

# POWER

## S T E E R I N G

*Steering your dealership  
to higher profits*

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September 2015 was a down profit month for 70% of new vehicle dealers compared to August 2015. A few dealers lost money in September. Those dealers need to re-assess their expense structure so they do not have a loss at the lower level of sales. Our monthly national new vehicle sales graph (email us to receive monthly) reflects the best September for many years but lower than August and October.

### September Profit Trends

	SEPT. BETTER THAN AUGUST	SEPT. WORSE THAN AUGUST	SEPT. 3.05 + PROFIT % SALES	SEPT. LOSS MONTH	SEPT. LOSS Y-T-D
CHRYSLER	50%	50%	35%	0%	0%
FORD	15%	85%	30%	0%	0%
G.M.	25%	75%	25%	10%	0%
IMPORTS	40%	60%	35%	10%	0%
OVERALL	30%	70%	5%	5%	0%

### Factory Performance Standards

We ask dealers for their comparative performance metrics from their factory. This is because we want to see how new vehicle sales effective the dealer is compared to the factory required performance, CSI (customer satisfaction) for the sale of new vehicles, SSI (service satisfaction) for the service department satisfaction, along with profit and expense performance and working capital and capital comparative standards. Many dealers do not see these reports or are not aware of them. Some dealers tell us they do not receive them like they did in the past. We tell dealers that in many cases they need to take the time or have someone from the dealership go into their website with their manufacturer to obtain these reports. We suggest dealers find these reports

and either they or someone at the dealership review them to see which categories the dealership falls below average from the factory perspective. Even if you disagree with the factory reports, you need to identify where you are below average. There might be a time in the future that you wish you had paid a little more attention. Why? Some factories will use your "below" average performance against you. This can include pressuring you to do something you would not otherwise do, keep you from buying another dealership or attempting to terminate your dealership.

**"The biggest risk is not taking any risk... In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks."**

**- Mark Zuckerberg**

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## Tesla Motors Inc.

We have included below some of the financial information published by Tesla Motors, Inc. from their Form 10-Q.

	THREE MONTHS		NINE MONTHS	
	ENDED		ENDED	
	<u>9/2015</u>	<u>9/2014</u>	<u>9/2015</u>	<u>9/2014</u>
REVENUES	\$852 MIL	\$800 MIL	\$2.6 BIL	\$2.1 BIL
LOSS BEFORE INCOME TAXES	\$228 MIL	\$ 71 MIL	\$560 MIL	\$181 MIL
Additional Paid-in Capital	\$3.3 BIL		\$2.3 BIL 12/2014	

As you can see, the revenues are going up, but the losses incurred are drastically increasing. In fact, the losses for the three months ended September 2015 and the nine months ended September 2015 are approximately three times more than the same period in 2014. This net loss trend increasing is not a positive.

## TrueCar, Inc.

We have included below some of the financial information published by TrueCar, Inc. from their Form 10-Q.

	THREE MONTHS		NINE MONTHS	
	ENDED		ENDED	
	<u>9/2015</u>	<u>9/2014</u>	<u>9/2015</u>	<u>9/2014</u>
REVENUES	\$72 MIL	\$57 MIL	\$196 MIL	\$151 MIL
LOSS BEFORE INCOME TAXES	\$11 MIL	\$13 MIL	\$ 37 MIL	\$ 38 MIL
Additional Paid-in Capital			\$491 MIL	\$460 MIL
12/2014 Stockholder's Equity			\$243 MIL	\$249 MIL

The stockholder's equity is going down based on its losses. It would have gone more if they had not increased or obtained more paid-in capital. The losses for the nine months ended September 2015 and 2014 indicate they are continuing to lose a lot of money and the trend is not materially changing in any positive way.

## Comparison-Public Auto Companies Versus Private Capital Dealer

We have assembled metrics for the six main public auto companies versus the average private capital dealer as of 12/31/2014.

	PUBLIC COMPANY	PRIVATE CAPITAL
ANNUAL DOLLAR SALES	\$11 BILLION	\$49 MILLION
Pre-tax Profit Margin % Sales	2.8%(1)	2.2%(1)
Working Capital % Sales	1.5%	4.0%
Tangible Net Worth % Sales	1.6%	10%
Post Tax Profit % Market Value	6%	
Blue Sky Multiple Post Tax Earnings (2)	17	

As we all know the factories have minimum working capital and capital guidelines/requirement for non-public dealerships. We do not understand the apparent double standard the factories have when you look at the above metrics for Working Capital % Sales and Tangible Net Worth % Sales.

(1) Many private capital dealers are on the LIFO method of accounting compared to the public companies which typically do not use the LIFO method. This causes the public companies to have approximately 0.2% more profit on sales more than private capital dealers.

(2) This is determined by taking the total market value of the company and reducing it by the tangible net worth to determine Blue Sky (intangible value).

## IRS Form 8300 - \$10,000 Cash Reporting

We have our income tax clients show us at the end of the year the IRS Form 8300s that they have filed to make sure that some have been filed. We also, at times, discuss the definition of CASH. We sometimes find with dealer clients and others that the sales and accounting departments of the dealership are not aware of the definition of CASH with respect to filing this Form (the penalties can be extremely large). The definition of CASH is the “green stuff” plus

cashier’s checks and money orders if the amount of these individual checks is \$10,000 or less and there is no lien that goes with this type of check. If the combination of “green stuff” and these checks total more than \$10,000 then a Form 8300 should be filed. You might ask your office staff what their definition of CASH is to make sure this is being done correctly.

## Finance Department Income

The following survey reflects the overall net new and used finance-insurance-service contract income per retail deal after chargebacks and before compensation. You can see the range from low to high by factory group as follows:

	Chrysler	Ford	GM	Imports	Overall
Low	\$407	\$310	\$286	\$502	\$286
High	\$1,012	\$1,115	\$1,103	\$1,924	\$1,924
Average	\$724	\$769	\$755	\$902	\$763

As illustrated above, the range of income per retail deal is from a low of \$286 to a high of \$1,924, which is a huge range of income amounts. The dealers that are in the bottom half should make a concerted effort to improve their results in this department.

## 2015 Year-End Checklist

We have included our year-end checklist for dealers. Some of the content is just informative while some of it implemented this year will save you some income taxes. Feel free to email or call us with any questions or comments. Please share it with your CFO/Office Manager and have them discuss with you anything new they see in the insert they are not doing on an annual basis.

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