Steering your dealership
to higher profits

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New Vehicle Unit Sales

As we all know, new vehicle dealers have had a reduction of day's supply of new unit inventory since the spring of 2020 which went down drastically since April 2021 and the lowest in recent history, in the fourth quarter of 2021. Currently, the day's supply of new units has been excessively short. However, the national number of new units sold over the last four calendar years has been reported by Automotive News is as follows:

2018	17,300,000	**2020**	14,600,000 (COVID)
2019	17,100,000	**2021**	15,100,000 (COVID)

Using 2018 as the base year, 2019 new unit sales were 99% of 2018; 2020 new unit sales were 84% of 2018; 2021 new unit sales were 87% of 2018. Even though new unit sales were only 87% in 2021 of 2018, total dealership sales in dollars were more in 2021 than the three prior years. Also, as we have read, new vehicle dealer profits and pre-tax pre-LIFO net profit percentage of sales was better in 2020 and especially 2021 than in the last ten years. If the factories will exercise some financial discipline in how many new units they produce, which is doubtful, perhaps out of not understanding economic law of diminishing returns, profit trends for future years would be expected to go back to the low range of 2%.

Used Retail Sales

Many dealers either intentionally or unintentionally are allowing third party vendors to sell some of the total used retail units that new and local retail used vehicle dealerships usually sell. Some of these third-party vendors: Carvana; Vroom; Carfax; TrueCar; Autotrader; Car Guru and new vehicle factories such as Ford (Ford Blue Advantage) and GM (CarBravo) sell some used vehicles that in the past, were normally sold by local new and used vehicle dealerships. Some new vehicle dealers and locally owned used vehicle dealers allow this "taking" some of their retail used vehicle sales by giving access to their I.T. systems and working with these third party vendors in a sharing process. Also, we have read where the factories are trying to insert themselves into the retail used vehicle business. We have seen where at least one of these vendors contacted a large volume new vehicle dealership. This third-party vendor wanted to be able to list, on their website, the used vehicle inventory of this new vehicle dealer's used vehicle inventory. They allowed the new vehicle dealer to receive the used front-end gross upon the selling of the used vehicle, but the new vehicle dealer allows this third-party vendor to receive the back-end gross and ultimately the dealer would likely lose the customer. New vehicle dealers need to be careful of these third-party vendors taking some of their retail used customers today and more and more in the future.

**"There are no secrets to success.
It is the result of preparation, hard
work and learning from failure."**

- Colin Powell

Inside

National Economic Trends

Our office participated in a national economic survey by the Chicago Federal. Some of the questions and results were as follows as of December 2021, with the most responded answer:

Economic Activity next 12 months	small increase
Change in overall demand	no change
Expected 12 month change in demand	small increase
Change in overall prices	no change (doubtful now)
Expected 12 month change in prices	small increase
Change in employment	no change
Expected 12 month change in employment	small increase
New capital spending	no purchases
Expected 12 month change in capital spending	no change
Change in overall labor costs	no change
Expected 12 month change in labor costs	small increase

New Vehicle Sales

Most dealers report a very minimal new vehicle inventory, but most dealers sold in 2021 87% of the new units sold in 2018. Though this was down 13% from a more conventional year, pre-tax pre-LIFO net profits remain good. We see a wide range of day's supply of new vehicles in stock and realize some dealers might be obtaining more than their share of new units while other dealers are not receiving their share. Some of the reasons some dealers might not be receiving their share of new vehicle production includes, but not limited to how vehicle sales are reported to the factory. Not thoroughly reporting the sale of any and all new units on a daily basis to the factory. You, as a dealer, need to know the computer cutoff time each day to report the sale of a new vehicle to the factory, and make sure your staff is reporting all new unit sales daily before this cutoff time. Also, your staff should check weekly from a listing of what your factory shows you have in inventory, and report all sales and then clean up the factory new vehicle inventory list at least weekly. If there are any new vehicles on the listing the factory has for your dealership that are not there, you need to be made aware of this and contact your factory representative. Implementing these suggested procedures will obtain newer vehicle inventory than you would have otherwise or timelier.

Also, active dealers should compare the number of new vehicles sold with competing same make dealers. In addition, see if you are selling proportionately the number of new units that you should compare to the new dealer.

This might mean that a Ford dealer should sell approximately the same number of Fords that the local Chevrolet dealer sells. Why do this? To make sure you are obtaining and selling your share of vehicles. There is a service, Cross-Sell 859-275-7944, that can supply a monthly report reflecting how many new vehicles are sold in most states in alphabetical order by dealer and the market share by franchise. This would allow you to see how many new vehicles are sold by adjacent same make dealers. You might find you are not obtaining your share from your factory. This is something that most dealers should analyze monthly.

Dealership Advertising

Below was written by a Media audit firm, John Paul Strong Advertising:

Every dealer wants or should want the answer to three questions surrounding advertising:

- *Did you get what you paid for?*
- *Did you pay a reasonable price?*
- *Did your agency manage your media buys appropriately?*

So how do you answer these three questions? The short answer is media audits, which are comprehensive independent evaluations of your advertising spend. The review is focused on improving your media efficiency and best practices surrounding advertising expenditures. Media audits typically identify 3% to 5% of your advertising dollars that are inefficient, wasted or lost. Elevating advertising to best-in-class processes can reduce the waste as well as identify and recover prior lost advertising dollars.

Pass Through Entity Tax (Complicated Thought)

Over the past several years, certain states have started enacting laws to allow Pass Through Entity (PTE) tax to be paid on behalf of the shareholders/partners of the dealership taxable entity. This is generally very complex and depending on the specific state, could have a material tax saving for individuals. However, if done incorrectly, it could inadvertently cost the shareholders/partners money. The bottom line is that several years ago the IRS limited the amount of state and local taxes (SALT tax) that individuals could deduct federally at $10,000. So, if an individual has $9,000 of real estate taxes and pays $25,000 in state withholding and estimated tax payments to their state, only $10,000 can be deducted federally and $24,000 is lost. PTE tax, if allowed in the state of the business, circumvents the business portion of this lost deduction. An example, using an Illinois corporation, under the old way if the entity reflects $1,000,000 of profit, and the Illinois tax is 4.95%, the individual will pay $49,500 of state tax personally. Assuming this individual pays more than $10,000 of real estate taxes, this $49,500 is lost forever as a deduction. If the business elects PTE, the business gets to expense the $49,500, so the profit of the business will reflect $950,500 ($1,000,000 less $49,500). The shareholder would not have to pay Illinois tax on their income generated by this business. The federal tax savings, using 37%, would be $18,315 ($49,500 x 37%). The facts and circumstances for each individual/business vary greatly, but if PTE is available in the state of the business, it should be discussed with their tax advisors.

Labor Work In Process

As our office has begun our annual visits to new vehicle dealerships to look through the end of year 2021 books and accounting records for the dealership income tax returns, we have noticed more than usual labor work in process issues. Many of these issues are caused by the increased labor rates paid to technicians that many dealers had to do in 2021 to retain technicians. We recommend having your accounting staff check and validate the labor rate being used on service tickets to make sure those new higher rates are reflected on the labor cost section of service repair orders.

Cancelling Refund Cancellations as Down Payments

Within the last year, some service contract and insurance providers have stopped sending cancellation checks to dealerships, instead they are starting to send these refunds directly to the customer. For those dealers that use cancellations as down payments, you should have the individual putting the deal together get paperwork confirming that the refund check will be sent to the dealership. It is possible that some dealers will end up never receiving this down payment money, as it will be sent directly to the customer and the customer will not understand and will refuse to refund and write a check to the dealership.

Factory New Vehicle Sales Efficiency

We have written in the past about a new vehicle dealer's factory measuring its dealer's new vehicle sales efficiency. What this means is, if a dealer sells its factory expected number of new vehicles, the dealer will normally score 100%. In today's short inventory times, if the new vehicle dealer sells what they are assigned, their efficiency score would be, and should be, 100% efficiency even though they are selling less new vehicles than in normal years. We have seen dealers that sell all the vehicles produced for them, and are sold promptly by the dealer with average or much below average day's supply of new vehicles and scoring approximately 90% efficiency. This seems impossible, especially if it is low sales efficiency every month. What can this indicate? The dealer is not getting their share of new vehicles and/or the factory scoring system has a computational "flaw." Few factory employees know the exact formula for allocating and supplying new vehicles to their dealers. If you have a current below average day's supply of new vehicles and your sales efficiency score is below average, it is likely you are being shorted new vehicle inventory. It might not matter that much today that you are experiencing lost new unit sales, but in the future these below 100% sales efficiency scores might be held against you with unpleasant consequences.

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