

Written by Carl Woodward & Scott Woodward

August 2021

July pre-tax net profits were down slightly for 2/3 of new vehicle dealers that have reported to us so far. This also means 1/3 of our dealers had higher profit margins in July than June. We would expect this trend to continue. Ford, Chrysler, and G.M. dealers overall pre-tax net profit as a percentage of sales for July approximated the same at 4.8%. Import dealers overall had a higher pre-tax net profit as a percentage of sales of 6.9%. In July, 57% of dealers made 5.0% + of sales, 14% made 4.0-4.9% of sales, 10% made 3.0 – 3.9% of sales, and 19% made less than 3.0% of sales. The average for this group of over 100 new vehicle dealers made 5.6% on sales. Our July monthly survey has different percentages because it is a sample of the dealer statements we receive. In years 2010 - 2019 the average dealer was in the 2.4% pre-tax net profit % of sales. This means dealers are making a profit margin double what they used to make. How long will this continue?

July Monthly Profit Trends

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	JULY BEST MONTH	JULY MONTH 3.0% + NET TO SALES
CHRYSLER	35%	65%	5%	80%
FORD	35%	65%	5%	75%
G.M.	30%	70%	15%	70%
IMPORTS	40%	60%	30%	95%
OVERALL	35%	65%	20%	85%

Employee and Electronic Theft Insurance Coverage

We regularly see or are involved with dealers that had employee theft or electronic thefts at their dealership each year. The more common thefts are well in the 6 figure range to 7 figure range. Often times dealers do not have adequate insurance limits. This is one area of exposure where dealers do not have enough coverage limits, though for inventory and other coverages they have adequate coverage. We suggest to dealers that they have high deductibles on these two types of theft, and large coverage. We used to suggest in the past for most dealers they have at least \$500,000 in coverage. With dealers having larger thefts we would suggest you have at least \$1 million in coverage. Review your policy and see what your two coverages are for these two types of thefts.

**“Knowing is not enough; we must apply.
Willing is not enough; we must do.”**

- Johann Wolfgang von Goethe

Inside	
Income Tax Planning	2
Used Vehicle Inventory	2
Factory/Dealer Financial Metrics	2
Lender’s Financial Analysis	2
Monthly Sales and Profit Survey	3
Dealer “Packs”	4

Income Tax Planning

With most dealers having their best profit year ever, it would be expected to have dealers with their highest and most income taxes incurred ever. Sorry to be negative. With just 4 months left in the year, it might be time to do some income tax planning. This includes: Maybe pay for “special” bonuses to all your employees or to “key” employees to share a portion of the much increased profits of the dealership. We have seen several of our dealers pay “special” one-time bonuses to most, if not all of their employees from these much higher profits.

Review the appearance of the dealership inside and out including the vehicle lot. Maybe it is time to “freshen” up the dealership including: painting the dealership, resealing the service department floor, repair the vehicle lot and any other facility improvements that make sense.

Review the equipment of the dealership where older equipment has become obsolete and needs replacing along with any new equipment that has technological advantages and needs for the dealership.

Used Vehicle Inventory

New vehicle dealers have been short in new and used vehicle inventory for several months. However, the front-end gross profit margins on used have gone up in this time period of lesser used vehicle inventory. Also, most dealers are now appraising used trade-ins and purchasing used units for much more than they had in the past. In most cases, beyond what they feel these vehicles are really worth. However, these retail vehicles are selling for double gross profit margins at times so it does not really matter if these vehicle are too high in value. A handful of our dealers have told me they plan to reduce these appraised and purchase vehicles for they do not want to be caught with many over-valued used when the market changes. We don't agree with this logic. We feel that since these dealers are making twice the overall net profits at the dealership compared to the past, they should continue keep this strategy. Why? If they change now their monthly profits will go down materially. Why not keep doing what they have been doing until the market turns? Though they will have some extra “water” in their used vehicle inventory which they will have to absorb, they will have made several more months of “very high profits.” We think dealers will make more net profit over if they keep doing what they have been doing and when the market changes, they will still be ahead in profits though they will have some overvalued used.

Factory/Dealer Financial Metrics

We perform a large number of dealership valuations-appraisals in most years for gifting, estate planning, stockholder disputes, buy-sells, etc. One factory document we ask for is the new vehicle sales effectiveness for the dealership for typically the two most recent year-ends. Also, we ask for comparative metrics to see how the dealership performs compared to other dealers in their state or similar market. The most important financial metric is pre-tax net profit % of sales. Most times when we ask for these two groups of factory reports, the dealer does not have them or does not remember seeing them. If this is really the case, this indicates to us the dealer should have an awareness of these reports. We are suggesting you obtain these reports from your factory website for your dealership. If you need assistance feel free to call or email us on this subject and we will guide you at no charge.

Lender's Financial Analysis

Most lenders at times ask questions about dealer's financial statements. Some lenders have financial analysts that review dealer financial statements and ask many questions. Often times our office will answer the financial questions from these “analysts.” If the “analyst” asks really “dumb” questions and are know it all's, we treat them accordingly. If the analyst is not adequately trained and asks for help, we bend over backwards to teach and guide them. With that said, we recently dealt with a “know it all” person who asked the following accounting question in writing: “why do the sales for the month not match the deposits for the month?” For the accountant types, any knowledgeable accountant knows sales never match the deposits for the month. This was extremely humorous to the accountants in our office, the dealer, and the dealer office manager. We would suggest this lender needs to better teach its analysts.

Dealer “Packs”

We see more and more dealers “diverting” income from the new and used vehicle sales pages of their monthly dealer statement to other income. We believe the monthly financial statement is a tool to measure real results and guide dealers when analyzing their monthly financial statement. Some dealers have “hard” packs, which means they make an entry, say \$500, to a new or used vehicle inventory and set up a reserve or payable on the balance sheet. There are some valid reasons to do this and some not so valid reasons, but often times they let the reserve/payable to continue to grow beyond reasonable where it is excessive. Also, at times when they do clear out the pack they put these “gross profits” in other income. We do not believe this accomplishes much and most of the employees that are not paid on these reserves are aware of what is going on.

To Subscribe:
Send \$96.00 (Annual Subscription) to:
Woodward & Associates
P.O. Box 1584
Bloomington, IL 61702
carlswoodward@cpauto.com
For More Information:
Call (309) 662-8797
or Fax (309) 662-9438