POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **June 2017**

April 2017 pre-tax profits were down from March 2017 as we would normally expect. As you can see below, 70 % of dealers were down in April 2017 compared to March. Last year 50% of dealers were down in profits in April 2016 compared to March 2016. Normally we expect April to be down from March. Nationwide new vehicle sales for May 2017 were down, less than 8,000 units, a minor amount, compared to May 2016. On a year-to-date basis (May) nationwide new unit sales are down just 2%. We prepare a monthly graph on nationwide new unit sales trends. If you would like to receive this graph contact us and we will send you a copy.

March Profit Trends

	APRIL BETTER THAN MARCH	APRIL WORSE THAN MARCH	APRIL BEST MONTH	APRIL 3.0% + NET OF SALES	APRIL LOSS MONTH	APRIL LOSS Y-T-D
CHRYSLER	30%	70%	20%	10%	5%	10%
FORD	25%	75%	15%	30%	10%	5%
G.M.	30%	70%	10%	10%	20%	15%
IMPORTS	35%	65%	25%	25%	10%	20%
OVERALL	30%	70%	20%	20%	10%	15%

Factory Surveys

Most dealerships have a survey sent to many of their customers by either the dealership or the dealership's manufacturer for service work. We suggest you take a few minutes to read the survey questions. The scoring is often from: (1)-Unacceptable (2)-Average (3)-Outstanding (4)-Exceptional. Think about these answers. Whether you were commenting on a dinner at a high-line restaurant or a car dealership, if you received the good service you were expecting, would you not answer Average (expected)? This score would hurt a dealer. A dealer would need to receive EXCEPTIONAL on all questions because we know anything less would hurt the dealer. We think manufacturers need to better refine their surveys and the scoring that "forces" dealers to waste time and money "pressing" customers for answers like EXCEPTIONAL.

Continuous effort - not strength or intelligence - is the key to unlocking our potential.
-Winston Churchill

Inside

Used Vehicle Department

Two functions in managing the used vehicle department is inventory management and retail pricing management. Most dealers would like to have no "water" in their used vehicle inventory. Dealers think they will make more money and be able to liquidate their used inventory reflecting no loss if they have no "water." This sounds good, but is not realistic. In the past years we have seen dealers write their used inventory down to current wholesale value, a one-time write-down which the dealership absorbs. They expect their used inventory will remain "clean" into the future. For the next few months you would expect front-end gross profits to go up since they started with a totally "clean" inventory. In most cases the front-end gross might go up for a short period of time, but then the dealer is back to prior front-end gross profit margins. Why? As we all know dealers work from cost or "perceived" cost when selling vehicles and products. Also, we believe in all cases where the entire inventory had a "clean" start, these dealers a year or more later are back to where they started, with many over-valued used in stock due to a lack of discipline. In other words, their goals were admirable, but they were not able to keep their inventory "clean." In effect they wasted their time and effort and now have similar amounts of water in their used inventory. What happened is that they gave away to the customer by writing down used vehicles this one time. We feel if a dealer makes $1,800 used front-end gross margin and always has the same amount of "water" in their used inventory, then they are really making $1,800 per used retail sold.

There are a couple of web service companies that assist dealers in valuing used vehicles for appraisals and inventory along with guiding dealers on the retail pricing of used vehicle inventory. We see dealers use these web service (often incorrectly) pricing mechanisms to where their front-end gross profit margins become much below industry average. We often hear that the web vendor will tell them they will make less front-end gross per unit but will sell more units. We have tested this premise on many of our dealers and do not find increased used retail sales. This measurement can be done by seeing what other groups of dealers: Chrysler, Ford, G.M., and Import dealers have as a ratio of used retail to new retail. If you are in a group that overall sells 1.0 used to 1.0 new, and using the inventory service your ratio of used to new is similar, you can generally conclude you are not selling more used retail as your web service suggests even though your used front-end gross profit margin is much below average, we believe the average is in the $1,800 range. We also quiz dealers and their employees and many answer the average or reasonable front-end gross should be approximately $1,200. We need to educate these employees that they are setting their "sights" too low and they will never obtain average used retail front end gross profit margins.

We recently did a study of low front-end used gross profit margin dealers to see how effective they were as a dealer by measuring their overall net profit as a percentage of sales. This year the average dealer makes in the range of 2.4% of sales. We found that these low front-end used retail gross profit dealers rely too much on web service for valuing their inventory and selling prices. Their net profit effectiveness was no more than 50% of the average dealer's, 1.2% of sales. This indicates to us that allowing much lower than average used retail front-end gross profit margins cause's dealerships to be much below average in overall dealership profitability. We realize some of these dealers are not properly using the web service used vehicle inventory and pricing features. They need to talk to their web service representative to find out how to obtain average used retail front-end gross profit margins. If you are not able to raise your used retail gross profit margins, then we suggest you go back to the old ways or start using a different process for pricing your used vehicle inventory.

"Packs"

As those in the industry know, one definition of a "pack" is an amount charged to a new or used vehicle. At a later date after the vehicle is sold, this "pack" accounting reserve is usually cleared out and some expense/cost of sales account(s) is credited or reduced. We believe in this process to a certain degree. However, at times we find excessively large pack amounts and/or the number of "packs" are credited against various expense accounts. We do not like this. The dealer in effect is allowing the monthly financial statement to become less valuable so you cannot accurately measure or see how you are really doing. Your gross profit margins and expenses are distorted. Our suggestion is have an actual entry ("hard pack") made to inventory for the pack. You should have the pack reversed when the vehicle is sold. This way you will know what your "real" gross profit margin is on retail and wholesale. Some dealers use a portion of the "pack" to make wholesale loss deals zero deals and put the excess in the pack account back to cost of sales. We don't care for this since it distorts both the retail and wholesale gross.

Dealership Theft

We have dealers each year that have a large "employee" theft. We call large an amount exceeding $100,000. Most dealers have replacement value coverage that covers all other tangible assets. The one "hole" in a dealer's insurance coverage is "employee theft" coverage. If you have employee theft coverage, find out how much the premium increase might be to have $500,000 in coverage. In most cases, the increase in premium is reasonable and makes sense.

Loans and Interest Rates

We receive calls from dealers about paying off loans with longer terms to maturity versus short term new and used floor plan loans. One common answer we give dealers is do NOT payoff or pay down long term debt prematurely. If the long term interest rate is close to your floor plan rate, use the cash to keep paying down new and used floor plan and do not pay down long term loans. Since many individuals expect interest rates to continue to rise over time, it is better to be safe and protect the longer term loans with a lower interest rate after looking into the future by not paying off or paying ahead, but use the cash on short term debt.

Parts Inventory

We measure day's supply of parts inventory usually on an annual basis. You need to do this every quarter or at least twice a year. Obtain the report generated by the parts inventory system, usually a 3-4 page report. Have someone see how close the report total of parts is to your accounting records. Also, have someone let you know how much you have in parts in inventory that has not sold for 12 months or longer. You need these parts to go away, and measure your parts inventory day's supply based on the cost. The enclosed survey reflects that the average dealer has approximately a 60 day's supply of parts. If you are well above this amount, you might meet with your parts manager to discuss their day's supply.