

Steering your dealership to higher profits

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As we wrote in last month's issue, April 2023, the year 2022 was the second-best year for new vehicle dealer's pre-tax net profit as a percentage of sales of 4.9%, compared to the best year ever of 5.4% in 2021. We are seeing the last month of 2022 and the first four months of 2023 net profit as a percentage of sales is trending downward slightly as we expected. From our sample of many new vehicle dealers, January 2023 net profit as a percentage of sales was only 2.6% while in February 2023 it was 2.8%, in March it was 3.4%, and in April 2023 it was 3.3%. Though the enclosed survey not all of our dealers reflected 4.0%, we typically expected and found March 2023 to typically be better than January and February. However, for April results we found the average of Chrysler-Ford-G.M. (domestics) was only 2.8% in March and April while imports were 5.3%. These April and March metrics indicate "domestics" are approaching back to pre-covid metrics, less than 3.0%, while imports remain much above pre-covid metrics at 5.0% for March 2023, April 2023, and 5.4% year-to-date.

As we wrote last month and for April 2023, the trends we see and read about include new vehicle inventories are increasing along with used vehicle inventories, advertising is also increasing along with new and used vehicle floor plan interest expense, and while as expected front-end new and used gross profit margins are declining. These changes unsurprisingly are causing net profit as a percentage of sales to decline.

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
	Net < 3.0%	Net 3.0 – 3.99%	Net 4.0 – 4.99%	Net + 5.0%	
CHRYSLER	55%	10%	15%	20%	
FORD	45%	30%	15%	10%	
G.M.	60%	15%	10%	15%	
IMPORTS	25%	10%	0%	65%	
OVERALL	40%	15%	0%	45%	

**“The best sales questions have
your expertise wrapped into them.”**

– Jill Konrath

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Monthly Financial Results – March 2023

	March Better Than February	March Worse Than February	Net Profit % Sales March	New Units	Used Units
CHRYSLER	70%	30%	2.2%	35	45
FORD	65%	35%	3.6%	29	41
G.M.	70%	30%	2.6%	38	55
IMPORTS	100%	0%	5.0%	64	60
OVERALL	80%	20%	3.8%	46	56

Monthly Financial Results – February 2023

	February Better Than January	February Worse Than January	Net Profit % Sales February	New Units	Used Units
CHRYSLER	65%	35%	2.6%	23	40
FORD	45%	55%	2.4%	32	52
G.M.	50%	50%	2.3%	25	45
IMPORTS	55%	45%	3.7%	45	41
OVERALL	55%	45%	2.8%	31	41

Monthly Financial Results – December 2022

	December Better Than November	December Worse Than November	December Best Month	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

National Economic Metrics

We receive an Interest Rate Risk Management Weekly update courtesy of KeyBank. Some of the informative metrics include (May 22, 2023):

SOFR (comparable to LIBOR)	5.05%	trending upward
Federal Funds rate	5.25%	trending upward
Prime rate	8.25%	trending upward

Franchise Buyouts (Reductions)

Currently for various reasons G.M. is trying to get some of its Buick dealers to surrender their franchise for a payment from G.M. We have been called by many Buick dealers about G.M.'s proposal to have the dealer give up their Buick franchise for a six or seven digit payment as high as \$1,700,000 for annual units less than 120 units. As we wrote previously, we suggest to these dealers they measure the economic benefits of the after-tax cash received and the interest that can be earned on this after-tax cash versus the lost profits from giving up the Buick franchise including new Buick gross, used vehicle gross, and Buick parts and service gross. For a few dealers, it makes sense to take the cash, but it does require some analysis and long range planning. GM initially tried to reduce the number of dealers in 2009 and then changed its mind for many dealer reductions. We believe by G.M. reducing the number of Cadillac and Buick dealers it will reduce the number of new Cadillacs and Buicks being sold. Only time will tell.

Dealer Performance

We went through all the dealers we serve through April 2023 and have listed them below by dealer group, the lowest, average, and highest pre-tax net profit percentage of sales for the four months ended April 30, 2023. Some groups below have limited number of same franchise dealers.

	Lowest	Average	Highest
Various Imports	-1.2%	3.6%	9.3%
Toyota	4.5%	6.4%	10.5%
Kia	4.5%	5.8%	7.8%
GM	-1.9%	2.6%	6.5%
Ford	-0.7%	3.1%	6.4%
Chrysler	-1.3%	2.4%	7.0%

As you can see, there is a very wide range of lowest performance, pre-tax net profit percentage of sales, to highest performance. If you are in the bottom third, feel free to contact us for some guidance to improve your performance.

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