POWER STEERING

Steering your dealership to higher profits

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February 2016 was an improved profit month over January 2016 for most dealers. As you can see below, 75% of new vehicle dealers did better in February 2016 than January 2016. The number of dealers that lost money: February 15%; Y-T-D 20% is worse than in the recent past. Nationwide new vehicle sales in February 2016 was better than all February's since 2009. March 2016 was better than all March's since 2009 and was the 5th best month of all since 2009.

February Profit Trends

	FEBRUARY BETTER THAN JANUARY	FEBRUARY WORSE THAN JANUARY	FEBRUARY 3.0% NET % SALES	FEBRUARY LOSS MONTH	FEBRUARY LOSS Y-T-D
CHRYSLER	90%	10%	20%	5%	15%
FORD	65%	35%	20%	20%	25%
G.M.	70%	30%	20%	10%	15%
IMPORTS	80%	20%	35%	15%	25%
OVERALL	75%	25%	25%	15%	20%

Wholesale Floorplan Rates

We see a wide range of floor plan lending rates from a low of around 2% to 5%. Some lenders require annual CPA prepared financial statements, a cost, and sometimes a "pain" for all the questions asked, or the floor plan lender does not offer more modest cost insurance on the dealer's inventory for comparison purposes. One national lender charges 5%, but gives interest expense offsets such as wholesale dividends based on the amount of retail paper the dealer sells them. This lender in effect ties in the wholesale rate, 5%, with credits for retail paper it buys from the dealer. We recently analyzed an arrangement that reduced the floor plan interest rate to 3.34% with a credit of over $3,500 against the wholesale interest charged of approximately $12,000. However, and most important, the dealer should be aware that the retail installment buy rate is not competitive in many cases, so the dealer gives up finance reserve income to subsidize the floor plan rate credit. This net cost does not pay for itself in some cases. If you are paying this higher gross floor plan rate, take the time to analyze whether it makes financial sense.

"If you believe in what you are doing, then let nothing hold you up in your work."
-Dale Carnegie

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Factory Dealer Terminations

Many factories are attempting, at times, to terminate new vehicle dealers. We have been involved both directly and indirectly in these franchise termination cases. Below are some of the criteria factories use to attempt to terminate dealers:

1. Dealer is not average or close to average in selling the factory's new vehicles in the dealers assigned market area. Sometimes the formula the factory uses is flawed or misapplied. If the sales as acknowledged by the factory is below average and incorrect, you need to respond in writing indicating why they are wrong. Some factories still tell dealers that if they are below average, they are failing. As we know, approximately 50% of all dealers would be rated below average; therefore, it doesn't make sense for the factory to push against all below average dealers. It makes these factory employees and their attorneys look bad. No surprise here. You might have a qualified firm analyze your market to assist in professionally responding to the factories assigned market area. You may not realize this, but the smaller the assigned geographic market area, the more likely your new vehicle sales effectiveness will be improved; smaller is better.
2. Dealer does not meet the factory working capital guideline or net worth guideline. You should double check to make sure you know what your working capital guideline and net worth guideline might be. You also need to confirm their calculations, as we have found instances of severe overstatement of guidelines. We have noted that some dealers are not properly completing their monthly financial statements. This can lead to incorrect working capital computations. We have also found factories knowingly send out computed guidelines that are over-stated and testify to state hearing officer's-administrative law judges "falsely" about their computed factory metrics. We've seen factories ignore LIFO reserve in legal cases that when added back to the net worth would put this metric well above guideline.
3. Factories attempt to terminate a dealer because the accuracy of the dealer financial statement does not meet the factory guidelines.
4. One factory has language similar to this: dealer on or before the tenth day of each month, in a manner acceptable to manufacturer, submit complete and accurate financial and operating statements which fairly present, in accordance with generally accepted accounting principles (GAAP), dealer's financial condition as of the end of the preceding month. Most dealer's manufacturers need 60 days to finalize their annual statement, but only give the dealer 10 days. Also, most dealer's financial statements do not meet GAAP standards.

Your staff should, at least quarterly, let you know about your new vehicle sales effectiveness, CSI metric, SSI metric, along with working capital and net worth guidelines.

It is much better to be aware of and proactive on these metrics. Feel free to send us your page 1 balance sheet for observations and thoughts on your balance sheet, working capital, and net worth at no charge.

Dealership Excuses

One of our dealers sent us the following list of excuses he had to support his dealership's below average performance in certain areas. Do any of these apply to you or your dealership?

That would not work in my market.
We have always done it this way.
I can't find the right employee.
I don't believe the financial metrics.
My market is competitive.
My store is too small (big).
My customers are different.
That would not work in my dealership.

Don't be "afraid" to make changes to improve if you are a below average performing dealer.

CarMax

As most know, CarMax is the largest used vehicle dealer in the United States. We have always felt CarMax sells to a limited portion of the market for those customers that want less "hassle" in buying a vehicle believing that "one price selling" means buying at a lower price. However, we have always felt CarMax sells the same vehicles for more than the average dealer and their gross profit margin is much higher than the average new vehicle dealer. Also, when they purchase a vehicle from the public, they pay less for the vehicle they buy. As reported in *Automotive News*, their retail gross profit margin is $2,109 and its wholesale gross profit margin is $1,005. We base these comments on reading their annual report and other articles written about CarMax. They are now opening new stores in smaller markets. Our opinion is that they have a larger and a more varied mix of inventory selling at prices higher than most of their competitors.

National Media

The national media at times write articles about the new vehicle industry and completely misses what is going on or they contradict themselves. March 2016 is an example. As you just read in the first paragraph, March 2016 was better than February 2016; better than March 2015; and the fifth best new vehicle sales month since 2009. Below are three headlines, two from the same media outlet written early in April 2016:

- A 2.1% plunge in auto sales – the steepest such fall in more than a year (inaccurate)
- US retail sales fall in March as Americans buy fewer cars (inaccurate)
- Most US automakers report big sales gains (accurate)

Inaccurate negative headlines and articles can mislead and upset the public and disrupt their buying habits.

Service Contract Penetration

The enclosed survey reflects new and used service contract penetration taking the numbers off the dealership financial statement with no adjustments. As you can see based on the four manufacturer groups, service contract penetration ranges from a low of 39% to a high of 47% with the average being 42%. Why not measure your dealership performance? If you are below 35%, increase the pressure on your sales department and/or your service contract administrator.

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