POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **January 2018**

November 2017 reflected profits for new vehicle dealers close to the same as October 2017. The number of dealers in a loss position for the year is holding steady at around 10%. Overall new vehicles and other sales are stable and net profits as a percentage of sales remain stable around 2.4% of sales since 2010. This is the longest stable profit period, eight years, in the last 40 years. There do not appear to be any signs of deterioration of new vehicle dealership profit margins in the near term. However, when they change downward, it could happen in a short time period such as 60 days based on new vehicle industry downturns that date back to the 1970's.

November Profit Trends

	NOVEMBER BETTER THAN OCTOBER	NOVEMBER WORSE THAN OCTOBER	NOVEMBER BEST MONTH	NOVEMBER 3% + PROFIT SALES	NOVEMBER LOSS MONTH	NOVEMBER Y-T-D LOSS
CHRYSLER	40%	60%	0%	5%	20%	10%
FORD	50%	50%	15%	30%	15%	10%
G.M.	55%	45%	10%	15%	20%	10%
IMPORTS	50%	50%	5%	25%	15%	15%
OVERALL	50%	50%	5%	20%	15%	10%

Factory Requests (Requirements)

Often we have dealers tell us something their factory requires or wants the dealer to do. Sometimes these factory requests do not make sense from the dealer perspective. However, the dealer "hears" the factory request as a requirement the dealer must do. The dealer wants to honor these factory requests to just go along with their factory. Sometimes these "requests" are not in the dealer's interest but the dealer does not realize there are consequences to agreeing. We always tell these dealers they might not have to go along, and the real costs or consequences are not in the dealer's interest which the dealer did not realize. In these cases, we ask the dealer if they have an attorney that is knowledgeable in dealer matters or if their attorney is an "auto" attorney. Whenever you have factory requests or "requirements," we suggest you contact an auto attorney, or have your non-auto attorney contact an auto attorney for advice. Remember in many cases you can always say NO.

"If you have a dream, it's definitely achievable through hard work, through dedication, sacrifice, everything."
Carli Lloyd

Inside

Dealership Employee Theft

We were involved with two large dealership employee theft cases in the last two months. In both cases the thief was the lead office person at the dealership. Both thefts were in the range of $200,000 to $350,000. Both thefts have been going on for several years and the average monthly theft approximated $4,000 to $5,000 per month. We suggest dealers have at least $500,000 of employee theft coverage. One employee took funds from vehicle deals and did not expense the stolen funds but created false new vehicles equaling the amount stolen. In other words, there were several phony new vehicles in new vehicle inventory that did not exist, but covered the amounts stolen. The second theft was the employee took funds and "charged" the theft to a used vehicle reserve account. By charging the theft to this accounting reserve, it was not readily seen by the general manager. We interviewed one thief using our thief outline questionnaire and got the thief to admit taking the funds and was able to have this person sign a confession. We supplied our theft outline questionnaire for the dealer to use at the second store and the dealer was able to obtain a signed confession from the second thief. If you believe you have a thief with great confidence of being right, feel free to call us and we will send you an outline of procedures and questions you might want to ask. Both dealerships had $500,000 employee theft insurance coverage, which is the minimum amount we suggest a dealer have.

We recently read an article about a very large theft by several employees at a large dealership. As was reported these employees had formed several shell companies and paid invoices that had been submitted by these phony companies for non-existent advertising services. This is a reason for someone like the dealer or a non-office person to look at all payments/ disbursements each month from the bank statement.

2017 National Automobile Dealers Association (NADA)

The NADA publishes monthly its AVERAGE DEALERSHIP PROFILE. The profiles are as follows:
AVERAGE DEALERSHIP PROFILE (1), DOMESTIC DEALERSHIP PROFILE (2), IMPORT DEALERSHIP PROFILE (3), LUXURY DEALERSHIP PROFILE (4). Below are some basic comparisons:

	(1)	(2)	(3)	(4)
2017 Annualized sales (November)	$59 mil	$53 mil	$64 mil	$86 mil
Pre-tax net profit % sales	2.4%	2.2%	2.6%	2.8%
New vehicle sales % total sales	57%	56%	57%	54%
Used vehicle sales % total sales	31%	31%	30%	32%
Service-parts-body gross % total gross	49%	45%	52%	60%

The one metric that stands out between the above dealer groups is parts, service and body gross for import and especially luxury brands is higher than the average dealer. We find it is better to analyze November annualized than using December metrics. December will generally be distorted by LIFO adjustments, special compensation, special depreciation, and special year-end entries. You might compare your store to the above and determine why you differ to see if you have some profit opportunities.

Dealership Blue Sky

We all read articles about dealership Blue Sky. Some articles use and rely on multiples of profit. Some articles use and rely on return on investment and other methods. Most of the time these articles do not address the definition of "profit" of the dealership. When you read these articles, often "profit" is not discussed in how it might be and should be defined and used. Do you use historical profit, the most recent year's profit, or some other definition of profit? Sellers that have not performed well will not want to have the buyer use their historical profits. This is because the computed Blue Sky might be very low. The willing buyer might point out to seller of a low profit store about how little their Blue Sky should be since the profits are so low. However, the knowledgeable buyer should compute what they believe the "expected" pre-tax profits will be and price the Blue Sky offered on "expectations" or some percentage of expectations, not historical profits. This buyer will more likely be able to purchase the low profit dealership versus the buyer that totally relies on low historical profits. In summary, if you are trying to buy a low profit store, you might keep pointing out to the seller about the low profits and therefore low Blue Sky while offering a higher amount of Blue Sky based on the buyer's expectations of profits.

Dealership Demonstrators-Sales Department

Every January new vehicle dealers need to reassess how employees are charged where the employee has a demonstrator. There are several ways this issue can be handled. We suggest to dealers that for sales department employees, they determine who has a demonstrator. From IRS instructions for full-time salespeople, possibly including sales management, using the simplified method, the salesperson should be charged the following monthly:

Value of Demonstrator $15,000 - $29,999	$6.00 per day 365 days
Value of Demonstrator $ 30,000 - $44,999	$9.00 per day 365 days

If you are not charging these employees for the demonstrator, then we suggest you implement the above. If you have any questions, feel free to call or email us.

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