



# Steering your dealership to higher profits

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May was an improved profit month over April for most dealers. Each year we expect to see this month-to-month profit trend where May is better than April. As you can see below 65% of dealers had higher profits in May 2017 than April 2017. Approximately 25% of the dealers are reflecting pre-tax net profit as a percentage of sales to be 3.0% or better.

## 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	70%	30%	45%	5%	10%	5%
FORD	65%	35%	30%	30%	10%	5%
G.M.	65%	35%	20%	25%	5%	10%
IMPORTS	60%	40%	20%	35%	10%	15%
OVERALL	65%	35%	25%	25%	10%	10%

Nationwide new car and light duty trucks were down approximately 2% year-to-date and approximately 3% comparing the month of June 2017 to June 2016. However, it should be noted that 2016 was the best year in over 35 years and it appears based on the first 6 months of 2017 that the full year of 2017 will be the 4th or 5th best year in 30 years.

## Commission Compensation Plans

We are involved in commission compensation plans for new vehicle dealers. Most dealers' written pay plans have wording "flaws" in them that open the dealership up to "payroll" lawsuits down the road. Even when you are careful and have an attorney assist in the pay plan, we almost always find "holes" in the wording of the pay plan. Fortunately for most dealers, very few commission employees come back in the future to "haunt" the dealership for poorly worded pay plans. The best and easiest solution we have seen to minimize risk is to have your attorney develop some wording along the following thoughts: Insert into all pay plans the employees have approximately up to 60 days to dispute in writing, their pay and compensation, or they waive their rights to proceed against the dealership in the future. We believe having this done has no negatives and can assist in minimizing successful compensation lawsuits in the future. Why not call your attorney today to get this process started?

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**"If you are not willing to risk the usual, you will have to settle for the ordinary."**

**- Jim Rohn**

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## Dealer's Information Technology (I.T.) Data

We often are contacted by dealer's and dealer's CFO-office managers about sharing their I.T. data. We don't want to always seem negative but we value most dealer's data more than the actual dealers. Recently a CFO for a dealer group received a request from one of their manufacturers for access to their Vehicle Sales Data where the manufacturer wrote they currently have access to the dealer's Parts and Service data. The CFO did not realize the dealership had given this manufacturer access through its I.T. vendor C.D.K. (formerly ADP). We have several comments and things we would have all dealers do:

Send email to your I.T. vendor to have them confirm whether they are transferring any of your data and if yes, what data and to whom.

Make the manufacturer tell you in writing what data they want and what they plan to do with the data they obtain

from your system. Have them put in writing they will not share any of your data with anyone you have not approved in advance.

We saw a TV advertisement by CARFAX; they were "selling" ("brokering") used vehicles. They used the term "ripped off." Who do you think they meant by this? We just do not understand why dealers share their confidential data with CARFAX, who does not appear to be the dealer's "friend" or "partner," but rather a competitor.

If you decide to share any of your data, you need to "push" the data to those approved, do not allow third parties access ever. Many dealers still do not realize how valuable their I.T. data is. But they may, one day, when they find they have lost control of some facets of the dealerships because third parties have used the dealer's data against them.

## Public Auto Companies (New)

The six main new vehicle public auto companies include: Asbury, Autonation, Group 1, Lithia, Penske, and Sonic. Below we have listed some of these company's metrics and/or group metrics based on their 2016 annual reports.

	<u>Asbury</u>	<u>Autonation</u>	<u>Group 1</u>	<u>Lithia</u>	<u>Penske</u>	<u>Sonic</u>	<u>AVG.</u>
Annual Sales in Billions	6	22	11	9	20	10	13
Pre-tax Net Profit % Sales	4.1	3.3	2.1	3.3	2.5	1.6	2.8
Working Capital % Sales	3.5	-5.2	0.9	4.2	1.0	1.0	2.1
Tangible Net Worth % Sales	1.6	0.9	-2.1	5.3	0.3	1.7	1.0

The National Automobile Dealers Association reported the average dealer in 2017 had annual sales of \$60 million; Pre-tax Net Profit % of sales of 2.5% (post LIFO). The above reflects that the public companies pre-tax profit margins approximate the NADA metrics. In other words the public companies are no better operated than the average privately owned new vehicle dealership. From our surveys we find the average dealer's factory working capital guideline to approximate 3.0 - 3.5% of sales along with tangible net worth approximating 4%. As you can see the above factories seem to have a lower or different standard for capital and working capital for the public new vehicle dealerships versus privately owned new vehicle dealerships.

## Service Advisor Pay Plans

Almost all dealers have a commission pay plan for service advisors. Some of these plans might have become "stale" over time. All of these pay plans should have a base salary plus a commission component. If you have too many commission "components" you will unintentionally reduce the effectiveness of the pay plan. One recent pay plan we saw that seemed to make sense was as follows:

Salary of \$1,000 per month

\$4.00 for each flat rate hour sold on closed repair orders

\$1.00 for each flat rate hour sold on closed repair orders by the entire shop

\$0.75 for each flat rate hour sold on closed repair orders whenever their factory

CSI score exceeds XX for the most recent month reported by the factory.

As you can see there are four components to the above service advisor compensation plan. The plan "pushes" production and quality experiences for the customer. Something like this might be appropriate for your dealership.

## **New Vehicle Inventory**

Dealers continue to over-order new vehicles for new vehicle inventory. Often it is out of unawareness or the factory representative presenting some “baloney” reasons to over-order and just begging dealers to order more. As you can see in the enclosed survey, the overall day’s supply of new vehicles reflects 126. The median (middle) dealer reflects a 107 day’s supply.

We find in many cases the dealer “prefers” to have too many units and it is not just the sales manager over-ordering. We suggest you slow down your ordering to get your new vehicle inventory down to no more than 75-90 days.

## **Warranty Labor Rates**

Most dealers have two options on increasing their factory warranty labor rates. Usually we see dealers taking the shortcut way of using the factory proposal (suggested by factory) to increase their warranty labor rates. We suggest you “slow down” in your decision and compute the “long way” method. We have seen several dealers obtain a substantially larger increase than doing the factory “shortcut” way. Don’t let your factory representative “threaten” you in any way of using the factory shortcut method. If they do, take good notes of the call.

## **Media**

We continue to read and hear from some in and adjacent to new vehicle dealership businesses “negative” comments about the industry. The following recent headline, as we understand it, written by one of the major suppliers to the industry, stated the following: “Used vehicle sales to keep dealers afloat during new vehicle slide.” We also saw the following “U.S. sales slide accelerates in June.” Though technically this might be accurate it is misleading and deceptive without some historical perspective. We heard on July 13th from an auto attorney that he saw or heard the new vehicle dealership industry was down and declining. As we all know, new vehicle dealers have had 7-½ years (2010-July 2017) of good profits and profit margins. Some uninformed about the business see that new vehicle sales are down, only down 2%, and then write rubbish like the above. We discovered who wrote the above and suggested the writer have their “knowledge” and error corrected. All dealers need to inform those in the media when they write “false” and/or misleading stories about our industry. They need to be contacted and corrected to stop false rumors that can hurt the industry. Send us the article and we will contact them if you prefer not to.

## **Cox Automotive**

Almost all of you have heard of Cox Automotive. They own several companies that are suppliers to new vehicle dealers. This includes their I.T. company, Dealer Track. Why do we write about this? Because Cox has become a broker of new and used vehicles through its Auto-trader.com, and MakeMyDeal.com websites. Dealers should consider this before using any services of Cox since they insert themselves into the process of selling new and used vehicles. This means Cox will be taking away some of the vehicle gross normally earned by the dealer. If you use the Dealer Track DMS system are you comfortable sharing your I.T. data?

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