

POWER STEERING

*Steering your dealership
to higher profits*

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Consultants to the Automotive Industry

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April 2015 was a good profit month, though not as good as March 2015. As you can see below, 65% of dealers made less money in April 2015 than March 2015. About 25% of dealers had their best profit month of the year and 35% of new vehicle dealers had a profit margin of 3.0% or better of April sales. The car business remains good and this is the sixth year of good profit margins.

April Profit Trends

	APRIL BETTER THAN MARCH	APRIL WORSE THAN MARCH	APRIL BEST MONTH	APRIL +3.0% PROFIT OF SALES	APRIL LOSS MONTH	APRIL Y-T-D LOSS
CHRYSLER	30%	70%	20%	35%	5%	5%
FORD	40%	60%	35%	50%	5%	5%
G.M.	35%	65%	20%	25%	5%	5%
IMPORTS	35%	65%	25%	35%	5%	5%
OVERALL	35%	65%	25%	35%	5%	5%

Internal Controls

With most dealerships having a limited number of accounting office employees, it can be difficult to separate office duties to protect the assets and operations of the dealership. One control you as a dealer might perform is to have the monthly bank statement mailed to your house or supplied to you unopened from someone outside of the accounting office. We recommend that you take that bank statement and look at all electronic disbursements from the dealership checking

account that does not require a check. This task can be performed in 15 minutes or less. Have someone in the office explain to you each one of these disbursements. Also, thumb through the checks to look at the payees. Even if nothing bad is going on, this will serve notice to your office personnel that you are reviewing the monthly dealership disbursements.

“Move out of your comfort zone. You can only grow if you are willing to feel awkward and uncomfortable when you try something new.”

- Brian Tracy

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I.R.S. Cash Reporting Requirements

We remind our dealer tax return clients more than once a year about confirming that their office is filing the IRS Form 8300 for cash transactions of \$10,000 or more. We still find dealers that do not make much of an effort to see that these forms are filed, even though the penalties can be very high and painful. You should have your office staff show you the Forms 8300 and letters to the customers that have been filed this year. Unless your store is very small, you should have filed at least one or more based on the size of your store and the demographics of your customer. Call us if you have not filed any and we will share our thoughts on how you should proceed.

Dealership New Unit Sales Performance

As we have written in the past, dealers should look at their factory reports to see how well they measure their new vehicle sales performance. There are also various services, such as CROSS – SELL, that can supply monthly sales performances of all makes and individual new and used vehicle dealership performances at a modest price. It is worthwhile to see how your dealership compares to other dealers in your market for both new and used retail sales. Very few dealers want to operate much below average so these types of monthly reports, independent of the factory, can sometimes enlighten you or just validate that you are performing at a reasonable level.

New Vehicle Dealers and “Brokers” (Middlemen)

We see more and more advertisements where “brokers” such as TrueCar, Auto Trader, and many others are trying to take away sales and profits from new vehicle dealers. Many dealers allow this to occur and in some cases encourage these brokers. In the short run, some dealers sell a few more vehicles, take sales from other dealers, and might make more profit. We believe all dealers should look at these “brokers” from a mid-term and long-term perspective. The more that dealers as a whole allow these “brokers” (see article on page 4) to take part in a greater percentage of their business, new units, used units, parts and service sales, the less money dealers will make and the less control dealers will have over their business. We have seen advertisements where a dealer will supply the service history of their customers, unintentionally, over the internet and these “brokers” will

then direct customers to others dealers’ websites using the service history supplied by this dealer. In other words, they use a dealer’s data against the dealer. Many dealers do not realize what is truly going on and do not recognize what they are creating or allowing against their interest. Step one for dealers is to stop allowing any and all vendors access to their valuable confidential data. Some of the “brokers” tell the public what customers are “paying” for vehicles. Much of this pricing data is misleading because we know that with trade-ins, after-sell products, etc., the “real” selling price cannot easily be determined by just looking at the internal accounting data of the selling dealer. Based on this, how do they really know the actual “selling price?” (The Wall Street Journal also wrote about this issue. It was from June 15 in the Business & Tech. section. It’s worth the read.)

Recently, one of our dealers had a third party service contract company calling his customers. He found in some cases the customer that was called by this third party service contract company had to have obtained the customer’s phone number from the dealer’s service history file. This just tells us that dealers are allowing or giving out confidential information to their detriment.

Dealers need to block third party vendors and their factories from supplying dealers’ confidential information to third parties since this data is being used against the dealer.

The article on page 4 was written by Ted Stockton of the Fontana Group. It discusses dealers and third parties that “free ride” on the backs of dealers. Think “brokers” that are trying to take away sales and profits from new vehicle dealers without the huge investment new vehicle dealers make to service their customers.

Differentiated Sellers and Free Riding

Franchised automotive dealerships are differentiated sellers that have some uniqueness in terms of territory (some market protection) and product (exclusive right to offer new vehicles, certified pre-owned vehicles, warranty service, etc.). Differentiated sellers differ from non-differentiated sellers, such as convenience stores selling hundreds or thousands of separate differentiated products, in that they must participate in presentation and marketing of the brand to the public. Examples of brand marketing efforts include brand promotion, specific facility design, maintaining demonstration inventory, product training, large parts inventory, site control, etc. These are examples of non-price competition. Firms engage in non-price competition based on the degree to which doing so raises demand for the product and the degree to which the firm making the investment expects to benefit from the increased demand.

Free riding (shop there, buy here) occurs when firms seek to redirect the brand demand created by differentiated sellers on the basis of lower selling costs or a better selling experience. One prominent example is lead providers like TrueCar that depend upon the brand marketing efforts of manufacturers and dealerships to drive customers to their websites in search of the right price or the best price for specific vehicles. When free riding occurs, differentiated firms are detached from the benefits of their non-price competition and face pressure to reduce investment in the brand. Brokering is a free-riding activity of particular concern in that a) it siphons off the value of investment by differentiated sellers, and b) it may result in a diminished level of service at the point of sale, thereby watering down the experience associated with the brand.

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