

POWER

S T E E R I N G

*Steering your dealership
to higher profits*

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Consultants to the Automotive Industry

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July 2023

As we wrote in this year's June issue, the 2022 pre-tax net profit percentage of sales of 4.9% was the second-best year ever for the new vehicle industry (5.4% in 2021). For the last month of 2022, and for the first six months of 2023, net profit as a percentage of sales is trending downward slightly as expected. From our sample of almost 300 new vehicle dealers, January 2023 net profit as a percentage of sales was only 2.6%, February was 2.8%, March was 3.4%, April was 3.3%, May was 3.8%, and June was 3.1%. Year-to-date net profit percentage of sales through June was 3.5%. The enclosed survey of a select number of our dealer clients reflects 3.9% year-to-date. Pre-tax net profit as a percentage of sales is trending downward mainly due to a lower new front end gross profit margin of \$2,918 and lower used front end gross profit margin of \$2,415.

MONTHLY FINANCIAL RESULTS – JUNE 2023

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	NET PROFIT % SALES - JUNE	NEW UNITS	USED UNITS
CHRYSLER	45%	55%	3.4%	29	37
FORD	55%	45%	3.1%	32	35
G.M.	50%	50%	2.5%	43	51
IMPORTS	40%	60%	4.0%	66	58
OVERALL	45%	55%	3.4%	47	47

MONTHLY FINANCIAL RESULTS – MAY 2023

	MAY BETTER THAN APRIL	MAY WORSE THAN APRIL	NET PROFIT % SALES - MAY	NEW UNITS	USED UNITS
CHRYSLER	45%	55%	2.2%	40	40
FORD	70%	30%	3.8%	26	38
G.M.	60%	40%	4.5%	44	51
IMPORTS	50%	50%	4.3%	65	53
OVERALL	55%	45%	3.8%	48	47

“The best or nothing at all.”
– Gottlieb Daimler

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MONTHLY FINANCIAL RESULTS – JUNE 2023

	NET<3.0%	NET 3.0% - 3.99%	NET 4.0 - 4.99%	NET > 5.0%
CHRYSLER	55%	5%	5%	35%
FORD	40%	25%	15%	20%
G.M.	50%	20%	20%	10%
IMPORTS	40%	15%	10%	35%
OVERALL	45%	15%	10%	35%

National Economic Metrics

We receive an INTEREST RATE RISK MANAGEMENT WEEKLY UPDATE courtesy of KeyBank. Some of the informative metrics include (July 24, 2023):

SOFR (comparable to LIBOR)	5.06%	trending neutral
Fed Funds rate	5.25%	trending neutral
Prime rate	8.25%	trending neutral

Written Compensation Plans

We are still seeing dealership pay plans that lack full disclosure and where dealer employees are not really aware of what they are being paid on or **not being paid on**. The below sample Addendum, after being modified by your attorney, might help in reducing future exposure for amounts owed to certain employees for past months and/or years.

ADDENDUM TO COMPENSATION PLAN

The employee's compensation plan is based on the monthly or annual dealership prepared manufacturer's required financial statement(s) or other internally prepared summaries of dealership prepared financial information. The monthly or annual dealership prepared manufacturer required financial statement(s) or other dealership financial summaries are used to determine and compute the employee's compensation. If the employee has any questions, concerns, or believes there are any computed differences not allowed for or should be different, the employee has to express those concerns in writing within 60 days of the completion of the dealership prepared manufacturer required financial statement(s) or other summaries of dealership financial information the compensation plan is based on. If the deadline of 60 days passes, all financial statements or financial summaries will be considered final and closed and not open to revision or change.

I acknowledge the above language is part of my compensation plan.

Date

Employee Name & Signature

Employer –Authorized Person

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Service GP (Gross) Per Technician

The survey page has a column called SERVICE GP PER TECHNICIAN. We took the labor (service) gross profit of these dealers in total and divided it by the number of service technicians. What this column ultimately reflects is the gross profit generated by technician at each of the dealerships. As you can see, the technician monthly gross profit generated by the average Chrysler technician was \$13,919, Ford technician was \$13,151, GM technician was \$13,203, and Import technician was \$16,061. The overall monthly average gross profit generated by a service technician was \$14,107 with the median (middle) technician being \$13,993. How do the technicians at your dealership compare?

I.T. Computer Systems

We see, at times, new dealership computer vendors appear on the scene with supposedly better pricing and better programs. Some dealers switch to these “unproven” systems because they are not pleased with their current system. Recently we were asked about switching to a new system. We had comments from one of our AUTOCPA group members regarding one of their clients with this “new” system: “They decided to try it in one of their stores first. They were so frustrated they scrapped the entire plan and went back to “their prior I.T. vendor.” Let other dealers sign up with these new I.T. vendors and use them for several years before switching to this new vendor. Remember, you are a car dealer and not a “computer car dealer.”

Estate Planning

“On January 1 of each year, the estate and gift tax ‘basic exclusion amount’, currently \$12,920,000 per person, is adjusted for inflation. The 2024 inflation adjustment, which will be based on data gathered through August 31 of this year, will be announced this fall. But because the inflation adjustment incorporates data going back to September 2021, it is possible to project the 2024 inflation adjustment now with some precision. The adjustment will be approximately \$740,000. The size of the 2025 inflation adjustment will depend on the course of inflation over the next year, but \$500,000 is a reasonable guess based on currently available data and the continued inflationary pressures in the American economy. The gift tax annual exclusion will jump to \$18,000 in 2024 and will likely reach \$19,000 in 2025.”

From Peter Tucci in a Leimberg newsletter dated 8/1/2023