scrap yards. This unnecessarily ties up cash. Move clunkers fast. The result is obvious: cash.

Next, reduce costly upfront expenses such as marketing and advertising. The "Cash for Clunkers" program is already well known.

For longer-term financial health, solutions involve the auto manufacturers. They should be looking at their distribution chains and dealer networks in order to improve inefficiencies to reduce expenses. For now, inventory is not an issue, but it likely will be if standard practices return after Labor Day. That is, 60-plus days inventory will be the norm. Reducing inventory with more frequent deliveries will lower costs and improve cash flow.

By reducing clunker storage, cutting marketing and reducing inventory, cash flow will be less of an issue.

*Philip Moorcroft is the CEO of **MGPS**, a Toronto-based management consulting firm. He is also a former senior financial analyst for PricewaterhouseCoopers. Visit [www.mgps.com](http://www.mgps.com) for more information.*