



Steering your dealership to higher profits

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January was a good new vehicle month based on total nationwide new unit sales being the best in several years and approximately the same in 2016 and 2017. This is total new units sales including fleet sales numbers which are not available. The number of dealers that lost money in January was higher than usual.

January Profit Results

	JANUARY PROFIT LESS 3% SALES	JANUARY PROFIT MORE THAN 3% SALES	JANUARY LOSS
CHRYSLER	85%	15%	10%
FORD	80%	20%	25%
G.M.	90%	10%	25%
IMPORTS	75%	25%	30%
OVERALL	80%	20%	25%

Vacation Pay

We have dealers several times a year that have disagreements and disputes with commission based employees with the employee's vacation pay. We've seen a couple methods for computing/determining compensation for vehicle sales personnel vacation pay. One method is just have a flat amount per work day the person will receive in their written pay plan plus a commission amount based on an average of prior paychecks. The second pay plan pays the employee their written pay plan salary amount with no commission. You need to make sure the wording in the pay plan is clear for other commissioned personnel as well. Some government employee may want you to pay some employees 54 weeks compensation, not 52 week compensation. We have found that if the employee files a complaint with the state or federal wage and hour department they will at times not obtain an objective ruling because of the bias of that department or the administrative law judge. It is usually too expensive to pay someone to represent the dealership in such a dispute.

“If you are not willing to risk the usual, you will have to settle for the ordinary.”

- Jim Rohn

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Dealer's Confidential Information Technology Data (I.T.)

As written before, we believe dealers are allowing, whether knowingly or not, third party vendors access to their data. This data is then being used by these same third party vendors to "steal" dealers' customers for new and used vehicle sales. Some in the industry believe some factories are sharing their dealer's I.T. data with third parties in competition with their dealers. All you need to do is watch TV for all the advertisements along with "broker" websites, who have access to your data in many cases. These vendors, "brokers," are trying to cut the dealership out of selling vehicles to its customers. Over time many of the retail sale of new and used vehicles will increasingly be done by these "brokers" and new vehicle dealers will become a "delivery center" in many cases. We have suggested to dealers to have their I.T. vendor tell them who has access to their data. At times, dealers have no idea how certain vendors gained access to their data. We suggest dealers cut off all third party access to their confidential data except for the factory. We also suggest all dealers email their factory and have the factory let them know who they are sharing the dealer's data with. Also, ask the factory to confirm that your I.T. data is NOT

being shared with any third parties. Expect some factories to "balk" at answering this question. If your factory will not answer or confirm then you need to speak to a higher level at your factory or go to the dealer council.

One of our GM dealers sent us an email that he received from GM explaining that an addendum to their dealer agreement addresses this issue:

"III Marketing: Company (GM) will use Dealer Data for e-mail, direct mail, telemarketing communications, social media, collaborative targeting, and/or digital marketing initiatives to consumers ("Consumer Communications") promoting the sale and service of Company vehicles, parts, and/or accessories."

Then there is another paragraph to the above that we would not ever approve. You cannot "trust" most manufacturers to NOT share your confidential data. It looks like the factories are now trying to "sneak" language into their dealer agreements so they can. We all know most dealers do NOT read everything their factory sends them and will sign documents that should not be signed.

Parts Inventory

The enclosed survey reflects day's supply of parts inventory. As you can see the lowest day's supply reflected is 17 days while the highest is 215 day's supply. We have seen the day's supply go down over the years from around a 90 day's supply to approximately a 60 day's supply. This is often because many of the parts needed by a dealer are not in stock and can be ordered for overnight delivery. The two main parts metrics are the day's supply and the amount of parts in inventory over 12 months. We would suggest you determine these two metrics at least quarterly.

Used Vehicle Inventory-Gross Profit Margin

We recently prepared an analysis of "stale" used vehicle inventory and gross profit margins. The conventional thinking from many dealers and others in the industry is the more day's supply of used vehicles a new vehicle dealer has, the lower their average front-end gross profit margins will be. Some third party vendors to the new vehicle dealer industry encourage such a reduced used vehicle inventory to keep the inventory "clean," even though a large percentage of their customers end up with a far below average front-end gross profit margin. Recently, we took a sample of the 250 new vehicle dealers we serve analyzing their used vehicle operation. Only our dealers that had a 90 day supply or higher were used in the sample. As you know, many in the industry consider dealers with such a large, over 60 day's supply of used vehicles, as "poor" performers. We are less concerned about day's supply and "stale" inventory than the number of used retailed and front-end gross profit margins. Of the group of used vehicle departments analyzed with more than a 90 day's supply of used inventory, approximately 40 dealers, the following metrics were found:

Ratio of new units retailed to used units retailed - median	2 new to 3 used
Used retailed - median	64 per month
Used day's supply based on dollars-median	122
Front-end retail gross profit margin	\$1,832

The ratio of new to used indicates this group of dealers are above average in used retail sales as compared to new retail sales.

The used day's supply is more than twice the guideline. Most dealers would view this is a "big" negative until they see the other metrics.

The front-end gross profit margin is average to slightly above average of dealers we serve.

What conclusions can be taken from the above: carrying more used does not mean you sell less used or your used gross profit margin will be less.

General Motors (GM)

As many of you have read, General Motors reported it was going to stop reporting its sales of vehicles on a monthly basis and was going to report only on a quarterly basis (lack of disclosure). Its reasoning was poorly presented, but many in the industry feel GM has alternative reasons for minimizing what it reports to “hide” some negative trends. One example might be the high day’s supply of many of its models. Based on day’s supply, it has been reported in “Worst-selling (24/7 Wall Street) vehicles: 15 models Americans didn’t want to buy in 2017” that GM had 8 of 15 of these models, which loudly speaks for itself.

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