Steering your dealership
to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

Written by Carl Woodward & Scott Woodward

June 2022

Pre-tax profits as a percentage of sales for dealers through May 2022 remains excellent. The overall average monthly results are as follows: January 5.3%; February 5.0%; March 5.6%; April 4.9%; and May 4.8%. We regularly have dealers call to discuss the car business. Many will say they want / need more inventory, especially new vehicles. We always ask them how their profit margins are compared to pre-2020 Covid pre-tax profits. They always say their profit margins are much higher now. We asked them what will happen to their pre-tax percentage of sales profit margin if they have much more inventory. They then realized they do not really want more day's supply of new and used vehicle inventory like in the past. Dealers should generally want to maintain the current day's supply while having the higher pre-tax net profit percentage of sales.

Monthly Financial Results – April 2022

	April Better Than March	April Worse Than March	April Best Month 2022	Net Profit % Sales April	Average Month Sales
CHRYSLER	45%	55%	20%	4.6%	$4.3 million
FORD	70%	30%	65%	6.0%	$4.6 million
G.M.	50%	50%	50%	3.9%	$4.6 million
IMPORTS	35%	65%	35%	5.6%	$5.6 million
OVERALL	50%	50%	40%	4.9%	$4.5 million

Monthly Financial Results – May 2022

	May Better Than April	May Worse Than April	May Best Month 2022	Net Profit % Sales	Ratio New to Used	
CHRYSLER	50%	50%	15%	4.8%	40%	60%
FORD	25%	75%	25%	4.9%	30%	70%
G.M.	30%	70%	10%	4.0%	35%	65%
IMPORTS	50%	50%	10%	5.8%	45%	55%
OVERALL	45%	55%	15%	5.0%		

For May 2022 pre-tax net profits results by profit margin:

15% made less than 4.0% of sales
15% made 4.0% – 5.0% of sales
70% made over 5.0% of sales

"You don't have to hold a position in order to be a leader."

– Henry Ford

Inside

Factory New Vehicle Inventory Issues	2
Factory Relations	2
Monthly Sales and Profit Survey	3
Gross Profit – Departmental	4

Factory New Vehicle Inventory Issues

There are many issues occurring with new vehicles from inventory availability, changes in assigned vehicle inventory, vehicle sales effectiveness, and possible future legal disputes. Many of these issues concern many dealers and when reading this do not ignore for some of these issues might affect your dealership in both the short term and middle term; 1-10 years.

Dealer sales effectiveness is considerably below factory metrics even though the dealer has less than a 10-day supply. One dealer had a 75% sales effectiveness selling over 100 new units and having less than a 10-day supply. How can this be? Impossible. This factory might use these much less then 100% new vehicle sales effectiveness to "force" upon this dealer two to three years from now certain financial issues. This dealer needs to plan ahead, hire a firm to analyze these metrics to respond, and be prepared for the future.

With new vehicle inventory overall shortages, it appears some dealers are being shorted in new vehicle inventory. This is easy to measure by actually counting new units on several same franchise dealer lots versus the number of new vehicles being sold by those dealers and computing day's supply. Dealers need to document these metrics and let their factory know in writing. We personally went to several same makes franchises counting new inventory versus reported sales and it was obvious there was an allocation problem for this group of same make dealers.

Dealer's factory reports reflect so many new units in stock, even though in some cases these factory reports have units reported in the dealer's inventory even though several vehicles have been on the factory inventory report for several months but not yet received by the dealer. This causes the dealers inventory level and day's supply to be mis-computed. You might have your staff confirm weekly the accuracy of the factory inventory report and write the factory for any discrepancies.

Dealers in the past might purchase from an accounting perspective all new units they have received on a factory invoice even though the vehicle had not yet arrived. This may have not mattered in the past, but it hurts certain dealers in their today "available" new vehicle day's supply. We suggest you do not put on your accounting records any new vehicle that has not physically arrived and is not in a salable condition (missing some equipment).

We have read a factory e-mail about high demand and limited production products that generate very high gross profit margins where the factory is changing the length of warranty terms if the customer did not keep the new vehicle purchased long enough. We kept a copy of the e-mail on this issue. We guess it is acceptable for a factory to keep raising the price of extremely desirable limited production new vehicles, but it is not acceptable for a dealer to charge more or the initial customer reselling the vehicle for a profit. Many would call this to be hypocritical of the factory. It is obvious that this factory does not understand basic economics and the penalty for someone re-selling this vehicle too soon will be penalized. What about the innocent buyer of the second sale not knowing about the consequences?

Some factories are currently assigning dealers a revised new market area assignment. Generally speaking, dealers should want a smaller area of responsibility than a larger area of responsibility. One reason is at times the dealer's factory sales effectiveness will be higher, better for the dealer, than lower. We have seen several of these re-assessed market areas when they have obvious "oversights." This includes distance, drive time distance to competitive same make dealers, not allowing for rivers and bridges, state lines, quality of highways, and other issues. You need to review these new market assignments or it could cost you in the future.

Factory Relations

We regularly talk to dealers about their requests and relations with factory representatives. Frequently on factory "disputes," the dealer only has their "memory" on issues discussed and the factory representative's memory is different than the dealer. Often times the factory representative has a written summary in the dealer's file. Occasionally this factory written summary differs from the dealer's memory. We regularly suggest to dealers they send e-mails to their factory representative to memorialize conversation and issues. We advise all dealers to do this, if you are not good at writing e-mails, have someone who can at the dealership write and send this e-mail to both the factory representative and dealer file.

Gross Profit – Departmental

We recently were asked to perform an analysis for a G.M. Dealer and let them know how their departmental gross profit measured by comparing each department. If you prepare this analysis and find by chance your service and parts gross profits are low, this might indicate the size of these two departments are not as large as they should be.

New Front-end Gross Profit percentage of all departments	19%
New F & I Gross Profit percentage of all departments	6%
Used Front-end Gross percentage of all departments	25%
Used F & I Gross Profit percentage of all departments	10%
Service Gross Profit percentage of all departments	19%
Parts Gross Profit percentage of all departments	12%
Other Income	9%