

Steering your dealership to higher profits

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Profits for new vehicle dealers were down April 2019 versus March 2019. Profits for March 2019 were up substantially from January and February 2019 and were very good as would be expected based on historical trends. April 2019 being down in profits compared to March 2019 would be expected. As you can see below, 30% of dealers had their best month of the year and 25% of dealers in April made 3.0% or more of sales as profits. The number of losing dealers for both the month and year are approximately 15%.

April Profit Trends

| | APRIL BETTER THAN MARCH | APRIL WORSE THAN MARCH | APRIL BEST MONTH | APRIL +3.0 PROFIT % SALES | APRIL LOSS MONTH | APRIL Y-T-D LOSS |
|----------|----------------------------------|---------------------------------|------------------------|------------------------------------|------------------------|------------------------|
| CHRYSLER | 30% | 70% | 30% | 20% | 15% | 15% |
| FORD | 60% | 40% | 50% | 20% | 15% | 20% |
| G.M. | 25% | 75% | 20% | 10% | 15% | 20% |
| IMPORTS | 40% | 60% | 35% | 40% | 10% | 10% |
| OVERALL | 40% | 60% | 30% | 25% | 15% | 15% |

Nationwide new vehicle sales, including fleet, for April 2019 were approximately the same as April 2018. Nationwide new vehicle sales, including fleet, for May 2019 were 1,587,000 and were approximately the same as May 2018. On a market share basis: Ford is down; Toyota is up; Chevrolet is down; Honda is down; Jeep is down; Ram is up.

Nationwide Financial Metrics

The National Automobile Dealers Association (NADA) prepares a monthly report nationally for new vehicle dealers. Through April 2019, and compared to April 2018 they reflect averages as follows:

| | | |
|--------------------|------|-------------------------------------|
| Total dollar sales | Same | Approximately \$5 million per month |
| Net profit % sales | Same | 2.2% |

“Though no one can go back and make a brand new start, anyone can start from now and make a brand new ending.”
– Carl Bard

| Inside | |
|---------------------------------|---|
| Factory Relations | 2 |
| Public “Auto” Companies | 2 |
| Monthly Sales and Profit Survey | 3 |
| Carvana | 4 |
| Enclosed Financial Metrics | 4 |

Factory Relations

Most dealers prefer the telephone to communicate with their factory representatives. In most cases this make sense. However, when you want something, have a complaint or a follow-up to a complaint, we strongly suggest you respond in writing, preferably with an email.

Examples are:

When you are short of certain new vehicle models and you are not receiving your “perceived” share.

Possible response: We are short model line as we discussed. We need more of these models to meet your sales goals for my dealership.

They have written you that some performance metric they have for you is not being met.

Possible response: Please let me know what you suggest my dealership needs to improve on to assist in meeting your performance metrics.

You are in a process of buying/selling your dealership and they are very slow in acting on the application.

Possible response: As far as I know I have sent you everything that has been requested. Please let me know when I can expect your approval on the buy/sell process.

In summary, put in writing with your factory representative areas of concern if you want to hold them accountable and potentially speed them up.

Public “Auto” Companies

We have shown below certain financial metrics for the six public “auto” companies for 2018. These six companies include: Asbury; Autonation; Group 1; Lithia; Penske; and Sonic. We own stock in all six plus Carmax.

| | Asbury | Autonation | Group 1 | Lithia | Penske | Sonic |
|--|---------|------------|---------|---------|---------|---------|
| Annual \$ Sales (in billions) | 6.8 | 21.4 | 11.6 | 11.9 | 22.8 | 9.9 |
| Pre-tax Net Profit % Sales | 3.3% | 2.5% | 1.8% | 2.9% | 2.7% | 0.8% |
| Stock price/share (December 31, 2018) | \$66.66 | \$35.70 | \$52.32 | \$75.88 | \$39.63 | \$13.66 |
| Stock market Value % Sales | 40% | 17% | 11% | 14% | 15% | 9% |
| Working Capital % Sales | 3.6% | - 3.6% | 0.1% | 4.2% | 0.2% | 0.5% |
| Stock Price Multiple of After-tax profits | 8.0 | 8.2 | 6.7 | 7.0 | 7.2 | 11.1 |

We find for non-public company dealers, they average approximately the same pre-tax net profit as a percentage of sales around 2.5%, which is close to the public companies, working capital of + 3.5% of sales while the public companies on average working capital as a percentage of sales of only 1.6%. It looks like the factories financial standards are more tolerant and have lower standards for public auto companies.

Carvana

We saw the advertisement on cable where CARVANA would buy consumers used vehicles. We had someone go to their website for a vehicle for Carvana to offer to buy. You give them your license plate number and the condition of the vehicle. They are able to determine the serial number.

It was a 2014 Toyota Avalon Limited Sedan 4 door, 39,000 miles, in excellent condition. They offered \$15,827 (this fit in the range of wholesale values from Black Book), but the consumer had to deliver it to the Carvana location.

Enclosed Financial Metrics

As indicated on our monthly sales and profit survey, several dealers have a very low new vehicle front-end gross per unit, but the dealership reflects a large monthly profit. How can this be? It goes back to the fact that so much "gross" is being put into Other Income. This makes no sense, but it is the way some factories and some dealers want to report some of their "gross."

We have shown the ratio of used retail units to new retail units sold. As we have seen in the past, domestic dealers typically sell more used retail units than new retail units while often times import dealers sell well more new units than used units. As shown in our limited survey, Chrysler dealers sell 1.6 used to 1 new; Ford dealers sell 1.5 used to 1 new; GM dealers sell 1.9 used to 1 new; and import dealers sell 1.2 used to 1 new. For those dealers that sell less than say 1.3 used to 1 new, we would feel they are missing out on used retail sales opportunities. If you decide to try and increase your used retail sales, you know it is a combination of more used inventory, more salespeople, and more advertising-promotion on used. This is one area many dealers can increase their sales and dealership profits.

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