Steering your dealership to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

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Profits in July 2018 were approximately the same as June 2018. As you can see below, 25% of all new vehicle dealers made 3.0% + pre-tax profits of sales for the month of July. The percentage of dealers losing money continued for the month and year-to-date at approximately 15%. Nationwide, new vehicle sales in August 2018 were slightly less than 2016 and 2017.

July Profit Trends

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	JULY BEST MONTH	JULY PROFIT 3% SALES MONTH	JULY LOSS MONTH	JULY Y-T-D LOSS
CHRYSLER	45%	55%	15%	40%	5%	10%
FORD	50%	50%	5%	25%	15%	15%
G.M.	35%	65%	5%	15%	20%	15%
IMPORTS	60%	40%	10%	25%	15%	15%
OVERALL	50%	50%	10%	25%	15%	15%

New vs. Used Retail Sales

As you can see in the enclosed monthly profit survey, we have shown year-to-date new unit retail sales versus used unit retail sales. The higher the ratio, 1.0 or above, indicates more new units are sold than used. The lower the ratio, less than 1.0 or below, indicates more used units are sold than new units. Usually we would expect this ratio to be higher than 1.0 for Imports while less than 1.0 for Domestics. Chrysler dealers reflect a ratio of 1.01, but there is a very large Chrysler dealer with a ratio of 3.42 that distorts the overall Chrysler metric. The overall metric for this group of dealers reflect their will be 80 new units retailed versus 100 used units retailed.

As an aside, this group of dealers has an average pre-tax net profit, as a percentage of sales, of 2.0% while the NADA metric reflects 2.3%. It appears that the new vehicle dealers overall profit margin is shrinking for 2018.

"In the Business World, the Rearview Mirror is Always Clearer Than the Windshield.
Warren Buffett

Inside

Used Vehicles

It is common in the industry to hear dealers and used vehicle "experts" state dealers should have no used vehicles in stock for over 60 days. The last time we computed this metric, our group of dealers had a 67 days' supply of used vehicles. The reasons given are usually to keep the front-end grosses higher and to sell more used vehicles retail. This will also yield higher pre-tax net profit margins for dealers. The average dealer pre-tax net profit margin, as reported by the NADA, was post-LIFO 2.3% in 2017 and through July 2018 was pre-LIFO of 2.3%. We thought we would test this premise using all of our dealers. For this analysis, we reviewed all of our dealers used vehicle data. The low was approximately 30 days and the highest dealer had a 184 days' supply. We eliminated the dealers whose supply was less than 60 days. The average of the dealerships with over a 60 day supply was 81 days. We found the used front end gross profit margin for this group with a high days supply average to be $1,883. This is close to or slightly more than all of the dealers we serve. We would have thought this high average of $1,883 would have been less than dealers with less than a 60 days' supply. What would you have thought? We also found that the ratio of new to used retail was smaller, more used retail sales, than compared to the average dealer. We would have thought this not to be the case for most dealers. Does this mean you should carry less than a 60 days' supply? Not at all. It just indicates from our small sample of 200 + dealers that having too many "stale" used units in stock may not result in lower gross and less units.

Factory Performance Standards

As we know all factories measure the performance of their dealers. Each factory might have its own special reports to measure its dealer's performance. Sometimes, we find the factories change their calculation(s) without the dealer or dealers' advisors aware of this change in measuring a dealer's performance. In the past, General Motors (GM) had a report that many called the DART report to measure a dealer's performance. Performance was measured by the following four metrics:

1. New vehicle sales effectiveness
2. CSI-SSI performance
3. Working capital standard
4. Profit margin on sales

Overall score based on the four above metrics would be a total of 100 if a dealer was average in each criteria.

In the past GM assigned a weighting to these four categories as you see below:

New Vehicle sales effectiveness	50
CSI-SSI performance	30
Working capital standard	10
Profit margin on sales	10
	100

GM also gave a higher score on each of these four categories if the dealer was above the standard for a particular criteria. For instance, a dealer whose sales are twice what is expected would receive a 100 score rather than 50. Overall score based on the four above metrics varied from close to zero to several hundred.

Why do we write about this? It appears GM has changed and reduced the maximum score for the third and fourth categories. This puts less emphasis on the working capital and net profit metrics and more weight and/or emphasis on new vehicle sales effectiveness which distorts the comparability of a dealer's results with its prior years' results and comparisons to other dealers. Why do this? Dealers, and advisors to dealers, need to be aware of this on all measurements their factory performs on a dealer's results. In other words, they change the "scoring" system without many knowing or being aware of any changes.

Fraud

Dealers continue to have "crooks" trying to trick them into fraudulent transactions. A recent example had the "crooks" trying to have funds wired electronically from a dealers account to themselves. This can and does happen. You might make sure it takes two dealership employees to wire any funds and maybe one of them has to also call the bank for this approval. The person called at the bank might need to be a bank employee that knows the dealership employee that is calling for this approval after sending this bank person authorizations from two dealership employees by email. Keep in mind, the "crooks" at times can send emails that appear to be sent from dealership employees.

Estate Planning Issues

With the estate tax exemption tax bracket, being $11,180,000 for individuals and $22,360,000 for married before any federal estate taxes will be due, many dealers should consider “gifting” now material amounts of their estate with some financial “strings” attached. Why do we say this? When there is another major change in political parties in Washington we would expect these two large tax brackets to be materially reduced, which will create estate taxes for many dealers. Also, you can gift up to $15,000 each to a child, grandchild, or any other person in 2018 without having to pay any gift or estate tax. Why not?

Media

Many times the media writes articles that are factually incorrect or misleading. Often, the article does not have an accurate perspective which misleads the reader, intentionally or unintentionally. We read an article that stated auto sales lost speed in July. Does this mean just autos or autos including trucks? Sometimes autos means autos and light duty trucks. Additionally, cars that were called “station wagons” in the past might be called “crossovers” today.

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