POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **September 2016**

July new vehicle dealership profit trends showed July 2016 was down 55% in profit compared to June 2016. Last year, July was better than June 2015, 55% to 45%. Nationwide new vehicle sales appeared to have leveled out on a monthly basis after increasing since 2009. New vehicle dealer pre-tax net profit percentage of sales have remained very consistent in a narrow range of 2.2% - 2.3% since 2010.

July Profit Trends

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	JULY BEST MONTH	JULY 3.0% PROFIT OF SALES	JULY LOSS MONTH	JULY LOSS Y-T-D
CHRYSLER	45%	55%	20%	30%	10%	5%
FORD	40%	60%	5%	30%	5%	5%
G.M.	50%	50%	25%	35%	10%	15%
IMPORTS	40%	60%	10%	45%	10%	10%
OVERALL	45%	55%	15%	35%	10%	10%

Used Vehicle Inventory

The enclosed survey reflects the day's supply of used vehicle inventory. We took the average month's cost of sales of used vehicles sold, retail and wholesale, and divided that amount into the current used vehicle inventory in dollars. The overall average day's supply of used vehicle inventory is 46 days. The median dealer had a 52 day's supply of used vehicle inventory as computed above. The three dealers with over a 100 day's supply did not reflect a higher used-to-new ratio which would normally mean these three dealers are not selling more used because they are carrying a larger day's supply. The average front-end gross profit margin reflects $1,697 per retail unit in July.

"There are two types of people who will tell you that you cannot make a difference in this world: those who are afraid to try and those who are afraid you will succeed."
- Ray Goforth

Inside

Tesla Motors, Inc.

Below are some financial information metrics for this electric car company.

Total revenues for the six months ended June 2016 versus June 2015 have increased approximately 25%.

Total gross profits for the six months ended June 2016 versus June 2015 have increased only 11% which indicates they are selling more vehicles at a lesser gross profit margin per vehicle sold.

The net loss after taxes, a credit, has materially increased 70% from a loss for the six months ended June 30, 2015 of $338,408,000 to a loss for the six months ended June 30, 2016 of $575,455,000.

Stockholder's equity increased almost $1.4 billion, due to raising additional capital. However, the company has lost over $2.8 billion since inception and the losses seem to be increasing.

Miscellaneous Thoughts-Observations-Comments

Every dealership should have at least one scanner for email purposes and a color printer.

Most, if not all employees, should have a dealership email address, including the dealer.

Dealerships should have a standard in how long it takes for all employees to respond to emails and phone calls.

A Federal Trade Commission (FTC) BUYER'S GUIDE should be in each "used vehicle." As we understand it, a vehicle (including new) that has been used for any purpose other than moving or a test drive is considered a "used vehicle." The penalties are very high for violations. We suggest you have someone review the regulations for the BUYER'S GUIDE.

Dealers should personally look at the bank statement each to make sure that any and all checks and debits are appropriate.

Are you still allowing third party vendors access to your confidential I.T. data when they are using it against you to sell vehicles to your customers through web sellers such as Carfax, Cars.com, Kelly Blue Book, Truecar.com, Edmunds, etc.?

Miscellaneous

We went through the June dealership financial statements that we had in early July before we had received all of the monthly statements. Below is a summary from a negative position at that early July point of time.

Number of June financial statements:	128
Number of dealers in a loss position y-t-d	12% average losing 4 months of first 6 months.
Number of dealers making 0% to 1.0% of y-t-d sales	16% average losing 2 months of first 6 months.
Number of dealers making 1.0% - 2.0% of y-t-d sales	27% average losing 1 month of first 6 months.
Number of dealers making more than 2.0% of y-t-d sales	45% average losing 0 months of first 6 months.

Demonstrator Agreement

Most dealers supply vehicles to employees of the dealership for their personal use along with owners and non-employees. The Internal Revenue Service (IRS) expects new vehicle dealers to have a vehicle use (demonstrator) agreement to see the dealership is at least trying to comply with the IRS rules and regulations. We would suggest you use the enclosed demonstrator agreement and make changes where appropriate for your dealership. If you do plan to make any changes, feel free to call us to discuss.

Buy-Sells Blue Sky

We currently are involved with several buy-sells of new vehicle dealerships. In all cases, the selling price for the real estate, though possibly reasonable based on an appraisal, is excessive. By excessive, we mean the selling price of the real estate multiplied by an annual rent factor of say 8%, will yield a high or above average rent factor based on the annual dollar sales of the dealership. The National Automobile Dealers Association (NADA) reports its average dealer has a rent factor of approximately 1.0% of sales. Since rent factor on leased facilities includes property tax and maintenance, the rent-only factor might be 0.8% of annual sales. In three recent buys we have been involved in, the future computed rent on the purchased facility is above the national average. When computing Blue Sky, and allowing for this excess rent, the computed Blue Sky will be less due to this excess rent. Make sure you allow for this in your expected pre-tax profits calculation since expected profits help to determine Blue Sky. As a buyer and as a seller, you need to be aware of this when you make your offer and price the assets.

TrueCar, Inc.

Below are some financial information metrics for this brokerage web company.

Total revenues for the six months ended June 2016 versus June 2015 have only increased approximately 5%.

The net loss after taxes, a credit, have remained approximately the same reflected for the six months ended June 30, 2015 and June 30, 2016 of $26,000,000 (loss).

Stockholder's equity decreased $13,000,000 and cumulative losses are over $300,000,000.

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

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