

# Steering your dealership to higher profits

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October 2022 profit results, over 250 new vehicle dealer results, net percentage of sales was 3.6%, in September it was 3.9%, August was 4.7%, and in July 2022 profit results net 4.3% of sales remain very good. In June it was 4.6%, and in May 2022 it was 5.0%. It appears there continues to be a slow downward monthly profit and profit margin trend based on our over 250 new vehicle dealers we serve. Dealers tell us as of the date this was written in late November that sales are down in the month of November. Only time will tell. As a reminder, historical net percentage of sales was in the range of approximately 2.4% from 2010–2019, while in 2020 it approximated 3.6% and in 2021 it was approximately 5.0%. The enclosed survey based on a limited number of dealer financial statements for October 2022 reflected the pre-tax net profit percentage of sales for October was 5.1% (average) while the median was 4.8%.

## Monthly Financial Results – September 2022

	September Better Than August	September Worse Than August	September Best Month	Net Profit % Sales September	New Units	Used Units
<b>CHRYSLER</b>	20%	80%	0%	3.5%	35	48
<b>FORD</b>	15%	85%	0%	3.7%	27	47
<b>G.M.</b>	35%	65%	0%	3.2%	32	47
<b>IMPORTS</b>	30%	70%	10%	5.0%	55	52
<b>OVERALL</b>	25%	75%	5%	3.9%	40	49

## Monthly Financial Results – October 2022

	October Better Than September	October Worse Than September	October Best Month	Net Profit % Sales October	New Units	Used Units
<b>CHRYSLER</b>	30%	70%	0%	2.7%	48	42
<b>FORD</b>	45%	55%	0%	3.1%	21	37
<b>G.M.</b>	35%	65%	0%	2.6%	37	48
<b>IMPORTS</b>	45%	55%	5%	4.7%	56	51
<b>OVERALL</b>	40%	60%	0%	3.6%	43	46

	Net < 3.0%	Net 3.0 – 3.99%	Net 4.0 – 4.99%	Net + 5.0%
<b>CHRYSLER</b>	43%	21%	18%	18%
<b>FORD</b>	46%	15%	15%	24%
<b>G.M.</b>	59%	21%	10%	10%
<b>IMPORTS</b>	26%	5%	13%	56%
<b>OVERALL</b>	40%	13%	14%	33%

**“If you don’t risk anything,  
you risk even more.”**

**– Erica Jong**

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This survey also reflects an overall range for the month of October net profit percent of sales for: Chrysler 2.7%; Ford 3.1%; GM 2.6%; Imports 4.7%; Overall 3.6%. Plus, it reflects an overall range for the Year-To-Date net profit percent of sales for: Chrysler 4.3%; Ford 4.1%; GM 4.1%; Imports 6.1%; Overall 4.9%. With the month overall results down from the year-to-date results, this indicates the profit trend is downward for the year. It also appears front-end gross profit margins are trending downward, New of \$3,581 and Used retail of \$2,494, which is probably the main indicator the net profit percent of sales metric is trending downward.

## **Upcoming FTC Requirement**

This is a final reminder for dealers that there are some upcoming FTC requirements that could have a substantial impact on your dealership. Generally, these rules require dealers to have better security of their customer data. These rules are not quick to implement, and depending on the sophistication of your I.T. security, this could be a very costly and timely venture. We recommend reviewing the NADA guidelines and meeting with key employees and internal or external I.T. professional to make sure your dealership is complying with these new rules before the implementation date.

## **Dealers Data**

We have written several times in the past about dealers' confidential data and the dealer sharing this data without proper controls. We suggested you have your I.T. department or main I.T. vendor give you a listing of any and all third-parties that have access to your data. This is very important, as only a few dealers ever do this. So, we recommend you do it. In most cases you will be disappointed. Some vendors that receive and/or have access to your data use it "against" you by sharing your data with others or contact your I.T. customers to sell them their product directly or indirectly in competition with the dealership. Why do you allow this?

Two things you might do include obtaining an authorization with these vendors about how they use your data. Remove authorization with any vendor that is in competition with your dealership directly or indirectly. Feel free to contact us on this article.

## **Warranty Gross Profit (Margin)**

It appears that the dealership monthly profits have started to reduce and are trending to the pre-covid "normal." Dealers are now going to have to start working a bit harder and smarter to try to retain some of this profit through expense control and looking for low hanging items to boost their income. One of these items could be warranty gross profit (percentage gross profit). Every dealer should take one minute and look at their warranty gross profit percentage, and if it is below 40% and the factory approved amount in their state, they should investigate why. Also, there are numerous third-party providers that can assist with raising the warranty gross profit.

## **Net Profit Percentage Of Sales**

As you can see in the enclosed survey for October, average and median dealers made 5.1% to 4.8%, we took a random sample of our over 250 new vehicle dealers from many states. As you can see the year-to-date net profit percentage of sales ranges from a high of over 10% (super performance) to a low less than 2%. For those dealers that are in the bottom half of pre-tax net profit margin, you should analyze why. When the car business gets back to "normal" in the next year or two, unless changes are made, these dealers are more likely to have minimal profits or losses.

## **Employee Retention Tax Credit (ERTC)**

Our office is still getting inquiries on the IRS Employee Retention Tax Credit (ERTC). There have been many startup companies, new companies selling their services to compute the ERTC, that have been created simply to try to take a commission (sometimes as high as 25% of the ERTC credit) on helping generate these large credits. We have found that at times their stances are overly aggressive and likely will not be defensible upon audit. The IRS has recently sent a bulletin out warning small businesses of the abuse by these third-party companies. Consult your legal or tax professionals before signing up with these companies. This tax credit is relatively simple to claim and if your business is actually eligible, you might as well not pay a third-party a large commission to assist in claiming this tax credit.

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