POWER STEERING

Steering your dealership to higher profits

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November 2018 new vehicle dealerships had similar profit trends as compared to October 2018. As you can see below, new vehicle dealers overall were similarly profitable in November compared to October, though only 5% had their best month of the year and 20% made 3.0% pre-tax profit as a percentage of sales in November. New vehicle sales nationwide were down from November 2017 slightly, but more than all Novembers for many years. New vehicle sales nationwide have been in the low 17 million range from 2015-2018. What we don't know is how many of these new vehicle sales are or were fleet sales which can distort the total nationwide sale of new vehicles.

November Profit Trends

	NOVEMBER BETTER THAN OCTOBER	NOVEMBER WORSE THAN OCTOBER	NOVEMBER BEST MONTH 2019	NOVEMBER 3.0% + PROFIT % OF SALES	LOSS MONTH NOVEMBER	LOSS Y-T-D NOVEMBER
CHRYSLER	25%	75%	0%	0%	35%	15%
FORD	40%	60%	0%	20%	30%	20%
G.M.	50%	50%	10%	20%	25%	15%
IMPORTS	50%	50%	5%	25%	10%	15%
OVERALL	45%	55%	5%	20%	20%	15%

Accounting Entries

We find new vehicle dealers have varying ways of recording the purchase of new vehicles. The factories do not have the same guidance on their suggested entry to purchase new vehicles. We believe dealers should generally make an entry to record the factory holdback, subtract this amount from the floor plan / invoice amount and the difference is the "cost" of the new vehicle. Some factories have their dealers record the floor plan interest credit and advertising credit as expense reductions in the month purchased. We believe this is "bad" accounting and a poor business practice. The interest credits should be put into income in the month the vehicle is sold, and the advertising credits should either be a reduction of the "cost" of the vehicle or put into advertising credits when the vehicle is sold or the advertising credit is earned. If you do not follow the above guidance, your dealership's monthly profits will be distorted. You might confirm how your office staff is making their entry to purchase new vehicles. Feel free to email or call us if you have any questions or concerns.

"A good leader takes a little more than his share of the blame, a little less than his share of the credit."

-- Arnold H. Glasow

Inside

New Vehicle Dealership Advertising & Other Income

The enclosed survey reflects Gross Advertising as a percentage of total dealership gross profit and other income. Gross Advertising before advertising credits except for those manufacturers that do not have an advertising expense credit account (dinosaurs). As you can see in the survey, the average dealership spends approximately 10% of its total gross profit and other income on advertising. It has been similar amounts for many years. All four manufacturer groups spend a similar percentage of total gross profit and other income on advertising. Several dealers reflect a much higher advertising percentage than most other dealers, but as you can see, their monthly net profits can also be very high. This does not mean spending more on advertising as a percentage will increase your profits. It depends on many other metrics including gross profit and finance department income. Also, you will see some low front end gross profit dealers with large profits and high advertising. How is this possible? Their Other Income is so "huge" that it overcomes low front end gross. We are finding more and more new vehicle dealers' monthly financial statements becoming less worthwhile due to Other Income being so large, and the new vehicle grosses being so small. As a result, the new vehicle department gross profit and net profit numbers are becoming meaningless.

Federal Income Taxes

The Internal Revenue Service publishes various summaries on taxpayers including, income, taxable income, and income taxes paid. The results for 2016 have been published.

Top 1% have adjusted gross income of $481,000,
20% of all income, and pay 37% of income taxes.

Top 5% have adjusted gross income of $198,000,
35% of all income, and pay 58% of income taxes.

Top 10% have adjusted gross income of $140,000,
47% of all income, and pay 70% of income taxes.

Bottom 50% have adjusted gross income less than $40,000, 12% of all income, and pay 3% of income taxes. It should be noted this group of taxpayers also have non-taxable income of food stamps and many other welfare benefits.

Wholesale And Retail Vehicle Sales

Every year when we go through the accounting records of new vehicle dealers, we see receivables from "wholesalers." We ask about these receivables because we have a concern the "wholesaler" will pay for the vehicle. Often times, the wholesaler takes possession of the vehicle, but does not pay for the vehicle when they take possession. We've been told at times by the selling dealer that they hold the title until they get paid by the wholesaler or the wholesaler will not pay for the vehicle until the selling dealer has the title. New vehicle dealers in some cases think they are protected in being paid by "holding" the title. In some states holding the title is worthless or almost worthless, especially if the wholesaler has retailed the vehicle and been paid by their customer. In some cases if the wholesaler fails, the new vehicle dealer holding the title has to give up the title and has to sue the wholesaler who went out of business. You need to be very cautious about selling vehicles to wholesalers without their paying for the vehicle when they take possession.

In many states you should not sell and deliver a used vehicle to a retail customer or wholesale customer if you do not have the title in your possession.

Estate Planning

Unfortunately we have dealers pass away each year. Often, they have made no arrangements or planning for this to occur from a business perspective. Some that have a spouse never gave the spouse any guidance on what to do. Should the dealership be kept and operated or sold in an orderly manner? Some dealers expect and plan to live forever. If you want the dealership to remain in business after you are gone, are you training someone to be able to operate the business at a reasonable level of success when you are no longer around? Also, with the estate tax exemption so high now, many dealers are not giving much of their estate away to children and others. We would expect when there is a different political party in power, the estate tax exemption will be lowered so much, that a large sum of estate taxes will be paid by most dealers. Just read the newspapers and watch TV listening to those that think dealers should be paying more taxes now. If you think this is possible, you might meet with your estate attorney and gift some of your net worth now, with restrictions, to minimize your estate taxes in the future. Doing nothing is not advisable.

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