Steering your dealership
to higher profits

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New vehicle dealer profits in February 2019 were better than January 2019 profits. As we have written earlier, January 2019 was an awful profit month for many dealers for various reasons. As you can see below, 60% of new vehicle dealers had better profits in February 2019 than January 2019. This is the trend for Chrysler, Ford, and GM dealers. However, Import dealers had a worse profit month in February 2019 than January 2019 compared to the domestic manufacturers. Only around 10% of new vehicle dealers had a profit margin in February of 3.0% or better on sales. Also, over 40% of new vehicle dealers were in a year-to-date loss position through February 2019.

February Profit Trends

	FEBRUARY BETTER THAN JANUARY	FEBRUARY WORSE THAN JANUARY	FEBRUARY PROFIT 3.0% + MARGIN	FEBRUARY Y-T-D LOSS
CHRYSLER	80%	20%	15%	25%
FORD	60%	40%	10%	50%
G.M.	75%	25%	0%	50%
IMPORTS	50%	50%	15%	40%
OVERALL	60%	40%	10%	40%

Parts Department Metrics

We reviewed the new vehicle dealership financial statements for the parts department and its staffing. As you can see in the enclosed survey, we measured parts sales per parts employee. This includes all parts employees that work in the parts department and not in the accounting office. The monthly parts sales, per parts employee, range by dealer group from $45,000 to $58,000. The average dealer approximated $50,000 in sales per parts employee, per month and the median (middle) dealer approximated $48,000. We recognize some of the dealers that have results well outside these amounts could have the wrong employee count for parts employee on the financial statement which could distort the final result. We suggest you compute what your parts sales per parts employee is. Except for smaller stores, if you are materially below the above metrics, you might discuss your metrics with your general manager, service and parts director, and parts manager.

"If you want to succeed you should strike out on new paths, rather than travel the worn paths of accepted success."
John D. Rockefeller

Inside

Dealers New Vehicle Inventory Day's Supply

We review the day's supply of new vehicles for our firm's new vehicle dealers. We have found and believe dealers should carry from 2 times their best month's sales (60 day's supply) to 3 times their worst month's sales (90 day's supply). We like to compare our dealer's metrics to the new unit sales, new inventory units, and new vehicle day's supply reported in *Automotive News* (*AN*).

AN reports monthly, new vehicle dealer's day's supply of new vehicles. We **always** have a much larger day's supply, which makes no rational sense as we write below. This is no reflection on *AN*, but on the metrics supplied to them and the formula(s) used (given). As an example, it was reported for January 2019 a national day's supply of 88 days and for end of February 2019, a national day's supply of 78. We computed the day's supply of our dealers based on new inventory units on the ground-in stock and units sold. January reflected 183 day's supply average and median of 153, while February reflected 168 day's supply average and median of 155 day's supply.

The calculation formula is: **day's supply = new units in inventory**/most recent monthly **units sold** then multiply the result by **30**. The *AN* definition for inventory is: **new units** on hand (same as ours) + factory lots + ports of entry + in transit. The reported sales, **units sold**, which includes fleet sales, will make a material difference in the calculation. Based on the *AN* definition they should always have more units in stock than we do but they have materially less. Their sales numbers should coincide with ours over time excluding fleet sales.

What is going on? Why the huge difference? Either our small sample is misleading or there is something in the metrics and the calculation used, which are supplied by the manufacturers, that misleads or distorts the conclusions which are reported to stockholders, dealers, auto financial industry, and the government.

Almost all dealers have minimal fleet sales and fleet inventory. Also, we recognize fleet unit sales are usually sold immediately with no material number of fleet units in stock for almost all dealers.

We did an analysis on day's supply and fleet sales for 6 different months, adjusting only for fleet unit sales and found the difference in day's supply modifying *AN's* report. This one modification increased the reported day's supply by approximately 20 days. We did not compute or allow for other differences. This includes not allowing for in transit vehicles, port vehicles, and dealer's selling vehicles to themselves (more prevalent now) and other unknown metrics. This means to us the difference is really more than 20 days.

What conclusion do we come to after allowing for and recognizing our small sample versus *AN's* lower "retail" day's supply? The day's supply in *AN* is materially flawed and no one should in our opinion use it in absolute terms because of the huge difference, understating (retail) day's supply, will mislead the stockholders, automotive financial industry, dealers, and the government.

Dealership Profits

There have been recent articles about dealership profits including: "Auto dealers losing money on operations." Some authors have made a big deal out of this. Most manufacturers have a subtotal amount on the income statement called "OPERATING PROFIT." This is preliminary profit or loss before Other Income and other deductions. Over the last few years, more and more of a dealership's gross profit is reflected on the dealership income statement after the line labeled: OPERATING PROFIT, in other income. We have written about this trend in the past.

Since the accounting has and is changing, the OPERATING PROFIT is now less than it has been in the past, which causes the OPERATING PROFIT to be less and in many cases an OPERATING LOSS. Does this really matter or mean much? Probably not. What matters to us is a dealer's final net profit as a percentage of sales (2.3% as an example) or net profit as a percentage of gross profit plus other income (15% as an example). In summary, we would not let it bother you much if OPERATING PROFIT is going down or becoming a loss as long as the final dealership profits are reasonable.

Note to Dealers and Office Staff

We find too many errors in dealership financial statements on memo statistics. This includes in the personnel section the number of employees by department and title. We suggest you have your office staff take the time to go through the financial statement and confirm the memo statistic amounts.

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