POWER STEERING

*Steering your dealership to higher profits*

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April 2018 new vehicle dealer profits were down from March 2018 as is expected each year. Historically, April new vehicle dealership profits are down from March and May. Nationwide April 2018 new units sales, fleet sales are unknown, were less than March 2018 and May 2018 and the last April that sold less than April 2018 was April 2013 while April 2014 – April 2017 were better than April 2018. As you can see below, 75% of new vehicle dealers were down in profits compared to March while 25% of new vehicle dealers had their best profit month of the year. These various trends reflect a lot of volatility of profits for new vehicle dealers.

## April Profit Trends

| | APRIL BETTER THAN MARCH | APRIL WORSE THAN MARCH | APRIL BEST MONTH | APRIL 3% PROFIT OF SALES | APRIL LOSS MONTH | APRIL Y-T-D LOSS |
|---|---|---|---|---|---|---|
| CHRYSLER | 40% | 60% | 35% | 25% | 25% | 5% |
| FORD | 35% | 65% | 35% | 20% | 10% | 10% |
| G.M. | 20% | 80% | 20% | 15% | 20% | 10% |
| IMPORTS | 20% | 80% | 15% | 25% | 20% | 15% |
| OVERALL | 25% | 75% | 25% | 25% | 20% | 10% |

The National Automobile Dealer's Association (NADA) reflects the following April 2018 year-to-date results:

| | 2018 | 2017 |
|---|---|---|
| Average Months Sales | $4.8 million | $4.7 million |
| Pre-tax profit % sales Y-T-D | 2.2% | 2.4% |
| Advertising % total gross (includes credits) | 8.0% | 8.6% |

**"Happiness is not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort."**
**– Franklin D. Roosevelt**

Inside

## Used Vehicles

It has been reported that used vehicle prices hit a 13 year high with more late model vehicles coming off of lease. This could be true but depending on how you read this, you may form an incorrect conclusion. If more used vehicles are being sold retail that are only 3 years old, the average price might be going up because a larger percentage of vehicles being sold are not as old as the average vehicle in the last few years.

We just completed a used vehicle analysis taking the most popular new vehicles and comparing the value of a 3 year old vehicle in June of 2017 versus a 3 year old vehicle June of 2018. We took the same vehicle make, model, and equipment and used "clean" Black Book for these vehicles. We valued a 3 year old 2015 vehicle using the June 2018 book and a 3 year old 2014 vehicle using the June 2017 book and found the following:

Of the 22 vehicles surveyed, 13 had 2018 prices which were less than 2017's, while 9 vehicles had 2017 prices which were higher. The average value of the 3 year old "clean" vehicles in June 2018 were 99% of the same 3 year old vehicle from June 2017. Our conclusion is that there has been no real movement in prices of used year-to-year 3 year old models at this time.

## Ford Motor Company Future Car Sales

It has been reported that Ford Motor Company (Ford) is drastically reducing the "cars" it will be offering the public including Fiesta, Fusion, Taurus, and Focus. It was reported by 2020 that 90% of its products will be truck, utility, and commercial vehicles. Our perception is that many fleet purchasers use cars rather than trucks at a larger percentage. We have yet to meet one dealer or other industry "expert" that thinks Ford's plan to drop all but 2 cars from its North American dealerships is good for Ford or Ford dealers.

In our opinion, there are several good reasons Ford should continue to sell "cars." If Ford gives the perception to the public of not selling cars, customers will look for cars at other franchises such as Toyota, Honda, etc. and may not buy a car, but buy a "truck" at these other dealerships. There will be less customer traffic at Ford dealers.

What will Ford and its dealers do when and if the trend moves away from trucks, SUVs, and crossovers? Vehicle trends change over time and trends returning to cars could very well happen in the next few years to the detriment of Ford and Ford dealers. We suspect it is more likely that the sale of electric vehicles will increase with more being "cars" and Ford and Ford dealers will lose "traffic" and vehicle sales by not having electric cars and or the perception they have fewer car options.

How will Ford be involved with the "temporary" transportation vehicles of the future when the public needs a temporary vehicle, possibly more cars than trucks, or a different type of temporary vehicle such as a "traditional car"? Some customers looking for used cars will be less likely to shop at a Ford dealership and may buy a used truck or other new vehicle.

Do those with much industry knowledge really think that "electric trucks" (Ford's new emphasis) will help Ford keep its market share? It is probably more likely that electric trucks will not increase their market share for many years as compared to cars.

Only time will tell if Ford made a good decision in 2018 to markedly reduce the percentage of cars it produces by eliminating several car lines.

## Customer Phone Numbers and Email Addresses

It is obvious dealers need to make a real effort to increase the phone numbers and email addresses they have in their "data" files. Dealers need this "better" information so they can communicate with their customers in a less costly way. Many dealers are missing one or both of these data points. As we know, this is the way dealers will communicate more with their customers rather than mail or making telephone calls. It might be worthwhile to have someone at your dealership, call or email all customers in your files to update, and or confirm the accuracy of both the customer's phone numbers and email addresses. We believe dealers will be using mailers less in the future due to the cost and lack of response, where email and text messages can replace mailers with lower costs and higher response rates.

## Advertising Expense

The enclosed survey reflects gross advertising expense as a percentage of total gross profit plus other income. We've added in other income because of the large amount of other income many dealers now reflect, which mostly is due to new vehicle sales. Our survey shows average gross advertising, before advertising credits, to be 10% and the median advertising to be 9%. NADA reflects through April 2018 net advertising expense, gross advertising expense after advertising credits, to be 8%. Our 10% allowing for credits seems to match up well with the NADA 8%.

## Telephone and Internet Invoices (Expenses)

We suggest all dealership accounting offices go through their monthly telephone and internet expense invoices item by item. Dealers are finding expenses where their service stopped in the past but the billing company did not stop billing. Also, you might question your vendor about the amount charged for some items. You may find, at times, just by asking that some of these expenses can be reduced or combined with other line item expenses.

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