POWER STEERING

Steering your dealership to higher profits

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January was a down profit month. As you can see below, 55% of dealers lost money in January 2019, much lower than January 2018, and only 10% made a profit margin of 3.0+ percentage of sales. Some of the other various metrics we found for January new vehicle dealer sales and profit results include:

Average day's supply of new vehicles as of the end of January was 183 days and the median was 153 days. This is a major difference compared to *Automotive News* day's supply computation (Not *Automotive News* fault, due to data that is supplied to them how its computed and other issues).

January Profit Trends

	PROFIT MONTH	LOSS MONTH	3.0+ PROFIT % SALES
CHRYSLER	40%	60%	10%
FORD	55%	45%	15%
G.M.	35%	65%	5%
IMPORTS	55%	45%	15%
OVERALL	45%	55%	10%

The average dealer in a random sample of 80 dealers, reflected losing money in January at a 0.2% of sales. We have never seen it this low for a large group of dealers. The median dealer reflected losing 0.3% of sales. We do not remember ever seeing 63% of our new vehicle dealers lose money in any month. We went back several years looking at losing months and found the following number of dealers losing money:

September 2008	40%	October 2008	50%	November 2008	45%
January 2009	40%	February 2009	35%	March 2009	15%

Dealership Brokers

Some dealers hire dealership brokers to assist in selling their dealership. Some provisions of their agreements you need to consider. If there is a dispute, where legally will the suit be filed? Have it in your county/state. For the fees charged, be aware if both the buyer and seller would be paying fees to the same broker. Also, if you find the buyer, then no fee should be paid.

"When a team takes ownership of its problems, the problem gets solved. It is true on the battlefield, it is true in business, and it is true in life."
Jocko Willink

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Information Technology (I.T.) Vendors Policies ("Abuses")

We thought we would write about some issues we have seen that we consider inappropriate, unreasonable, or unfair from I.T. vendors (vendors) to their new vehicle dealership customers (dealers).

We have seen some vendors have inserted into their voluminous legal document a provision that the customer (dealer) must use the vendor if the customer purchases anymore dealerships. No mention of this was ever brought up by the vendor. If the person reading every page of the huge number of I.T. vendor documents had not seen this, they would have been "stuck" with this provision.

We have seen instances where vendors sold a minor piece of equipment to a current dealer customer and it was signed for by a lower level dealership employee. However, the agreement for this minor purchase also included some changes to the major provisions of the main agreement that the dealer would never have knowingly signed.

We have seen automatic price increases inserted into the legal agreement that a buyer would not knowingly agree to without negotiations.

We've also have seen where a dealer told an I.T. representative they might be sold in the near term, and when the dealer did sell, they had to pay a 6 figure "fee" to the vendor to cancel the future monthly support not needed and to give/release access to the selling dealer's data to the buying dealer.

What do you need to do about being "mislead" by your or an I.T. vendor?

1. Make sure you have someone qualified to read every page of the vendor's written Agreement, focusing on items that are not in your interest.
2. Share with your dealer "friends" any and all I.T. perceived and real "deceptive" instances.
3. Everything is negotiable. Do not always believe what sales representatives say or that they will be "fair." Make them put all representations in writing or at least an email to yourself. You cannot always believe what they tell you.
4. Hire a qualified I.T. adviser that is familiar both with pricing of the system along with legal and business practice experience.
5. Have only the dealer and maybe the CFO/Office Manager be the only people authorized to sign any agreements with your I.T. vendor. Notify your I.T. vendor in writing about this policy.

Most I.T. vendors you can count on, but not all I.T. vendors or their business practices. Why do business with I.T. vendors that have these types of business practices?

Vehicle Service Contract Sales

The enclosed survey reflects new and used vehicle service contract sales penetration percentages from January 2019 new vehicle dealership financial statements. There could be some distortion in the numbers for some dealers include maintenance contracts with service contracts. As you can see, new vehicle service contract percentages reflect for the four dealer groupings 37% to 41% with the average being 39% and the median being 36%. As well, used vehicle service contract percentages reflect for the four dealer groupings 40% to 49% with the average being 42% and the median being 45%. If your dealership is less than 35%, you need to pressure your F & I person and your service contract administrator company to help you improve, or replace one or both of them.

Dealer Competition

We still find many dealers involved in selling vehicles with vehicle "brokers" and sharing their confidential data with others that are in direct or indirect competition with new vehicle dealers.

This includes Truecar.com, Carfax, and other similar companies. We don't think dealers should be involved with current and future competitors selling vehicles or sharing data. Dealer's short-term "greed" will cost them business in the long run. We also see and read about CARVANA selling used vehicles and projecting to sell 2 million retail used vehicles in the future and buying used vehicles directly from the public. Truecar.com is also hooking up with an appraisal service that is not good for new vehicle dealers. If new vehicle dealers are not careful, they might become "just" a delivery service of new and possibly used vehicles and make much less gross on new and used. This is the start of losing retail sales to third party vendors. What will dealers do if Walmart and Amazon.com get into the new and used vehicle business?

Dealership Buy-Sells

In buy sells the factory is usually a “dictator” in the agreements they want you to sign when you are the buyer. This includes their requesting the buyer to sign something the factory knows is wrong and the buyer is required to sign, even if the wording is incorrect. We have recently seen this happen twice. The factory tells you to trust them when you ask them, but they insist on things being in writing from you. Double standard. In other words, they want you to trust them verbally, similar to certain I.T. vendors, but they will not accept your verbal representation. If you can, without losing the deal at the twelfth hour, do not accept their issuing agreement where something is materially wrong, for they can use it against you in the future. If you do not want to lose the deal, you might send them an email around closing letting them know about the “mistake” in their agreement as a possible backup to their error.

Also, if you agree to a material facility upgrade, and you paid “full” blue sky, then adding in the facility upgrade cost will in effect cause more blue sky to be paid and now it could be too much blue sky. In most cases, the material facility upgrade will not create more sales and profits. It will always raise your fixed costs.

New and Used Front-End Gross Profit Margins

As illustrated in the enclosed survey, we are now seeing more and more dealers with low new and used front-end grosses. Some dealers try to defend these low grosses, by referring to the other income that they receive from the factory. In most cases, this additional income (which should not really be reported in gross profits) is not that significant. Another excuse for low grosses is that its due to competition. This might be true in some limited cases, but in our opinion, it is due to the poorly trained or supervised sales department employees. This is especially true of low front-end used gross margins less than $1,200. You might review what you are reflecting in the first two months of the year on these front-end gross profit margins and do something about it if you are low.