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March 2018 profits and vehicle sales were much better for dealers as compared with February 2018. This is a trend we have seen for many years. Nationwide new vehicle sales in April 2018 were down substantially from March 2018, but more than January 2018 and February 2018 (fleet sales unknown). This trend is expected where April is down from March. Also, April 2018 was down from April 2014 through April 2017. This is not a good sign.

March Profit Trends

	MARCH BETTER THAN FEBRUARY	MARCH WORSE THAN FEBRUARY	MARCH BEST MONTH 2018	MARCH 3% SALES OR BETTER OF PROFIT	MARCH LOSS MONTH	MARCH LOSS Y-T-D
CHRYSLER	95%	5%	70%	25%	5%	10%
FORD	90%	10%	60%	25%	5%	15%
G.M.	90%	10%	85%	20%	10%	15%
IMPORTS	85%	15%	80%	60%	5%	15%
OVERALL	90%	10%	75%	35%	5%	15%

Estate Planning and Future of Dealership

All dealers as they get older need to plan and at least think about what they want to happen with their dealership as they get older and less involved. Some dealers think they will live forever and do not delegate or train relatives or employees to become more active with the “general” management of the dealership. For those dealers that have family involved in the business, often times the dealer either thinks their family members are competent to take over or want to wait until the dealer is no longer alive. For dealers with family member’s active in the dealership, we suggest the dealer “gift” stock with restrictions to those family members that plan to stay active in the dealership. If you sell family members stock, you will most likely have to pay income taxes on the sale. By gifting family members stock you are avoiding and minimizing taxes. You can gift a large amount based on current non-taxable gifting limits if it makes financial sense along with keeping voting control, even if you own minimal stock.

**“The only limit to our realization of
tomorrow will be our doubts of today.”**

-- Franklin D. Roosevelt

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Ransomware

One of our clients recently had a problem with “ransomware” on their I.T. system and all of its data. This is where a thief “outsider” is able to break into the business I.T. system and hold the owner/user hostage and limit access to access their I.T. system and its data. The thief wanted \$50,000 to release control of the business data. They were advised in this case not to pay, even if it was reduced. The reason being, this thief might not honor the release of the “ransomware” program even if the ransom was paid. In this case, it took

an outside “ransomware” expert a day and a half to get the I.T. system operational. What we learned is it is worthwhile to annually have an outside I.T. expert with “ransomware” experience test and update your I.T. system. For dealerships and smaller businesses their in-house I.T. person typically has little real and actual experience with “ransomware,” therefore you should annually pay an expert of this type to review your system equipment and safeguard programs to minimize this risk.

National Financial Metrics - 2017

The National Automobile Dealers Association published year end metrics for 2017. Some of the key metrics for AVERAGE DEALERSHIP PROFIT are as follows:

Dealership size - annual sales	\$60 million
Pre-tax net profit	\$1.4 million
Pre-tax profit % annual sales	2.3%
New gross % total gross	27%
Used gross % total gross	24%
Fixed Ops gross % total gross	49%
Advertising (less credits) % of total gross	9%
Rent & Equivalent % total gross	11%

Information Technology (I.T.) Issues

At a seminar we attended last week, an I.T. expert discussed passwords and computer security. He stated too many of our employees are using passwords that can be “guessed” with several tries. You may have recently read, one national politician had set his password with the word: PASSWORD. This expert suggested to pick a password that is not too obvious. Also, he suggested, because many individuals put

their list of passwords under their desk pad or somewhere else obvious and close to their desk, that they find a better more secure place to hide their password list. You might have someone take a few minutes to go to each employee at the dealership to find out where they write down their business passwords and then make some “suggestions” to make changes to their passwords and locations they hide their list of passwords.

Sale of New and Used Retail Units

Often, we find what seems to be a simple answer to selling more or enough new and used retail units. This involves stores that have measurably fallen off in the number of retail units being sold and based on their expense structure need/ must sell more new and used retail units. The answer is these dealerships have allowed the number of sales people to fall off materially. If a dealership needs to sell 100 new and used retail units to make a modest profit, they are not going to achieve this goal if they only have 8 sales people.

We are regularly told they cannot hire sales people. We have heard this excuse for over 40 years. We often ask what they are going to do if they lose more sales people and only have 80%/70%/60%/50% of the sales people needed to meet reasonable retail sales expectations. If most dealerships have an adequate number of sales people, no one wants to hear, “We can’t find salespeople.” There are solutions to this issue including adjusting pay plans including reductions when the sales person count is low. We find this issue affects more dealers than you might expect.

New Vehicle Day's Supply

We computed new vehicle day's supply of inventory at the end of March from a group of over 200 + new vehicle dealers. We took new vehicle inventory at the end of March divided by new units sold in March. The overall new vehicle day's supply was 99 days. As you can see, Chrysler was 102 days; Ford was 107 days; GM was 106 days; and Imports were 86 days. *Automotive News* (AN) reported an overall 69 day's supply. Chrysler was 79; Ford was 82, GM was 72 all of which are substantially less than our computed day's supply. As we have written in the past, the data reported to AN has always had a much lower day's supply. We suspect this is due to fleet sales and how the factory computes day's supply. We suspect for the group of dealers, from 20 states, that our calculated day's supply of 99, is more representative of reality for most dealers.

Direct Mail Advertising Versus Texting Advertising

We attended a seminar last week that included a short presentation on direct mail advertising being discussed in context of texting "advertising." As we know, direct mail advertising can cost a large sum per 10,000 mailers. From what we understand, there is a large error rate of addresses in direct mail, wasted costs and postage, and a large percentage of the public that receives direct mail advertising and never opens the mailer including us. This is compared to "advertising" by texting a message to the customer base along with the ability to go from the "text" to a more expansive advertising message. We believe most people open their text messages and at least briefly read the text. This is something those dealers that use direct mail advertising should look into for lower advertising costs and possibly more effective advertising.

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