Steering your dealership
to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

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December 2021

November profit results for new vehicle dealers continued being excellent. In our survey of our approximately 200 new vehicle dealers, the average dealer made 5.8% pre-tax profit on sales. The year-to-date average dealer made 5.3% pre-tax profit on sales. We found 55% of new vehicle dealers had an improved pre-tax profit on sales comparing November 2021 to October 2021. Domestic dealers were all in the 5% range while import dealers exceeded 7% on sales. Less than 4% of dealers lost money in November or were in a year-to-date loss. In November we found 56% of dealers made more than 5.0%, 10% made 4.0 – 4.9%, 12% made 3.0 – 3.9%, and 22% of dealers made less than 3.0%. The median dealer in this month's survey reflected a monthly pre-tax profit margin of 6.3% and year-to-date of 5.7%. As a reminder, dealers from 2010 – 2019 had an average pre-tax net profit of sales margin of 2.5%.

November Monthly Profit Trends

	NOVEMBER BETTER THAN OCTOBER	NOVEMBER WORSE THAN OCTOBER	NOVEMBER BEST MONTH 2021	NOVEMBER + 5.0% PRE-TAX PROFIT
CHRYSLER	55%	45%	10%	55%
FORD	50%	50%	20%	55%
G.M.	60%	40%	10%	45%
IMPORTS	55%	45%	20%	70%
OVERALL	55%	45%	15%	55%

Loaners

Many dealers supply loaner vehicles to their customers free of charge and some for a small charge. Most vehicles in the past, before the new vehicle inventory shortage, were current year or one year old vehicles. You knew what the daily cost to the dealership was plus the time it took your employees to prepare the paperwork for this "loaner." Some dealers are now finding the cost to the dealership can be better controlled by reimbursing the customer with the customer using Lyft, Uber and other services even including taxi cabs. You might look into this for your dealership.

"Keep your face always toward the sunshine – and shadows will fall behind you."

- Walt Whitman

Inside

Biometric Information

Illinois and other states have strict laws regarding employers using biometric information. It is not illegal to use biometric information but requires informed consent and written policies. An example of biometric information: fingerprints when clocking in/out. Violation of these laws can cost thousands of dollars in attorney's fees, fines, and costs per violation. Please talk to your attorney to make sure you are in compliance with these types of laws.

Non-Compete Agreements

Recently, some states have started changing non-compete (also known as "restrictive covenants") laws. For those that have these covenants in place with key managers or employees, it might be time to review those agreements with your legal counsel to confirm no laws have changed or put restrictions on current agreements with employees where you limit where they can work after leaving your employment and other restrictions.

New Vehicle Inventory Day's Supply

The enclosed profit survey reflects the day's supply of new vehicle inventory based on the number of new vehicles sold in November 2021 compared to the new vehicle inventory as of November 30, 2021. As you can see, Chrysler dealers reflected a 56 day's supply, Ford dealers had a 26 day's supply, G.M. dealers had a 28 day's supply, Import dealers had a 25 day's supply, and overall new vehicle dealers had a 28 day's supply. It is amazing and unbelievable that several dealers had less than a 10 day's supply.

New Vehicle Dealers On LIFO

Your reduced new vehicle inventories will most likely result in additional income this year. We suggest that you look at the new vehicles that arrived in early January and their new vehicle invoices. Why? If your CPA has not finished your year-end 2021 tax return as you read this, you might be able to minimize the LIFO recapture (additional income) by supplying your CPA firm with these incremental vehicles that were invoiced in December but arrived in January to increase the year-end new vehicle inventory. Increasing the year-end new vehicle inventory will assist in increasing the total new vehicle inventory LIFO reserve for most dealers on LIFO. Consequently, this will reduce your 2021 recapture and income taxes.

Owner's Expenses (Reasonable)

We prefer to have arm's length expense, set by the dealer, transactions be "reasonable" to obtain normal pre-tax profit results for new vehicle dealerships. Some of the categories involved include but are not limited to: owner's compensation, facility rent to landlord owned property, and management fees to the owner's management company. Owner's compensation is for full-time work at the dealership. The amount is open for discussion, but some amount approximating $10,000 per month plus a profit bonus depending on the size of the dealership. Rent to the owner-landlord should be reasonable. Generally, this "reasonable" rent amount, exclusive of property taxes and maintenance, would approximate 8% annually of the fair market value of the facility. Management fees paid by the dealership, if any, to the owner and others should be reasonable for the needed and required duties supplied by the management company at reasonable compensation for each employee.

Privacy Notice To Customers

We continue to read about control of the dealership's computer data and information. The federal government has toughened up dealer's information and its security. This involves the Federal Trade Commission (FTC) and its safeguards rule. Most dealers are lax in this area and are open to possible legal issues. Maybe dealers need to implement some controls to minimize their current and future risk. The Iowa Automotive Dealer's Association (IADA) have a document labeled Privacy Notice To Our Customers. It is a short one-page document informing and receiving the customer's acknowledgement of the customer's data. A form similar to this signed by all customers and/or included in buyer's orders and repair orders is a good start.

New Vehicle Dealership Facilities

With all the actual and expected changes in the new vehicle industry in the next few years, maybe it is time to consider minimizing the size of new facilities and upgrades. We say this because sales of electric vehicles are increasing each year. It is expected that there will be less service work on these electric vehicles and therefore less technicians required and likely smaller service and parts departments. However, we have seen Ford, GM, and Hyundai to name a few factories that have paid dealers to "beautify" and expand their facilities in contradiction to smaller new vehicle dealership facilities being needed and required. Who will be overbuilt in size and cost in the future? Also, we now have franchises, like Tesla and Rivian not having dealers and dealership facilities. Other factories are trying to bypass dealers. We also note that more new and used vehicles are being sold over and through the internet. With the above actual and possible changes in the franchise and dealer system, dealers should go slow on new, large building and facility updates.

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