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May 2021 profits and profit margins, pre-tax net profit % of sales, were the best ever for our dealers. March 2021 was improved over January and February 2021. April 2021 was better than March 2021. May 2021 was better than April 2021. Unbelievable! How long will this continue? As you can see in the monthly profit trends below that over 55% of our dealers made over 5.0% pre-tax net profit as a percentage of sales.

May Monthly Profit Trends

| | MAY BETTER THAN APRIL | MAY WORSE THAN APRIL | MAY BEST MONTH 2021 | MAY NET PROFIT % SALES 5.0% + |
|----------|--------------------------------|-------------------------------|------------------------------|--|
| CHRYSLER | 60% | 40% | 45% | 45% |
| FORD | 55% | 45% | 35% | 65% |
| G.M. | 60% | 40% | 45% | 50% |
| IMPORTS | 80% | 20% | 60% | 55% |
| OVERALL | 65% | 35% | 50% | 55% |

The National Automobile Dealers Association, NADA, reported the following results Y-T-D through April 2021: Average \$ sales per month \$5.9 million in 2021 versus \$4.1 million in 2020; net profit % sales 4.7% in 2021 versus 1.3% in 2020 (COVID period); new and used retail gross profit margins materially improved over 2020; F & I and Service Contract income per retail deal materially improved over 2020; and advertising is down from 2020 as a percentage.

**“The best preparation for tomorrow is
doing your best today.”**

H. Jackson Brown, Jr.

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Possible Future Profit Trends

As you read earlier, the profits and profit margins, pre-tax net profit % of sales, have been the best ever for the last three months, March 2021 through May 2021. Why is this so good and how about future profits? The pre-tax net profit % of sales averaged in the range of 2.5% and annual dollars sales of \$52 million as reported by the NADA numbers for the ten years ended 2019. In 2020 the profit margin increased almost 50%, COVID conditions, to 3.6% and annual sales to \$59 million. In 2021 through May it is even better than 2020 from May to December. Why have metrics improved so much that profit margins have increased almost 50% in May through December 2020 and doubled in May 2021 to over 5.0%?

Some of the reasons include a fewer amount of new vehicles being sold, a fewer amount of used retail vehicles being sold, reduction in commissions on a per vehicle % basis, increased front-end gross profit on new vehicles, increased front-end gross profit on used retail vehicles, increased F & I & Service Contract income on vehicle sales, reduction in advertising expense and reduction in new floor plan interest expense. What happens when gross profit goes up and expenses go down: much increased pre-tax net profits. We hear dealers say they want more new and used inventory. We know they say this without thinking. If all dealers would think this through we believe they would come to the following conclusions:

A 45-day supply or less of new units in inventory, not 90 days as many have had the last few years, would be better for the dealership profits and the employees of the dealership. This is reflected today in the lesser day's supply and higher new vehicle department net profit. In the past most dealers always desired to have more new vehicles in stock so they could "maximize" or sell one more new retail vehicles. They were saying without really realizing the benefits of a maximum of a 45-day's supply of new vehicles or much less would have on grosses and expenses as we now see since May 2020. Once the factories are back to over building the day's supply of new and "forcing" dealers to take the excess, guess what is going to happen? Hardly more new units sold and net profits down dramatically.

A 45 day's supply or less of used units in inventory, not 60-90 days as many have had the last few years, would be better for the dealership profits and the employees of the dealership. This is reflected today in the lesser day's supply and higher used vehicle department net profit. In the past most dealers always desired to have more used vehicles in stock so they could "maximize" or sell one more used retail vehicle. They were saying without really realizing the benefits of a maximum of a 45 day's supply of used vehicles or much less would have on grosses and expenses as we now see since May 2020. If dealers realize this then they will require more prompt completed reconditioning of used vehicles. We have heard for many years about the timeliness of getting used vehicles reconditioned. This would have to improve to maybe 2 days for 90% of used vehicles run through the service department or third-party reconditioning vendors. What is going to happen if nothing is done? Hardly more used units sold and net profits down dramatically.

We have learned that less advertising and less expense is required based on the last 13 months profits. You might analyze your advertising and where it is spent and how much. This should assist in maintaining higher net profits. Many dealers have found substantially less total advertising is effective.

New and used floor plan interest expense will materially be reduced if your day's supply of new and used inventory is limited to 45 days or less. You might sell fewer new and used vehicles than in the past, but your net profits will go up as compared to 2019 and prior years.

Dealership Buy-Sells

One component of all dealership buy-sells is the purchase of the fixed assets of the selling dealer. These assets include furniture, fixtures, and equipment (FF&E). They do not include leaseholds as leaseholds really belong to the landlord and usually the buyer will lease the facility, including leaseholds from the landlord. Used vehicles such as loaners, company vehicles and rental vehicles will usually be valued at current wholesale fair market value and not part of FF&E. We recently saw a seller that supplied a summary total by year purchased of FF&E. The seller had this listing valued by an "appraiser." The appraiser's total was over twice our estimated value. It appeared that some of the initial year FF&E probably included some of the initial blue sky paid by the seller. If you are a buyer, require your seller to supply a detailed FF&E schedule and confirm all of the items on the listing remain at the dealership.

New Vehicle Inventory Day's Supply

Overall new vehicle dealers have a smaller new vehicle day's supply now even after allowing for fewer new vehicle sales than normal. As you can see from the enclosed survey, new vehicle day's supply based on May's new vehicle sales and new vehicle inventory as of the end of May is as follows: Chrysler 41 day's supply; Ford 30 day's supply; G.M. 29 day's supply; Imports 23 day's supply; and overall 30 day's supply. One large volume import dealer had a 2 day's supply of new vehicles and one GM dealer had a 0 (none new in stock) at the end of May 2021. We suggest if your day's supply is well below same make dealers in your area, you email your factory representative and their supervisor to complain that you are either intentionally or unintentionally being "discriminated" against. You need to do this to try and obtain your share of new inventory and to be prepared in the future if your factory notifies you that you are not selling your share in new vehicles and there will be negative consequences.

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