

Switching to Reynolds:
THE IMPACT ON
PROFITABILITY

FOREWORD

As the automotive retailing industry moves forward, sustainable profitability has gone from “problem on the horizon” to current-day reality. Among those challenges:

- **Declining profit margins:** New vehicle gross margins have declined significantly over the last several years, from 4.0 percent in 2011 to 2.2 percent in 2018.¹ Trends for 2020 continue to point towards further decline. This places an increasingly heavy burden on the back end of the business as well as used vehicles.
- **Rising operational costs:** Expenses are rising faster than gross profits, leading to declining earnings at many public and private dealerships.²
- **Proliferation of disconnected technological solutions:** The number of disconnected technological solutions within the dealership continues to increase. This exacerbates inefficiency and damages both employees’ experience and work satisfaction.

These are merely a handful of the issues retailers face. Although they may not seem to have much in common with one another, there is a common thread: Dealers are not realizing the full financial and operational benefits from solutions they invest in. As a result, missed revenue opportunities abound, while process inefficiencies and redundancies drive costs and resource waste higher.

Nowhere is this problem more apparent than in the dealership management system (DMS), the system that should smoothly govern technology inside the four walls of your business.

Your dealership can be more effective and efficient running on a single system. That is the foundation of Reynolds Retail Management System. Our single system approach enables a dealership to:

- Boost revenue-generating activities and capture brand-new revenue opportunities.
- Create a seamless workflow from department to department, from the first point of customer contact to the end of the sale and beyond.
- Reduce reliance on multiple vendors.
- Cut costs by streamlining processes and creating efficiencies.

¹ Digital Dealer

² Auto Remarketing

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ABOUT THIS REPORT

The purpose of this report is to outline the performance impact of Reynolds Retail Management System for dealerships who converted to Reynolds from a competing DMS. Dealerships in this report switched in either 2015 or 2016 and have been on Reynolds for a minimum of 3 years. All are current Reynolds customers.

We tracked several key business metrics and measured the change in performance over a three year period after moving to Reynolds.

The data analysis methodology and empirical findings of this report have been independently reviewed and verified by Ross A. Jackson, Ph.D., director of the Masters of Analytics program at Wittenberg University in Springfield, Ohio; and Kendall Goodrich, Ph.D., professor of Marketing Analytics and chair of the Marketing Department at Wright State University in Dayton, Ohio.^a



The data shows the following results:

- Overall gross profits are up at these dealerships.
- Both new and used vehicle revenue have increased.
- New and used grosses have also increased.
- F&I income and gross have increased for both new and used.
- Service departments show significant growth.
- Parts sales and grosses have also increased.

^a See Appendix

KEY PERFORMANCE INDICATORS MEASURED

Percent Change After Switching to Reynolds

KPI	Average Change
Overall Dealership Gross*	+10.6%
Gross Profit Margin	+7.4%
New Vehicle Gross**	+9.4%
Used Vehicle Gross	+6.1%
F&I Gross Per New Unit Sold	+9.4%
F&I Gross Per Used Unit Sold	+11.4%
New Total Finance Gross	+1.1%
Used Total Finance Gross	+16.1%
New Warranty and Maintenance	+0.2%
Used Warranty and Maintenance	+7.5%
New Insurance Income**	+6.5%
Used Insurance Income	+17.1%
Combined Gross Per New Unit Sold	+25.7%
Combined Gross Per Used Unit Sold	+7.3%
Service Department Gross**	+44.3%
Total CP ROs	+7.8%
CP Total Hours	+10.1%
Effective Labor Rate	+6.7%
Gross Profit Per CP RO	+9.3%
Retail Parts Gross	+2.9%
Parts Department Gross	+19.7%

* Dealerships with centralized accounting are excluded from averages for these metrics.

** One or more dealerships was excluded from the calculation of this average due to being an outlier.

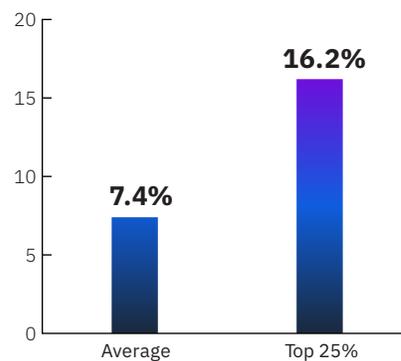
OVERARCHING DEALERSHIP PERFORMANCE

Despite the industry trend of narrowing profit margins, dealerships that switched to Reynolds saw a healthy increase in their average monthly gross. This is *in spite* of a slight decrease in units sold.

Gross Profit Margin

Percent Change in Gross Profit Margin	
Average	7.4%
Top 25%*	16.2%

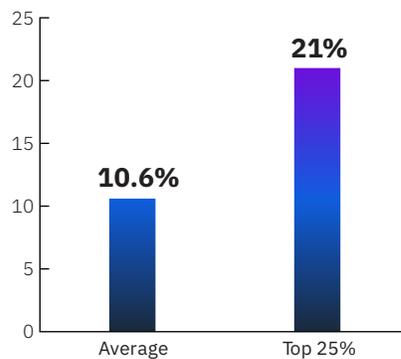
* saw improvements of at least



Overall Dealership Gross

Percent Change in Monthly Gross	
Average	10.6%
Top 25%*	21%

* saw improvements of at least



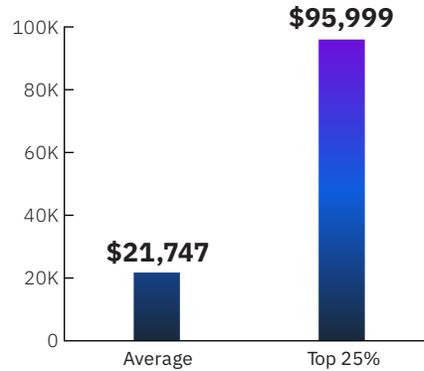
The top 5 dealerships based on percent change in gross saw results as follows:

Rank	Dealership (Franchise and State)	Previous DMS	Percent Change	Difference in Monthly Avg. Gross	Annualized Increase in Gross
1	Nissan in KY	AutoSoft	+172.0%	+\$139,521	+\$1,674,252
2	Subaru in TX	Dealertrack	+72.3%	+\$215,401	+\$2,584,812
3	Chevrolet in NC	CDK	+46.1%	+\$189,807	+\$2,277,684
4	Infiniti in CT	Infiniti	+43.5%	+\$79,473	+\$953,676
5	Kia in TN	Dealertrack	+34.0%	+\$92,958	+\$1,115,496

Net Change in Overall Dealership Gross

Net Change in Average Monthly Gross	
Average	\$21,747
Top 25%*	\$95,999

* saw improvements of at least



The top 5 dealerships based on net change in monthly average gross saw results as follows:

Dealership (Franchise and State)	Previous DMS	Percent Change	Difference in Monthly Avg. Gross	Annualized Increase in Gross
1 Ford in TX	Dealertrack	+23.7%	+\$237,488	+\$2,849,856
2 Subaru in TX	Dealertrack	+72.3%	+\$215,401	+\$2,584,812
3 Nissan in PA	CDK	+32.7%	+\$209,982	+\$2,519,784
4 Chevrolet in NC	CDK	+46.1%	+\$189,807	+\$2,277,684
5 Toyota in AR	CDK	+15.5%	+\$161,804	+\$1,941,648

THE REYNOLDS CONNECTION

Implementing the Reynolds System had a significant impact on profit performance for the dealerships included in this study. The question, of course, is how?

Reynolds Retail Management System, at its core, is about improving processes to facilitate a stronger connection between your employees and your customers. Your customers don't have time to waste and neither does your dealership. By mitigating or eliminating operational inefficiency – ranging from data entry errors to misquoted vehicle prices – you free up your employees to create new opportunities.

At the same time, state-of-the-art selling and interactive presentation tools empower your employees to become the best possible versions of themselves, transforming the sales approach in your showroom, F&I office, and service department. Effective selling is a science, one that Reynolds is constantly looking to improve and ultimately perfect within your dealership.

With Reynolds, solutions are built and enhanced to work seamlessly with each other, creating dealership-wide continuity. In the gaps where redundant work used to take place, you're now saving time and effort while giving your employees recaptured productive time. The system is built to prioritize revenue-generating activity over passive activity to keep your top performers firing on all cylinders.

The following sections of the report will break down greater detail on the profit impact of the Reynolds system on the variable operations and fixed operations departments, respectively.

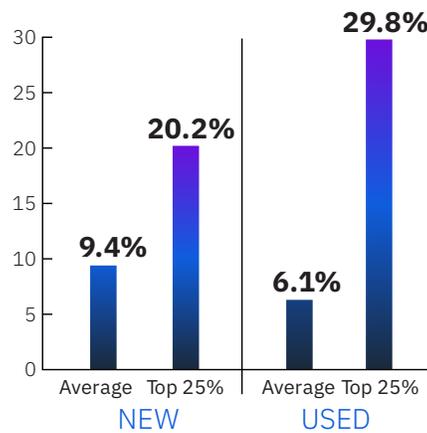
VARIABLE OPERATIONS PERFORMANCE

Vehicle Gross

Despite the fact the industry has trended downward on front-end new vehicle grosses over this time frame, dealerships saw grosses for new and used vehicles increase after switching to Reynolds.

Percent Change in Vehicle Gross		
Dealerships	New	Used
Average	9.4%	6.1%
Top 25%*	20.2%	29.8%

* saw improvements of at least

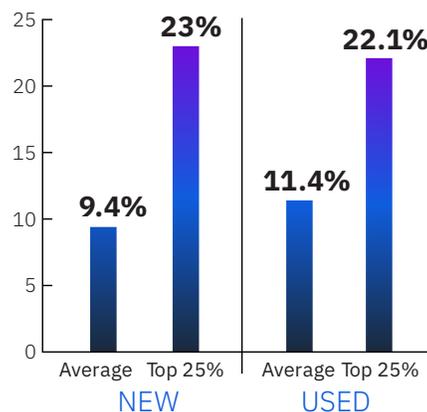


F&I Gross per Unit Sold

Dealerships also saw F&I grosses on new and used vehicles increase.

Percent Change in F&I Gross per Unit Sold		
Dealerships	New	Used
Average	9.4%	11.4%
Top 25%*	23%	22.1%

* saw improvements of at least

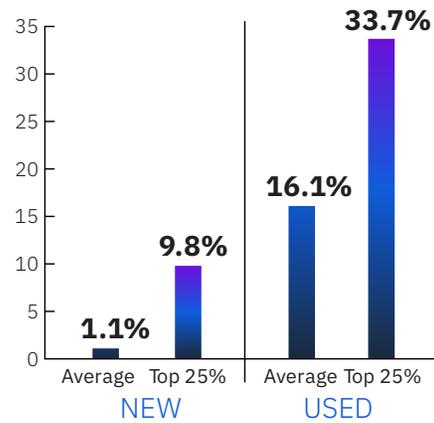


Total Finance Gross

A closer analysis of F&I grosses shows dealerships saw increases in each part of that business. Finance grosses increased for both new and used vehicles.

Percent Change in Total Finance Gross		
Dealerships	New	Used
Average	1.1%	16.1%
Top 25%*	9.8%	33.7%

* saw improvements of at least

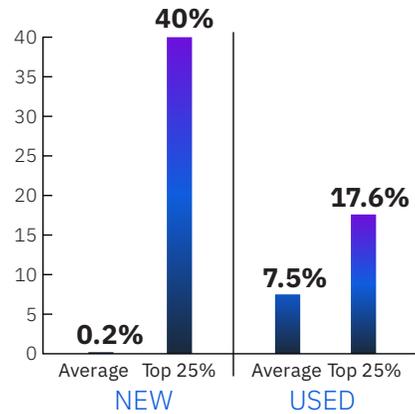


Warranty and Maintenance Gross

Dealerships saw warranty and maintenance gross increase for both new and used vehicles.

Percent Change in Warranty and Maintenance Gross		
Dealerships	New	Used
Average	0.2%	7.5%
Top 25%*	40.0%	17.6%

* saw improvements of at least

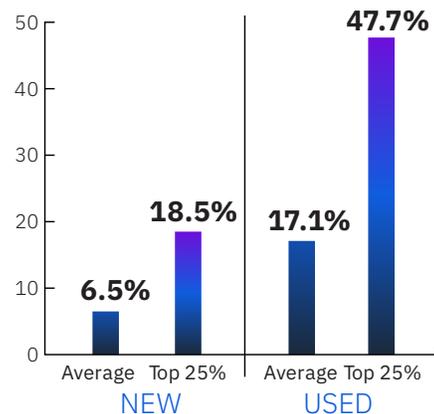


Insurance Income

Dealerships saw insurance income increase for both new and used vehicles.

Percent Change in Insurance Income Gross		
Dealerships	New	Used
Average	6.5%	17.1%
Top 25%*	18.5%	47.7%

* saw improvements of at least

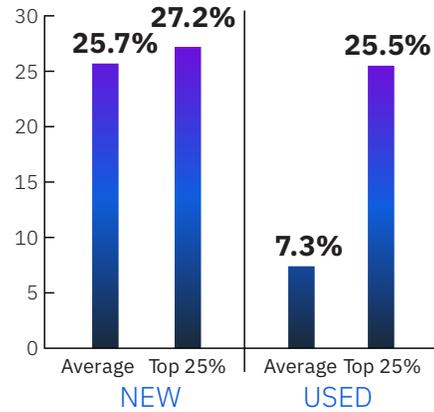


Combined Gross per Unit Sold

After combining front and back-end grosses, dealerships that switched to Reynolds saw a healthy increase in total gross per unit sold for both new and used vehicles.

Percent Change in Combined Gross per Unit Sold		
Dealerships	New	Used
Average	25.7%	7.3%
Top 25%*	27.2%	25.5%

* saw improvements of at least



THE REYNOLDS CONNECTION

How does Reynolds Retail Management System have such a consistently dynamic impact on dealership variable operations across the board?

By streamlining and digitizing processes throughout your dealership, Reynolds helps you build a friendly and engaging buying environment. It's an environment that empowers customers to shop rather than be sold to and reduces the total time it takes to complete a transaction (i.e., your ratio of engaged time to down time goes up).

Rather than being forced behind a computer monitor to rekey customer and vehicle information for the fifteenth time³, your salespeople are freed up to focus their attention where it really belongs: the potential buyer sitting in front of them.

Ultimately, Reynolds seeks to revolutionize your workflow while emphasizing profit performance. That focus shows in the various solutions powering your variable ops, from a desking tool that instantly calculates and presents multiple payment options to an interactive menu presentation device that eliminates laborious paper forms in F&I.

For an idea of what this profit performance impact could look like for your variable operations, plug your average new and used combined gross per unit and number of units sold in a given month into the below formulas, which are based on Reynolds dealerships' average percent increase:

$$\begin{array}{l}
 \frac{\text{(avg new vehicle combined gross per unit sold)}}{\text{(avg new vehicle combined gross per unit sold)}} \times .257 \times \frac{\text{(new units sold per month)}}{\text{(new units sold per month)}} = \frac{\text{(monthly increase in gross)}}{\text{(monthly increase in gross)}} \\
 \frac{\text{(avg used vehicle combined gross per unit sold)}}{\text{(avg used vehicle combined gross per unit sold)}} \times .074 \times \frac{\text{(used units sold per month)}}{\text{(used units sold per month)}} = \frac{\text{(monthly increase in gross)}}{\text{(monthly increase in gross)}}
 \end{array}$$

³ Automotive News

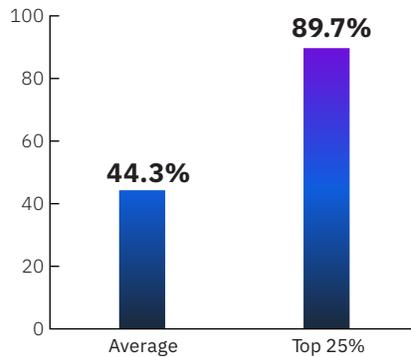
FIXED OPERATIONS PERFORMANCE

Service Department Gross

The service department has a tremendous amount of profit potential. Dealerships saw a large increase in service department gross after switching to Reynolds.

Percent Change in Service Department Gross	
Average	44.3%
Top 25%*	89.7%

* saw improvements of at least

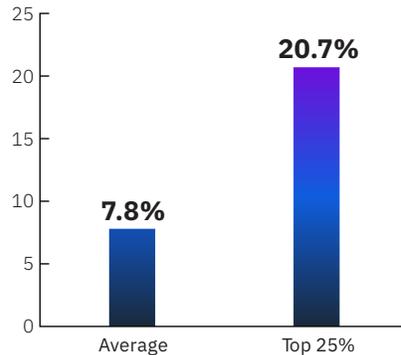


Total Customer-Pay Repair Orders

The total number of customer-pay repair orders completed per month also increased in the dealerships.

Percent Change in Total Customer-Pay Repair Orders	
Average	7.8%
Top 25%*	20.7%

* saw improvements of at least

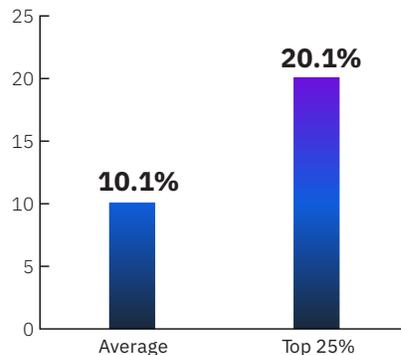


Total Customer-Pay Hours

The total number of customer-pay hours completed per month increased in the dealerships.

Percent Change in Total Customer-Pay Hours	
Average	10.1%
Top 25%*	20.1%

* saw improvements of at least

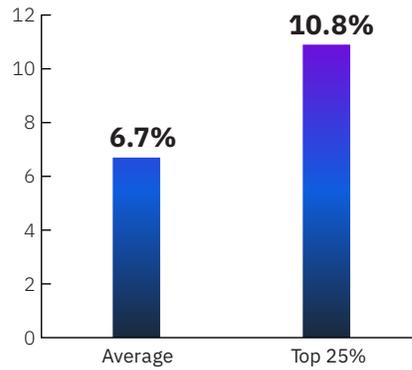


Effective Labor Rate

Dealerships saw their effective labor rate increase.

Percent Change in Effective Labor Rate	
Average	6.7%
Top 25%*	10.8%

* saw improvements of at least

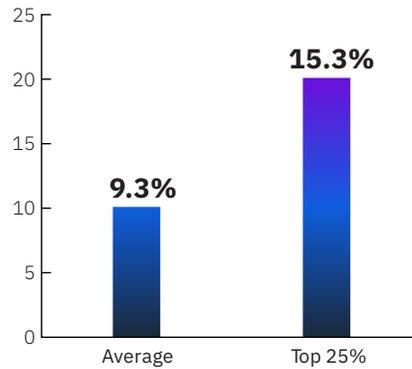


Gross Profit per Customer-Pay Repair Order

Dealerships saw an increase in gross profit per customer-pay repair order.

Percent Change in Gross Profit per Customer-Pay Repair Order	
Average	9.3%
Top 25%*	15.3%

* saw improvements of at least

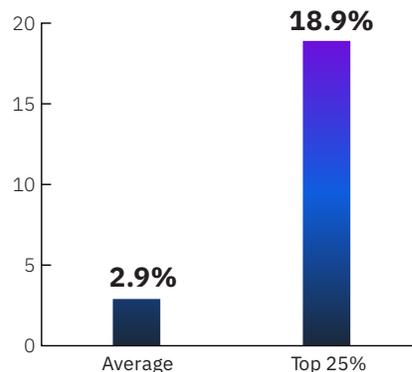


Retail Parts Gross

Dealerships saw an increase in retail parts gross.

Percent Change in Retail Parts Gross	
Average	2.9%
Top 25%*	18.9%

* saw improvements of at least

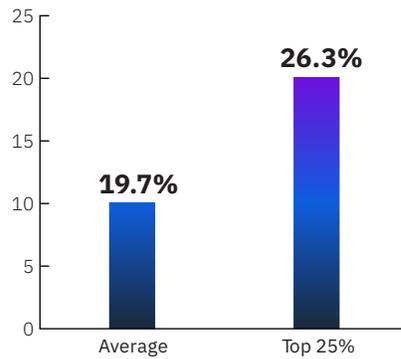


Parts Department Gross

Dealerships saw a significant increase in overall parts department gross.

Percent Change in Parts Department Gross	
Average	19.7%
Top 25%*	26.3%

* saw improvements of at least



THE REYNOLDS CONNECTION

In your fixed operations department, the key to boosting revenue opportunities and overall profitability is tightening up the process gaps.

Digitizing processes limits the time technicians waste walking ROs all over the department, keeping the wrenches turning and maximizing customer pay opportunities. Accurate, immediate pricing for jobs allows your technicians and advisors to perform a vehicle inspection and build the estimate simultaneously, eliminating misquoting and saving even more time.

Consolidated customer and vehicle records keep advisors informed about what recommended work has and hasn't been completed, while customer-facing tools and improved upsell processes ensure every money-making opportunity has the best possible chance of success.

The Reynolds system in fixed ops: a finely tuned, revenue-generating machine with minimal waste, maximum efficiency, and greater customer satisfaction.

To get an idea of the profit performance impact Reynolds could have on your fixed ops department, take a look at the equations below.

Determine your potential service department gross impact:

$$\frac{\text{Current Service Gross}}{\text{Current Service Gross}} \times .443 = \frac{\text{Additional Service Gross}}{\text{Additional Service Gross}}$$

Determine your potential parts department gross impact:

$$\frac{\text{Current Parts Gross}}{\text{Current Parts Gross}} \times .197 = \frac{\text{Additional Parts Gross}}{\text{Additional Parts Gross}}$$

Add the two new totals:

$$\frac{\text{Additional Service Gross}}{\text{Additional Service Gross}} + \frac{\text{Additional Parts Gross}}{\text{Additional Parts Gross}} = \frac{\text{Total Additional Gross in Fixed Ops}}{\text{Total Additional Gross in Fixed Ops}}$$

BECOMING THE BEST OF THE BEST

As automotive retailers move forward, they will face pressures from emerging competitors, changing consumers, and everything in between. This means making smart investments to create new profit centers in the dealership and maximizing existing ones isn't just a savvy move – it's the only move to maintain sustainable profitability in an ever-changing industry landscape.

What makes for a smart investment? Time and time again, innovation has been the answer.

Reynolds Retail Management System is innovation in action. More than a DMS, it is a transformative approach to how you think about the daily workflow within your dealership. Beyond refining processes, empowering employees, and bringing the focus back to individual customer needs, this is a system about freedom – freedom for you and your employees to focus on what you do best, to become the best possible version of your professional selves, and to achieve new heights and goals for your business that you never imagined were possible.

APPENDIX



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January 3, 2020

Reynolds & Reynolds
c/o Kasi Edwards
Vice President, Marketing
One Reynolds Way
Dayton, OH 45430

Dear Ms. Edwards:

I have had the opportunity to review the ERA-IGNITE Customer Analysis developed by The Reynolds and Reynolds Company. The analysis appears to be soundly and impartially executed to accurately reflect performance levels of new and existing ERA-IGNITE customers.

Regards,

A handwritten signature in blue ink that reads "Kendall Goodrich".

Kendall Goodrich
Director, M.S. in Marketing Analytics program
Chair and Professor, Marketing Department





6 January 2020

Ms. Kasi Edwards:

It was my pleasure to conduct a research validation review for Reynolds and Reynolds. Please find my research validation and biographical statements included in this letter.

Research Validation Statement:

I have reviewed the Reynolds and Reynolds Analytic Report comparing key operating performance metrics post implementation of their products and services. The analyses were appropriate and conducted properly. In aggregate, post implementation performance metrics were improved from the implementation period.

Biographical Statement:

Ross A. Jackson has a doctorate degree in applied management and decision sciences from Walden University, Minneapolis, Minnesota, and a Master's in applied economics and a Bachelor of Business Administration from Ohio University, Athens, Ohio. He is an Assistant Professor of Business and the Director of the Masters of Analytics program at Wittenberg University in Springfield, Ohio. He is also a founding partner of *Jacoulet*, a consulting firm focused on analytics-based strategy development. He has over twenty years of experience as a Defense Analyst with the Department of the Air Force. He is the author or coauthor of several articles. His current research interests include linguistic and existential facets of the military-industrial complex and the potential intersectionality among analysis, data visualization and détournement. Dr. Jackson is an Associate Editor for the International Journal of Responsible Leadership and Ethical Decision-Making. Dr. Jackson was awarded membership to Beta Gamma Sigma (international business honors society).

If you have any questions or concerns, please reach out to me directly. It was a pleasure assessing this research. I wish you and your team great success with its implementation. I will send you a LinkedIn request upon transmittal of this letter to further facilitate your ability to contact me if and when needed.

Respectfully,

A handwritten signature in black ink, appearing to read "R. A. Jackson", written over a horizontal line.

Ross A. Jackson, Ph.D.
Program Director
Masters of Analytics
Wittenberg University

