POWER STEERING

Steering your dealership to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

Written by Carl Woodward & Scott Woodward **October 2023**

September 2023 profits were down compared to August 2023, with 60% of dealers' performance decreasing month over month. As we have written in the last few issues of this publication, the year 2022 was the second best year for new vehicle dealership pre-tax net profit as a percentage of sales of 4.9%, compared to the best year ever of 5.4% in 2021. For the last month of 2022, and for the first nine months of 2023, net profit as a percentage of sales is trending downward or holding steady. From our sample of almost 300 new vehicle dealers we serve, January 2023 net profit as a percentage of sales was 2.6%, February was 2.8%, March was 3.4%, April 2023 was 3.3%, May 2023 3.8%, June 2023 3.1%, July 2.7%, August 3.3%, and September was 3.0%. Year-to-date net profit percentage of sales through September was 3.5%. The enclosed survey of a sample of our dealer clients reflects 4.2% for September and 4.3% year-to-date. Pre-tax net profit as a percentage of sales is slowly declining to pre-Covid metrics due to a lower new front-end gross profit margin average of $3,000 and lower used front-end gross profit margin average of $2,500 and increased floor plan interest and advertising expense.

MONTHLY FINANCIAL RESULTS – SEPTEMBER 2023*

	SEPTEMBER BETTER THAN AUGUST	SEPTEMBER WORSE THAN AUGUST	NET PROFIT % SALES - SEPTEMBER	NEW UNITS	USED UNITS
CHRYSLER	25%	75%	2.0%	28	40
FORD	30%	70%	1.9%	23	41
G.M.	30%	70%	1.9%	31	37
IMPORTS	55%	45%	4.8%	67	49
OVERALL	40%	60%	3.0%	43	43

MONTHLY FINANCIAL RESULTS – AUGUST 2023*

	AUGUST BETTER THAN JULY	AUGUST WORSE THAN JULY	NET PROFIT % SALES - AUGUST	NEW UNITS	USED UNITS
CHRYSLER	65%	35%	3.0%	31	42
FORD	60%	40%	2.6%	27	45
G.M.	75%	25%	2.7%	32	45
IMPORTS	50%	50%	4.8%	62	51
OVERALL	60%	40%	2.9%	42	46

"The only real mistake is the one from which we learn nothing"
- Henry Ford

Inside This Issue

*FOR DEALERS THAT REPORTED MONTHLY FINANCIAL STATEMENTS TO WOODWARD & ASSOCIATES, INC.

MONTHLY FINANCIAL RESULTS – SEPTEMBER 2023

	NET<3.0%	NET 3.0% - 3.99%	NET 4.0% - 4.99%	NET > 5.0%
CHRYSLER	70%	15%	10%	5%
FORD	60%	15%	15%	10%
G.M.	80%	10%	5%	5%
IMPORTS	30%	10%	15%	45%
OVERALL	55%	15%	10%	20%

Are You Getting the Most Out of Your Service Contract Company?

Because of the sizeable profits dealers have made over the last several years, many have ignored potential profitable opportunities related to their service contract position. Dealers generally have their own position in the profits of the service contracts they sell. The types of these positions vary based on their dealership(s) size, age of the dealer, and economic goals of the dealer. There are generally 3 types of service contract companies that dealers might have a position in: (1) Retro Money, (2) CFC/NCFC, and (3) DOWC.

What are the basics of these types of programs?

A Retro program is a type of program where a dealer sells someone else's service contract (i.e., it is common for Ford dealers to sell Ford Motor Co. service contracts) and then the dealer participates in the profit, like a commission, for selling those contracts. There typically is no risk, and the dealer is limited on the amount of profit they can make. This income is typically ordinary income.

A CFC or NCFC is a controlled foreign corporation or a noncontrolled foreign corporation. Dealers, through an administrator, create a reinsurance company that sells the dealer's own service contracts. This company is offshore. The difference between a CFC and NCFC is dependent on the dealer's size. Large dealer groups generally should not have a CFC. This income is typically capital gains.

A DOWC is a dealer owned warranty company. It has many of the benefits of a CFC or NCFC but is onshore and provides an opportunity to invest the unearned premium. This company is taxed as a C-Corporation in the state of the dealer. The income is typically capital gains, but also could include some ordinary income as well.

What should dealers be looking for?

1. *Training*. Regardless of the vender or program you select, it is irrelevant if the vender you selected isn't physically coming to your dealership to train your F&I employees. With this training you should be able to see the performance on your monthly dealership financial statement by looking at the profit per service contract and your penetration (service contracts sold compared to total retail units sold).
2. *Admin Fee*. How much is the admin fee you are paying per service contract (and any additional costs you might have) to a third party? Many providers, whether intentionally or through ignorance, don't provide an accurate admin fee. There can be many different types of names for fees or charges to purposely make it difficult to provide a number. If your rep cannot quickly show you these fees, you should investigate for yourself what the fee is.
3. *Loss Ratios.* I would suspect many dealers have not recently, or ever, requested their admin to show their loss ratios. Recently we have looked at a few for clients and have found that their monthly losses have increased significantly compared to a few years ago. These losses generally come from selling more and older used vehicles along with the price of parts and labor going up. Some dealers might find out that they have to invest their own money into their reinsurance company to have enough liquidity to cover their loss ratio reserves as required by being regulated as an insurance company.
4. *Termination Costs.* If you leave this administrator, make sure you do not forfeit future earnings on the reserves (Ford as an example).

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National Economic Metrics

We receive an INTEREST RATE RISK MANAGEMENT WEEKLY UPDATE courtesy of KeyBank. Some of the informative metrics include (October 2023):

SOFR (comparable to LIBOR)	5.30%	no change
Fed Funds rate	5.50%	no change
Prime rate	8.50%	no change

The PRIME RATE continues to be very high compared to the last 10 years.

Survey (Enclosed) Results

Many dealers for the month of September have a pre-tax net profit percentage of sales below the pre-COVID margins, on average, of 2.5%. Those dealers should analyze why, or feel free to email me at no charge for my comments on their out-of-pattern metrics (carlswoodward@cpaauto.com).