MEASURING UP:

Benchmarking Inventory and Asset Turns

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Inventory and asset turns are critical measures that every dealership needs to monitor. Check your performance against industry benchmarks

Inventory & Asset Turns

Inventory and asset turns (turnover) are critical measures that every dealership needs to monitor. Inventory turns are calculated by dividing cost of sales by inventory. This ratio shows the number of times inventory is bought and sold during the year, and is shown on the dealership's balance sheet.

Inventory Turns. The industry benchmark for inventory turns is 2.5-3.0. The 5-year average was 2.76 turns, within the industry's benchmark goal.

In looking at the industry's performance between 2012-16, it was within range at the start of the period at 2.91 turns in the 2012 study. Inventory turns then fell below the benchmark as sales declined in 2013 and 2014, at 2.15 and 2.40 turns, respectively. It should be noted that when inventories were quite high (81.3% of total assets) is when inventory turns fell to their lowest level (2.15 turns), which, of course, is never a healthy combination. (See the table on this page.)

OPE Inventory & Asset Turns – 2012-16

	2012	2013	2014	2015	2016	5 Yr Avg
Inventory	2.91	2.15	2.40	3.02	3.34	2.76
Total Assets	2.81	2.26	2.44	2.93	3.20	2.73

The following 2 years, inventories as a percentage of total assets fell to their lowest levels of the 5-year period studied — 74.1% in 2014 and 75.6% in 2015 — and turns improved, reaching 2.4 and 3.02, respectively. This indicates dealers carried lower inventories and began to turn it more effectively.

As sales revenues rose rapidly as indicated in the 2016 study to $4.3 million on average, inventories also grew to their highest level (81.8% of total assets) during the 5-year period examined. The higher inventories were justified as the average turns easily exceeded the industry benchmark, rising to 3.34 turns.

Asset Turns. Asset turns are calculated by dividing sales by total assets. This ratio is a measure of efficient use of assets. However, as the UEDA study indicates, a high rate of turnover is not necessarily the key to profits as a high turnover may be an indicator of inadequate capital in relation to sales. Also, high use of rental property by a dealer often results in a high rate of turnover.

For the period, total asset turnover ranged from 2.26 turns in 2013 to 3.2 turns in 2016. During the last 5 years, the industry average 2.73 total asset turns.