

POWER

S T E E R I N G

*Steering your dealership
to higher profits*

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Consultants to the Automotive Industry

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September 2016 profits for new vehicle dealers were down for 75% of new vehicle dealers compared to August 2016. The number of losing dealers is also slowly increasing. The number of dealers making 3.0% or more on total dollar sales is 25%, but trending slightly downward.

Nationwide new vehicle sales have leveled off and we would expect them to remain “roughly” level for the foreseeable future. With all of this going on and new vehicle day’s supply increasing, we expect overall net profit as a percentage of sales to decline slightly.

September Profit Trends

	SEPTEMBER BETTER THAN AUGUST	SEPTEMBER WORSE THAN AUGUST	SEPTEMBER BEST MONTH	SEPTEMBER 3.0% PROFIT OF SALES	SEPTEMBER LOSS MONTH	SEPTEMBER LOSS Y-T-D
CHRYSLER	15%	85%	0%	30%	5%	0%
FORD	30%	70%	5%	30%	15%	10%
G.M.	25%	75%	0%	20%	10%	0%
IMPORTS	25%	75%	10%	30%	15%	15%
OVERALL	25%	75%	5%	25%	15%	10%

New Inventory Day’s Supply

We have seen our new vehicle dealer’s days’ supply of new vehicles increasing, including dealer’s new vehicle storage lots overflowing. However, the Automotive News (we question the accuracy of their report, but this is based on the information supplied to them) reports new vehicle inventory day’s supply at the end of September 2016 was 64 and 61 at the end of August. As you can see, our enclosed day’s supply of new inventory is reflected as 100 days (median = 99 days). We realize we have a small sample of 200 + new vehicle dealers, but we believe our dealer’s day’s supply is more reflective of the industry than the Automotive News. Also, if the Automotive News calculations removed fleet sales, we

suspect their day’s supply would materially increase. This is not a good sign with such a large day’s supply and it seems to be growing. This is usually an indicator or precursor of a slowdown in the new vehicle industry. If you are a dealer that is carrying well more than a 60 day’s supply, and especially carrying more than a 90 day’s supply, you need to cut back on your new vehicle ordering to be reflective of what you are selling. Be prepared to tell your factory NO when they “make up” reasons to order more new vehicles beyond your real needs.

“If you set your goals ridiculously high and it’s a failure, you will fail above everyone else’s success.” - James Cameron

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Retro and Offshore Service Contract Agreements

We review agreements for dealers between themselves and companies that pay dealers back-end profits through insurance companies and service contract administrators. These arrangements allow the dealer to participate in the back-end profits from the sale of new and used vehicle service contracts. We suggest that all dealers, excluding very small dealers, participate in a retro service contract arrangement, profit sharing, or have their own service contract reinsurance company. We frequently find wording

in the agreement that makes the dealer's current or proposed program not competitive in costs or terms. Most dealers, when they sign up for these two types of programs, are not aware what terms are reasonable. If you are in one of these two types of programs, feel free to send us a copy of your agreement along with the complete fee schedule and average amount remitted per service contract (average cost of service contract). We will promptly get back to you for what we see and comment accordingly.

Government Mandated Overtime Changes

As we all know, the federal government has changed the rules and amounts involving "overtime" premiums to be paid to certain employees. We have a suggestion on how to deal with this financially for those employees that now qualify for "overtime" premium pay and a pay raise. Our goal is to not have a material compensation expense increase. Step 1 is to determine those that are included in the new rules. Step 2 is to determine the current annual average weekly compensation for this group of employees. Step 3 is to determine on average how many hours per week are overtime hours, those hours exceeding 40 hours. Step 4 is to recompute a lower hourly rate so that after this lower hourly rate is determined, the revised compensation, including the overtime premium, will yield the same annual compensation to the employee. You would have to explain to your employee that they are now being paid hourly and will be making the same total compensation as before. It's just being computed this way due to federal government law. The following example illustrates how the changes would apply to a salaried employee earning \$600 per week who would qualify for an additional \$60 in pay under the new rule, as compared to earning the same wages on an hourly basis.

	Weekly	Hourly
Regular earnings for pay period	\$600.00	\$545.50
Total hours per week	50	50
Hourly rate	\$12.00	\$10.91
Overtime premium-new	\$60/week	\$54.50/week

Computation for new hourly Rate

Formula hours = total hours + 50% hours over 40 (50hrs – 40hrs = 10 *50%) = 50 + 5 = 55 hours

R = \$600 (Weekly compensation) / 55 hours = \$10.91 revised hourly rate

The above shows you how to quickly determine the lower hourly rate after allowing for the overtime premium. The employee will now be paid overtime and make the same total compensation while the dealership has the same compensation expense and follows the new overtime compensation rules. If you have any concerns regarding our suggested procedure, you should consult with your attorney.

Terminating Franchises

We have been contacted by both Cadillac and Lincoln dealers about giving up / selling back / drastic changes in arrangements with these factory franchises. Our answer is generally to keep the franchise for many reasons.

As a financial example, assume the following:

Amount offered by manufacturer	\$100,000
Amount kept after income taxes	\$60,000
Interest to be earned on the \$60,000	4% annual interest income \$2,400
Interest earned per month	\$200

If you sell only 1 new vehicle a month, still have the brand sign, sell some used vehicles with parts and service business, and still have these customers visit your dealership to buy other new vehicle lines, is this not worth much more than giving up the franchise and earning only \$200 per month? We think so.

Data Processing - I.T. Data Access

We still see third parties trying to access your data including financial institutions. Our answer to this from financial institutions is NO ACCESS. We recently read an agreement from one of the big two I.T. vendors where they have permission, and their dealer unknowingly gives this I.T. vendor access and permission to sell or share the dealer's I.T. data with other third parties. We were surprised and upset when we read this. Even if this and other I.T. vendors remove your name and the customer name, there is nothing good for the dealer that we know of by allowing this. We suggest you

obtain in writing from your I.T. vendor that they do not ever supply any of your data to anyone, no matter what the use is. Have your office staff obtain from your I.T. vendor what outsiders have access to your I.T. data and let you know. This data is valuable, belongs to you, and is being used against you in many cases and can cost you customers. We still do not understand why many, if not most, new vehicle dealers continue to allow outsiders access to use the dealer's I.T. data to possibly "steal" dealers' customers.

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