*Steering your dealership*
*to higher profits*

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**Written by Carl Woodward & Scott Woodward** **July 2022**

June 2022 profit results, net percentage sales, 4.6%, remain very good. May 2022 was 5.0%. It is too soon to tell if there is a downward trend. Historical net percentage sales were in the range approximately 2.4% from 2010-2019 while 2020 approximated 3.6% and 2021 was 5.0%.

## Monthly Financial Results – May 2022

| | May Better Than April | May Worse Than April | May Best Month | Net Profit % Sales May | New Units | Used Units |
|---|---|---|---|---|---|---|
| **CHRYSLER** | 50% | 50% | 15% | 4.8% | 31 | 44 |
| **FORD** | 25% | 75% | 25% | 4.9% | 24 | 49 |
| **G.M.** | 30% | 70% | 10% | 4.0% | 27 | 45 |
| **IMPORTS** | 50% | 50% | 10% | 5.8% | 49 | 53 |
| **OVERALL** | 45% | 55% | 15% | 5.0% | 36 | 49 |

## Monthly Financial Results – June 2022

| | June Better Than May | June Worse Than May | June Best Month | Net Profit % Sales June | New Units | Used Units |
|---|---|---|---|---|---|---|
| **CHRYSLER** | 40% | 60% | 5% | 4.5% | 37 | 53 |
| **FORD** | 50% | 50% | 10% | 4.7% | 25 | 52 |
| **G.M.** | 60% | 40% | 15% | 4.3% | 42 | 57 |
| **IMPORTS** | 50% | 50% | 20% | 5.3% | 58 | 59 |
| **OVERALL** | 50% | 50% | 15% | 4.8% | 44 | 56 |

| | Net < 3.0% | Net 3.0 – 3.99% | Net 4.0 – 4.99% | Net + 5.0% |
|---|---|---|---|---|
| **CHRYSLER** | 35% | 5% | 15% | 45% |
| **FORD** | 20% | 10% | 25% | 45% |
| **G.M.** | 20% | 25% | 20% | 35% |
| **IMPORTS** | 30% | 10% | 10% | 50% |
| **OVERALL** | 25% | 10% | 15% | 45% |

**“The only real mistake is the one from which we learn nothing.”**

**– Henry Ford**

Inside

## National Dealer Financial Metrics

As you can see from the enclosed survey, our typical dealer reflects average monthly dollar sales of $5.4 million through June 2022 or annualized dollar sales of $65 million for 2022. As you can see metrics from page 1 and metrics from the enclosed survey, there is a wide range in both month and year-to-date of net profit percentage of sales. Allowing for a large amount of new fleet sales, used wholesale sales, high dealer compensation, and out of line high rent which could be reasons that might validate lower profit percentage for dealers with monthly or year-to-date net profit percentage sales below 4.0%. For those dealers in this category, you might analyze why you are low. Feel free to call us to discuss the reasons your dealership is below average in pre-tax profits percentage sales. The enclosed survey also reflects year-to-date gross profit plus other income of sales to be 16.7%. If you are below average in pre-tax profit margins, you might compute this metric.

## Nationwide New Unit Sales

Nationwide new unit sales for cars and light duty trucks were down substantially for the first six months of 2022 compared to the first six months of 2021 as reported by Automotive News. It was reported in 2022 that 6,800,000 new units were sold versus 8,400,000 new units sold in 2021. Toyota was first in both 2022 and 2021; Ford was second in both 2022 and 2021; Chevrolet was third in both 2022 and 2021; Honda was fourth in both 2022 and 2021; and Jeep was fifth in 2022 and sixth in 2021. From a market share perspective, Toyota and Honda were both down, and Ford, Chevrolet, and Jeep were all up.

## Special Compensation Employee "Bonus"

As we all know, average new vehicle dealer pre-tax net profit percentage of sales is approximately double in 2021 and 2022 to what it was prior to 2020. We I have encouraged and seen dealers paying "special" one- time bonuses to their employees to share in these increased profits. We have seen dealers at times pay a $500 special bonus to all employees and up to $1,000 to all employees. Special consideration is given to newly hired employees. Some dealers have done this several times to all their employees. Most dealers that have done this are glad they paid these special "bonuses."

## New Vehicle Dealership Upgrades

As many of you are aware several of the factories currently are pressuring their dealers to upgrade, or "freshen," and/or increase the size of the dealership facilities even though these factories are not able to supply adequate new vehicle inventory. If we are to believe what we are told and written, the "electric" cars and light duty trucks will require less service, parts space, and supposedly less technicians. Also, it seems some factories are "hinting" they will not be supplying all the new electric vehicles for all their current franchised dealers where there will be less dealers or factory "direct" sales to retail customers. Also since most, if not all of the factories are not able to supply current new vehicle inventory requests, and it is not known how long this "shortage" will last, it makes no sense to "freshen up," upgrade, or expand the size of their dealerships now until the future is better understood. Based on this, we suggest you do not honor current factory requests for facility costs with a well written letter explaining why facility changes should wait until the new vehicle industry has stabilized.

## New Vehicle Sales Efficiency

We have seen many dealers' new vehicle sales efficiency scores. This means that if a dealer obtains a score of 100 or 100%, they are meeting average or standard factory performance guidelines. This usually means 50% of dealers score more than 100 and 50% of dealers score less than 100 or 100%. Some combination of the number of all dealers should average 100%. We have seen some dealers with "low" scores, along with how many new vehicles they were selling, and how many new units they had in stock. Mathematically it was obvious in some cases the factory "scoring" system and/or allocation of new are "flawed." Some factories responses are completely uninformative, given that the dealers are selling quickly through all available allocations, and the manufacturer is losing no sales in the dealer performance. You will need to remember this for the future if your factory pressures you due to lower sales efficiency scores to agree with their requests that are not in your interest.

# New Vehicle Dealer Income Taxes

This is a general, not technical, article on reducing personal income taxes for new vehicle dealers. The income tax rate on taxable income for dealership "S" corporations and Partnerships has lower maximum income tax rates than the personal taxable income rates of individuals. Subject to not having non-owner employees paid on the pre-tax net profits of the dealership in their pay plan, or allowance for certain compensation plans, it will save total income taxes if compensation to dealer/owners are paid as little as possible in W-2 compensation. Since the tax rate is higher on dealers W-2 compensation and is lower on dealership taxable income, you should consider reducing your W-2 income which will correspondingly increase the taxable income of the dealership. Though the total W-2 compensation plus dealership taxable income might be the same, the total income taxes will be less in many cases. Also there are some other income categories to the individual if it is reduced, dealership income will go up dollar for dollar, but personal income will go down dollar for dollar. You might have your CPA look into your dealership and personal income to see if shifting some of these dollars might save you thousands of federal income taxes.

**For More Information:**
Call (309) 662-8797
or Fax (309) 662-9438

carlswoodward@cpaauto.com
Bloomington, IL 61702
P.O. Box 1584
**Woodward & Associates**
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