

POWER

S T E E R I N G

*Steering your dealership
to higher profits*

A publication of Woodward & Associates
Consultants to the Automotive Industry

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As mentioned in this year's May 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 five 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, the January 2023 net profit as a percentage of sales was 2.6%, February was 2.8%, March was 3.4%, April was 3.3%, and May was 3.8%. Year-to-date net profit percentage of sales through May was 3.3%. The enclosed survey of a select number of our dealer clients reflects 3.6% year-to-date.

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

MONTHLY FINANCIAL RESULTS – APRIL 2023

	APRIL BETTER THAN MARCH	APRIL WORSE THAN MARCH	NET PROFIT % SALES - APRIL	NEW UNITS	USED UNITS
CHRYSLER	65%	35%	2.9%	38	41
FORD	45%	55%	3.1%	32	42
G.M.	45%	55%	2.3%	27	48
IMPORTS	25%	75%	5.3%	59	50
OVERALL	40%	60%	3.8%	43	45

**“Failure is just a resting place.
It is an opportunity to begin
again more intelligently.”
– Henry Ford**

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MONTHLY FINANCIAL RESULTS – DECEMBER 2022

	DECEMBER BETTER THAN NOVEMBER	DECEMBER WORSE THAN NOVEMBER	DECEMBER BEST	NET PROFIT % SALES - DECEMBER	NEW UNITS	USED UNITS
CHRYSLER	10%	90%	5%	N/A	25	32
FORD	40%	60%	20%	2.6%	27	61
G.M.	50%	50%	20%	3.0%	37	42
IMPORTS	45%	55%	5%	3.8%	53	50
OVERALL	40%	60%	10%	2.3%	37	47

MONTHLY FINANCIAL RESULTS – MAY 2023

	NET<3.0%	NET 3.0% - 3.99%	NET 4.0 - 4.99%	NET > 5.0%
CHRYSLER	60%	10%	5.0%	25.0%
FORD	35%	10%	25.0%	30.0%
G.M.	45%	20%	10.0%	25.0%
IMPORTS	35%	0%	10.0%	55.0%
OVERALL	40%	10%	10.0%	40.0%

National Economic Metrics

We receive an INTEREST RATE RISK MANAGEMENT WEEKLY UPDATE courtesy of KeyBank. Some of the informative metrics include (July 10, 2023):

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

Estate Planning

With about six months to go in the year, now is a great time to start doing some estate planning. Currently the lifetime gifting exemption is nearly \$13,000,000 per individual (\$26,000,000 if married). It makes sense to gift as much as possible to avoid future changes to gifting rules. For many dealers, their most valuable asset is their stock in their automobile dealership. This asset can be gifted, typically tax free, and start accumulating wealth for the next generation. Generally speaking, it makes more sense to gift dealership stock before gifting the real estate as it will not accumulate as fast as dealership stock. Rarely gift any reinsurance stock, instead open a new position in the name(s) of those intended for gifting.

Reinsurance Considerations

Annually dealers should evaluate their reinsurance position and/or begin opening reinsurance companies to benefit from the profits of selling their own service contracts (or receive a position in already created reinsurance companies). The considerations include the vendor, type of reinsurance company, beneficiaries and, lastly, the tax situation. There are numerous vendors in this field; meshing with the right company that provides an appropriate balance of guidance, fee structure and training are key. The types of positions include: Retro, CFC, NCFC, DOWC. All have their pros and cons, which depending on your current and future cash needs as well as risk tolerance, will impact your decision on the company. Each company has their own distinct tax situation ranging from ordinary income to capital gains. Annually dealers should understand the fee structure of their vendor to confirm their vendor is competitive and make sure they understand the bottom line of those fees.

Monthly Sales and Profit Survey — May 2023

MAKE	NEW UNITS	GROSS NEW	USED UNITS	GROSS USED	YTD NET PROFIT %	MTD NET PROFIT %
CHRY	162	\$ 3,288	126	\$ 2,727	1.8%	2.6%
CHRY	54	\$ 4,038	82	\$ 2,705	4.2%	5.1%
CHRY	57	\$ 2,492	36	\$ 3,027	7.0%	6.8%
CHRY	71	\$ 1,122	31	\$ 2,818	4.7%	5.5%
CHRY	23	\$ 3,270	25	\$ 3,706	3.7%	5.6%
CHRY	19	\$ 4,422	40	\$ 3,163	3.5%	3.8%
CHRY	30	\$ 3,830	52	\$ 3,335	1.4%	1.5%
CHRY	10	\$ 3,550	34	\$ 1,401	3.3%	2.4%
CHRY	22	\$ 2,262	27	\$ 2,778	3.4%	2.5%
CHRY	82	\$ 628	60	\$ 1,356	0.6%	0.6%
CHRY	33	\$ 2,627	44	\$ 1,428	0.6%	1.0%
CHRY	100	\$ (507)	34	\$ 2,121	0.5%	0.3%
AVG CHRY	55	\$ 2,585	49	\$ 2,547	2.9%	3.1%
FORD	62	\$ 2,313	206	\$ 1,008	2.2%	3.5%
FORD	71	\$ 3,630	78	\$ 2,692	4.4%	4.4%
FORD	112	\$ 3,527	70	\$ 3,385	3.7%	4.2%
FORD	7	\$ 2,289	22	\$ 2,546	6.0%	7.5%
FORD	17	\$ 3,409	52	\$ 2,317	6.2%	7.4%
FORD	28	\$ 4,152	32	\$ 2,944	4.6%	5.3%
FORD	22	\$ 3,928	29	\$ 3,607	5.3%	6.3%
FORD	48	\$ 6,906	31	\$ 3,336	3.2%	3.8%
FORD	21	\$ 3,552	30	\$ 3,229	4.2%	4.3%
FORD	17	\$ 3,408	32	\$ 2,425	5.2%	4.9%
FORD	32	\$ 1,484	44	\$ (452)	1.6%	1.8%
FORD	24	\$ 2,739	34	\$ 3,458	1.5%	1.5%
FORD	27	\$ 3,034	29	\$ 2,308	0.5%	1.0%
FORD	48	\$ (305)	28	\$ 2,614	0.8%	0.5%
FORD	12	\$ 3,087	37	\$ 2,091	0.4%	-0.6%
AVG FORD	37	\$ 3,144	50	\$ 2,501	3.3%	3.7%
GM	76	\$ 2,818	178	\$ 1,441	4.6%	5.1%
GM	82	\$ 2,884	97	\$ 1,788	4.5%	5.2%
GM	34	\$ 3,796	103	\$ 2,689	5.1%	4.8%
GM	34	\$ 2,730	113	\$ 2,914	3.7%	4.4%
GM	42	\$ 4,335	31	\$ 3,873	6.4%	5.9%
GM	49	\$ 3,146	38	\$ 2,550	4.4%	6.0%
GM	121	\$ 1,368	50	\$ 3,260	1.7%	2.8%
GM	41	\$ 3,349	59	\$ 3,426	2.9%	2.8%
GM	27	\$ 2,719	52	\$ 4,252	3.0%	3.9%
GM	28	\$ 3,136	29	\$ 3,607	3.9%	4.0%
GM	47	\$ 2,246	56	\$ 2,255	3.2%	3.8%
GM	33	\$ 1,516	31	\$ 2,142	4.8%	5.5%
GM	47	\$ 932	126	\$ 702	2.1%	2.0%
GM	31	\$ 2,261	42	\$ 2,992	5.3%	5.7%
GM	71	\$ 1,122	31	\$ 2,818	4.6%	5.5%
GM	55	\$ 4,353	61	\$ 2,907	2.7%	2.6%
GM	41	\$ 2,475	58	\$ (11)	2.5%	3.1%
GM	31	\$ 1,411	60	\$ 1,467	4.1%	3.9%
GM	33	\$ 1,593	47	\$ 1,778	3.0%	3.0%
GM	31	\$ 2,972	42	\$ 307	3.6%	4.5%
AVG GM	48	\$ 2,558	65	\$ 2,358	3.8%	4.2%
IMPORT	204	\$ 2,657	126	\$ 2,619	10.1%	10.9%
IMPORT	142	\$ 3,282	140	\$ 3,662	4.9%	5.7%
IMPORT	144	\$ 3,603	82	\$ 3,235	5.4%	5.8%
IMPORT	120	\$ 2,554	107	\$ 2,019	4.9%	4.4%
IMPORT	34	\$ 3,796	103	\$ 2,689	5.2%	4.9%
IMPORT	126	\$ 3,308	42	\$ 2,648	5.9%	6.2%
IMPORT	112	\$ 2,626	95	\$ 2,470	7.9%	8.6%
IMPORT	78	\$ 3,724	67	\$ 3,419	5.0%	6.7%
IMPORT	69	\$ 3,466	77	\$ 2,650	9.2%	8.7%
IMPORT	68	\$ (1,042)	46	\$ 446	1.0%	1.2%
IMPORT	51	\$ 2,092	101	\$ 1,102	0.6%	0.2%
IMPORT	39	\$ 1,430	33	\$ 2,364	0.9%	1.2%
IMPORT	54	\$ 1,831	27	\$ (405)	-0.9%	0.2%
IMPORT	37	\$ 1,730	35	\$ 152	-1.0%	-1.3%
IMPORT	37	\$ 2,248	35	\$ 2,882	1.9%	1.3%
IMPORT	57	\$ 2,741	18	\$ 2,659	5.6%	6.3%
IMPORT	35	\$ 3,751	37	\$ 2,700	2.9%	2.2%
AVG IMPORT	83	\$ 2,576	69	\$ 2,195	4.1%	4.3%
AVERAGE	56	\$ 2,705	60	\$ 2,383	3.6%	3.9%
MEDIAN	42	\$ 2,780	44	\$ 2,655	3.7%	4.1%

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Surcharge of Credit Card Fees

We are seeing more and more dealers push credit card fees back onto the customer. This likely will occur more frequently for small businesses. While some customers might not appreciate the charge, this is a possible way to save your dealership a lot of expense. There are several fee requirements that must be handled correctly or there could be a risk of future lawsuits or penalties. Please consult with your legal professionals and merchant services to ensure you are following all applicable rules.

Unclaimed Property

Many states are starting to audit unclaimed property again. State governments see unclaimed property as a way to generate cash flow, and likely revenue, if individuals do not claim this property. Business owners should develop internal policies, if they haven't already, to reissue checks. Additionally, they need to consider we-owes, cancellations, and other items that may be owed to the customer/employee or vendor. These items are subject to unclaimed property rules in many states. We strongly suggest not taking these items into income, which some might have done in the past, as the audits around unclaimed property are very burdensome. Be sure to look at your language on "we-owes" to ensure that if a customer does not come in to get the work done that the dealership is not required to submit those credits to unclaimed property in your respective state.

Public Company 2022 Results

Below are the 2022 results for the six public new vehicle auto companies.

	SALES (\$)	PRE-TAX NET PROFIT % SALES
ASBURY	15.4 BILLION	8.5%
AUTONATION	27.0 BILLION	6.8%
GROUP 1	16.2 BILLION	6.1%
LITHIA	28.2 BILLION	6.1%
PENSKE	27.8 BILLION	6.7%
SONIC	14.0 BILLION	3.6%*
AVERAGE-PUBLIC	21.4 BILLION	6.4%
AVERAGE-NON-PUBLIC (EST.)	70 MILLION	4.8%

*ADJUSTED FOR SPECIAL CHARGE