POWER STEERING

Steering your dealership to higher profits

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February 2018 profit results for new vehicle dealers were down for most dealers compared to January 2018. We would normally expect to see this trend. March is usually an improved and good profit month and it was for March 2018. As you can see below, 65% of dealers were down in February compared to January. Also, 30% of dealers lost money in February and were in a year-to-date loss. Nationwide new unit sales in February, fleet sales unknown, were down slightly from February 2016 and 2017. March 2018 new unit sales, fleet sales unknown, were better than the prior several years.

February Profit Trends

	FEBRUARY BETTER THAN JANUARY	FEBRUARY WORSE THAN JANUARY	FEBRUARY PROFIT 3.0% + SALES	FEBRUARY LOSS MONTH	FEBRUARY Y-T-D LOSS
CHRYSLER	20%	80%	10%	35%	25%
FORD	25%	75%	10%	25%	25%
G.M.	40%	60%	10%	30%	30%
IMPORTS	45%	55%	20%	30%	30%
OVERALL	35%	65%	15%	30%	30%

Accounting Office Procedures

We deal with over 250 dealership offices each year and find that dealership accounting offices should be neat and not cluttered. Also, we believe the CFO-office manager should have the monthly financial statement finalized and printed no later than the 5th work day of the month although we have some dealers that have this function done by the 3rd workday. We hear many excuses to justify why the financial statement was prepared late, after the 5th work day of the month, and not promptly completed. One reason is that the dealer allows deals to be entered in the accounting system after 9:00 am on the 2nd workday of the month. Except for an exceptional factory rebate program, there is no valid reason to keep the month open several days into the next month in order to enter more deals. In effect you are just "kidding" yourself and "stealing" deals from the next month. We also find for these dealers that are late on finalizing the monthly financial statement that the office and CFO-office manager's office is often cluttered.

"Life is 10% what happens to you and 90% how you react to it."

Charles R. Swindoll

Inside

Factory Relations

Some dealers have a very low volume franchise with examples being Cadillac and Lincoln. Some of these dealers are being pressured to give up their low volume franchise by the manufacturer. In some cases they are pressuring the dealer to pay large amounts for special tools, web page from factory, and other charges. Also, these dealers might have to pay more for these vehicles than larger volume dealers based on not receiving all rebates and incentives. We find with these low volume franchises it often makes financial sense to keep the low volume franchise for more than one reason. You will still be able to sell used vehicles along with parts and service sales. It does not hurt to have that franchise sign. If the factory is overcharging for their web site or other services or documents, cancel those "abusive" price services.

It was recently written in *Automotive News* about possible franchise law changes in California.

Part of the language detailed how manufacturers would be restricted to require dealers to use specific vendors for dealer's digital services including websites, data management systems, and advertising. As we all know, with fewer vendors the prices can be higher. Also, some question whether the manufacturers might be "receiving" some financial benefit for these special relationships.

Working Capital Guidelines

Each manufacturer has a "guideline" or "requirement" for minimum working capital. Most of the time these "guidelines" are reasonable with some exceptions. Some of these exceptions can be created by excess used inventory and excess wholesale sale of used vehicles along with other reasonable exceptions. We recently performed a study of working capital "guidelines" of annual dollar sales versus actual working capital. Some overall summaries include:

All dealers average working capital	$3.6 million
All dealers average working capital guide % of annual sales	3.7%
All dealers median working capital guide % annual sales	3.7%
All dealers average actual working capital to guide	200%
All dealers median actual working capital to guide	166%

If your computed actual working capital is less than the factory working capital guide, you need to look into the accuracy of your financial statement and if you are still less than the guide you need to do something about it. The factory can use this against you in termination and other franchise matters. Please feel free to send us your page 1 and call to discuss, at no charge, if you are far below the factory working capital guideline. Also, you need to make sure your balance sheet is reasonably accurate and that short term and long term amounts are properly reflected.

Service Department

We've read a good listing of services to be suggested and performed for service customers in the "*FIXED OPS JOURNAL.*" They had the 10 most common vehicle services performed in 2017 by car and truck owners and auto repair shops.

Oil / oil filter changed	Wiper blades replaced
Air filter replaced	Scheduled maintenance
New tires	Battery replaced
Brake work	Antifreeze added
Engine tune-up	Wheels aligned/balance

Your service writers should have a list of services to be offered to every service customer, where appropriate, and see they are actually offered. Spend a few minutes in the service department several times observing to see if they are offering these types of services to each customer. If they do not have a list or are not presenting a list, you should discuss this issue with your service manager. The above 10 items would make a good start on a list if you do not already have a list of services to present to all service customers.

Dealership "Contracts" With Vendors

We find at times a dealership "manager" will sign a contract with a vendor, without authorization, for future services the dealer was not aware of or would not ever approve. We have seen I.T. vendors "trick" a dealership by having some manager sign a long term agreement on behalf of the dealership without the dealer knowing. We read about a service manager who signed a long term agreement for a uniform contract. If someone without having the dealer's authority signs a long term agreement with a vendor and the vendor will not cancel the agreement, then we would suggest you never use that vendor's services and let every dealer know about this incident. Also, we suggest once a year to send a notice to every vendor, written by your attorney, stating that only the dealer and named others have the authority to sign any purchase agreements.

New and Used Service Contract Sales

The included survey has year-to-date metrics on new and used service contracts. As you can see, the overall new service contract penetration was 39% and the overall used service contract penetration was 40%. These metrics approximate prior year's results. For those dealers that are less, you need to "pressure" your finance department to improve and or change your service contract administrators.