POWER STEERING

Steering your dealership to higher profits

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June 2019 profits for new vehicle dealers were down slightly from May 2019 profits. As you can see in the below Monthly Profit Trends, 55% of new vehicle dealers' profits were down in June 2019 compared to May 2019. The number of dealers that had their best month of the year is 15%, while the number of dealers that made 3.0% or more of sales for pre-tax profits in June was 25%. Nationwide new vehicle sales have remained around 17 million for the last five years (2015-2019, annualized). As reported by the National Automobile Dealers Association through June 2019, the annualized total dollar sales for 2019 was $62 million versus 2018 of $60 million. The pre-tax June Y-T-D profit margin as a percentage of sales was 2.3% for June 2018 and June 2019. The annual pre-tax profit margin from 2009 through June 2019 has ranged from a low of 2.2% to a high of 2.8%. This is a stable range of profits.

Monthly Profit Trends

	JUNE BETTER THAN MAY	JUNE WORSE THAN MAY	JUNE BEST MONTH	JUNE 3.0% + SALES PROFIT	JUNE LOSS MONTH	JUNE Y-T-D LOSS
CHRYSLER	80%	20%	30%	35%	15%	15%
FORD	55%	45%	20%	25%	10%	15%
G.M.	45%	55%	5%	10%	10%	15%
IMPORTS	25%	75%	5%	30%	15%	15%
OVERALL	45%	55%	15%	25%	15%	15%

New Vehicle Dealership "Brokers"

We've written in the past about dealers allowing "third parties" to "poach" the dealers' customers and the dealers' data. "Third parties" include TRUECAR, Walmart, Costco and others. Why dealers allow third party access to their confidential internal information technology data makes no sense to us. Also, Walmart and Costco, and probably other retailers are trying to insert themselves between the dealer and the customer. If this trend continues, some dealers might sell more vehicles at either less gross per vehicle or more expense per vehicle. Be very careful in starting the above, because once you enter the "game," you will not be able to exit and very likely your net profits will go down. Remember, the car business is always changing and third parties want to share in your profits.

"If you are not willing to risk the usual, you will have to settle for the ordinary."

- Jim Rohn

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Used Vehicle Inventory

The conventional wisdom used by most dealers and industry experts is having too many “stale” used units in stock which includes having more than a 60 day supply of used vehicles will cause lower used front-end gross profit margins. The typical new vehicle dealer we serve has used retail front-end gross profit margins in the $1,700-$1,800 range. If you eliminate the bottom 10% of dealers, we would estimate the average retail front-end gross profit to be around $1,800.

We “tested” the above approach for over 100 randomly selected dealers in the past and the results yielded conclusions different than what conventional thinking would be. We conducted from a sample of 200 new vehicle dealers the enclosed survey of approximately 80 dealers. What was found? We split this sample of dealers into two groups. One group was those dealers that had at a minimum 60 day’s or more supply of used vehicles versus a group of dealers with less than a 60 day’s supply of used vehicles. The first metric, which would be surprising to most in the industry, is the average retail front-end gross profit margin for those dealers with more than a 60 day’s supply was more than the dealers with less than a 60 day’s supply, average $1,843 versus $1,559. If we use the median, middle dealer metrics, those dealers with more than a 60 day’s supply was more than the dealers with less than a 60 day’s supply, median of $1,891 versus $1,630.

We don’t suggest dealers allow themselves to carry more “stale” units in stock or much over a 60 day’s supply, but our sample results are surprising.

Dealership Rent

We write at times about “reasonable” rent for new vehicle dealerships along with leasehold improvements. Leasehold improvements are funds spent on the dealership facility by the dealership entity, not the landlord. These leasehold improvements have to be allowed for when the monthly rent is determined which is paid by the dealership. If there are no leasehold improvements paid by dealership funds, then the annual rent would typically be 7% - 9% range based on the fair market value of the real estate when the lease agreement is executed. Sometimes, there are increases in the rent in the future based on some arbitrary method or some percentage of inflation increase. The landlord might not like this, but their out-of-pocket expenses typically do not go up over the life of the lease since most leases are triple net leases, tenant pays for property taxes, maintenance, facility insurance, etc. At times, the landlord, often is also an owner of the dealership, where the dealership has paid for a material amount of leasehold improvements. The ultimate rent needs to allow for these leasehold improvements and the rent would be something less than that based on fair market value of the real estate since the dealership has paid for some of this fair market value. There are alternative ways to compute reasonable rent allowing for substantial improvements funded by the dealership so there is no double charging on the rent.

New Vehicle Interest Floor Plan Expense

We have seen some dealers paying a much higher new vehicle floor plan interest rate than most other dealers. When these dealers talk to their current floor plan lender, they usually are told some “excuses,” often not a valid excuse, why the floor plan interest rate is as high as it is and not necessarily competitive. Recently, we suggested to a very large dealer that they contact their lender about the lender’s rate not necessarily being competitive. This dealer obtained, just by asking, at least a 0.5% floor plan interest rate reduction for a new vehicle fl oor plan exceeding $10 million. This worked out to a new vehicle floor plan interest expense reduction of approximately $50,000 per year. If you are paying more than 5% and close to 6% or more you are over-paying. If you are not sure if you are paying a “competitive” new vehicle floor plan interest rate you might ask other dealers you know what they are paying or feel free to call us.

Dealership Sales

We regularly have dealers call us about communications they have received by third parties where the third party represents a potential buyer. At times, these third parties contend they represent specific public companies or large private dealership groups. Recently, we heard from two dealers about these communications. We suggested to one of the dealers that it was doubtful this third party really represented a public company because of where this dealer was located and the size of the dealership was probably too small to be purchased by a public company. We suggested that this dealer ask some questions about how the “buyer” would value and pay for Blue Sky. No prompt answer was received. We told this dealer in his initial communication to us that this third party was possibly looking for a listing to sell his dealership. If you get communications from third parties about possibly selling your dealership, be skeptical and slow to supply information until you decide you want to sell your store and the third party is credible.

Internet Issues

Most dealers and their employees have a dealership email address that is part of the dealer's I.T. system. We still see some dealers and their employees that either do not have a dealership assigned email address or do not use the dealership assigned email. We would suggest that all employees including the dealer, use the dealership's email system for various reasons. You should review this system and be certain that you and all dealership employees are using the dealership assigned email addresses for any dealership related matters.

Investments

We see some dealership's 401(k) and retirement plans have investments in the stock, bond, and other public markets. Although we are not investment advisors, we do see the "fee" paid on some of these investments is very high. Have an independent investment advisor look at the fees being paid and be sure they are modest and competitive.

Toyota

We have a recent letter to Toyota dealers from Toyota. The letter talks about dealership Cyber Liability insurance coverage. Toyota writes that it "requires a minimum of $5,000,000 in Cyber Liability insurance to protect…" Why it is it only $5,000,000 and not some higher number? Why is Toyota demanding dealers carry this type of insurance for this amount? What will they require next of dealers that should be a dealer's business decision not the manufacturer's.

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