

Written by Carl Woodward & Scott Woodward

July 2021

June 2021 new vehicle dealer pre-tax net profit results continued to be outstanding. As you can see below, 30% of new vehicle dealers had their best month of the year. Overall, 60% of new vehicle dealers had pre-tax net profit % of sales in June of 5.0% or better, 15% of new vehicle dealers had pre-tax net profit % of sales in the 4.0 - 4.9% range, 15% of new vehicle dealers had pre-tax net profit % of sales in the 3.0 - 3.9% range, while 10% of new vehicle dealers had pre-tax net profit % of sales less than 3.0%. The June 2021 y-t-d sales averaged \$5 million per month, or annualized for the year at \$60 million.

June Monthly Profit Trends

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	JUNE BEST MONTH	JUNE +5% NET SALES
CHRYSLER	35%	65%	10%	55%
FORD	45%	55%	10%	55%
G.M.	45%	55%	30%	50%
IMPORTS	70%	30%	50%	85%
OVERALL	50%	50%	30%	60%

Profit Metrics

The enclosed survey of dealers we serve shows various financial metrics from those dealer's June financial statement. As you can see, the front end new gross profit margin ranges from a low of \$946 to a high of \$8,920 (this includes several high gross medium duty trucks) with the average being \$3,155 and the median being \$2,935. The front end used gross margin ranges from a low of \$738 to a high of \$4,978 with the average/median approximating \$3,290.

**“There is only one corner of the
universe you can be certain of improving,
and that’s your own self.”**

- Aldou Huxley

Inside	
National New Vehicle Sales	2
Day’s Supply New Vehicles	2
Parts Inventory (Stale-Obsolete)	2
Monthly Sales and Profit Survey	3
Dealership Rent	4

National New Vehicle Sales

It was reported in *Automotive News*, total car and light duty truck sales were 8,357,344 for the six months ended June 30, 2021 and 8,471,317 for the six months ended June 30, 2019, the most recent “normal” year.

The sales for the six months ended June 30, 2020, only 6,481,000, were less than the above total sales numbers as would be expected. Some franchises were improved over June 30, 2019 including:

Toyota; Honda; Hyundai; Kia; Ram; GMC; VW; Mazda; BMW; M-B; Lexus; Tesla; Audi; Buick; Acura; Volvo. The factories down the most, all down over 10% were: Ford; Nissan; Dodge; Mitsubishi; Infiniti. We all have read about the factories not being able to build all the vehicles they want as a result of a lack of parts availability. However, the above reflect some factories that have been able to build more vehicles as compared to others. Interesting.

Day's Supply New Vehicles

We conducted a survey of approximately 20 Toyota dealers for their new vehicle inventory day's supply at the end of May. We found the following:

Average day's supply 15

Median (middle dealer) day's supply 13

Lowest dealer day's supply 3

Highest dealer day's supply 40

Also, as you would expect, they had and sold enough new in May 2021 for some of these dealers to have their best profit month ever.

Parts Inventory (Stale-Obsolete)

We often ask dealers to give us a copy of their parts inventory summary produced by the parts department at the end of the year. We mainly want to see the total parts inventory from this report and how it compares to the accounting parts inventory. We suggest dealers ask for this at least once a year to see the parts inventory per accounting records is close to what the parts department reflects. Additionally, we suggest dealers review the parts aging to see how much in parts inventory has not sold in 12 months and 24 months. If it is more than \$10,000 or more than 5% of the total inventory, this should be discussed with the parts manager.

The question is does the parts manager believe these “stale” parts will be sold in the next 12 months? If not, what should be done with them? In some cases, these “stale” parts are probably unsalable and not returnable to the factory. Some of these parts should be itemized and others thrown in the dumpster. The AutoPCA group, a group of automotive CPA's located all over the U.S., had a parts speaker talk to us last month. He knows of larger dealers that will buy “stale” parts at a discount from current factory cost. If you have enough “stale” parts we might suggest you have your dealership parts manager contact this person. They might be able to help you turn some of the parts your have that probably will not be sold and ultimately thrown out into cash. His name is Mark De Lucia, (503) 342-2414/cell (503) 936-9908, mark@dealermine.com.

“Where there is a will, there is a way. If there is a chance in a million that you can do something, anything, to keep what you want from ending, do it. Pry the door open or, if need be, wedge your foot in that door and keep it open.”

- Pauline Kael

Dealership Rent

We regularly see dealerships for sale where the Blue Sky might be reasonable, but once the asking purchase price for the real estate is presented, this makes the Blue Sky unreasonably high because the ultimate rent will be high. The knowledgeable buyer must allow for the expected rent in the calculation for reasonable Blue Sky. The Blue sky might be reasonable, but the rent is so far out of the norm high that a large discount is needed on either the facility value or Blue Sky Value. We have a couple of rule's of thumb that might assist in reasonableness for facility value and correspondingly the annual rent. Rent is rent paid exclusive of property taxes, maintenance, utilities, and insurance. Looking back before 2020, ignoring Covid years and profit results, reasonable annual rent might be for many locations .95% of expected annual sales. Reasonable rent % of Fair Market value in today's times more commonly is 8%, or a range of 7 - 9% of fair market value for annual rent. This 8% might reflect realistically on the facility value, but be excessive based on the annual sales of the dealership. Make sure it is reasonable.

To Subscribe:
Send \$96.00 (Annual Subscription) to:
Woodward & Associates
P.O. Box 1584
Bloomington, IL 61702
carlswoodward@cpauto.com
For More Information:
Call (309) 662-8797
or Fax (309) 662-9438