POWER STEERING

Steering your dealership to higher profits

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May 2019 profits for new vehicle dealers were down slightly from April. We normally expect May profits to be slightly higher than April based on prior year trends. With January 2019 being such a poor month this year, the typical trends seem to have changed slightly. Also, as you can see below, 25% of dealers had their best month of the year while 25% had a pre-tax profit margin of 3.0% or better based on May results.

The enclosed survey includes only dealers with $10 million of sales through May, or an average of $2 million per month in sales. The typical dealer based on National Automobile Dealers Association averages approximately $60 million of annual sales or approximately $5 million per month. The below monthly profit trends (which includes more dealers) reflect more losing dealers than the survey shows. Why is this? We are finding a higher percentage of smaller dealers losing money or making less pre-tax profit as a percentage of sales than the average dealer. This causes the profit trends below to reflect more losing dealers, 10% for the month and 15% year-to-date, than the enclosed survey.

May Profit Trends

	MAY BETTER THAN APRIL	MAY WORSE THAN APRIL	MAY BEST MONTH	MAY 3.0% + NET OF SALES	MAY LOSS MONTH	MAY Y-T-D LOSS
CHRYSLER	45%	55%	25%	20%	10%	10%
FORD	45%	55%	15%	25%	10%	15%
G.M.	45%	55%	25%	10%	20%	15%
IMPORTS	45%	55%	30%	30%	5%	15%
OVERALL	45%	55%	25%	25%	10%	15%

Nationwide total new car and light duty trucks sales in June 2019 were down slightly from May 2019 and June 2018. We do not know at this time what the total “fleet” sales were in June 2019 or May 2019, or June 2018. If the trend for “fleet” sales is comparable, then the comparison of total new car and light duty trucks sales month-to-month and year-to-year are meaningful and comparable.

“Many of life’s failures are people who did not realize how close they were to success when they gave up.”

-- Thomas Edison

Inside

Unclaimed Property

Many states have statutes about Unclaimed Property (UP). These statutes are designed to have businesses that have UP to remit certain assets, usually financial assets, to their state. These laws were crafted many years ago to have UP, usually cash and savings accounts at banks and investments, along with life insurance policies at insurance companies for deceased that were not claimed, to be conveyed to the state. Assets that dealers may have could include outstanding checks that are very old and have not been cashed and customer deposits, most likely on vehicle deals, that have not been used by a customer on a vehicle deal. Subject to the wording in your vehicle buyer's orders, unused "customer deposits" might not be considered UP.

Recently one of our Illinois dealers was selected for a self-audit for UP property. Thoughts that a dealer might have is to not respond, respond reporting zero UP, or respond accurately, but with a minimal response. We suggest a dealer respond, even if the amounts might be zero from the dealer's perspective. The Illinois notification letter included the following on UP:

Outstanding payroll checks

Comments: Most likely check is not owed and should be reversed out by your office.

Outstanding accounts payable/vendor checks

Comments: Most likely not owed and possibly paid with another check and should be reversed out by your accounting staff.

Outstanding accounts receivable credit balances

Comments: Most likely error in billing and/or will be cleared up when that customer makes another purchase at the dealership.

Store value cards

Comments: Not used or offered by almost all dealers.

Refunds, rebates and unclaimed interest in debt or equity.

Comments: Usually not owed for various reasons and should be reversed out by your accounting department.

In Illinois there is a three year holding period. Depending on your state when you have one of the above category types where you do not feel it is UP, but rather a needed accounting "adjustment," you might consider backing the item out of accounting and credit the appropriate expense or cost of sales account, but NOT other income. We are not suggesting you knowingly violate the law; instead be aware and timely clear up these types of items before the law "kicks in" as the penalty can be substantial, up to $5,000 in Illinois.

National New Vehicle Dealership Trends

We have kept track of national new vehicle dealership trends for over 40 years. We thought it might be interesting to compare current trends to several different time periods in the past.

	New Unit Sales	Annual Dollar Sales	Annual Pre-tax Profits	Pre-tax Net Profit % Sales	Return On Equity	Number of Dealers	New Units Sold Per 1,000 Individuals
2018	17.3 mil	$61 mil	$1.3 mil	2.2%	23%	16,800	53
2008	13.2 mil*	$28 mil	$0.28 mil	1.0%	12%	20,800	43
1998	15.4 mil	$24 mil	$0.4 mil	1.7%	27%	22,600	58
1988	15.4 mil	$12 mil	$0.2 mil	1.7%	27%	25,000	63
1978	15.1 mil	$5 mil	$0.1 mil	2.0%	26%	-	67

*2008 Recession year.

As you might know, annual dollar sales per dealer increased due to inflation and fewer total new vehicle dealers. Pre-tax net profit as a percentage of sales has increased slightly while overall pre-tax return on investment has remained steady at around 25%.

Service Department

The enclosed survey reflects the service department labor sales overall gross profit margin. This does not include sublet, materials, or supplies, but just labor sales gross profit margin. As you can see, the service department labor gross profit margin for each of the four dealer groups range from 70% to 72%. This survey includes rural dealers and metropolitan dealers. The overall labor sales gross profit margin is 71%. If you find your labor sales gross profit margin is materially less than 70%, you should review your accounting for this category along with the pay plans of your service employees. At times we find non-full time service employees are not spending all of their time working on repair orders included in this account, which distorts the labor sales profit margin.

Factory Relations

As we wrote last month, we strongly suggest important communications with your factory, if initially by phone call, need to be followed-up in writing with an email summarizing the phone call. Recently, a very successful dealer was buying another store with two factories involved. One factory approved the buyer in May, but the second factory has not yet approved the buyer as of early July. They told the buyer they were busy with other buy-sell applications and they would have to turn the buyer down, with a false excuse, but the real reason was they were taking too long; however, the buyer could expect approval later. The buyer did send more than one email asking if any other documents or information was needed, for which the factory did not respond. Why are we telling you this? The staffing and work ethic for some factories is not “quality” or motivated and they keep putting off their job. In summary, always send emails to confirm and memorialize important phone calls or when there is an issue that matters. In other words, put it in writing and keep it. Sometimes the notes the factory keeps do not coincide with the dealer’s position. Surprise. Surprise.

Internal Revenue Service

Dealerships are required to file IRS Form 8300 for “cash” transactions in excess of $10,000. We suggest you have your accounting staff show you how many of these forms were filed in 2018 and the first six months of 2019. If it is zero for 2018 and/or June 2019 Y-T-D, we suggest you be concerned unless you are a very small dealership. Feel free to call us at no charge to discuss.