

# POWER

## S T E E R I N G

*Steering your dealership  
to higher profits*

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Consultants to the Automotive Industry

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As you can see below, new vehicle dealer profits nationwide were improved in June 2016 over May 2016. May 2016 was better than April 2016 while April was the same overall as March 2016. At some point in time, we expect the current month profits to be down from the prior month. This makes sense since each month cannot continue to be better than the prior month forever. Nationwide new car and light-duty truck sales were down slightly in June 2016 compared to May 2016. July 2016 was slightly up from June 2016 and comparable to July 2015. If the increase in fleet sales were allowed for, the last two months would be down slightly for retail sales. The industry sales rate has appeared to level off after increasing since 2009, which was the lowest point since 1982.

### June Profit Trends

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	JUNE BEST MONTH	JUNE 3.0% PROFIT OF SALES	JUNE LOSS MONTH	JUNE LOSS Y-T-D
CHRYSLER	40%	60%	10%	30%	0%	0%
FORD	40%	60%	10%	35%	20%	5%
G.M.	90%	10%	30%	35%	5%	5%
IMPORTS	80%	20%	35%	55%	10%	10%
OVERALL	70%	30%	25%	40%	10%	10%

### Dealer I.T. Data

As we have stated in previous issues, we are concerned about dealers sharing their confidential I.T. data with third parties. We know that data obtained from one dealer has been used against that dealer by passing customer contact information to another dealer. We realize many dealers are hesitant to restrict third party access to their data for the dealer might lose some vehicle sales. We suggest you have your office

perform the following task: have them print a report letting you know all third parties that have access to your I.T. system and the latest date they were into your system. If your office does not know how to perform this task, have them contact your I.T. vendor and have them perform this job and teach your staff how to do it in the future. You might not like what information you are allowing.

**“If money is your hope for independence, you will never have it. The only real security that a man can have in this world is a reserve of knowledge, experience, and ability.”**

**- Henry Ford**

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## **Estate Planning Checklist**

- Have you reviewed your estate plan in the last year?
- Are you comfortable with the executors and trustees you have selected?
- Do you have a will and does it name a guardian for your children?
- Have you considered a living trust to help avoid probate?
- If you have a living trust, have you titled your assets in the trust's name?
- Do you have the right amount and type of life insurance?
- Do you have enough insurance so that after estate taxes are paid, there is enough remaining cash and/or assets to equal or exceed the amount you want to leave for your family and/or charity?
- Do you have an irrevocable life insurance trust to prevent life insurance proceeds from being taxed in your estate?
- Do you have a management succession plan for your business?
- Do you have a buy-sell agreement for your family business?
- Have you considered a gifting program involving your family business?
- Are you taking full advantage of the estate tax marital deduction?
- Are you taking maximum advantage of the \$14,000 annual gift tax exclusion?
- Have you created trusts that qualify for the annual gift tax exclusion?
- Have you looked into the benefits of a charitable trust?

## **Factory Incentive Programs**

At the last recession, 2008-2009, many factories communicated they would keep their production in line with new vehicle sales and would reduce and modify relying on dealer rebates, customer incentives, stair-step programs, etc. Now, many manufacturers have forgotten what they communicated in the past and have increased the amounts and types of incentive programs, mainly due to their lack of discipline in the volume of vehicles manufactured. We have GM, for example, with its EBE incentive program, which includes: incentives for facility, maintenance, trademark, brand elements, digital marketing, customer sales and service retention, online service scheduling, service smarts online participation business development center, etc. Cadillac has a proposed new program which needs to be read more than once to understand. Most small dealers do not believe in this Cadillac-only program.

A program that is almost universally not liked is the stair-step program some factories currently have, and the number of factories using such a plan seems to be increasing. This type of program is very disruptive to both new vehicle dealers and customers. Depending on when the dealership starts expecting to earn the stair-step money each month, some customers will benefit while other customers will pay much more. If these customers find out about the variable pricing dealers are using because of the stair step program, they would be very displeased. These types of programs generally do not generate good feelings for either the dealer or the knowledgeable customer. Some in the industry believe the stair-step program is corrupt in the sense it is not fairly and equitably administered. Does anyone believe the factories with these disruptive stair-step programs would ever allow an independent third party to audit them for fairness between dealers, how the programs are implemented, etc.? It could be that they are violating dealer franchise laws.

The current issue of Automotive News reflects customer incentives including lower interest rates and many large dollar amount customer incentives, but does not include factory programs direct to the dealer. The interest rates reflect as low as 0.9%, which based on current borrowing rates, is not really a big incentive. The dollar amount incentives range from a low of \$250 to a high of \$5,000.

## Finance Income

We went through a large number of new vehicle dealers' financial statements, focusing on finance income only. We wanted to measure how much finance income was being generated in the business/finance office. We found the average dealer was reporting finance income per retail deal approximating \$400. The median (middle dealer) was approximately the same amount. If we assume dealers have a closing ratio of 50% on financing deals, the gross finance income is \$800 per retail deal. Based on financing \$30,000 for 72 months, the interest rate commission margin approximates only 0.875%. This is less than 1.0% margin.

## New Vehicle Dealers

It was reported by Automotive News that THROUGHPUT, new vehicle sales per dealership, is expected to decline slightly. This THROUGHPUT amount in 2014 was 921; it increased to 966 in 2015, and is expected to be down slightly in 2016 to 960. It was much lower before 2010, but part of that reason was because there were more new vehicle dealerships until General Motors and Chrysler terminated several hundred new vehicle dealership in the 2009 time period.

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