

# POWER

## S T E E R I N G

*Steering your dealership  
to higher profits*

A publication of Woodward & Associates  
Consultants to the Automotive Industry

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July 2015 was a good profit month for most new vehicle dealers. As you can see below, 55% of new vehicle dealers made more pre-tax profit in July 2015 as compared to June 2015. The number of dealers that had their best profit month of the year was 20% and 35% of dealers made 3.0% or better pre-tax net profit as a percentage of sales in July. The number of loss dealers remains minimal. July nationwide new car and light-duty truck sales were improved over June 2015 and better than previous Julys for several years.

### July Profit Trends

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	JULY BEST MONTH	JULY 3.0% OR BETTER PROFIT % SALES	JULY LOSS MONTH	JULY LOSS Y-T-D
CHRYSLER	40%	60%	15%	30%	0%	0%
FORD	70%	30%	25%	40%	0%	0%
G.M.	55%	45%	20%	20%	5%	5%
IMPORTS	55%	45%	20%	45%	5%	5%
OVERALL	55%	45%	20%	35%	5%	5%

### “1 Hour” Car Deal

We have heard that some dealers strive to complete a sale of a vehicle in 1 hour. Why the rush? The purchase of a vehicle is the second largest purchase consumers will make with the purchase of a house/condo being the first. Since a vehicle purchase is a big deal, we don't think consumers want to rush the purchase. Some have written that 3 hours is acceptable. This also seems like a short amount of time

between a consumer researching various vehicles, narrowing down the number of vehicles they are considering, and then finding the dealers they will shop. Even when the customer has decided on the vehicle and dealer, it takes time to finalize the price and financing and complete all the necessary paperwork and enjoy the purchase experience.

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**“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**

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## New and Used Sales Department Compensation

We recently performed an analysis for sales department compensation as a percentage of new and used total department gross profit, including F & I & SC income along with other income. Most of their other income is generated by the vehicle department. We performed this analysis to see what this percentage metric was for the top 25% of dealers in pre-tax net profit as a percentage of sales versus the average and below average profit dealers. The sales department employee groups includes all sales department managers, F & I employees, used vehicle manager, and sales persons. We did not include clerical persons or lot or cleanup persons.

The formula for calculating this metric is as follows:

Numerator: all compensation (salary and commission) to sales persons, F & I persons, sales managers, general sales managers, used vehicle managers, etc.

Divided by:

Denominator: all new and used vehicle gross profit including F & I & SC income plus other income.

We found the percentage metric for the top 25% profit margin dealers to approximate 31% for this group of employees. When analyzing other less profitable new vehicle dealers, average and below average range, their comparable metric was usually much higher, with many in the 40% range and some exceeding 50%. For these dealers, they either had too many employees or too many employees overpaid for their performance. We suggest you perform this calculation if your net profit as a percentage of sales is less than 2.5%. Feel free to send us your financial statement and we will do the calculation for you. If you are above 35%, you need to adjust the number of sales employees or modify their pay plans.

### Tesla Motors, Inc.

We obtained the Tesla Motors, Inc. financial statements from its Form 10-Q. For the six months ended June 30, 2015, below is a summary in thousands of dollars for June 2014 YTD versus June 2015 YTD:

	<b>June 2014</b>	<b>June 2015</b>
Revenues	1,389,891	1,894,856
Gross Profit	368,123	473,443
Net Loss before taxes	(109,744)	(332,201)

It was reported in the Wall Street Journal that Tesla estimates annual deliveries of 50,000 for 2015. This would include some of the new Model X sport utility vehicles that Tesla has 30,000 orders for.

### TrueCar, Inc.

We obtained the TRUECAR, INC. financial statements from its Form 10-Q. For the six months ended June 30, 2015, below is a summary in thousands of dollars for June 2014 YTD versus June 2015 YTD:

	<b>June 2014</b>	<b>June 2015</b>
Revenues	94,427	123,845
Sales and Marketing expenses	61,059	72,166
Loss before income taxes	(24,638)	(26,103)

Though revenues went up for the six months ended June 30, 2015, losses increased.

## PayPal

Some dealers use PAYPAL in their operation. Recently, one of our dealers had their checking account debited (cash removed) twice in the same day under the PAYPAL name. One debit was for 11 cents and one was for 15 cents. The dealership office staff look daily at all checking account transactions and found these two debits. This dealership “kicked” back these two debits. The debits were worded as follows:

07/08/2015 PAYPAL VERIFYBANK 104KM2222H..... .11 (CENTS)

All a person needs to know is the bank routing number and dealership checking account number. This is easily obtained from a dealer by having the dealer refund a small deposit with a check. We were concerned that these two debits were phony, though part of the PAYPAL system. When PAYPAL was contacted regarding these charges, no one could explain them. If the dealership had not seen these debits, then some vendor might have run a much larger debit through the checking account and the dealer could have been out of substantial funds. Dealers need to look at their checking account daily for inappropriate activity and make sure they have insurance coverage for what we call “electronic theft.”

## Dealers' I.T. Data

Most dealers do not realize this, but each office has several journals they use to enter accounting information. These journals are also called “sources” at times. Examples are a new vehicle sales journal, cash receipts journal, cash disbursement journal, etc. When looking at the general ledger, an accountant can tell where the entries came from by seeing which journal the number came from. There are usually journal names-numbers for most types of sales, expenses, purchase, etc. There is also a general journal used

to make corrections. We are finding more and more offices are over-using this journal to enter many documents, not just correcting accounting entries. This makes it harder to determine what is going on and we would consider it as “sloppy.” We suggest you have your office only use the general journal for corrections and not use the general journal-sources for entering original source documents. We suggest you share this short article with your office staff and have them implement this procedure in the future.

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