POWER STEERING

Steering your dealership to higher profits

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November 2020 profit trend results for new vehicle dealerships reflected 30% of our dealers were down in profits from October 2020. This was expected based on the month of November is typically down from October and profits since May 2020 this year have been so good. Pre-tax net profit for this group of our dealers was 2.9% of total sales for the over 250 new vehicle dealers in our survey.

For the enclosed survey group of 59 dealers, we looked at the dealers for each factory group and took the highest profit dealers for each group from high to low (all above average profits of our dealers). This select group had a pre-tax net profit as a percentage of sales of 3.9% for the month of November 2020 and 3.0% Y-T-D through November. Remember the pre-tax profits for the first four months of the year were much below average or a loss. The median (middle) dealer had $49,700,000 sales for the 11 months ended November 2020 while this same metric from the NADA was $52,800,000. The NADA reported through November 2020 Y-T-D pre-tax net profit as a percentage of sales to be 3.4%. We have not seen this 3.4% metric ever above 2.9%. In other words, the best ever. Also, the NADA reflects November Y-T-D 2020 sales to be 92% of 2019 Y-T-D sales.

Monthly Profit Trends

	NOVEMBER BETTER THAN OCTOBER	NOVEMBER WORSE THAN OCTOBER	NOVEMBER 3% + PROFIT % SALES	NOVEMBER LOSS MONTH	NOVEMBER LOSS Y-T-D
CHRYSLER	30%	70%	50%	0%	0%
FORD	35%	65%	40%	15%	15%
G.M.	35%	65%	40%	10%	5%
IMPORTS	20%	80%	35%	10%	10%
OVERALL	30%	70%	40%	10%	10%

Nationwide new car and light duty truck sales were down approximately 15% in 2019 compared to 2020. In 2020, Automotive News reported 14,600,000 new cars and light duty trucks were sold compared to 17,100,000. From a market share perspective, those franchises that improved the most: Toyota, Chevrolet, Kia, Mazda, and Ram. For those that went down the most in market share: Nissan, Dodge, Ford, and Honda.

"Success is not final; failure is not fatal: it is the courage to continue that counts."
-Winston Churchill

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Financial Metrics

Now that 2020 has closed out, who would have ever thought most dealers' profits would have been more in 2020 than prior years, especially with what we knew in the second half of March 2020 and April 2020. Our enclosed survey reflects net profit as a percentage of sales is much improved and used retail gross profit margin is now over $2,000. The NADA has reported through November 2020 that used retail gross profit margins are increased approximately $300 from the same period in 2019. The NADA also reported new retail gross profit margins increased over $300 from the same time period in 2019. The conventional wisdom for these higher gross profit margins was reduced new inventory and used inventory levels. Also, from our survey the overall ratio of new retail sold to used retail sold is close to 1 to 1.

Additionally, you might find it interesting what some new vehicle dealership metrics were many years ago. In 1978, nationwide new car and light duty truck sales were 15,100,000 versus 17,100,000 in 2019. In 1976, annual dollar sales for a new vehicle dealer was $4 million with a pre-tax profit margin of 2.0%. In 1986 annual dollar sales for a new vehicle dealer was $11 million with a pre-tax profit margin of 2.2%.

Dealership Business of the Future

As we all read and most of us know, the car business is and will be changing due to a couple of areas. We are and will be seeing much less emphasis on gasoline and diesel fuel vehicles being replaced by electric vehicles. We also expect, once the software has been developed, to have vehicles operate with no human being as the driver. In these cases for some households, they will order a vehicle for temporary use that will arrive at their work or residence for maybe a few hours of use. When this feature is available, some households might need one less vehicle than they have now. With electric vehicles, we are told that maintenance on these vehicles will be less than on gasoline and diesel vehicles. This means smaller parts and service departments if the number of new vehicle dealerships remain the same or fewer new vehicle dealership but with less employees in some departments.

It was written in *Automotive News* that "GM Aims to Go all Electric by 2035." "Aims" means they think they might or hope they will. As most of us know the battery technology is not ready yet due to the cost of these batteries and electric vehicles and the limitation on how many miles a vehicle can go before re-charging is needed. The cost for these vehicles, if not a "semi-luxury or luxury" vehicle, needs to be in the $30,000 - $50,000 range. This will take time. Bloomington-Normal Illinois Rivian is planning to produce all electric trucks and vehicles in the next few months in an old Mitsubishi facility. We also know that all the other major vehicle manufacturers "plan" to have all electric vehicles with reasonable mileage range in the next few years.

It is too soon to tell if franchises like Tesla can sell vehicles with a 2-3 car showroom and no parts or service departments. When a customer needs repairs, how and where will they have their vehicle repaired? Tesla only repair shops or independent repair shops? Who knows?

Will customers be purchasing most all of their new and used vehicles by having them dropped off at their residence? These customer will be buying vehicles without test driving them? We think many industry "experts" do not realize that customers like to drive vehicles before they buy them. Also, a large percentage of the buying public is credit "challenged" and need the expertise of dealership employees to help consummate the finance deal. Can you really "appraise" a vehicle over the internet with a trade-in customer without walking around it and touching it? What happens if there is a mis-understanding on the "quality" of the trade-in over the internet?

If you are planning to buy a dealership, you should be aware of all of this so you do not buy a dealership with a facility that will be too big and cost more to maintain than needed. Also, if you are going to increase the size of your current facility because you think it makes sense or your factory is "pressuring" you to increase the size of your facility, you need to be cautious. How large will dealership facilities really need to be 10-15 years from now? Does anyone know? Will your factory be able to produce all electric vehicles at a reasonable saleable price in the future?

Parts Department

We suggest to all dealers they spend 2 minutes a month, at least on the parts department. If they are only going to spend 2 minutes, have the office supply you the following:

- Parts inventory amount from the accounting records.
- Parts inventory amount for the parts summary report produced by the parts department.

On one sheet of paper list out in three columns: the amount of parts from accounting, along with parts from the parts department summary report; in the third column reflect the difference between column one and two. Perform the simple report every month. What are you looking for? See what the trend is in the third column. Of course it will vary month to month but you are looking for the trends of the third column amounts. If it keeps growing either positively or negatively, you need to look into it.

We are especially concerned if the first column continues to grow faster than the second column, you might have an accounting problem or a “theft” issue. Based on this, why not have your accounting office prepare this worksheet going back to January of 2020 and give it to you each month.

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