Steering your dealership
to higher profits

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Written by Carl Woodward & Scott Woodward **November 2021**

October 2021 pre-tax profit margins and profits remain excellent. The average dealer reported pre-tax net profit % sales of 5.4% for the month of October 2021 and 5.1% for October 2021 year-to-date. Overall, October 2021 was a better performing month than September 2021. Many expected downward profit trends since May 2021, but we have not seen this. Import dealers had the best pre-tax % sales profit margin in October 2021 at 6.3 %; Ford 5.4%; Chrysler 5.2%; and GM at 4.7%. If your dealership is less than 3.0 %, you might analyze why?

October Monthly Profit Trends

	OCTOBER BETTER THAN SEPTEMBER	OCTOBER WORSE THAN SEPTEMBER	OCTOBER BEST MONTH	OCTOBER PRE-TAX + 5.0 % NET SALES
CHRYSLER	55%	45%	20%	55%
FORD	70%	30%	15%	55%
G.M.	60%	40%	10%	35%
IMPORTS	55%	45%	10%	65%
OVERALL	60%	40%	15%	55%

Estate Planning

We guide dealers at times on estate planning. Often-times we find dealers believe they have a thorough plan, but after limited analysis, they realize their estate will be paying millions of dollars of state and federal estate taxes unexpectedly. If the current federal administration passes its proposed estate tax proposals, most families with an estate value exceeding say $6 million will probably pay a large amount of estate taxes. Waiting for the perfect plan will probably cost your family. One thing we suggest to dealers is to give ownership of certain assets with restriction to get some assets out of their estate before it is too late. This can include notes payable to the dealer that are transferred to children with restrictions. This can include real estate where the dealer remains in control of the real estate.

"Do what you can, with what you have, where you are."

- Theodore Roosevelt

Inside

Dealership Valuations

We often times review third party new vehicle dealership valuations for attorneys and other CPA's and valuators. Some of the reasons include for estate purposes and gifting. Sometimes we see what we would describe as "silly" value conclusions in these valuations. We were recently supplied the major metrics prepared by a national firm where the valuation was "silly." The valuation of this large dealership for gifting purposes was excessively high. It reflected a pre-tax net % of sales of 1.8% and Blue Sky over $70 million. The expected pre-tax return on investment was close to 10% with a multiple exceeding 7. Two metrics that are unrealistic.

The first thing we look at on third party valuations is, are there any adjustments to the balance sheet of the dealership. In most cases, many dealers' assets are not on the accounting records at current "fair market value." This includes uncollectible accounts receivables, over-valued inventories, fixed assets over or undervalued. Often-times unamortized leasehold improvements have a large value but are considered "worthless." Also, most dealers liabilities are understated. As a summary, if you have someone prepare a valuation with large amounts, you might have someone knowledgeable with the new vehicle dealership industry analyze and validate the valuation for reasonableness.

October Financial Metrics

As you see in the enclosed survey, the average front-end gross per new exceeded $4,000, median $3,800, and the average front-end gross per used exceeding $3,000, median $2,900. The median (middle) dealer had 25 new units in stock at the end of October while selling 35 new units in October. This computes to approximately a 21 day's supply.

Floor Plan Lenders

We are asked at times to review lenders required legal documents presented to a new vehicle dealer from a business perspective. We suspect many dealers just sign what is put in front of them and do not have an auto attorney or auto CPA review the documents for reasonableness. We recently reviewed a large bank's lending documents. Some of our comments which are typical in these situations are:

Dealer will have to furnish the lender financial reports that the bank requests. No definition was supplied and this could be costly to the dealership.

Dealer supplies financial statements that have been prepared in accordance with GAAP (Generally Accepted Accounting Principles). Most dealers monthly financial statements are not prepared in accordance with GAAP.

Does the dealer meet the bank's debt to worth ratio? At times the dealer does not meet this ratio, does not realize this, and this might happen when the dealer is not performing well.

If the dealer passes away, the bank can call all the loans in an unreasonably short time period. Dangerous to sign this loan provision.

How much notice does the bank need to give you if you "violate" something in the agreement?

What are some of the "severe" violations that the dealer can allow to happen and how much notice will the bank give the dealership to "cure" these violations?

Does the bank require you to obtain their approval for buying a new business?

Does the bank limit the distributions you are allowed to make?

Paid Labor And Warranty Repair Orders

We feel that service, parts and body shop departments should turn in to their accounting office all parts and service sales orders when the work is completed. This seems like common sense. However, we find at times at some dealerships where the paid labor repair orders and warranty repair orders are not turned in until the customer picks up the vehicle or when the factory pays the dealership for the warranty work performed. This is a terrible practice. Your office needs to input and record all of these sales invoices when the work is completed. For warranty claims you want your office to let you know those warranty claims are paid and paid in full. If they are not paid or paid in full, the dealer should be made aware of this and instruct the service department to complete claims completely and accurately. If the warranty claim is not entered into accounting until paid, only service might know when there are issues with these claims.

Year End Thought Starters

You might consider some of the below:

Review the hourly compensation of your lower paid employees and possibly increase their compensation before you lose some of them. This would include technicians at the lower end of the hourly pay scale and other employees that make less than $20.00 per hour.

Make sure you exceed the factory working capital guideline. If you are below the capital guideline review your short-term and long-term liabilities where appropriate to reclassify more of the short-term liabilities to long-term liabilities.

Have your office staff validate the factory statistic metrics on the first page of the monthly financial statement. These metrics include: working capital guide; net cash (Ford); balances on your balance sheet that are the opposite of what should be (- next to the amount); unit counts for new and used vehicles.

Year- End (Income Tax) Checklist

The insert is our annual year-end checklist. We realize some of the comments are not always understood by the dealer. You need to read through it and share with your office staff. You might be able to save some income taxes and have a "cleaner" set of year end accounting records coming from your office.