POWER STEERING

Steering your dealership to higher profits

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Profits for new vehicle dealers in November 2015 reflected that 40% performed better in November than October 2015, a slight downtrend which is typically expected. About 10% of dealers had their best month of the year and 30% had a pre-tax net profit % of monthly sales of 3.0% or better. Nationwide November new car and light-duty truck sales vehicle sales were better than January and February of 2015, but down for all of the other months of 2015. Almost every month, except August 2015, was improved for the year in national new unit's sales over the same month in 2014.

November Profit Trends

	NOV. BETTER THAN OCT.	NOV. WORSE THAN OCT.	NOV. BEST MONTH 2015	NOV. 3.0% + PROFIT OF SALES	NOV. LOSS MONTH	NOV. LOSS Y-T-D
CHRYSLER	35%	65%	10%	10%	10%	0%
FORD	40%	60%	10%	40%	10%	0%
G.M.	55%	45%	15%	35%	10%	5%
IMPORTS	30%	70%	5%	25%	15%	10%
OVERALL	40%	60%	10%	30%	10%	5%

Dealership Valuations (Appraisals)

We prepare a relatively large number of new vehicle dealership valuations and appraisals. Sometimes there are two appraisers involved representing their dealers from two different positions or perspectives. This can include stockholder disputes and divorces. We also review valuations for other valuators and comment on their valuation. Often times one of the two valuators lacks experience in the new vehicle industry and will many times have "flaws" in their valuation. These "flawed" valuations can include not adjusting for unreasonable compensation or related party rents on dealership occupied facilities in evaluating earnings. They may also include not understanding automobile dealership accounting, not understanding the industry, or not being able to read dealership financial statements. When and if you ever need a new vehicle dealership valuation, we suggest you obtain a valuator that knows the industry, has done many dealership valuations in the past, and is current with the industry.

"Keep on beginning and failing. Each time you fail, start all over again, and you will grow stronger until you have accomplished a purpose -- not the one you began with perhaps, but one you'll be glad to remember."

- Anne Sullivan

Inside

Dealership Finance (Business) Office

As we all know, the finance department generates income from finance, insurance, and service contracts, along with several other products. However, for some of these products, customers can cancel the product and receive a refund for the remaining life of the product or service sold. These refunds, usually called chargebacks, can be substantial and can exist for many years. Many chargebacks last only for several months with the lender that purchased the finance contract, but the dealer has to accept less income to have this limited chargeback arrangement. Service contract chargebacks usually exist for the life of the service contract, which can typically range up to 7 years. Each factory financial statement is different and does not always have a line/account number to reflect the amounts and each of the different types of chargebacks. There is also a month to several year time lag for all the chargebacks to appear. Think of it this way: if you take the end of 2015 and ignore vehicle sales after 2015, dealers can expect for vehicles sold in 2015 and before to have chargebacks typically up to 7 years; however, the monthly amount of the chargebacks from December 2015 and before will generally decline each month until the end of the chargeback time period in 7 years. In other words, a declining monthly chargeback amount for 7 years is expected.

We recently performed a detailed survey of finance, insurance and service contract income and chargebacks for several dealers. This group of dealers all generate a large amount of finance department income. We measured the chargebacks for all of these dealers as a percentage of total department income (finance, insurance, service contracts) excluding products. We found that the median dealer reflected total chargebacks of 14% of the department income before chargebacks. Computed a different way, it works out to 17% of department income after chargebacks.

New Vehicle Dealer Performance Metrics - 2015

The enclosed survey contains many 2015 metrics. Overall, the summary numbers are from a group of more than 200 new vehicle dealers located mostly in the Midwest. The average dealer reflects: annualized sales of $50 million; pre-tax net profit % of sales 2.5%, return on equity of 33% (November annualized profits divided by the sum of current year net worth less 2015 pre-tax profits plus LIFO reserve plus notes to owners less notes from owners). Our group of dealers in the enclosed survey match up well with the NADA metrics as follows: annualized sales of $52 million; pre-tax net profit % of sales 2.5%; return on equity of 34%.

G.M. has a program named EBE. For the dealers that reflected EBE program income on their monthly financial statement, it is shown those dealers had the EBE income contribute approximately 30% of the total pre-tax income. It is a concern for those dealers that do not have much above average pre-tax income (2.3%) because some have too much reliance on EBE income, and it is unknown how long this or a similar program will continue.

Factory working capital guidelines should be updated at least annually and verified quarterly from each dealer's factory website and reflected on a dealer's monthly financial statement. Most dealers have actual working capital above the guideline. The survey reflects that the factory working capital guideline as a percentage of annual sales approximates 3.7%. If your working capital guideline is much higher than this metric, you might confirm why this is the case. We sometimes find that the factory has miscalculated the guideline. If you have any questions on this issue, feel free to email us.

National New Vehicle Dealership Historical Metrics

We have been keeping track of various national new vehicle dealership metrics for over 30 years and we wanted to share some of these metrics as compared to 2015 new vehicle dealership metrics.

Before the recession of 1979 (1976-1978), the average dealer had approximately $4-5 million in annual sales ($50 million today), with a pre-tax profit margin of 2.0% (2.5% today), and a return on equity of 25% (33% today).

National new vehicle unit sales were 15,100,000 in 1978 versus expected 2015 new vehicle unit sales of 17,500,000.
New units sold per 1,000 individuals in 1981 of 46 per 1,000 versus in 2015 of 53 per 1,000.

Longest time period of dealer's pre-tax profit margin of 2.0% or better was 2010-2015 (six years). Second best time period of dealer's pre-tax profit margin of 2.0% or better was 1983-1986 (four years).

Best pre-tax profit margin year was 2.3% in 2011. Worst pre-tax profit margin year was 0.6% in 1980 (recession year).