



# Steering your dealership to higher profits

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July 2017 was a down profit month for most dealers as compared to June 2017. As you can see below, 65% of new vehicle dealers had reduced profits in July 2017 compared to June 2017, while 20% made 3.0% + net profit as a percentage of sales. The number of dealers in a year-to-date loss position remains approximately 10%. These dealers need to make changes to become at least minimally profitable, or when costs go up and/or sales fall off they will lose much more, possibly go out of business, or be forced to sell.

### July Profit Trends

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	JULY BEST MONTH	JULY 3.0% + PROFIT MARGIN	JULY LOSS MONTH	JULY Y-T-D LOSS
CHRYSLER	25%	75%	5%	10%	15%	10%
FORD	30%	70%	5%	30%	5%	5%
G.M.	40%	60%	0%	10%	25%	15%
IMPORTS	35%	65%	10%	30%	15%	15%
OVERALL	35%	65%	5%	20%	15%	10%

### Internal Revenue Service

There was a recent court case in which a jewelry store owner, not a car dealer, had a reinsurance company that covered “exotic” coverages. The reinsurance company had no claims for several years filed against it until the owner received a notice of audit from the IRS. The owner then filed a claim with the reinsurance company. We have seen “promoters” try to sell dealers on “schemes” like this “exotic” coverage. The goal of the dealer and promoter is to defer and reduce income taxes of the taxpayer. If you have a reinsurance company that has little or no claims, you may want to review the overall program with someone knowledgeable to help keep you out of trouble.

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**“Your positive action combined with positive thinking results in success.”**  
**Shiv Khera**

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## Factory Relations

Some of the factories continue to change their incentive programs, some many years old, to “force” or “extort” dealers to change their performance or means of changing their actions.

Said another way, factory “A” might say if you want your “holdback,” that has been paid in the past with no conditions or strings attached to be received, you now need to perform certain functions.

GM is “silly” in requiring the factory preferred shade of gray floor tile or lose incentives. We have been shown the difference in shades of gray. Also GM has sent out a letter recently reminding its dealers that they must have their GM customers sign a document acknowledging the dealer sold them a non-GM service contract or have put non-GM parts on the customers’ vehicles. Our reading of this means 100% GM “parts.” What about oil, supplies, and other miscellaneous items performed on the GM vehicle? The GM “threat” is the dealer could lose/cost:

Charged backed \$500 per VIN; dealer ineligible for incentive programs; termination of the dealer sales and service agreement. Why would they do this? They claim safety related and other issues. All that we have talked to about this issue feel GM’s main motive is to increase their profits.

BMW is “silly” in requiring dealers to hire employees called “geniuses,” who cannot sell vehicles. Also, they want access to the dealer’s customer data base. Does anyone trust their factory with complete access to the dealer’s customer data base file? See the I.T. article below.

Hyundai now requires, as of January 2018, that an “exclusive financial statement defined as having 100% of all reported gross profits, expenses, balance sheet, and management operating information derived from Hyundai operations only.” If the dealer does not meet these “poorly

defined” standards the dealer will lose their monthly “Earnback” program incentives. Some comments include: this is a “backdoor” way to force long time dual Hyundai dealers to de-dual. Hyundai’s wording is poorly done as they ignored dollar sales and other income and deductions. Hyundai’s monthly financial statement has lines on it including: warranty claims/p.d.i.- other manufacturers; new-vehicles - other; parts & accessories - other; several new vehicle - other lines on the new vehicle sales page, etc. The dealer will have to design, if not impossible and above the pay grade of many dealer’s office staff, the computer chart of accounts including the balance sheet and income statement. It is likely these dealers will have to open up another accounting area, at a cost, to keep a set of books for Hyundai and a set of books for other included franchises.

Hyundai’s reason is to accurately analyze the Hyundai dealer’s performance. We ask this question of all dealers: “how many factory employees can actually analyze a dealer’s financial statement and how often have you had a qualified factory employee come to your dealership and go over your monthly financial statement?” The answer to this is “rare” to “seldom” to “never.”

We do not have enough time to research and write about all the other “silly” programs factories have where if you do not perform some special requested task, that the factory will take away certain incentives you have received in the past. Maserati lost a case in New York where they attempted to take back certain long time incentives. It would be a shame if dealers have to hire attorneys and use their trade associations to limit the factory forcing upon dealers all these very minor requirements to receive incentives.

Why can’t all factories quit “manipulating” dealers with all these varying and changing policies, procedures, rules, and “standards” and just produce good products at competitive prices?

## Dealership Confidential Information Technology (I.T.) Data

We have written many times in the past of our concern about dealers knowingly or unknowingly sharing their confidential I.T. data with third parties that use the data “against” the dealer. We recognize many, if not most dealers, do not have control on this concern of ours. We recently received the email below from one of our dealers.

“You might find this interesting. I have cleaned the data feed from my DMS to third-party vendors twice and eliminated those not entitled to our data. I never guessed until today that our data was also being sent to third parties from our factory required website provider (in Chevrolet’s case CDK/formerly Cobalt). A copy of that feed list is attached and over half of those third-party vendors have no right to our data, which I will stop. The plot is even thicker in that CDK is receiving payment from the (e)direct marketing company “InMarket Solutions” for matching up XXXXXXXX sales data with the marketing efforts on InMarket Solutions contact lists. A LITTLE ODD to me that a required GM vendor for this company is providing data services to a third party marketer even with this dealerships blessing; which I assumed I provided.”

The above is the reason you need to find out which third party vendors have access to your data, to whom your I.T. vendor is sending/sharing your data, and what data your manufacturer is sharing with third parties.

## **Finance Department Income**

We have shown in the enclosed survey finance-insurance-service contract income after chargebacks per retail vehicle sold. As you can see, the overall average is \$973. By manufacturer the numbers are: Chrysler \$899; Ford \$1,031; GM \$848; and imports \$1,103. This metric has been gradually going up the last few years. We suspect due to our small sample of new vehicle dealers (200) that the overall income per dealer and dealer franchise is similar. If you find you are well below average, you need to increase the pressure on your F & I department and your outside supplier/vendor for products of this department. There is no valid reason to be 70% or less of the average except in extremely rare cases.

## **Dealership Buy-Sells**

All dealerships will be sold at some time in the future. Knowledgeable buyers are concerned doing the due diligence work which includes time and costs to lose the deal to higher buyers, or to a right of first refusal factory selected buyer. As you know, a right of first refusal is either allowed for in the franchise agreement or allowed by state law with some limitations. Some states, as we understand it, allow a dealer to transfer the dealership to select individuals or family members where the first right of refusal cannot be used. Sometimes in buy-sells the seller does want the buyer to get the store and not have the manufacturer exercise a first right of refusal. There are ways to slow down the factory and their favored buyer in exercising a first right of refusal. Please feel free to call us at no charge, to discuss if you need some guidance on this issue.

## **New Front-End Gross Profit Margins**

As you can see in the enclosed survey there are several new vehicle dealers that reflect very little or negative front-end gross profit margins. These are Nissan dealers. Nissan, with its various programs, has caused this negative front-end gross profit margins for some of its dealers.

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