POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **December 2016**

October 2016 profit results for new vehicle dealers were mixed. 50% of total new vehicle dealers did better in October 2016 compared to September 2016. Nationwide new vehicle sales have seemed to level out after increasing each year since 2009. National monthly new vehicle sales have trended downward since March, the best month of 2016. As you can see below, new vehicle sales have leveled out over the last two years. Also, allowing for population growth over the last 30 years, it would be expected the national new unit sales would be 18 million or more, not where it is now. Just remember that most dealers' overall profit margins have been good, starting with 2010 through 2016, even though nationwide new vehicle sales were much less than now.

Nationwide New Unit Sales:
1978 - 15,100,000 1986 - 16,100,000 2000 - 17,400,000
2015 - 17,500,000 2016 - 17,300,000 (November 2016 annualized)

The enclosed survey reflects some overall profit metrics for new vehicle dealers as follows:

Pre-tax net profit % of sales	2.3%
Pre-tax net profit % of gross profit and other income	17%

October Profit Trends

	OCTOBER BETTER THAN SEPTEMBER	OCTOBER WORSE THAN SEPTEMBER	OCTOBER BEST MONTH	OCTOBER 3.0% PROFIT OF SALES	OCTOBER LOSS MONTH	OCTOBER LOSS Y-T-D
CHRYSLER	50%	50%	15%	30%	10%	0%
FORD	40%	60%	0%	15%	20%	10%
G.M.	50%	50%	0%	20%	10%	5%
IMPORTS	55%	45%	15%	40%	15%	15%
OVERALL	50%	50%	10%	25%	15%	10%

"Don't limit yourself. Many people limit themselves to what they think they can do. You can go as far as your mind lets you. What you believe, remember, you can achieve."
- Mary Kay Ash

Inside

Factory Relations

Some factories, including but not limited to, Honda, Nissan, and Chrysler are stepping up the pressure on new vehicle dealers to sell more vehicles. We try to encourage new vehicle dealers to be proactive, not reactive, to their new vehicle sales effectiveness and not ignore "warning" letters from their factory. Why? Because you are putting your franchise at risk. Factories, in some cases, might want to open a competing same franchise store, and there are huge costs involved to "fight" the factory in court or in an administrative hearing. If you have to "fight," you will spend well into the six-figure range for attorneys and experts to defend your position. Based on this risk, we believe it is worth spending several thousand dollars or more to minimize the factory attempting to terminate your dealership or opening a competing franchise dealership rather than you spending huge dollars to defend your position. Some factories do not show any interest in seeing their dealers being reasonably profitable. We know of one import market where the dealers have reduced prices to sell more vehicles. The dealers, as a group, made zero profit in 2015 and the market share is still below average compared to the nation. We have heard and seen documents where a factory says every one of these several dealers is "below average." Maybe the demographics of the residents do not feel good about this factories product.

If your factory reports that you are less than 90% effective in selling its vehicles, we would suggest you have someone measure the market assigned to you by your factory. If they find some errors in the census tracts assigned to your dealership, you can have them let your factory know. Even if your factory ignores their perceived "census tract" error, they will be less inclined to fight you. We have seen obvious gross errors by factories mis-assigning census tracts to a dealers market. Often times, the factory never makes a mistake, and most of the factory employees you deal with are not knowledgeable enough to really understand their mistakes or to ever admit them.

If you find you are substantially below average in new vehicle sales effectiveness, do something about it; do not complain and then do nothing.

One Ford dealer we know was required by Ford to agree to the following:

100% new car sales effectiveness	100% new truck sales effectiveness
100% of group sales experience index	100% of service experience

All of the above criteria must be met in order to be offered a continuing SSA.
The above is ridiculous for the number of Ford dealers that can meet all of the criteria, the average or above, is materially less than 50%.

If you receive one of these threatening factory letters, do not ignore. Make sure you have an auto-oriented attorney and let them know about these letters.

January 2017 Checklist

1. Make sure your office staff sends or have sent a notice to all customers that received the IRS Form 8300, $10,000 in 2016.

2. Have at least $500,000 employee theft insurance coverage along with the same amount of coverage for electronic-internet theft.

3. Review compensation plans for all employees in January 2017.

4. Make sure a LIFO estimate has been put on all versions of your December 2016 dealership prepared financial statement.

5. If you have any ownership in "off-shore reinsurance" positions for IRS defined "captive insurance companies," please notify/make sure your dealership and personal tax preparer is notified the name of the company, its address, and tax number. If this is not done, there is the possibility of huge IRS penalties if Form 8886 and/or 8819 is not filed timely. It is better to be safe. If your "captive" qualifies, this form must be filed by January 30, 2017. Our suggestion is to have your reinsurance advisor or administrator file these forms for you and send copies to you to be sent to your dealership and personal tax preparer by the January 20, 2017. This applies with new IRS notice 2016-66 which you should have read about by now.

6. Keep under control the number of new units in stock.

I.T. Dealer Confidential Data

We have included a sample possible I.T. Addendum to have all third parties that you allow in your system, whether intentionally or not, have access to your system. Though we know some will not sign it, it would be interesting to see their written response to your request that they sign the sample enclosed I.T. Addendum approved by your attorney.

One major I.T. vendor has written in its agreement with at least one dealer the following:
"Client (dealer) acknowledges that such statistics and/or compilations will be the property of I.T. Vendor." This is the dealer's data. Who can you really trust?

Are you still allowing third party data "brokers," such as TRUECAR, Edmunds, Cars, Carfax, and many others access to your data for free and use your data against you by "stealing" your customers? When is the last time you had your staff determine who had access to your data?

Year-End Used Vehicle Write-Down

Many dealers write-down their used vehicle inventory at the end of the year which obtains for them an income tax deduction. We write-down for most of our dealers their used vehicle inventory for income tax purposes. Some dealers recapture their write-down in the first two to three months of the next year and show huge dealership profits. We do not like to see this. It makes the profits of the dealership for the first three months overstated and distorts the dealership's profits for that year. We suggest that if you write-down your used vehicle inventory at the end of the year, then put the write-down in some kind of reserve account and not automatically reflect these "false" gross profits when the vehicle is sold. If you sell one of these vehicles and you do not want to show a loss on the vehicle, wholesale or retail, just take from the write-down reserve enough gross to make the deal a zero deal.