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April 2021

March 2021 was an excellent profit month. It was probably the best profit month in the last 50 years. We make that comment based on the pre-tax net profit as a percentage of sales exceeding 5.0%. Remember the last normal year the pre-tax net profit % of annual sales, 2019, as reported by the NADA was 2.3%. Last year, 2020, was 3.6%. Both the average dealer in March 2021 was 5.6% and the median dealer was 5.6%. How much was your store? As you can see from the enclosed survey, a representative sample of our dealers, the highest dealer was 10.1% and the lowest dealer was 3.0%. It appears April 2021 will also be very good. What is creating these high profit margins? Less expenses including floor plan interest and advertising along with increased used retail gross profit margins and increased F & I department income are creating higher profits and profit margins.

Monthly Profit Trends

	MARCH IMPROVED OVER FEBRUARY	MARCH DOWN FROM FEBRUARY	MARCH BEST MONTH	MARCH +5.0% NET TO SALES
CHRYSLER	100%	0%	100%	50%
FORD	95%	5%	90%	45%
G.M.	95%	5%	95%	40%
IMPORTS	95%	5%	95%	50%
OVERALL	95%	5%	95%	45%

New Vehicle Inventory

We all hear and read about dealers being low on new vehicle inventory. There is not a lot you can do about this. However, we do suggest dealers email their factory representatives and their supervisor about recognizing their low inventory and whether they can help you. We did a survey for one franchise from April dealership financial statements we had. I computed the new vehicle day's supply based on April's sales compared to the number of new units in stock at the end of April. For this one dealer we performed this analysis and had an 8 day's supply of new, while the other 14 dealers from the same franchise survey had from a low of 13 to a high of 41 day's supply. It was obvious this dealer was either being discriminated against or the factory allocation system had a "flaw" in it. We suggested this dealer report our findings to the factory. Even if the factory does nothing to correct the system, it will help the dealer in the future if the factory tells this dealer that they are not "average" from a sales effectiveness perspective.

**"Quality means doing it right when no
one is looking."**
-Henry Ford

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Service Department Paid Labor and Warranty Labor

We performed an analysis for a Ford dealer on paid labor and warranty labor. This dealer had a concern about their “low” paid labor. We measured several metrics and found the following:

	DEALER #1	AVERAGE	MEDIAN (middle dealer)
Ratio Paid Labor / Warranty Labor	.7	1.6	1.7
Paid Labor / New sold	\$991	\$2,013	\$1,520
Warranty Labor / New sold	\$1,426	\$1,260	\$1,445

As you can see, this dealer was low in paid labor from two different metrics. You might measure your above metrics based on your 2020 financial statement to see how you compare.

Reinsurance Service Contract Companies

We still find many dealers, excluding smaller new vehicle dealerships, still do not have their own reinsurance service contract company. We find these dealers are leaving a large amount of profit “on the table” by not owning a reinsurance company. Most of these dealers receive some type of rebate on the non-reinsurance service contract business. However, this “rebate” is usually much less than the profits they would make on selling service contracts into their own reinsurance company. If this is you, then you need to change your ways on this to increase your profits. There are two issues to be concerned about; one is the sales representative as effective at training your F & I department employee(s) and two, is their fee structure is reasonable and competitive. Feel free to call us at no charge or obligation and we will explain this to you.

Service Department In-Process Repair Orders

What we mean by service department in-process repair orders includes: paid labor repair orders, warranty repair orders and internal repair orders. At times we find some dealers have too many open in-process repair orders that are just “laying” in the service department. Usually this happens because the service management team is ineffective and “lax” for not wanting to complete and turn in repair orders timely to the office. You might have your service manager give you a listing of all technicians and how many repair orders are in-process at any time. It should be only a handful per technician, say 5-6 per technician.

Nationwide New Vehicle Sales

Since several factories do not want to share monthly data with the public, we now only obtain from Automotive News their new vehicle sales on a quarterly basis. Talk about “full disclosure”.

We know the first quarter of 2020 is distorted because of the Virus in the second half of March 2020. Allowing for this, the 2020 versus 2021 quarter results are as follows:

	2020	2021
Total new car and light duty truck sales	3,510,000	3,923,000
In order of total units sold in 2021(top ten):		
Market Share - Toyota	12.5%	13.5%
Market Share – Ford	13.9%	12.5%
Market Share – Chevrolet	12.3%	10.8%
Market Share – Honda	7.7%	7.9%
Market Share – Nissan	6.6%	6.8%
Market Share – Jeep	5.2%	5.0%
Market Share – Hyundai	3.7%	4.3%
Market Share – Ram	4.0%	4.2%
Market Share – Subaru	3.7%	4.1%
Market Share – Kia	3.9%	4.1%

Factory Programs

Several manufacturers in the past have had “stair step” programs to try and sell more vehicles. Many dealers did not like these programs for various reasons. It caused some dealers to institute some business practices to try and make these stair step programs work for them and ended up creating some bad business practices. Recently, it was published that Nissan has ended its stair step program, which is good. Let’s hope all the factories remember this so they do not institute such programs in the future to “game” the system of selling new vehicles.

Some manufacturers seem to be trying to create “new franchises” out of current vehicle models. We have no real idea what they are trying to do. This includes Rivian (new electric vehicle to be built in our home town), Tesla, and Volvo. Ford is having some of its dealers build special facilities for its new Bronco. General Motors, on their new electric vehicle, has some “innovative” programs and changes in how these vehicles are sold. Who knows what these manufacturers are really planning to do. Some believe these programs are attempting to destroy the franchise system as we know it today and eliminate new vehicle dealers. Be aware of these programs and possible consequences to the new vehicle dealer franchise system.

Confidential Data

As you know we often write about dealer’s confidential data and how many dealers are sharing, knowing or unknowingly, their data. We took one of our vehicles to an independent oil change place recently. Within two days our visit showed up in an email from Carfax. We did not expect this and told the owner of the independent shop he was sharing our confidential data. He did not like our comment and ignored us after we said this. We are just waiting for consumers to take issue and cause possible laws to be passed making this illegal to do. Do you really want to share your customer data with the “world”? Maybe it is time to start getting your confidential data under control.

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