

POWER

STEERING

*Steering your dealership
to higher profits*

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November 2016 new vehicle dealer profits were down compared to October 2016. We usually expect to see this trend of November being down from October from a profit perspective. However, nationwide new vehicle sales continued to improve with November/December 2016 improved over November/December 2010-2015. National Automobile Dealer metrics through October 2016 reported net profit as a percentage of sales was 2.6% compared to October 2015 of 2.8%. This is a continuation of a seven-year good profit trend.

November Profit Trends

	NOVEMBER BETTER THAN OCTOBER	NOVEMBER WORSE THAN OCTOBER	NOVEMBER BEST MONTH	NOVEMBER 3.0% PROFIT OF SALES	NOVEMBER LOSS MONTH	NOVEMBER LOSS Y-T-D
CHRYSLER	30%	70%	0%	20%	20%	5%
FORD	45%	55%	0%	30%	25%	10%
G.M.	60%	40%	10%	5%	15%	5%
IMPORTS	20%	80%	5%	20%	15%	10%
OVERALL	35%	65%	5%	25%	20%	10%

Service Department Paid Labor Sales

As you can see in the enclosed Profit Survey, we measured Paid Labor Sales per New Unit sold along with Paid Labor Sales per New and Used Retail Sale. The range of paid labor sales to new unit sales by a dealer group ranges from a low of \$962 (Chrysler) to a high of \$1,414 (Ford) which leads to an overall average of \$1,295 and an overall median of \$1,113.

The range of paid labor sales to new and used retail unit sales by dealer group ranges from a low of \$432 (Chrysler) to a high of \$638 (Ford) which leads to an overall average of \$596 and an overall median of \$544. What does all this

mean and how can you use these metrics? You might have your office staff compute these two metrics for your store. What you are looking for is to see how your store performs on Paid Labor Sales.

If you are high, it might mean you are good in service or possibly low on unit sales.

If you are low, it might mean you are poor in service or possibly high on unit sales.

“Failure is just a resting place. It is an opportunity to begin again more intelligently.”

– Henry Ford

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Email Financial Website Fraud

The amount of fraudulent emails sent to dealerships continues to increase. Typically, an employee is led to believe they need to approve a wiring of funds because the email is from one of the other dealership employees. We know several individuals that have received phone call from "IRS" employees, which is another fraud trying to obtain confidential personal information.

One of our dealers told us of a phony email that was sent to his financial institution to wire funds. The financial institution called the dealer to confirm but what is scary is that the financial institution got a call later asking how the wire was coming along. The crook was able to clone the dealer's cell phone number to give the appearance that the call was coming from the dealer's cell phone.

Based on all of this, you cannot be too careful and you need to regularly remind your employees about all of these electronic fraud attempts that continue to occur. Remember, we advise all of our dealers to have insurance coverage of no less than \$500,000 on electronic fraud and coverage no less than \$500,000 on employee theft.

Re-Insurance Company

If you have an ownership interest in a re-insurance company, not a retro program, on after-sale items sold by your dealership such as service contracts and similar products, make sure you have in writing from your administrator whether you are required to file IRS reporting Form 8886. We have seen where some administrators and other "experts" inform their dealer in error that the owners of the dealership individually and their dealership are not required to file this

form. The penalty is huge if you are required to file this form and do not. Have your re-insurance administrator and/or the firm that files your re-insurance company financial statement and income tax return confirm in writing whether you, the dealership, and/or the re-insurance company are responsible for filling this form out. Make sure you let your income tax preparer know about this Form 8886 and what you understand the filing requirement to be.

Advertising Expense

We had two dealers last month that wanted a profit analysis because their net profit as a percentage of sales was very low. These were both large volume dealers. We obtained data from approximately 50 new vehicle dealers to try and measure these two low net profit percentage of sales dealers. We determined the Gross Advertising Expense (including promotion) as a percentage of New & Used Gross Profits & Other Income. We also determined net profit as a percentage of sales for this group of dealers. For the group of 50 dealers, their net profit as a percentage of sales was 2.5% (median 2.3%) while their Gross New & Used Advertising

was 14% (median 14%). These two dealers' net profits as a percentage of sales were only 1.3% and 1.5%, much below average, while their Gross Advertising was 20% and 27%. This just indicates these dealers are not receiving benefits for their excessive Gross Advertising. We did look at other high Gross Advertising dealers with 20% or more in advertising and all of these dealers, with the exception of one import dealer, were also much below average in net profit as a percentage of sales. From this, we concluded that an excessive advertising budget is not worthwhile.

Government Regulation (Contract Drivers)

Most new vehicle dealers treat their part-time drivers as employees since, in most cases, these individuals are really employees from a government perspective. We read an article where a national company, Menards, has been treating its delivery drivers as independent contractors and is being required by the government to treat its delivery drivers as employees. It sounds like Menards is years behind this issue as compared to new vehicle dealers. It was reported that each Menards store has three or four drivers, also called haulers, who deliver purchased goods to customer's homes. Does this sound similar to part-time drivers used by new vehicle dealers? We need to follow this case because if Menards prevails, then new vehicle dealers might want to revisit this issue.

Government Regulation (Buyer's Guide)

The government has changed the required form for the USED VEHICLE BUYER'S GUIDE that should be in all used vehicles for sale. Our suggestion is to buy the new forms now and start using them soon, and not wait until the last minute to make the change to the newly required form. If you forget to do this in a timely manner, there are penalties involved. Why take the risk?

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