



Steering your dealership to higher profits

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December results reflected more dealers performed better in December than November. Since many dealers had a LIFO pickup, or profit in December, the overall comparative profits results for December 2020 could be misleading. We believe 2020 was the best profit year ever even though national new vehicle sales were down approximately 2,400,000 and new car and light duty trucks from 2019 ended up selling 14,600,000 as reported by the *Automotive News*.

Parts Department

New vehicle dealership's parts' departments have some basic metrics you should expect of your parts manager:

- Parts sales per employee per month should equal or exceed approximate \$50,000. For small dealers this metric might need to be adjusted.
- Parts sales gross profit margin should approximate 33%.
- Parts inventory for most dealers and with overnight parts delivery, we would suggest a 45 day's supply for most dealers and probably a 45-60 day's supply for smaller dealers. The enclosed survey reflects the average dealer had a 56 day's supply and the median (middle dealer) had a 50 days supply. Several dealers reflected having more than a 90 day's supply.
- Parts not-sold in 12 months should be minimal or less than 10% of the total parts inventory.
- At least quarterly, you might take 15 minutes to have the parts manager meet with you and report the above metrics.

Privacy Notice

Most dealers are sharing some or all of the information they have on their customers. They are sharing with their factory and third party vendors. These dealers are sharing some or all of this information without the written or verbal approval of the customer. We suspect legal issues and lawsuits against dealers on this issue will be forthcoming sometime in the future. Most dealers do not seem to recognize these future risks until they hear of lawsuits against other dealers. One suggestion we have is to include language on a vehicle buyer's order and repair order having the customer knowingly and in writing authorize dealers to share their customer information. We have also seen a document labeled: PRIVACY NOTICE TO OUR CUSTOMERS (some state dealer associations have this document for sale). We suggest you obtain this document and have all customers sign it to minimize your legal risk on this issue.

“You have everything you need to build something far bigger than yourself.”

-Seth Godin

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Measure What You Expect

Below, we have given you some of the basic financial metrics just as a reminder:

- If you need to sell 100 vehicles new and used retail in a month to make a reasonable profit you need 10-11 full time salespeople.
- If you need to sell 600 new vehicles per year based on factory expectations and you sell 1-1 new to used vehicles, then you will need 10-11 full time equivalent salespeople or it is doubtful you will meet your factory new vehicle sales expectations.
- Based on 2020 results it is reasonable to have a 60 day's supply of new vehicles for larger dealers and a 75 day's supply for smaller dealers (need to have reasonable representation).
- Based on 2020 results a 45-60 day's supply of used vehicles (ready to go and sell for the measurement)
- Parts day's supply of 30-60 days depending on daily shipments of parts from the factory
- Four technicians per service writer
- Gross advertising as a percentage of total dealership gross profit and other income: 8%

Dealership Blue Sky

It will be interesting for the next few months to see how much blue sky potential sellers will be asking and buyers will be willing to pay. If you are a seller you will probably price blue sky based on your 2020 results. Why? As we have written previously, 2020 overall had the best profits ever for our 250 clients, and based on the NADA reporting the best profits ever of 3.4% net profit as a percentage of sales through November 2020. Sellers will try to leverage these extraordinary profits for the blue sky they will ask and hope for. Also, if dealers use the multiple of profits method to set the selling price, we do not believe in using the multiple of earnings to determine blue sky, the blue sky will go up even more than in the past. If you are a buyer, you need to discount the 2020 profits in your calculation for blue sky, and rely more on the 2019 profits and reasonable expected future profits to determine how much you are willing to pay in blue sky.

Factory Metrics & "Guidelines"

It is time to review the main metrics your factory uses to measure your results. If you ignore them you are giving your factory "ammunition" to terminate your store or at least to pressure you into doing things you would not otherwise do. Why not see how you perform on the following metrics as of the end of 2020? These factory supplied metrics should be available by the time you receive this:

- New vehicle sales effectiveness (% of new actually sold versus factory expectation) (ask and find out the score of the median dealer and see how you compare).
- SSI results (find out the score of the median (middle dealer and see how you compare).
- CSI results (find out the score of the median dealer and see how you compare).
- Meet or exceed the factory working capital guideline (If you are well below the guideline feel free to contact us for some ideas).
- Meet or exceed the net worth to debt ratio (if you are below the guideline feel free to contact us for some ideas).
- Below factory guideline on size of facility or land available.

Cash Management Accounts (CMA)

Many dealers have some of their personal funds, including relatives and friends loan money to the dealership. The dealership then at times will then transfer some or all of these funds to their floor plan lender and have them put in what we call a CMA, cash management account. The dealer considers these funds in this CMA their personal funds. This is technically wrong. The funds in the CMA are dealership funds though the dealership owes some or all of these amounts to themselves, friends, or relatives. Sometimes the accounting office does not properly reflect these funds correctly. You want these funds to reflect on the typical dealership financial statement balance sheet. We have seen cases where these “personal” funds were not reflected on the dealership financial statement at all. They should be reflected on the dealer financial statement as: cash on deposit; money market/ deposit; securities; temp cash investment; etc. Some factories do not have a good account for these CMA funds on their monthly financial statement. When these individuals loan these funds to the dealership, normally they should be reflected in notes payable-owner or some similar account. In summary, make sure your monthly dealership financial statement reflects these funds in the cash section.

Vendor Issues

Every year we are involved in or hear about disputes between dealers and vendors. These types of disputes usually deal with “written” agreements between the dealer and the vendor. Some of these are long term agreements or have wording “buried” or “hidden” in the agreement where there are automatic renewals. This could mean that the dealer (customer) has this written agreement automatically renew for a longer period of time than the dealer is aware of. In this case the dealer is stuck with this vendor maybe another 5 to 7 years when the dealer would have changed vendors. As a rule, do not let any of your employees sign any agreements and, you need to make sure you or you have someone read any and all agreements very carefully for unreasonable terms including automatic renewals. If you find an automatic renewal, notify the vendor at the time of signing, in writing, you are not renewing the agreement. Also, we feel that if we find an automatic long term renewal in a written agreement I must decide whether we want to deal with such a vendor.

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