POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **February 2018**

December 2017 reflected mixed profit results as expected. This is due to dealers meeting the IRS requirement for at least an estimate for LIFO adjustment along with year-end commissions and other year-end entries that are not made on a monthly basis throughout the year. New car and light duty truck vehicle sales for 2017 were over 17 million units, but less than 2015 and 2016. We do not have available at this writing how many fleet sales were made during the last three years. Pre-tax net profit as a percentage of sales through November each year from 2010 to 2017 reflects from a low of 2.3% to a high of 2.5%.

Annual dollar sales have increased each year from a low of $34 million in 2010 to a high of $60 million in 2017. In other words, the average pre-tax profit margin has remained relatively the same while annual dollar sales have increased mainly due to the increase of new vehicle sales dollars.

Department Gross Profit Ratio

The enclosed metrics show the departmental gross profit contribution of each department including Other Income. As you can see the overall contribution if you assign all of the Other Income to New is as follows:

New	Used	Service	Body	Parts	All	Other (memo)
32%	31%	20%	3%	14%	= 100%	9%

The New contribution is only 23% without allocating 100% of the Other Income to the New Vehicle department. This is due to some new vehicle franchises having very little, low, front-end new vehicle gross profits due to some of the "extreme" factory programs including "stair-step" programs. These metrics overall reflect that approximately 70 % of the Total Gross and Other Income of a typical dealership is NOT from the sale of new vehicles. In the past, import dealers might have had an overall new vehicle higher contribution percentage, but it now seems their percentage is close to the overall average. You might compare your departmental gross profit ratio percentages and see where you might be out of line low.

Dealership Facility (tidiness)

You might walk through your dealership thinking about cleanliness and clutter. We don't like to see "stuff" stored on the showroom floor, in the sales offices and in the accounting office. Our general rule is the less cluttered and neater the dealership is, the more profitable.

"In the workplace, employees should be judged on their merit and hard work and not on aspects that are irrelevant to their performance."
Paul Singer

Inside

Factory Performance Metrics

If you do not already know, we recommend you obtain the following 4 metric groups from your factory as of the end of 2017 to see how you performed and what percentile you are in.

New Vehicle Unit Sales Effectiveness
CSI & SSI
Working Capital Guideline and Actual
Pre-tax Net Profit as a Percentage of Sales

With the exception of your working capital guideline, you must compare yourself to other dealers. If you are not at least average, then we strongly suggest you work on improving your position within these metrics.

Dealer Compensation and Rent (on dealer owned property)

With the new tax law going into effect in 2018, you might review your personal W-2 dealer compensation. In some cases, from a tax perspective, less dealer compensation/ salary is better.

Please check with your tax advisor if you are paying yourself more than $200,000 per year.

You might also check with your tax advisor about the amount of rent you are paying yourself on dealership real estate. It might make sense to reduce the rent from an income tax perspective.

Internal Revenue Service

At times the IRS can be very fussy about your dealership procedures and processes. Some agents are reasonable and some agents fit the common definition of a "government employee." If your dealership either loans funds to you or others or borrows funds from yourself or others, we suggest you memorialize these loans with a written note.

You can buy these one-third page notes and have your office fill them out annually and update them once a year. You need to pay interest owed on these notes. If you have any questions on this you should consult with your C.P.A.

Accounting (Floor Plan Reconciliation)

As mentioned previously, we visit over 200 dealers the first 4 months of the year. We find some accounting offices prepare a new and used vehicle floor plan reconciliation. This is similar to a bank reconciliation, but reconciles what the dealership reflects for new and used vehicle floor plan compared to the amount owed to your floor plan lender. You might ask your office if they perform this task either monthly or quarterly. We have a form that your office can use if you want them to start this process in the future.

Job Description Checklist

We have a job description checklist that fits on one page. It contains approximately 40 functions of a dealership accounting office. It can be used to determine who performs which accounting functions in a dealership office, which people know the material completely versus partially, and to interview possible office employees. If you would like, email us and we will send you this one page document.

I.R.S. Form 8300 - $10,000 Cash Reporting

We ask each dealership we visit each year how many I.R.S. Form 8300 – cash reporting forms they had for the year 2017 when we meet with them during the first 3-4 months of 2018, over 200+ dealers. For those few dealer's offices that said none, we discuss with them the rules and suggest they are more diligent in the future. It is possible some smaller dealers did not have any customers qualify that needed a Form 8300. We would suggest all dealers ask their accounting office how many of these forms were filed in 2017. If the answer is NONE, we might suggest you call us so we can give you some guidance, at no charge, on this form. The penalties can be very high.

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