

Steering your dealership to higher profits

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As we wrote in the January 2023 month's issue, the year 2022 was the second-best year for new vehicle dealer's pre-tax net profit as a percentage of sales of 4.9%, compared to the best year ever of 5.4% in 2021. We have expected the best results year of 2021 would gradually trend downward back to pre-Covid years of 2019, which was 2.3% pre-tax net profit percentage of sales. This trend appears to be slowly continuing. Though it is only one month, all four of the dealer groups net percentage of sales is down in comparison to January 2022.

Comparing January 2022 to January 2023 reflects as follows:

	Net % Sales–2022	Net % Sales–2023
CHRYSLER	4.8%	1.9%
FORD	4.1%	3.9%
G.M.	3.1%	2.2%
IMPORTS	5.2%	2.3%
OVERALL	4.2%	2.6%

Monthly Financial Results – October 2022

	January Better Than December	January Worse Than December	January Best Month	Net Profit % Sales January	New Units	Used Units
CHRYSLER	—	—	—	1.9%	22	36
FORD	—	—	—	3.9%	32	39
G.M.	—	—	—	2.2%	30	40
IMPORTS	—	—	—	2.3%	45	44
OVERALL	—	—	—	2.6%	31	39

	Net < 3.0%	Net 3.0 – 3.99%	Net 4.0 – 4.99%	Net + 5.0%
CHRYSLER	50%	25%	10%	15%
FORD	40%	20%	10%	30%
G.M.	45%	35%	10%	10%
IMPORTS	55%	25%	10%	10%
OVERALL	50%	25%	10%	15%

Monthly Financial Results – December 2022

	December Better Than November	December Worse Than November	December Best Month	Net Profit % Sales December	New Units	Used Units
CHRYSLER	10%	90%	5%	N/A	25	32
FORD	40%	60%	20%	2.6%	27	61
G.M.	50%	50%	20%	3.0%	37	42
IMPORTS	45%	55%	5%	3.8%	53	50
OVERALL	40%	60%	10%	2.3%	37	47

**“Experience is the thing
of supreme value.”**

– Henry Ford

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Federal Income Taxes (corrected)

Last month we had national metrics with 11% of earners. It should have been 1.1%. We have corrected this in this article. Also, at times we hear certain politicians and the media say the high income, sometimes mixing income with “wealth,” taxpayers are not paying their “fair share.” We guess almost all those that say this have no idea about what they are talking about. The IRS publishes in its many thousands of documents income and income tax metrics. These metrics do not include many tax-free benefits tens of millions of citizens receive. Below we have shown Individual Income Tax metrics reported by the IRS for calendar year 2019 and 2020.

	2019	2020
Top 1.1% of earners number of tax returns	1,719,000	1,846,000
Income range top 1.1% of earners	+ \$500,000	+ \$500,000
Top 1.1% of earners gross income of total income	21%	23%
Top 1.1% of income taxes paid percentage of total income taxes	40%	44%

As a summary of the above, the top 1.1% of earners make 21% of the total adjusted gross income and pay 40–44% of the income taxes.

New Vehicle Inventory Allocation

Most new vehicle dealers do not “really” know how their factory “allocates” new vehicle inventory each month. Dealers think they know or only know in general terms but they do not really know. We would suggest you email your factory representative asking them to put in writing how they allocate new units to you each month. You do have the right to know even though it will probably take a couple of requests before you obtain a detailed answer. Your factory should be able to answer in detail how they allocate new units. Often times they will be reluctant to respond accurately and in detail. You should know this information so you can see if you are being allocated reasonably. Feel free to contact us to discuss at no charge.

Parts Inventory

We find at the end of the year when we are preparing the income tax returns for over 275 new vehicle dealers we ask for a parts inventory summary from the parts manager’s computer parts inventory. This summary report will give you several categories of the parts inventory along with an aging of the parts inventory. We suggest you as a dealer meet with the parts manager to discuss the total as it compares to the accounting parts inventory balance and the amount of parts inventory exceeding 5%. If there is a substantial difference inquire why and/or if you do not like the answer, feel free to call us at no charge.

National Economic Metrics

We receive an Interest Rate Risk Management weekly update courtesy of KeyBank.

Some of the informative metrics include:

SOFR (comparable to LIBOR)	4.55%
Fed Funds rate	4.75%
Prime rate	7.75%

We receive a Chicago Fed Survey of Economic Conditions:

Expected 12 month change in U.S. Economic Activity	small increase
Expected 12 month change in Prices	small increase
Change in Employment	no change
Change in Credit Conditions	neutral

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