POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **December 2015**

October 2015 profit results reflected approximately the same percentage of dealers improved over September 2015. As you can see below, 10% of dealers had their best month of the year while 30% of the dealers reflected 3.0% or better pre-tax net profit on sales year-to-date. Nationwide new vehicle dealers, as reported by Automotive News, sold more new units in October 2015 than September.

October Profit Trends

	OCT. BETTER THAN SEPT.	OCT. WORSE THAN SEPT.	OCT. BEST MONTH	OCT. Y-T-D 3.0% + PROFIT OF SALES	OCT. LOSS MONTH	OCT. LOSS Y-T-D
CHRYSLER	50%	50%	15%	40%	10%	0%
FORD	45%	55%	10%	35%	5%	0%
G.M.	55%	45%	10%	20%	5%	5%
IMPORTS	45%	55%	10%	30%	10%	10%
OVERALL	50%	50%	10%	30%	10%	5%

12th Versus 13th Month Financial Statement

Most dealers send their December year-end financial statement to their factory by January 10th. This financial statement must have at least an estimated LIFO entry on it to avoid violating IRS reporting rules. Some dealers then prepare a later financial statement that will contain some "clean-up" accounting entries. In the "old days," many dealers would call this financial statement the 13th statement and would sometimes send this statement to their respective factory, though in many cases the factory would not enter this financial statement into their system. Today, we see fewer dealers submitting a 13th financial statement to their factory or the factory ever requesting this statement. Most dealers that prepare a 13th financial statement will send their accounting trial balance to their CPA firm, usually in late January. This trial balance is the starting point for the dealer's CPA firm to prepare the dealer's year-end tax return and CPA-prepared financial statement, if any. This statement might be called the 14th statement. Some dealers will enter the adjustments from the CPA firm and prepare a 13th or 14th month financial statement, though this is uncommon. We have not heard of any factories wanting or requesting a 14th statement or where their system can accommodate a 13th or 14th month statement.

"Keep on going, and the chances are that you will stumble on something, perhaps when you are least expecting it. I have never heard of anyone ever stumbling on something sitting down."

- Charles F. Kettering

Inside

Service Contract Retro - Insurance Companies

Most dealers sell new and used service contracts through third party companies. Many dealers also obtain additional income from the sale of service contracts through what is called retro programs or ownership in insurance companies that re-insure their service contracts. Unless you are a small dealership, you should consider participating in these service contract retro-insurance arrangements to earn additional income. For these types of insurance arrangements, your administrator charges fees to service your position. Sometimes, we find the fees being charged are difficult to obtain from these administrators because when dealers ask about the fees, the administrator is concerned about losing the business. It is also difficult to obtain the total amount of fees being charged. Always ask them to respond in writing with any and all fees so you know you are obtaining a "complete" answer. The fee range per service contract sold is large. We have seen dealers paying more than $300 to well over $400 fee per contract sold. Usually the smaller dealers might have to pay a "premium" fee since their size is limited. If you are paying more than a $225 fee, you need to review your arrangement with your provider. We are not saying $225 is reasonable, but rather we are saying $225 or more in total for all fees per contract sold is too much and not reasonable.

Interest Rate Trends

The basic interest rate in the past for dealers was the prime interest rate. This was considered the base interest rate from which businesses and dealers could borrow funds. Over time, the prime interest rate has not been the best indicator of the lowest rate businesses could borrow funds from on a short-term basis. In the opinion of many, the Federal Reserve Bank, which helps to set interest rates, has kept this rate low, partially for political reasons. As you can see below, we have shown the prime interest rate for the last ten years and the annual Consumer Price Index increase (inflation) from 2005 through 2014. The highest rate was 8.25% in June 2006 and the lowest rate has been in effect at 3.25% since December 2008. Some feel the Federal Reserve has kept this rate too low for too long. Those individuals that were prudent with their funds and had saved are now punished with basically zero interest rate returns on savings. Allowing for inflation, most individuals that have their funds in short-term deposits, etc. are having their savings go "backwards" since the inflation rate is more than the interest rate they can earn on their savings.

	Prime Interest Rate	Consumer Price Index	
May 2005	6.00%		
June 2005	6.25%		
August 2005	6.50%		
September 2005	6.75%		
November 2005	7.00%		
December 2005	7.25%	3.4%	12/2005
January 2006	7.50%		
March 2006	7.75%		
May 2006	8.00%		
June 2006	8.25%	3.25%	12/2006
May 2007	7.50%		
December 2007	7.25%	2.8%	12/2007
January 2008	6.50%		
January 2008	6.00%		
March 2008	5.25%		
April 2008	5.00%		
October 2008	4.50%		
October 2008	4.00%		
December 2008-November 2015	3.25%	3.8%	12/2008
		1.5%	12/2013
		1.6%	12/2014

Also, as many larger dealers know, they are paying less than the current prime interest rate on their floor plan loans. It is expected that as the Federal Reserve Bank allows interest rates to increase, dealer's floor plan and capital loan interest rates will start going up and dealers' profits and net profit margins will start going down.

Dealership Financial Statement Presentation

Some dealers' accounting offices publish the monthly dealership-prepared financial statement within 8 working days or sooner. We find most dealers have their monthly financial statement prepared by the 5th workday of the following month. If your office is not providing you with your monthly statement on a timely basis, feel free to contact us. In the process of preparing statements, many offices will not check to see that certain accounts are properly completed. This can cause future problems with your factory. Below are some common "errors" we see on the dealership balance sheet:

Bracketed or negative amounts shown where no brackets or negative amounts should be reflected.

Cash-in-bank error reflecting a negative balance.

No allowance for doubtful accounts.

LIFO reserve not shown in the correct box on the factory statement.

Notes payable-owners not shown as notes to owners and many times not shown in the long-term note section of the financial statement. For those factories that do not have an account for notes to owners, we suggest you have this category shown in subordinated notes.

Notes payable are not put in the correct section whether short-term or long-term. If the note is put in the short-term section and it is due in more than a year, it should be put in the long-term section, which will increase the dealership's working capital.

Accounting Office Guidelines

We have been involved with several hundred new vehicle dealerships and their office managers/CFOs over the last several years. Some of our guidelines/observations include:

Messy general office and messy CFO office usually means they have messy books and/or disorganized.

Late financial statements are usually due to lack of intensity and organization, which can always be improved.

Minimize allowing non-managers and unnecessary people traffic in the accounting office.

Require all balance sheet accounts to be reconciled monthly and the dealer notified of any accounting exceptions including past due receivables, etc.

Office manager/CFO must have some "idle time" to work on special reconciliations, analysis, and projects. If they are always "super busy," then there is probably some accounting functions that are not being timely performed.

Office managers performing some lower-level skill duties such as petty cash, bank deposit, and other minimal training functions are poor uses of the higher-level skills the office manager/CFO should be performing.

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