

Steering your dealership to higher profits

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Monthly Profit Trends

May profits showed mixed results for new vehicle dealers. May profits versus April showed these same mixed results and have done so since 2003. Shown below, the number of dealers that did better in May compared to April is about the same. The number of loss dealers overall showed the same, 25%, for both the month of May and the year-to-date.

	May Worse Than Apr.	May Better Than Apr.	May Best Month	May Worst Month	May Loss Month	May Loss YTD
Chrysler	65%	35%	0%	5%	40%	25%
Ford	45%	55%	15%	5%	25%	25%
General Motors	60%	40%	15%	25%	25%	20%
Import	25%	75%	40%	0%	10%	25%
Overall	50%	50%	15%	15%	25%	25%

As reported in *Automotive News*, new car and light duty truck sales were 860,000 in June 2009 versus 1,190,000 in June 2008. On a 2009 year-to-date basis, new car and light duty truck sales were 4,810,000 in 2009 versus 7,410,000 for 2008, a 35% loss in new unit sales. Annualized new car and truck sales for 2009 will be 9,620,000 based on June year-to-date and 10,320,000 based on annualizing June 2009. Total national new car and light duty truck sales were 13,200,000 in 2008, 16,200,000 in 2007, and 16,500,000 in 2006.

Finance Department Income

The enclosed Monthly Profit Survey shows finance income, insurance income, and service contract income after chargebacks per new and used retail vehicle sold on a year-to-date basis. This net finance-insurance-service contract income in 2009 shows \$415 per retail new and used unit sale. The last three times we have measured this it showed as follows: April 2006 year-to-date \$495, November 2006 year-to-date \$499, February 2008 year-to-date \$511. As you can see, the average amount has gone down almost \$100 per retail new and used deal over what it was in prior years. Listed below are some of the reasons for this large drop in this income per retail new and used deal.

1. With the reduced number of vehicles being sold, the chargebacks incurred now from prior years have a greater

effect on the current net income.

2. The margins that dealers are able to charge or make on finance department products have been reduced or limited by dealers and their financial institutions.

3. There are less new and used vehicles sold to the individuals with lower credit scores, which reduces overall finance department income.

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Franchise Terminations

As we have all read, GM and Chrysler have terminated over 1,000 new vehicle dealership franchises. Several hundred dealers that sell Cadillac have had their franchise terminated. According to *Automotive News*, Cadillac has sold nationwide new units as follows:

2009 97,000 annualized June 2009 sales
2008 177,000 annualized June 2008 sales
2008 161,000 actual annual 2008 sales
2007 215,000 actual annual 2007 sales
2006 227,000 actual annual 2006 sales

In our opinion GM made a rushed decision to terminate many of its Cadillac dealers, a decision opposed to the best interests of GM, GM customers, local communities, and Cadillac dealers. Listed below are potential repercussions of this hasty decision.

How the decision hurts GM:

1. Termination reduces dealers in areas where Cadillac has an above-average market share. The franchise will likely lose future market share in these areas where it was the only luxury brand.
2. Termination alienates its current customers by forcing them to find a replacement dealer, resulting in the need to travel farther to such dealerships.

How the decision hurts customers:

1. Customers are forced to spend more time driving more miles to service their Cadillacs.
2. Customers are forced in some cases to buy different vehicles locally because they will not or cannot afford to leave town.

How the decision hurts local communities:

1. Local communities lose the prestige associated with having a luxury brand in town.
2. Local communities lose jobs.
3. Local communities lose sales on other products, as buyers leave their townships to purchase Cadillacs elsewhere.
4. In some states, including Illinois, local communities will lose the sales tax revenue generated by Cadillacs sold.

How the decision hurts dealers:

1. Loss of new Cadillac sales will cause some of its customers to leave town to purchase either a Cadillac or a different make.
2. Customers might buy elsewhere because their dealer has become ill equipped to take care of them and possible resentment might coax customers to refrain from buying other vehicles at their former Cadillac dealer.
3. Dealers will lose Cadillac parts and service sales.

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Never pay a compliment as though you expected a receipt.
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Dealership Financial Institutions

As we have written recently, more dealers are finding difficulty with their financial institutions in retaining and maintaining their new vehicle floor plans, used vehicle floor plans, and capital loans. Some banks are getting out of the lending business to automobile dealers, and Chrysler Financial is leaving the floor plan business. Dealers are also finding that their current financial institutions want much more information when renewing the current lending arrangements and when re-financing their current dealership loans and real estate mortgages. In some cases, dealers need to realize we are in a new world for bank lending. Dealers should not be surprised if they are asked for a personal guarantee. Additional collateral, such as second mortgages on dealership assets; dealership real estate; and the personal residences, is common.

New Versus Used Retail Sales

In the past we have felt and commented that new vehicle dealers who sell more used retail units in relation to new retail units seemed to be more profitable. As we all know, it is easier to sell new units than used units, because customers can buy new vehicles via the Internet easier than buying used vehicles. Greater knowledge is required when purchasing used vehicles, and dealers have to put forth greater effort to market and sell those vehicles.

The enclosed Monthly Profit Survey presents overall that the average dealer shows selling 45% of their retail units as new versus 55% of their retail units as used. The four dealer groups show as follows:

	Retail Sales	
	New	Used
Chrysler	39%	61%
Ford	41%	59%
GM	37%	63%
Imports	55%	45%
Overall	44%	56%

If your dealership is performing at an average penetration level for new units retailed, then it is more likely you can increase retail sales by putting more effort into selling used units. As you can see from the survey, many new vehicle dealers are selling substantially more used retail units as compared to new retail units. If you need to sell more retail units, put more effort into the used vehicle department.

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To profit from good advice requires as much wisdom as to give it.

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