# POWER STEERING

*Steering your dealership to higher profits*

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As expected, new vehicle dealers profits in October 2018 were better than September 2018. Of the new vehicle dealers in our survey, 15% made more than 3.0% net profit as a percentage of sales in October. A higher percentage of import dealers made 3.0% or more than the "domestic" dealers. In our survey, 15% of dealers lost money in October and 10% of dealers are in a year-to-date loss, while 55% of all dealers had a better October than September. Overall profit margins, pre-tax net profit as a percentage of sales for dealers remain reasonable and similar for the last several years, but down just slightly. Nationwide new vehicle sales for the year remain in the low 17 million range where it has been now for 4 years.

## October Profit Trends

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

## Dealer Supplied Vehicles

Dealers should report as taxable income, the personal use of dealer supplied vehicles. This includes employees and non-employees. Just because you might have a different plan for salespeople, does not allow one not to report taxable income to the IRS. Also, you should have a DEMONSTRATOR AGREEMENT signed by all persons that have the use of a dealership supplied vehicle. You should charge employees with demonstrators at least monthly for the income for the use of a demonstrator, not annually. The IRS supplies amounts for vehicles supplied to sales department employees and a Lease Vehicle Table for personal use of vehicles based on the value to the vehicle. Many dealers ignore these rules or do not know about them.

**"Success seems to be connected with action. Successful people keep moving. They make mistakes, but they don't quit."**

**-- Conrad Hilton**

Inside

## Financial Metrics

The enclosed survey, which are metrics from over 100 new vehicle dealers, should be reviewed looking for where your dealership is well below average so any improvement can be significant.

As you can see, our group of dealers average 2.1% net profit as a percentage of sales through October, while the median dealer was 2.0%. Also, an interesting metric is how much of final pre-tax net profit is generated or made up of Other Income. Over 70% of final pre-tax profits are made up from Other Income, this seems excessive. The factory is partially at fault for this with the large number and amounts of rebates and incentives many of which are put into Other Income by dealers for various reasons. In many states the "DOC" fee makes up a large amount of this metric and in some cases Other Income is more than final pre-tax net profit. This Other Income category is making the analysis of a dealership performance harder, if not impossible, because it is such a large percentage of pre-tax net profit.

You can also see that pre-tax profit as a percentage of total Gross Profit and Other Income is in the range of 15% for all manufacturer groups and in total. Chrysler, Ford, and GM dealers continue to sell more used retail units than new retail units while imports still sell more new retail units than used retail units. If your dealership is out of pattern from these various metrics, you might analyze them in detail to look for opportunities.

## Retail Installment Contracts

While visiting our dealership clients during the tax season, the accounting records lead us into asking questions about items that appear to be out of line. One area we see and wish we did not see, are certain deals with retail installment contracts. Our concern is where we see contracts where there is a hold check; a down payment of a customer that cannot be deposited yet. If a dealer cashes a contract with a hold check, even if the dealer has the check "guaranteed," this would be considered a "fraudulent" contract with the hold check, especially if the check is held for several days or longer than 30 days. We tell dealers they can get into trouble if the financial institution finds out about this "hold check," especially if the vehicle deal becomes a repossession.

A second item of concern is when the contract reflects a customer down payment, which is not ever made and never was going to be paid. The dealership knows this and writes-off against the deal this "phony" down payment. We know this is serious and it is possible this is a "criminal offense."

A third situation that we hear of is when the credit application has false information on it or the represented vehicle equipment is not accurate.

We recommend that at least once a year employees be advised that any of the above practices will not be tolerated. Any of your employees that allows this to happen when they know it is wrong, should be terminated.

## Factory Relations

We still see factories pressuring and threatening to terminate new vehicle dealers. You should not ignore their letters and notices when they threaten your dealership, but act on them in at least a minimum way. Several of these categories include:

Working Capital
Net Worth and Tangible Net Worth
CSI-SSI
# Certified Salespeople
New Vehicle Sales Effectiveness

If you ignore their threats, the legal and professional fees once termination has started, will almost always be well more than $100,000 even if you win the termination case.

Reading a recent December 2018 GM letter, it appears that after GM has lost two dealer termination cases, they have or are modifying their analysis of dealer metrics. The wording in the new GM letter now includes: "Any other relevant factor the Dealer has brought to GM's attention."

## Reinsurance Companies

There are several types of reinsurance companies or arrangements. If you have ownership in a reinsurance company find out if it is a NCFC. If yes, we would suggest you review with your consultant the possibilities of starting a new CFC.

Make sure you know all the fees you are being charged and that they are competitive with other vendors.

If you have ownership in a reinsurance company, make sure the reinsurance administrator or the entity preparing the reinsurance company income tax return have IRS Form 8886 prepared if required. If not required, have them send you written notice that no IRS Form 8886 is required. The IRS penalties are significant.

## Floor Plan Interest Rates

We normally do not like to reflect in this newsletter certain specific interest rates and fees of vendors.

However, it is noteworthy that the lowest new vehicle floor plan interest rate that we are seeing today for our highest profit dealers with strong net worths is 3.5% or LIBOR of 2.5% plus 1.0%. If you are well above this, you might ask your lender for a reduction in what you are being charged. Do not allow for retail installment contract credits when comparing floorplan interest rates.

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