POWER STEERING

Steering your dealership to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

Written by Carl Woodward **July 2015**

May 2015 profits for new vehicle dealers were down compared to April 2015, although nationwide new vehicle sales were improved in May over April. This reflects that selling more new vehicles does not equate to making more money. In other words, May 2015 was the best month in many years for nationwide new vehicle sales, though new vehicle profit trends in May 2015 did not follow the nationwide trend of new vehicle sales.

May Profit Trends

	MAY BETTER THAN APRIL	MAY WORSE THAN APRIL	MAY BEST MONTH	MAY +3.0% PROFIT OF SALES	MAY LOSS MONTH	MAY Y-T-D LOSS
CHRYSLER	55%	45%	35%	30%	5%	5%
FORD	30%	70%	15%	35%	10%	5%
G.M.	50%	50%	10%	30%	10%	5%
IMPORTS	55%	45%	20%	40%	10%	5%
OVERALL	45%	55%	15%	35%	10%	5%

Generally Accepted Accounting Principles (GAAP)

Most dealers have heard the term Generally Accepted Accounting Principles or GAAP.

These are standards and pronouncements made by the accounting profession through the American Institute of Certified Public Accountants. Some manufacturer franchise agreements state that dealers will file a timely accurate monthly financial statement following GAAP accounting. In some cases, a manufacturer might use the lack of explicitly following GAAP against the dealer to the benefit of the manufacturer and the detriment of the dealer. Manufacturers have been known at times to "pressure" dealers to do something not in the "real" interest of the dealer. We find many dealers unknowingly do not follow GAAP or just do not care because they did not know it mattered to their manufacturer. Some financial institutions "require" GAAP, but the financial institution and the dealer's CPA do not realize this or do not realize the dealer is not technically following GAAP to the last detail. Be aware and be prepared.

"Be more concerned with your character than your reputation, because your character is what you really are, while your reputation is merely what others think you are."
- John Wooden

Inside

National New Vehicle Trends

Automotive News reports national new car and light-duty truck sales once a month. Below are some comments on market share from June Y-T-D 2014 to June Y-T-D 2015.

Ford Division is still #1, but it has a smaller market share in 2015.

Chevrolet is still #2, but with a smaller market share in 2015.

Toyota Division is still #3, and it has a small market share increase in 2015.

Nissan Division is now #4 (was #5), with the same market share as last year.

Honda Division is now #5 (was #4), with a smaller market share in 2015.

Jeep is now #6 (was #7), with a large market share increase from 4.1% in 2014 to 4.7% in 2015.

Hyundai Division is now #7 (was #6), with a smaller market share in 2015.

Kia is now #8 (was #9), with the same market share as last year.

Subaru is #9 (was #10), with an improving market share in 2015.

GMC is #10 (was #11), with improving market share in 2015.

Dodge is #11 (was #8), and has dropped three spots in market share in 2015.

Public Auto Companies (Metrics)

As most of you know, there are really six public auto companies selling new vehicles and one mainly used public auto company: CARMAX. There will be a seventh with the Van Tuyl group being purchased by Warren Buffet. The current six public auto companies include: Asbury; AutoNation; Group 1; Lithia; Penske; and Sonic. Below are some selected metrics for 2014:

	Asbury	AutoNation	Group 1	Lithia	Penske	Sonic
Annual Sales (billions)	$5.9	$19.1	$9.9	$5.4	$17.2	$9.2
Pre-tax profits (millions)	$183	$682	$164	$210	$462	$162
Pre-tax profit margin as a % of sales	3.1%	3.6%	1.7%	3.9%	2.7%	1.8%
Tangible Net Worth (millions)	$340	$403	$(156)	$323	$29	$107

The above pre-tax profit margin overall is 2.9% with the NADA reported pre-tax pre-LIFO (estimate) margin for 2014 being 2.4%. This shows that public companies have a slightly higher profit margin than the NADA dealers. We believe most of the increased pre-tax profits for these public companies is resulting from having a much higher finance department income than the average NADA new vehicle dealer. The above metrics reflect Tangible Net Worth. This is net worth reduced by intangible assets, the most common being blue sky-goodwill. We believe the manufacturers allow these public companies overall to have lower tangible net worth requirements-guidelines than they do for NADA new vehicle dealers.

State Personal Income and Estate Taxes

We have a checklist (email us to obtain the checklist) that will assist in guiding you to become a resident of another state. For some states, it matters which state you spend more time in. If this applies to you, then you'll want to minimize the time you spend in the high tax state and maximize the time you spend in the lower tax state. This is something that you will have to prove if you are audited. One thing you can do is obtain your driver's license in the lower tax state.

Also, when you use your credit card, minimize the number of days you make purchases with it in the high tax state and maximize the number of days you make purchases in the low tax state. If it is a close call on the time spent between the two states, you need to make an effort to spend the time necessary in the lower tax state so it is clear that you now qualify as a resident.

New Floor Plan Interest Expense

As you can see in the enclosed survey, we have measured new vehicle net floor plan interest per new vehicle sold. Net new floor plan interest expense is gross new vehicle floor plan interest expense less factory floor plan interest credit assistance. Overall, the interest credits exceed the gross interest expense reflecting an overall credit of approximately $73.

General Motors – EBE Incentive Program

We wrote in the May issue about General Motors and its EBE incentive program. We commented that the overall net profit as a percentage of sales for the group of GM dealers we measured was approximately the same for dealers on the EBE program (EBE put into profit) versus those dealers not on the program. We received an excellent email from a large, successful GM dealer on the EBE program:

"In regards to your article on EBE, there could be another couple reasons why the net profit of EBE dealers is not higher. The nature of the program invites a higher rent factor with facility improvement. It also adds other overhead expenses in the form of required "customer service positions, technology experts, BDC programs and relationship management software," included among the many hoops that are put out there to obtain the payouts. Some of these programs do add value (like anything, if properly executed and followed through on), but many others are just puffery and give you the feeling that some of the required software is putting money back in GM's pocket through revenue sharing agreements (as they usually authorize only a couple vendors). Overall, unless you really need to update your facility, I think it may not be worth the aggravation and "unnatural" business contortions required to get the money."