

## Reconditioning – How much is right?

In every car dealership I have been around, reconditioning is an important part of the daily operation. It affects every process and profit center you have. So how much reconditioning is the right amount? First let's discuss the dollar amount. Some dealers use their related shops (other dealerships they own) or third party repair facilities. That will mean the reconditioning will have markup in it for someone. Other shops (like ours) do not markup reconditioning. We consider recon a sales function even though the techs are the same (we operate our own shop), the shop does not receive any "profit" from the recon process (or policy work either). Our Sales managers make the decisions on go or no go for recon repairs. So when you see \$1200 to \$1400 in recon (benchmark) that can mean different levels of repair depending on the dealership model and service structure.

So back to the original question: How much reconditioning is the right amount? The answer, as with most BHPH business questions: It depends.

It depends on what type operation you are running, your chosen business model. How much you spend depends on what vehicles you stock and how your shop operates. It depends on who makes the decisions on each vehicle and how you choose to account for it on your P&L.

Since 1996 I have been involved in BHPH and higher tier special financing. I learned that a decent 10 footer is OK (looks good standing 10 feet away). When the customer walks up to the vehicle (usually the driver's door) what does he see? When he opens the door what is his impression? When he sits to test drive, what is he looking at (clean steering wheel, dash, knobs in place, cluster clear and functioning)? What does he smell? Do all the knobs he can touch function and can he tell what they are for? Does the battery sound strong? (Always clean the posts and the starter terminals!!) Does the car start easily? Does the car perform properly on the test drive (a/c cooling, ride, pulling, brake feel, noises)? I do not want to hear we missed a deal because a light assembly falls out or the car had a burning smell. I don't want collections saying the customer told them: *"I couldn't make my payment because the car broke right away."* or *"I had to buy tires and cannot pay you"*. I also do not want a shop that tells customers *"that ticking sound is normal"* or *"don't worry about that warning light, it isn't a big deal"*.

In what I refer to as a low-cap BHPH operation (cheap cars sold as-is or with a short term limited warranty) I have seen dealers that make sure the car starts, has oil, there is some brake pad, the lights work (broken lenses covered with tape) and the tires hold air. Basically check cars to be operable, make sure of safety and clean them. I have heard of customers buying cars, driving them to show to a friend/family and having the fire department come out and stop the car from burning down the building.

In operations that I call mid-cap and highline (higher ACV's and newer vehicles) much more is generally done to insure that rig is ready to sell. For example: Check current and history computer codes, load test batteries (replace), replace wipers, air filter, pressure check a/c system and change a dirty cabin filter, CO2 and pressure test cooling system then flush and fill coolant, replace thermostat and radiator cap, check hoses, change the oil, do brakes if pads below 50% and turn or replace rotors, check and replace weak ball joints or struts, replace roaring hub bearings, test u-joints, check drive axle boots and road

test, service transmission and clear cooling lines, check differential fluid, mount and balance new tires (unless they are 80% already), align, repair leaks (drips not seeps) and clean visible seepage, replace gas cap. Also make sure power windows, seats, CD, power locks, mirrors and the cruise all work. If you're selling newer models and higher ACV vehicles are you checking the Bluetooth, keyless entry or remote start, navigation and entertainment systems. There is also lots of "small stuff" that can annoy like loose visors, console lids that don't latch, glove boxes that fall out when you open them, torn seatback pockets and a host of other items that should be corrected before that car is on the lot for sale. Check everything that there and deal with the regular use items for sure. There is nothing more aggravating than a useless drink holder.....

In the BHPH operations I have setup we always go through a list similar to the mid-cap list above. Items we don't generally address are light hail or small dents or scratches away from the driver's door area, ok paint work (it cannot look like Stevie Wonder painted it) aftermarket stereos, sunroof inoperable (we confirm it's sealed and remove controls), leather repair material on the seat, slight leaks (not drips, under car), slightly used tires are generally acceptable if the car performs and is that decent 10 footer (shows well on the lot). Of course these vehicles are easier to sell if you have some type of warranty or service contract to offer.

I believe your inventory is a key to your marketing. What is sitting on your lot when they drive by (physically or virtually) is generally what attracts them to you other than your help with credit challenges. Your customer will be paying a high price for your vehicle. You will get 1 chance to make the first impression so make the most of it. BHPH customers can be "squeamish" and some will back out quick over a minor issue which is generally due to a personal bad experience they or someone close went through.

How much reconditioning is a question with a subjective answer. What you put your name on in your market is up to you. I want us to sell our customers dozens of cars not one. I want our portfolio to perform above benchmarks. I want people in town to say good things to their friends about what we do long after they made the purchase. Reconditioning is an important part of your success. How much you spend reconditioning isn't the only effect it has to your bottom line.