

# POWER

## S T E E R I N G

*Steering your dealership  
to higher profits*

A publication of Woodward & Associates  
Consultants to the Automotive Industry

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August 2023

As we wrote in the last few issues of this publication, 2022 was the second-best year for new vehicle dealer's pre-tax net profit as a percentage of sales of 4.9%, compared to the best year ever of 5.4% in 2021. For the last month of 2022, and for the first seven months of 2023, net profit as a percentage of sales is trending downward. From our sample of almost 300 new vehicle dealers, January 2023 net profit as a percentage of sales was only 2.6%, February was 2.8%, March was 3.4%, April was 3.3%, May was 3.8%, June was 3.1% and July was 2.7%. Year-to-date net profit percentage of sales through July was 3.5%. The enclosed survey of a sample of our dealer clients reflects 3.8% for July and 3.9% year-to-date. Pre-tax net profit as a percentage of sales is trending downward mainly due to a lower average new front-end gross profit margin of \$2,928 and a lower average used front-end gross profit margin of \$2,481, amongst rising holding costs.

### MONTHLY FINANCIAL RESULTS – JULY 2023

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	NET PROFIT % SALES - JULY	NEW UNITS	USED UNITS
CHRYSLER	45%	55%	1.8%	28	40
FORD	30%	70%	2.4%	24	44
G.M.	25%	75%	2.2%	39	49
IMPORTS	55%	45%	4.5%	39	64
OVERALL	45%	55%	2.9%	34	52

### MONTHLY FINANCIAL RESULTS – JUNE 2023

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	NET PROFIT % SALES - JUNE	NEW UNITS	USED UNITS
CHRYSLER	45%	55%	3.4%	29	37
FORD	55%	45%	3.1%	32	35
G.M.	50%	50%	2.5%	43	51
IMPORTS	40%	60%	4.0%	66	58
OVERALL	45%	55%	3.4%	47	47

**“If one does not fail at times, then  
one has not challenged himself.”  
– Ferdinand Porsche**

#### Inside This Issue

National Economic Metrics	2
New and Used Front-End Gross Profit Margins	2
National New Vehicle Sales	2
Performance Survey	3
Factory Metrics	4

## MONTHLY FINANCIAL RESULTS – JULY 2023

	NET<3.0%	NET 3.0% - 3.99%	NET 4.0% - 4.99%	NET > 5.0%
CHRYSLER	55%	10%	10%	25%
FORD	40%	20%	15%	25%
G.M.	65%	25%	10%	10%
IMPORTS	30%	5%	20%	45%
OVERALL	45%	15%	15%	25%

### National Economic Metrics

We receive an INTEREST RATE RISK MANAGEMENT WEEKLY UPDATE courtesy of KeyBank. Some of the informative metrics include (August 21, 2023):

SOFR (comparable to LIBOR)	5.30%	trending upward
Fed Funds rate	5.50%	trending upward
Prime rate	8.50%	trending upward

### New and Used Front-End Gross Profit Margins

As you can see from the enclosed survey, our dealer results from July 2023 reflect a wide range of results for the new vehicle dealers shown. Front-end new vehicle gross has continued to go down over the last few months. We expected this as dealers have started increasing their advertising due to various reasons, including day's supply of new inventory increasing. The average and median new front-end gross is approximately \$2,900. This is still higher than pre-covid but is trending downward. The average and median used front-end gross of approximately \$2,500 is still higher than pre-covid but is trending downward. The median month-to-date pre-tax net profit as a percentage of sales was 3.6% in June as well as in July for the sample survey of dealers presented. The overall profit margin percentage remains as high as it is due to import franchises outperforming non-import dealership margins. Overall, imports were over 5.0% for July 2023 year-to-date and over 4.0% for the month of July 2023. It will be interesting to see how this metric is reflected in August and September.

### National New Vehicle Sales

Automotive News reported quarterly and year-to-date new vehicles sale data through June 2023. National new vehicle sales year-to-date for June 2022 were 6,831,394 units. Year-to-date for June 2023 National new vehicle sales were 7,710,794 units. This is almost a 13.0% increase. The makes that increased more than 13% were: Chevrolet, Honda, Nissan, Hyundai, Kia, Tesla, Subaru, GMC, Mazda, Lexus, Dodge, Audi, Chrysler, Buick, Cadillac, Acura, Volvo, and Infiniti.

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## Factory Metrics

All dealers should be aware of (at least quarterly) how they are operating in comparison to certain financial metrics to see if they have below standard areas of performance. As an example, G.M. has a one-page report titled, "DART - SALES EFFECTIVENESS - DEALER PERFORMANCE SURVEY." This report has four metrics: Retail Sales effectiveness, CSI, Capital, and Profit. For this DART report, G.M. assigns a weighting of 50.0% to the first category, 30.0% to the second category, 10.0% to the third category, and 10.0% to the fourth category. They then apply the index to the four categories. If the dealer is average, they will be in the 50% of dealers percentile. Generally speaking, the Retail Sales Index might be the only one to really question. Why? If you don't believe your dealership is receiving your share of new vehicle allocation from the factory, it could be possible that your factory may have a "flaw" in their calculation for this metric.