

Steering your dealership to higher profits

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Written By Carl Woodward

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Monthly Profit Trends

April was a poor profit month for new vehicle dealers compared to March 2009. We expected the net profits for April to be down compared to March based on past statistics. The trend seems to be that losing dealers are losing less and that profits are slightly increasing as new vehicle dealers adjust their expenses to reflect their current sales volumes. We did not include the smaller 20% of dealers in this month's results shown below or in the enclosed monthly profit survey. The smaller dealers seem to be performing at a lower profit level than the overall group of new vehicle dealers.

| | Apr. Better Than Mar. | Apr. Worse Than Mar. | Apr. Best Month | Apr. Worst Month | Apr. Loss Month | Apr. Loss YTD |
|----------------|--------------------------------|-------------------------------|-----------------------|------------------------|-----------------------|---------------------|
| Chrysler | 50% | 50% | 0% | 15% | 20% | 30% |
| Ford | 50% | 50% | 35% | 10% | 10% | 20% |
| General Motors | 50% | 50% | 30% | 10% | 15% | 25% |
| Import | 20% | 80% | 15% | 0% | 15% | 25% |
| Overall | 40% | 60% | 20% | 5% | 15% | 25% |

As reported in *Automotive News*, national new car and light duty truck sales were 926,000 in May 2009 versus 1,397,000 in May 2008. Year-to-date new car and light duty truck sales were 3,950,000 in 2009 and 6,224,000 in 2008. For the month of May 2009, unit sales were 66% of May 2008 and 63% year-to-date 2009 versus 2008. If you annualized the May 2009 sales rates, unit sales would improve compared to the first four months of 2009. The main franchise that was up for May 2009 versus May 2008 was Lincoln. The franchises that had the most drastic sales reductions in May 2009 include Saturn 55%, Pontiac 52%, Chrysler 51%, Dodge 48%, Honda 42%, and Mazda 40%.

Used Vehicle Department

The monthly profit survey shows the average gross profit margins on used retail vehicles at \$1,801. This amount does not include finance income, insurance income, or service contract income. In other words, this is only front end gross profit. The median dealer shows a \$1,857 used retail gross profit margin. This amount being more than the average dealer indicates that most dealers are obtaining more than the average dealer. It also indicates that many dealers are substantially below average on front end used retail gross profits, showing that these dealers have an opportunity to realistically improve their used front end gross profit margins. Some individuals believe they are selling more used retail if their selling price is less than average. That might be the case in some instances, but we generally believe

the number of used units sold is more a product of the skill within the sales department, not the selling of used vehicles at a lower gross profit margin. If you are below the median and/or average gross profit margin, we suggest you work on changing your gross profit margin to improve your net profits.

| Inside | |
|---|---|
| Dealership New and Used Vehicle Floor Plans | 2 |
| Information Technology and Other Vendors | 2 |
| Advertising Expense | 2 |
| Monthly Sales and Profit Survey | 3 |
| Service Department | 4 |
| Sales Department Employees | 4 |

Dealership New and Used Vehicle Floor Plans

More and more new and used vehicle dealers need to look for a replacement lender for their new and used vehicle floor plans. This includes dealers that had their floor plans with both factory finance companies and banks. Dealers that had floor plans with Chrysler Financial now must deal with GMAC since Chrysler Financial has transferred their dealer floor plan accounts to GMAC. Several of our dealers that are in this situation have found GMAC canceling their floor plans even though Chrysler Financial had not terminated their floor plan when the dealers still dealt directly with Chrysler Financial. In these cases, these dealers are having severe problems finding a replacement lender for their prior arrangement with Chrysler Financial. Banks are also reviewing their dealer floor plan loans and in some cases have told dealers to take their business elsewhere. This even includes dealers that are profitable and meet reasonable working capital and net worth guidelines.

Even adequately capitalized and profitable dealers are finding it difficult if not impossible to find replacement floor plan lenders. As we all know, when this happens the dealer is out of business. The U.S. government, through the SBA, has a new program that might help the smaller dealer, but the financial institutions do not know yet what the paperwork and financial requirements are, as of the date of writing this article. The SBA helps lenders by accepting some of the risk in case of default by the dealer on these loans. When you have to deal with your current lender on new and used vehicle floor plans and if they want to make changes that you do not like, know that your bargaining position is not very good at this time. You might not have any choice but to accept their changes.

Information Technology and Other Vendors

One area of concern for dealers that have been terminated or are going out of business is their legal obligations to certain suppliers. Normally when dealers sell their dealerships they have the buyer assume certain obligations of the dealership, including agreements with their IT vendors. In some cases, the buyer does not assume these agreements with the seller, and the seller is obligated to pay the supplier for the remainder of the terms of their agreement even though the supplier does not have to supply any future services or incur any future costs. This obligation can be very costly to the seller.

We believe the seller has no choice but to pay for any lease obligations to these vendors where the lease obligations relate to equipment and initial services that the dealer purchased. We are troubled when the vendor expects the dealer to pay for future monthly services where the vendor is not incurring any material future costs. We suggest you make sure that future contractual obligations with your vendor allow your agreement to expire with no future costs to the dealership should the dealership no longer operate. If your vendor will not allow for this, find a different one. Inform other dealers about such vendors so they are sure to sign a contract that they will be comfortable with.

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Always be prepared to take advantage of an unexpected opportunity.

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Advertising Expense

As was shown in last month's issue, net new and used advertising (gross new and used advertising less advertising credits) as a percentage of total dealership gross profit plus other income was 6%. Some dealers do not realize their advertising budget has become much above average. In some of these cases, their net profits are down more than is needed because new and used advertising expense has become too high with their reduced sales volumes. If you are a below average profit dealer, you need to review your new and used advertising expense compared to factory averages and other sources.

Service Department

The monthly profit survey shows the service department labor gross profit margin. This gross profit margin is determined by taking total service department labor sales reduced by the cost of labor to the service department technicians. The gross profit margin on labor shows an average of 69%. The gross profits by manufacturer group range from 67% to 70%. This indicates that all manufacturer groups generally have a similar gross profit margin. Most dealers show a gross profit margin approximating 69%, with the lowest margin showing 49% and the highest margin showing 80%.

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The first rule of survival: pay attention

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Sales Department Employees

With some salespersons making less income than in the past, it matters more now that non-managerial employees in the sales department accurately record their work time spent at the dealership on a regular basis. We have seen recent audits where the time reported by dealership salespersons was simply copied from their prior week's timesheets, which were already inaccurate. If your dealership settles up with salespersons on a weekly basis, they will receive compensation (minimum wage) even though they sold no vehicles. You need to make sure your salespersons are accurately reporting their working hours at the dealership and make sure they do not include any breaks as working hours.

To minimize minimum wage issues, settle up with the salespersons on a monthly basis. This does not mean you only pay them once a month, but it means that your settle up period is monthly, not weekly.

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Woodward & Associates
P.O. Box 1584
Bloomington, IL 61702
carlswoodward@cpaauto.com
For More Information:
Call (309) 662-8797
or Fax (309) 662-9438