

POWER

STEERING

Steering your dealership to higher profits

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June 2018 was a down pre-tax profit month compared to May 2018. As you can see below, 60% of all dealers pre-tax profits were down in June 2018 compared to May 2018. Also, 30% of all dealers, 40% of import dealers, made 3.0% pre-tax net of sales or better for the month of June. Nationwide June new unit sales, cars and light duty trucks, was the best June in several years. August 2018 new unit sales were down from 2014-2015-2016.

June Profit Trends

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	JUNE BEST MONTH 2018	JUNE 3% + NET PROFIT % OF SALES	JUNE LOSS MONTH	JUNE Y-T-D LOSS
CHRYSLER	45%	55%	0%	10%	10%	10%
FORD	45%	55%	20%	35%	10%	10%
G.M.	35%	65%	10%	15%	15%	15%
IMPORTS	40%	60%	10%	40%	15%	15%
OVERALL	40%	60%	10%	30%	15%	15%

New Vehicle Dealer “Brokers”

A broker is someone that assists dealerships in selling a dealership or buying a dealership. They often assist a dealer in finding a buyer or help increase the selling price. Brokers almost always require an agreement with the selling or buying dealer which is customary. We read some of these “broker” agreements where at times they have huge “flaws” in the document and it should never be signed. For example, we read that if a dealership was sold within XX months, the broker would receive a fee exceeding \$1,000,000 even if the

broker was not involved in the deal at all and did not find the buyer. In summary, always have someone read these types of broker agreements and advise you on what they really say so you make an informed decision when signing an agreement that if you understood, you may not sign it.

**“Accept the Challenges So That You Can
Feel the Exhilaration of Victory”**
-- George S. Patton

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Used Vehicle Inventory

We recently read in *Automotive News* about “used-vehicle prices stronger than expected.”

It was written that analysts with the industry pricing services confirmed this trend. We thought we would test this premise to see if our analysis confirmed what we were reading. We wondered how we could prove this premise. We thought we would take 20 of the most popular cars and light duty trucks to see how their values compared. We took 2 year old vehicles now and compared with 2 year old vehicles from the summer of 2017. In other words we took (20) 2016 model year units as of July 2018 and compared their value with (20) 2015 model year units as of July 2017. We figured if the values are really that much stronger in 2018 as was written, we would see the values of 2016 used

vehicles (2 years old) to be much more than the 2015 used vehicles (2 years old). We decided to use Black Book as the valuing book using CLEAN CONDITION. We found 9 of the (20) 2016 models were less in value than the same 2015 models from one year ago. We found 11 of the (20) 2016 models were higher in value than the than the same 2015 models from one year ago. The overall percentage change for the 20 vehicles, average, reflected that the 2 year old used vehicles from the summer of 2018 was slightly less than the same 2 year old vehicles from the summer of 2017. What does this mean? Perhaps the article about prices being stronger was not accurate or our sample yields a misleading conclusion. We would say in a summary that the 2 year old used vehicles have stayed approximately the same year to year.

Factory Performance Metrics

All dealers have factory performance metrics assigned to their dealership. This can include new vehicle sales effectiveness such as 105% of assigned/expected new unit sales, CSI at the 90th percentile, etc. Recently, one of our dealers asked how they rated in selling new vehicles in their market. There were 16 dealers in this dealer’s market. Below you can see the sales effectiveness percentage for these 16 dealers.

1.	214%	BEST	9.	103	
2.	206		10.	99	
3.	157		11.	98	
4.	153		12.	89	
5.	136		13.	80	
6.	123		14.	62	
7.	121		15.	56	
8.	107		16.	52	WORST

As you can see, two dealers are more than 200% new vehicle sales effective, which can distort the whole market, especially for the two dealers that have a score of 99 & 98 which makes them both below 100%. The bottom 2 dealers with scores of 56 and 52 most likely are “poor” performers and need to work on selling more new vehicles. That said, you should review at least quarterly how your new vehicle sales effectiveness is and analyze where appropriate, or ask for outside guidance, where you are materially below 100%.

Customer Satisfaction (Scores) Index

Most dealers and their manufacturers send letters/email asking for the service department customer to rate the dealer on their experience with the service department. As we have written in the past, a score of say (from a scale of 1 – 10) 7= good is what most customers expect and receive. However, since many manufacturers and some dealers surveys are “flawed” where a score of 7 = good will hurt the dealer because the manufacturer wants to see a 10. Some dealers and manufacturers try to influence the customer for scores above 7. We received an email from a dealer that

worked on one of our vehicles. The dealer did a good job on price, quality, and timeliness. The dealer email to us wrote the following:

“In order to have a perfect score, we need to have all 10’s and yes’s. We answered all questions at the highest category possible. This just shows the manufacturer’s surveys are flawed and the quality of the comparison for surveys to rate dealers in different markets with different demographics by geographic locations (income and education levels as an example) are not comparable in all cases.

Customer Phone Numbers and Email Addresses

We wrote in a previous article about contacting customers using their phone numbers and email addresses for various reasons. We should have added that you, as a dealer, should make sure to confirm with your legal representative or trade association that you are following the rules, regulations, and laws when communicating with your customers. You might be “breaking” the law and not even know it where the cost to the dealership could be substantial.

Information Technology (I.T.)

As we often write, we are concerned that many dealers are allowing third parties to have access to the valuable dealer data. We also write, you need to have your staff confirm quarterly, which third parties have access to your data and to share this information with you to make sure this meets with your approval. Recently, a dealer notified us of a request from Facebook. Facebook requested the dealership to authorize them and Cars.com, a third party lead provider, access to their company Facebook page to help manage our Facebook activities.

The dealer declined. You and your staff need to be extremely careful not to allow third party access like this example.

Hiring New Employees

We hear from many dealers how difficult it is to hire new employees and especially younger employees in the current economic times, which are generally very good. It seems especially hard to hire sales people. We had one smaller dealer group allow the number of sales people fall off to the extent it would have affected the profitability of the dealership. They made a special effort and found a consultant to guide and assist them in hiring several sales people trainees at a reasonable cost. Do not take NO as an answer from your managers and staff when they tell you they can’t hire anyone. If you are not able to keep the dealership adequately staffed, especially with sales people, you should spend extra time and extra effort to hire incremental employees.

Note: The enclosed survey column labeled OI Per Ret means Other Income per new unit sold. This includes 100% of the DOC fee income which depending on the manufacturer’s financial statement and presentation may include DOC fees from used vehicles.

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