

# Steering your dealership to higher profits

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We believe the year 2022 was the second-best net profit percentage of sales in the last fifty years. The Y-T-D for November 2021 was 5.2% while in November 2022 it was 4.7%. The NADA has quit publishing certain national numbers for various reasons. Also we prefer using November's Y-T-D since December usually has LIFO adjustments, special year end bonuses to dealers for tax purposes, and other special accounting entries. November has minimal or fewer special adjustments. Also, pre-tax net profit percentage of sales has been slowly trending downward since the end of 2021. See results below from our over 250 new vehicle dealers.

November Y-T-D 2021	5.2%
November 2021	5.9%
January 2022	4.2%
February 2022	4.2%
March 2022 (typically the best month of the year)	5.5%
April 2022	4.9%
May 2022	4.9%
June 2022	4.6%
July 2022	4.3%
August 2022	4.7%
September 2022	3.9%
October 2022	3.3%
November 2022	3.6%
December 2022	2.2%
December Y-T-D 2022	4.8%

The enclosed metrics page reflects the month of December and Y-T-D pre-LIFO net profits percentage of sales. We find front-end gross profits are trending lower.

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**“Everything comes to him who  
hustles while he waits.”**

**– Henry Ford**

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## Nationwide New Car And Light Duty Truck Sales

For the fourth quarter results, there were 3.3 million sold in 2021 and 3.6 million sold in 2022. A good trend. For the year of 2022 there were 13.9 million sold while in 2021 there were 15.1 million sold. As reported by Automotive News, Toyota was the highest seller but down 8.8%, second was Ford but down 2.1%, third was Chevrolet but was up 5.7%, and lastly, Honda but was down 32.7%.

### Federal Income Taxes

We all read at times where someone writes or states the “high” income or “wealthy” do not pay their fair share of income taxes. The IRS publishes in its many thousands of documents income and income tax metrics. These metrics do not include many tax free benefits that tens of millions of citizens receive. Below, we have shown Individual Income Tax metrics for the calendar year of 2019 and 2020.

	2019	2020
<b>Top 11% of earners</b>	17,190,000	18,460,000
<b>Income range top 11 % of earners</b>	+\$500,000	+\$500,000
<b>Top 11% of earners gross income of total income (all tax payers)</b>	21%	23%
<b>Top 11% of income taxes paid percentage of total income taxes</b>	40%	44%

As a summary of the above, the top 11% of earners make 21% of the total adjusted gross income and pay 40–44% of the income taxes.

### New Vehicle Inventory – Sales Efficiency

It is obvious to us there is some inequity in the factories supplying new vehicle inventory. For the reader: GM’s Franchise agreement contains “distribute new Motor Vehicles among its dealers in a fair and equitable manner.” Also it states, “Upon written request, General Motors will advise Dealer of the total number of new Motor Vehicles, by allocation group, sold to dealers in Dealer’s market Area or Region during the preceding month.” We have also seen other dealers, different franchises, with Sales Efficiency of less than 80%, but the dealer never had more than a handful of new units on the ground of new vehicles such as day’s supply of less than 10 days. Be careful for the factory might use this low Sales Efficiency against you in the future though their scoring system is grossly mis-computed and not equitable.

### New Vehicle Inventory

We are finding some factories are drafting on dealers, being paid by dealers’ banks, even though the vehicle has not been built or the dealer has not received the vehicle. In some cases the factory is being paid, but the vehicle has not been 100% built or shipped. We read in an agreement between GM and a dealer’s lender the following: “Document No. 1 permits GM or its collecting bank to collect directly from the financing organization or its paying bank the invoiced amount of each vehicle shipped by GM to a particular GM dealer.” It is obvious that GM has a “special” procedure on vehicles not 100% built and not “shippable” or shipped. We think this might be “breaking” the rules or the “spirit” of the dealer’s finance sources. We suggest you have your office verify at least twice a month that all vehicles on your floor plan statement are physically at the dealership.

**NOTE:** The page of metrics, page 3, are M-T-D and Y-T-D pre-LIFO metrics.

## New Vehicle Floor Plan Interest Rates

We have seen a lot of volatility in interest rates in 2022. Also in the past we have seen the term LIBOR for interest rates replaced by SOFR (Secured Overnight Financing Rate). In the past and now, dealers interest rate is often quoted as SOFR + some percentage, or PRIME less some percentage, or Prime + some percentage. We took a recent survey as of the end of 2022 of several dealers to give the reader an idea of what smaller and larger dealers floor plan interest rate is. We have put them in order of low to high. The Prime rate as of February 13, 2023 is 7.75% and SOFR is 4.55%.

<u>TYPE</u>	<u>ADJUSTMENT</u>	<u>FINAL RATE</u>
SOFR	+1.00%	5.32%
		5.42%
		5.47%
SOFR	+1.25%	5.55%
SOFR	+1.45%	5.77%
		5.68%
		5.724%
		5.95%
		6.02%
		6.03%
SOFR	1.85%	6.15%
SOFR	1.85%	6.15%
PRIME	-1.25%	6.225%
SOFR	+1.95%	6.25%
PRIME	-1.25%	6.25%
SOFR	+2.00%	6.30%
SOFR	+2.00%	6.30%
		6.64%
		6.88%
		7.00%
		7.00%
PRIME	-0.50%	7.00%
PRIME	-0.50%	7.00%
PRIME	-0.25%	7.25%
PRIME	0.00%	7.50%
		7.65%

As you can see there is a wide range of new vehicle floor plan interest rates being charged from a low of 5.32% to a high of 7.65%. Based on the date this was written, December 19, 2022, the SOFR 30-day rate was 4.32% and Prime was 7.50%.

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