Steering your dealership
to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

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

January was an excellent profit month for most dealers even though the demand for new vehicles well exceeds the availability of new vehicle inventory. This is good. As you can see below and in the enclosed January metrics, the average dealer made 5.6% pre-tax net profit percentage of sales and the median (middle) dealer made 5.3% of sales. Remember, the average dealer in the time period 2010 – 2019 averaged approximately 2.5%.

January Survey Results

	Ratio New Retail To Used Retail	New Day's Supply	Net % Sales
Chrysler	86 – 100	35	6.1%
Ford	76 – 100	37	4.7%
G.M.	63 – 100	41	5.0%
Imports	125 – 100	18	6.3%

Compensation

We have had many phone calls with dealers that want to change the pay plans for some of their sales department employees. These dealers have found some of their sales department employees making substantially more than their pre-Covid compensation and want to reduce these employee's compensation. We usually ask these dealers if the dealership is making double the profits they had made in the past, and they usually say yes. We typically comment that if they change the pay plans and upset these employees, the dealership will likely perform at a lesser profit level by upsetting these "overpaid" employees. We suggest to these dealers to leave compensation the same as long as they are making double profits.

Advertising Expense

After reviewing several below average pre-tax profit margin new vehicle dealers and pre-tax net profit percentage of sales, we found many of these dealers had what appears as too much advertising expense. We based this comment on the amount of advertising paid, as a percentage of vehicle gross, compared to the past pre-Covid metrics and current advertising metrics for very successful dealers. Doesn't it make sense to reduce advertising substantially if you do not have enough new and used vehicle inventory in stock?

"Value the relationship more than making your quota."

- Jeffrey Gitomer

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New Vehicle Inventory Day's Supply

The enclosed survey reflects new vehicle sales in units along with new vehicle inventory day's supply in units. These metrics were obtained from the new vehicle dealer's January financial statement. The average and median day's supply new, for Chrysler was 35 – 36, Ford was 37 – 38, GM was 41 – 38, and Imports was 18 – 17. As you can see, there are many dealers with less than 20 new units in stock and very low day's supply. In these cases, these dealers are either very efficient at selling new units that come in promptly, have a large percentage of pre-sold new units, or their factory allocation method is unfair and unreasonable. You can see several import dealers that sold more than 50 new units in January, but at the end of the month had 10 new units in stock or less. We would question the factory allocation method for those dealers. Those dealers might write their factory representative questioning whether their allocation is fair based on our metrics in this article.

Almost all dealers tell us they want newer vehicle inventory. We then ask them how their overall net profit percentage of sales is compared to 2010 – 2019. They all answered it is much more. We then make the comment that status quo is fine, less new vehicle inventory, with the current "double" profits than having much newer inventory and making much less. In other words, it is better for most dealers to have the current "low" new vehicle inventory levels and profits than more inventory level and much less profits. The factories might also be better off than making too few units, offer less rebates, and making more profits in some cases. If you want to increase your allocation of new vehicles you might make sure the following is done monthly:

Vehicles that arrive on the first 1-5 days of the month should be put on the books in that month, not the prior month. We know many dealers will record the purchase of vehicles that arrive the first few days of the month to the books of the prior month. Quit doing this (minimize financial statement new units in stock). To minimize the number of new vehicles in inventory at the end of the month on the dealer financial statement, report sold to the factory and on your accounting records any and all new vehicles that have been sold. If you have a vehicle that arrived that is not salable yet, then do not enter it on your accounting records until salable. Remember you want to reflect on your month end dealership financial statement the accurate, but minimal, new vehicles in stock.

Reinsurance Companies

All new vehicle dealers sell vehicle service contracts but many do not have their own reinsurance company. What are these dealers giving up? These new vehicle dealers are missing some incremental profits and are giving up a material amount of income. Dealers sell service contracts and receive a commission, gross profit, upon the sale of the service contract. However, there is also additional profit to be made from the service contract sold. This includes profit made by the administrator of the service contract and/or the actual service contract company. Some dealers do receive this second level of limited profit. Often, this second level of profit, commission, is called "retro" program income. However, even under most of these "retro" programs there is still another level of profit available for the selling dealer. To obtain this level of profit, the selling dealer must own a reinsurance company. When a dealer owns this reinsurance company, this company has a few minimal administrative expenses along with a typical fee paid to the service contract administrator. The administrator and/or insurance company will typically send someone to the dealership on a monthly basis to train and guide the salesperson at the dealership to increase the penetration of selling these service contracts. The administrator will typically charge a fee out of the payment made to the reinsurance company, cost of service contract, for these needed services. As an example: selling price of service contract by dealer less cost of the service contract, gross profit retained by the dealership less fee to service contract administrator less minimal administrative fees, less covered repairs, some minimal income taxes leaves incremental profits at the reinsurance company level for the dealer, owner of this reinsurance company. The incremental profits that are often left on the table by dealers that do not own their own reinsurance company can amount to an annual six figure amount. These administrative fees are very negotiable. We see a wide range, low to high, of these administrative fees. Make sure these administrative fees are reasonable and competitive.

Service and Parts Department Gross Profit Margins

We went through a large number of new vehicle dealers paid labor, repair shop parts, warranty labor, and warranty parts gross profit margins. We realize that the allowed pricing for warranty labor and parts might differ by state due to factory franchise laws.

Paid Labor Gross Profit Margin – Average 74%

Repair Parts Gross Profit Margin – Average 37%

Warranty Labor Gross Margin – Average 75%

Warranty Parts Gross Profit Margin – Average 36%

Paid Labor Gross Profit Margin – Median 76%

Repair Parts Gross Profit Margin – Median 36%

Warranty Labor Gross Profit Margin – Median 73%

Warranty Parts Gross Profit Margin – Median 32%