POWER STEERING

Steering your dealership to higher profits

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October 2019 profit trends were improved over September 2019. 60% of new vehicle dealers did better in October 2019 than September 2019. This is to be expected from our perspective. The number of dealers that made 3.0% + of sales in pre-tax profit in October approximated 25%. The number of losing dealers for the year approximate 15% as you can see below.

Monthly Profit Trends

	OCTOBER BETTER THAN SEPTEMBER	OCTOBER WORSE THAN SEPTEMBER	OCTOBER BEST MONTH	OCTOBER 3% + PROFIT % SALES	OCTOBER LOSS MONTH	OCTOBER LOSS Y-T-D
CHRYSLER	75%	25%	10%	20%	25%	20%
FORD	80%	20%	25%	30%	20%	20%
G.M.	55%	45%	10%	5%	25%	15%
IMPORTS	50%	50%	15%	30%	15%	15%
OVERALL	60%	40%	15%	25%	20%	15%

Nationwide as reported by *Automotive News*, new car and light duty truck sales for November 2019 was up approximately 1% from 2018. On a year-to-date basis, 2019 is down slightly from 2018, around 1.5%, or 217,000 units out of 15.7 million units (2018). Fleet sales from Cox reflect 16.6% of total new units in 2019 and 16.0% in 2018. Franchises where their market share has increased on a year-to-date basis include: Honda, Subaru, Ram, Hyundai, Kia, GMC, VW, Mercedes, and BMW.

New Vehicle Dealership Profit Trends - 2019

As you can see in the enclosed survey, we have shown pre-tax net profit trends through October year-to-date. The pre-tax net profit margin of sales for the median (middle) dealer is 1.8% with the average being 2.3%. The pre-tax net profit margin as a percentage of gross profit plus other income is 16.8% (median) and with the average dealer being 18.4%. The National Automobile Dealers Association (NADA) reported through September 2019 the pre-tax net profit as a percentage of sales for its average dealer to be 2.4%, while it was 2.3% for September 2018.

"There's no luck in business. There's only drive, determination, and more drive."
— Sophie Kinsella

Inside

Blue Sky

We often hear from dealers, financial institutions, and others in the industry about how much blue sky-goodwill is reasonable for a dealership. When these individuals hear the selling dealer has not been very profitable, or even losing money, they believe or state that the dealership is not worth any blue sky-goodwill; we do not agree. We point out to these individuals that their thinking is flawed and misplaced. Though if you use the multiple of earnings rule of thumb for blue sky-goodwill for these dealers, they will not yield any blue sky-goodwill. We find flaw with this multiple method, even for profitable stores, as this method does not work for low profit and losing dealerships. We tell these individuals that knowledgeable willing buyers will pay blue sky-goodwill, subject to a reasonable rent factor, based on expectations of future profit, while discounting past poor profit history.

Recently we have been involved with the pricing and offering of blue sky for two different dealerships. One domestic dealership had been losing money and one import dealership had been breaking even. One is a $40 million annual sales (domestic) with reasonable rent and one is a $35 million annual sales (desirable import) with high rent. The asking price (import) for blue sky – goodwill is $3.2 million. This is high, but how would the seller know that? This approximates 5 times future average profit margin expected earnings a high multiple which if paid makes it difficult for the buyer to make a reasonable rate of return on his total capital investment plan blue sky. For the first store, domestic, if the buyer expects to make say 2% on sales in the second year and future the store would make $800,000 per year, this justifies blue sky exceeding $1 million or more and would result in the buyer realizing a reasonable return on his investment in the dealership.

Medicare For All

We have all heard about "Medicare for All" from politicians which would replace our current health care insurance program. We want to cover two issues. We read that if doctors and hospitals had to be paid at the current Medicare rates, most hospitals would fail financially, and doctors and the non-hospital medical industry would have huge revenue reductions which would cause many negatives in the health care industry. Below are some actual health care charges and the amounts being paid by Medicare (we did not pick the below to distort the big picture):

Amount Billed	Paid by Medicare
$ 123.00	$ 23.95
$ 150.00	$ 30.98
$ 50.00	$ 8.55
$ 2,240.00	$ 198.00
$ 2,553.00	$ 0.00
$ 1,143.00	$ 270.52

We have not seen from any politician supporting this program how much they would increase Medicare payments to make up some if not most of the revenue being lost by hospitals and doctors.

Factory Relations

We heard late last year and the same this year about several factories trying to "spruce up" their unit sales to make their year look better. How do they do this? They encourage dealers to put into service more loaners and demonstrators than the dealer needs or would normally do. Why? To game the system about units sold at the factory level. It is going on again this year. The factories are creating extra new vehicle sales. They do this with pressuring phone calls, incentives sometimes called bribes (doing something you would not otherwise do), special incentives not available to all dealers like paid vacations or lower objectives. Many in the industry would call these false sales. Why does upper management at these factories allow this or encourage this activity?

We have had at least two factories "require"/"demand" that dealers obtain insurance coverage that could be called "cyber liability insurance." We have a couple of concerns with this. The first, is where they try to set the amount of coverage a dealer should have. How much is enough and is reasonable? More important, how is it the factories place to tell dealers what insurance coverage they should have? What will the next business concerns/policies be that the factory feels they have a right to force upon dealers? Dealers need to push back on polices such as these.

Lifetime Vehicle Sales Programs

We write every once and a while about dealers including with vehicle deals certain incentives. This includes a “lifetime” program dealers might offer. This lifetime program includes: oil changes, maintenance, tires for life, and other incentives. The reason we hear dealers offer these “lifetime” programs is to sell more vehicles and/or sell more parts and service than they would otherwise have sold. We have yet to see any valid analysis to support that any of these “lifetime” programs do what they are expected to do or are worth the “cost” incurred to supply them with each deal. We have a large dealer that used to have lifetime oil changes. They stopped this lifetime program in 2015 and stopped their limited free oil change program in early 2017. This dealership has not seen any falloff of vehicle sales with the elimination of these programs or fall off in parts and service sales. However, the average monthly cost to this dealership was over $30,000 per month in 2017 and 2018. For 2019, the average monthly cost of the runoff is $26,000 per month. One dealer we know of, spent over $2 million after stopping a “tires for life” program. They were not able to measure any loss of business.

Used Vehicle Sales

We recently read an article about used retail vehicle sales trends. It stated in its headline about a “boom” in used vehicle sales (Automotive News). We had our doubts, but wanted to analyze this comment based on the more than 250 new vehicle dealers we have information on. We took the October 2019 year-to-date used retail sales versus the October 2018 year-to-date used retail sales for a random sample of 10 larger new vehicle dealers to see what their trend was. The average dealer sold 88 used units retail per month in 2018 and 88 used units retail per month in 2019; the same. Four of these dealers were up from 2018 and six of these dealers were down from 2018. The National Automobile Dealers Association (NADA) reported that used department sales, retail and wholesale, were up slightly in 2019 versus 2018 through September. However, the NADA reported that based on unit sales, used retail sales only increased approximately 1%. We would not call this a “boom.”

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