POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **September 2019**

July 2019 profit trends were improved over June 2019 profits for new vehicle dealers. As you can see below, 55% of dealers had higher profits in July 2019 than in June 2019. Also, you can see that 20% had their best month of the year while 25% made 3.0% + net profit to sales or better in July. Loss dealers continue to approximate 15% of all dealers. Nationwide total new vehicle sales are not available monthly as in the past due to Chrysler, Ford, and General Motors not reporting. No good explanation has been supplied why they will not supply monthly new unit sales as has been the practice for many years. It does not reflect well on them.

Monthly Profit Trends

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	JULY BEST MONTH	JULY NET % SALES 3.0% +	JULY LOSS MONTH	JULY Y-T-D LOSS
CHRYSLER	50%	50%	25%	25%	10%	10%
FORD	55%	45%	25%	20%	20%	20%
G.M.	45%	55%	15%	10%	15%	20%
IMPORTS	70%	30%	20%	40%	10%	15%
OVERALL	55%	45%	20%	25%	15%	15%

Operating Profit - Other Income

We continue to read articles about "operating income" being a loss for many dealers. We believe this comment is deceptive and misleading to the reader. More and more dealer's factory income/gross profit now appears in the Other Income section, at the bottom of the income statement of dealership financial statements. This misleadingly reduces Operating Profit, but we find the overall net profit as a percentage of sales is approximately the same at 2.3% for 2018 and 2019. The enclosed survey, which is a representative sample of 250 new vehicle dealers, reflects Other Income as a % of Net Profit. If Other Income is more than the final net profit of a dealership, it will reflect being 100% or more, which means that the Operating Profit is a loss. Our conclusion is ignore the "operating profit" line, and focus on the net profit line.

"There is a powerful driving force inside every human being that, once unleashed, can make any vision, dream, or desire a reality."
-- Anthony Robbins

Inside

Factory Reports

We regularly request certain factory reports for dealers that want to be compared to other dealers and/or to see how effective the dealer is based on certain metrics. Many times the dealer and their employees have no awareness of these reports or how they are doing. We suggest you obtain at least quarterly the following types of reports and spend a few minutes reviewing them. They include:

New vehicle sales effectiveness (percentage of actual new vehicle sales to factory guideline of 100%)
SSI – service sales satisfaction
CSI – vehicle sales satisfaction
Working Capital Guideline (make sure your office updates this regularly)

We think most dealers would like to be close to or above average. Also, if your dealership is below average and you tolerate this, it can keep you from buying another dealership or make it much more difficult to buy another dealership.

A recent successful dealer has been stalled for months for factory approval of another dealership purchase. The criteria in the factory letter included:

Character
Capacity (which includes new vehicle sales effectiveness of at least 100%)

Based on this, all dealers below 100% on this metric, an estimated 50% of dealers would not be able to purchase another dealership. This is how "impractical" factories are at times.

Customer Satisfaction
Capital

CarMax Quarterly Financial Statements

We thought it might be worthwhile to present a few of the metrics from the Form 10-Q for CARMAX, INC.

Below are quarterly metrics for the three months ended May 31, 2019:

Total dollar sales	$5.366 billion	
Earnings before income taxes	$351 million	
Earnings before taxes % of sales	6.5%	(average new vehicle dealer 2.3%)
Used Vehicles (retail units)	224,268	(increase over prior year quarter 13%)
Average retail selling price-per unit	$20,050	
Used vehicle gross profit per unit	$2,215	(does not include F & I as best we can tell)
Wholesale vehicle gross profit	$1,043	(per unit)

Revenue Recognition

The American Institute of CPA's has published some new rules and guidance for revenue recognition and changes that go with this issue. You might hear about this. These types of pronouncements are really for large public companies, not smaller companies and new vehicle dealerships. We doubt that any new vehicle dealerships will make any accounting changes, but if you have your CPA prepare financial statements, they might be putting in a paragraph basically saying these new rules are immaterial for your dealership.

Estate Planning

Most dealers have done little or minimal in planning their estate. Currently, if a dealer is married their actual estate tax does not “kick in” until their net worth is just north of $22 million. Most dealers do not have that much net worth. If you are under $22 million, you will not have any estate tax. In calculating your dealership’s value, “blue sky” (goodwill) must be included for each franchise. However, what dealers do not account for is that the $22 million in exemptions expires (sunsets) at the end of 2025. Estate tax exemptions could go back to as little as $2 million, for a married couple. If this happens, many dealers and their estate could be paying millions of dollars of estate taxes. Our advice is to plan ahead and start gifting to your family and others some of the net worth of your estate, “strings attached” so they cannot spend this “gifting.” Do this now to reduce and save a huge amount of estate tax in the future. You need to talk to your advisor about this and act now, not when it is too late. DO SOMETHING, not NOTHING.

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