# POWER STEERING

*Steering your dealership to higher profits*

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Consultants to the Automotive Industry


**Written by Carl Woodward** **October 2015**

August 2015 results reflected that it was a better profit month for dealers than July 2015. As you can see below, Chrysler dealers were down slightly comparing August with July while the other dealer groups - Ford, GM, and Imports - were improved in August over July.

## August Profit Trends

| | AUGUST BETTER THAN JULY | AUGUST WORSE THAN JULY | AUGUST BEST MONTH | AUGUST 3.0% + NET TO SALES | AUGUST LOSS MONTH | AUGUST LOSS Y-T-D |
|---|---|---|---|---|---|---|
| CHRYSLER | 45% | 55% | 5% | 20% | 0% | 0% |
| FORD | 65% | 35% | 25% | 50% | 0% | 0% |
| G.M. | 50% | 50% | 20% | 30% | 0% | 0% |
| IMPORTS | 55% | 45% | 20% | 55% | MIN | 0% |
| OVERALL | 55% | 45% | 20% | 40% | MIN | 0% |

According to Automotive News, nationwide new vehicle sales in August 2015 sold 1,577,000 units versus August 2014 of 1,586,000. For September 2015, new units sold were 1,442,000 versus 1,245,000 in September 2014. Year to year trends continue to improve.

## Finance Department Income

The enclosed survey reflects two metrics: new and used F & I and SC income as one metric. This was determined by taking new and used finance, new insurance, and new service contract income after chargebacks divided by either new or used retail units. The overall average for new was approximately $1,000 and overall average for used was approximately $800. These two metrics have gradually increased over the last few years. If you are materially less than either of these two metrics, you need to measure the performance of this department in more detail and take action to improve.

**"There are no secrets to success: don't waste time looking for them. Success is the result of perfection, hard work, learning from failure, loyalty to those for whom you work, and persistence."**

**- Colin Powell**

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## Sales Managers-General Sales Managers-General Managers Performance

We guide dealers at times in evaluation and in hiring sales managers (SM), general sales managers (GSM) and general managers (GM). We have a series of questions that relate to the sales department that a qualified sales department manager should be able to answer within a reasonable range. Some of the questions include:

- New units expected to be sold per month to be factory effective
- Front-end gross profit margin on new retail units
- Reasonable used retail units sold per month
- Front-end gross profit margin on used units
- Back-end gross profit (F & I & SC income) after chargebacks per retail new and used units
- New and used service contract penetration percentage
- Staffing level of sales persons based on expected monthly retail new and used units sold
- New and used inventory levels in units high and low
- Closing ratio for sales persons on prospects (ups)
- What to do with low closing ratio, bottom two sales persons
- What follow-up is done on prospects (ups) that do not sign a buyer's order

We find at times that even effective managers do not know the above metrics, but everyone should know what is average and what is reasonable so they can meet or exceed these guideline metrics. You might ask each of your F & I persons, sales managers, general sales managers, and general managers these questions and see how they do. Have them write it down and give them no more than 5 minutes to answer. You might find some will have increased performance if they know what is reasonable and what is above average.

## Service Department Metrics

Some service departments generate a reasonable amount of sales and gross profit, as well as generating their share of total dealership gross profit. For some dealerships, too much of their service gross profit is given away in their controllable service department expenses. When this occurs, these dealerships have a below average service department net profit.

The metrics for direct service controllable expenses include compensation for direct service employees and other direct service expenses. The employees include the service director, service manager, writers, dispatcher, lot persons, direct clerical and the warranty clerk.

One guideline is to have the ratio of technicians to service administrators be around 2 to 1. We have seen this ratio approach 1 to 1 in some stores which leads to a service department that is barely profitable. A second guideline is the ratio of technicians to service writers of 4-5 to 1. We have seen this ratio be as low as 2-1 which leads to service writers having too much idle time and/or being disorganized.

Dealerships with above average net profit as a percentage of sales have certain metrics. We find a wide range of service administrator compensation expense (not including benefits or payroll taxes) as a percentage of service department gross profit. The more successful dealerships consumed 25% to 32% for this expense. We also have found that some will consume 40% to more than 50% for this one category. In this situation, there are too many employees doing too little, employees overpaid for their performance, or some combination thereof.

The other direct service expenses added to compensation expenses can bring the total expenses from 55% to over 70% of the total service department gross profit. This means the service department is keeping 45% or less of its service gross profit. The better performing dealers will retain as net service gross profit (total service gross profit less the above defined direct service expenses) from 45% to 60%.

Other cost considerations include advertising charged to service should only be direct service and parts advertising. Training should be only for service employees and tools and supplies should only be for items used in service and not to get new and used vehicles ready to sell. Service loaners can be difficult to determine where to charge since many dealerships use of service loaners is due to the sales department offering "free" loaners. Vacation and holiday pay should only be for compensation to service department technicians.

If you have not measured your service department's retention of service gross profit, you might have your office staff measure how well you are performing. If you are in the bottom half, a more in-depth analysis should be performed.

## Buy-Sell Agreements

Most dealers will ultimately sell their dealership. In some cases, the selling dealer does care who the buyer is for their dealership. However, the selling dealer realizes in some states that the factory has a first right of refusal in buying the selling dealer's dealership. Some dealers don't want this to happen and will make an effort to keep the factory from exercising the first right of refusal. If you are a buyer, you don't want to expend a lot of effort in negotiating a buy-sell agreement and then lose it to the selling dealer's factory. There are some things that can be done to slow down and possibly stop this process. If this ever applies to you, then find an automotive attorney or feel free to call us for a couple of options. Also, in some sales, the selling dealer has more than one franchise from separate factories. In this case, we suggest you do not itemize the Blue Sky between franchises and keep one amount for all real estate. If one or both factories want you to itemize the Blue Sky or real estate amounts, we would respectfully tell them no. This is to keep one factory from exercising a first right of refusal for its franchise. We understand a factory could not buy all the franchises legally and then resell them so they can control the buyer of their franchise. It gets complicated at times; this is why you need qualified advisors who know the industry and think "outside the box."

## Gross Advertising Expense

We went through over 75 new vehicle dealership financial statements and measured the new and used gross advertising expense. Gross advertising expense is advertising before factory advertising credits where they were identified. We also determined the total new and used gross profit including F & I and SC income less chargebacks plus other income from the vehicle departments. We found the range of advertising between franchise groups: Chrysler, Ford, GM, and Imports to be from a low of 10% for GM to a high of 14% for Ford. With this limited sample and the narrow range for the four franchise groups, it seems the average is approximately 12%. This means that gross advertising expense is 12% of total new and used gross profit including F & I & SC income plus other income. On a dollar basis, the total vehicle gross and other income per retail unit was $2,724, with the vehicle gross advertising expense being $328 per retail new and unit sold. With these metrics, we believe you can measure how your dealership performs.

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**Woodward & Associates**
P.O. Box 1584
Bloomington, IL 61702
carlswoodward@cpaauto.com

**For More Information:**
Call (309) 662-8797
or Fax (309) 662-9438