Steering your dealership
to higher profits

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June was an improved profit month for most dealers. As you can see below, most of our dealers had improved pre-tax net profits over May 2017. Also you can see that 35% of dealers had their best pre-tax profit month of the year while 30% had a pre-tax profit margin on sales of 3.0% or better in June.

Dealers' pre-tax profit margins remain as good as they have been since early 2010. This is the longest time period for dealer pre-tax profit margins to remain this high for over 40 years.

Nationwide total new car and light duty trucks through August 2017 year-to-date are down approximately 3% from the same time period of 2016.

June Profit Trends

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	JUNE BEST MONTH	JUNE 3.0% + SALES PROFIT	JUNE LOSS MONTH	JUNE Y-T-D LOSS
CHRYSLER	55%	45%	35%	20%	15%	10%
FORD	65%	35%	35%	50%	15%	5%
G.M.	50%	50%	20%	20%	10%	10%
IMPORTS	65%	35%	35%	30%	5%	15%
OVERALL	60%	40%	35%	30%	10%	10%

New Front-End Gross Profit Margins

As you can see on the enclosed survey we reflect the reported front-end new vehicle gross profit margins for the dealers in the sample. One common trend we see from the several Nissan dealers we serve is very low, if not negative, new vehicle front-end gross profit margins. These dealers hope to make up for the low gross or negative front-end gross with Nissan incentives and stair step programs along with high finance-insurance-service contract income. Nissan is causing this since it is trying to improve its market share, often times, to the detriment of its dealers and retail customers. We see similar trends with other manufacturers at times and it seems to be increasing.

"A strong, positive self-image is the best possible preparation for success."
- Joyce Brothers

Inside

Female New Vehicle Dealers

We understand the factories are "trying" to increase the percentage of new vehicle dealers that are "minorities." We would assume this would include non-white males and all females. We can only think of 3 Illinois dealers that are female dealers and assume there are more. This works out to less than 1%. Below are two "stories" about factory buy-sells and female participants.

Several years ago a qualified female dealership employee entered into a buy-sell to purchase a non-metropolitan Honda dealership. Honda decided to exercise its first right of refusal and awarded the dealership to an "ethnic Asian" male to the detriment of the American female. Since it was a Honda dealership, "Asian", it would not seem this advanced the "minority" issue. Also, some cultures in Asia do not treat their females equally. After owning the dealership for a short period of time, the "Asian male" then sold this Honda dealership to a white male while Honda did not give the female they exercised the first right of refusal a chance to purchase it the second time around. It would seem to us Honda should have approached the qualified female from earlier and offered her the store. We wonder why Honda did not do this.

Last year we had a white male General Motors dealer buy out the adjacent rural, nearest GM dealer, and merge the two GM stores into one store at one location. General Motors contributed a substantial financial sum to help effectuate this merger. Recently a female General Motors dealer was trying to merge her store with the nearest General Motors dealership into one store in one location. This female General Motor dealer asked for financial assistance from General Motors similar to what the white male dealer above received. General Motors was not forthcoming with any financial assistance to their current female dealer's request. It seems strange that General Motors had cash for the first example, white male, but no cash for the female. We wonder why General Motors did not contribute to the female dealer transaction.

Factory Incentives

Most dealers are seeing their manufacturers putting certain covenants and financial conditions on the incentives they have been receiving for many years as well as new incentive programs. Said another way, certain incentives that had always been paid in the past with no conditions now have conditions. The manufacturer might insist you sell a certain amount of their service contracts, meet a certain amount of new vehicle sales, etc. Someday, it may be that dealers make no real front-end gross profits, but everything they receive for the sale of the vehicle has certain covenants and conditions involved to collect the factory money. We call this the MBA EFFECT, master of business administration, where everything the factory wants a dealer to do or believes a dealer should do has a financial incentive with it. These factory people have to continually manipulate these programs instead of just making good vehicles at a reasonable price. We have seen one lawsuit where every certain franchised dealer in one market area had lower front-end new vehicle gross profit margins and much increased adverting with no measurable increase in new unit sales or market share while the pre-tax net profits as a group were substantially reduced. One dealer wrote us that their dealer cash is now directly tied to their floating 12 month average of new vehicle sales effectiveness. Very few trust the completeness and accuracy of the factory measurement of new vehicle sales effectiveness.

Used Vehicle Department

We tried to measure certain metrics from our group of over 200 new vehicle dealers in June. You can see we have added a column, day's supply of used vehicle inventory based on using the cost of sales of only used retail, not including used wholesale cost of sales. As you can see, the retail day's supply of used inventory averages approximately 70 days with the average front end gross profit margin of $1,788 and ratio of new to used approximating 1 - 1.3. We found, though surprising to some, that the front-end gross profit margin on the dealers with an above average day's supply of used inventory to be equal to the overall group of dealers. If we had asked a question of many dealers and "experts" about this, they would have responded they would expect the front end gross profit margin to be less. In other words, this means those dealers that carry an above average day's supply of used make the same gross profit margins as all the dealers. We then measured for domestic dealers their ratio of used retail to new retail to see whether those dealers that had a higher amount of days' supply, did they sell more or less vehicles in relation to new vehicles. We found the ratio to be almost the same, which would surprise many dealers and industry experts. What does all of this mean and what could it mean? It looks like if you have more days' supply you will sell the same number of used than if you had a lesser days' supply and the gross profit margins will not have any material difference.

Loans To/From Dealership By Related Parties

Many dealers will take an advance or borrow funds from their dealership at times. These might be short term borrowings or long term borrowings that might have originated as short term borrowings. Normally, a dealer would not care much about the details of this, but the IRS might. Subject to the facts and circumstances, the IRS, if they become aware, might attempt to treat this transaction as a distribution or dividend. To assist in your defense of the IRS, it is preferable to have a written note, but this is not required. It also helps if this advance is relatively secure (dealer personally financially personally strong), has it been paid (cleared up in the future), the dealer has the ability to repay it at any time, and was the advance reflected on the accounting records properly as an advance or loan to the dealer. This could become a taxable transaction to the borrower if they are a stockholder of the dealership and certain standards are not met. We suggest that dealers have their office staff every December formalize with a note the terms of the advance/loan including the interest rate. We also suggest you pay this interest in December through the end of the year.

Many dealers will loans funds to the dealership along with family members, other related parties, and friends. Why do you care? The IRS might attempt to treat these funds as contributions to capital which can cause other issues. We suggest you have your office staff every December formalize these loans with written notes and pay interest on the balance through the end of the year on these notes. This is both good business practice and assists in protecting the funds from creditors and the IRS.