POWER STEERING

Steering your dealership to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

Written by Carl Woodward & Scott Woodward **November 2020**

September 2020 profits for most dealers remain excellent as they have been since May 2020. Who would have ever thought back that in March/April 2020 with the world Virus issue that pre-tax profits and pre-tax net profit % of sales would be the best they have ever been for new vehicle dealers. We know of no one that saw this coming. As you can see in the enclosed profit survey and the below September results of over 200 new vehicle dealers, pre-tax profits are down overall in September 2020 compared to August 2020. However, the enclosed profit survey for September 2020 pre-tax profits are excellent. The average dealer reflects net profit as a percentage of sales in September 2020 to be 4.1% and the median dealer's net profit as a percentage of sales was 4.0%. As you might remember, the average dealer's pre-tax profit margin ranged since 2009 from a low of 2.2% to a high of 2.8% as reported by NADA. Now, for the last five months, it is 4.0% or more based on the dealer statements we receive.

Monthly Profit Trends

	SEPTEMBER BETTER THAN AUGUST	SEPTEMBER WORSE THAN AUGUST	SEPTEMBER BEST MONTH	SEPTEMBER LOSS MONTH	SEPTEMBER LOSS Y-T-D
CHRYSLER	30%	70%	10%	0%	5%
FORD	35%	65%	25%	0%	5%
G.M.	40%	60%	10%	0%	15%
IMPORTS	45%	55%	15%	10%	15%
OVERALL	40%	60%	15%	5%	10%

National new vehicle sales through September 2020 as reported by *Automotive News* are 10,500,000 while for the same period in 2019 were 12,800,000. This is an 18% reduction. From a market share perspective, the franchises that are down the most year-to-date compared to the market are: Toyota 19.1%, Honda 19.1%, Nissan 37.6%, Dodge 38.5%, BMW 24.1%, Audi 21.7%, Buick 24.9%, Cadillac 25.2%, Mitsubishi 24.0%, Infiniti 32.9% not including smaller volume franchises.

Income Taxes and Year-End Accounting

We have enclosed our year-end checklist for various good accounting and income tax policies for you and your dealership. Please share with your office staff. If anyone has any questions feel free to call or email us.

"Don't let the fear of losing be greater than the excitement of winning."

-- Robert Kiyosaki

Inside

New Vehicle Dealer Market

All dealers are assigned a market sales area for new vehicles also known as an Area of Responsibility (AOR). Many dealers do not meet their factories assigned new vehicle unit sales volume and make little or no effort to obtain 100% (average). This can "haunt" the dealer in the future which we have seen in the last year. Some thoughts that cause this possible problem or that can assist in minimizing this issue include:

Request your AOR to be reduced and/or assigned to another dealer or have it unassigned.

If you are close to a state-line border, often you will be below average as to many customers do not shop in your state that live in the adjacent state.

If you are close to a major river or body of water, you can be penalized with the assigned market area usually not intentional, but rather lack of awareness.

If you are on the outskirts of a much larger town or major metropolitan market, we find these dealers have below factory guideline new unit sales. Why? Customers in this dealers market are more likely to shop at larger dealers and customers that live in these larger markets are not as likely to drive to a much small town to shop.

Make sure you are aware of your factory required new vehicle sales effectiveness and work on making it at least the average of 100%.

Sales Effectiveness and Salespeople

We went back to the year of 2019 to review and analyze the number of new and used retail units sold by dealers while measuring the number of salespeople each dealer had. We found that the average dealer's salesperson sold 11 retail units per month and the median was also 11. We found at the low end a dealer with 6 retail units sales on average per month and at the high end a dealer with 16 retail units sold. There are several observations and conclusions that can be made. Generally, if you are at the low end, and the metric is correct, your sales management team needs to be aware of this. Also, we would have you analyze the number of prospects each salesperson averages per month compared to the number of unit sales to determine the closing ratio, say 20-25%. If you find a low closing ratio, you need to pressure your management team to become more engaged to improve this ratio or replace the management team members. If you have more than 11 unit sales per salesperson, we would have you measure what your new vehicle sales effectiveness is with your factory. In other words, how much is it, 85% (poor), 100% (expected by factory), or 110% (good from a factory perspective). We find it common for those dealers that average monthly retail units per sales person exceeding 10-11, that their new vehicle sales effectiveness is often less than 100% and they should increase the number of salespeople.

We also find with low profit producing dealers that they do not have enough salespeople to sell enough vehicles to make a reasonable profit. We are usually told they are unable to hire enough salespeople. We have heard this reason for 40 years. We usually respond that many dealers also have this issue, but stop everything and focus on having a reasonable number of salespeople that sell 11 units per month so their dealership can be reasonably profitable.

Gifting

We encourage all dealers to gift funds, stock in the dealership, or other assets they can control to family members. It is possible the Biden administration will reduce the gifting limits and the federal lifetime exemption. It is expected that the lifetime gift tax exemption could be substantially reduced under the Biden administration. The federal lifetime exemption currently is 11.58 million per individual (23.16 million for married). States typically have their own exemptions and they vary depending on the state. Additionally, the new administration has hinted at eliminating stock step-up at death and increasing capital gains rates. For these reasons, it is advisable if you have a material net worth (greater than $5,000,000) and have the financial ability to gift, now might be the best time to do so. Consult your tax and legal advisors to figure out the best way to handle these gifts before it is too late.

Pay Plans

We still occasionally see lawsuits between former employees and dealers. We highly recommend dealers review the written pay plans between employees and the dealership. Generally, we see certain terms in the pay plans are overly vague and could be open for interpretation. For example, if a salesperson is paid on the "gross" of the vehicle; what defines gross? Does this include packs? Does this include F & I income? Management Fees? If any employee received a draw that is supposed to be netted against the gross, does the pay plan accurately state that? Also, you might have someone that does not compute the compensation for the employee to make sure that the pay plan is followed and not ambiguous. Sometimes we find or hear about "errors" in the payroll compensation that in some cases are errors, but usually a misunderstanding. Misunderstandings should be cleared up when they show up.

I.T. - Information Technology Data

We plan on writing monthly articles and thought starters about dealers sharing their confidential high value I.T. data. As we write, we still do not understand why dealers allow third party access to their I.T. data and allow it to be used against the dealer by these third-party vendors.

We have one of our personal vehicles serviced by a local dealer. Every time we take it in for service, we get an email from CARFAX about the vehicle. The email does reflect the local dealers name, but briefly looking at this email the company name you will focus on is CARFAX, not the dealer's name. The email has a brief service summary including open recalls, oil change needed, etc. There is a box to be checked about selling your vehicle. Also, we just went to the CARFAX website as if we were a buyer for a used vehicle. We gave the year, make, model etc. of the vehicle we might want. We were supplied with over 100 vehicles by CARFAX. The first listing was one vehicle from our local dealer. The next 9 vehicles were from out of town same make dealers. This association with CARFAX in our opinion is not good for our local dealer. Do you allow this to occur at your dealership? Are we missing something by writing about this?