Steering your dealership to higher profits

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The month of August's pre-tax profit trends were down from July. Approximately 1/3 of our dealers made more profit in August than July and 2/3 of our dealers made less profit in August than July. We found 50% of our dealers made +5.0% of sales in August, 54% in July, 57% in June. We found 78% of dealers in August made + 3.0% of sales, 82% in July, and 86% in June. These trends indicate that the top net profit margins were reached in June and July. Our monthly survey indicates that Imports had a net to sales of 7.8%, Chrysler had a net to sales of 5.6%, Ford had a net to sales of 4.6%, and G.M. had a net to sales of 3.7%.

August Monthly Profit Trends

	AUGUST BETTER THAN JULY	AUGUST WORSE THAN JULY	AUGUST BEST MONTH	AUGUST NET % SALES + 5.0	AUGUST LOSS MONTH	AUGUST Y-T-D LOSS
CHRYSLER	50%	50%	10%	45%	0%	0%
FORD	25%	75%	10%	55%	10%	0%
G.M.	35%	65%	5%	40%	10%	0%
IMPORTS	35%	65%	10%	80%	0%	0%
OVERALL	35%	65%	10%	55%	5%	0%

Service Department Unapplied Labor

The accounting department should review each payroll for unapplied labor and check monthly that it is recorded to an "Unapplied Labor" expense. This expense should appear on the service department page of the monthly dealership prepared financial statement. We commonly find that office managers spread this expense amount to cost of sales or erroneously put amounts to unapplied labor that are not accurate. Unapplied labor should only include time where technicians are not performing work but are paid for it. It does not include sick, vacation or holiday time. Service advisors/managers should keep track of unapplied time and find ways to better use their employees who do not have a reasonable amount of billable hours a week. The accuracy of this amount on the financial statement allows dealers to see if they have an unreasonable amount and often can provide an opportunity to increase profits.

"Most people spend more time and energy going around problems than in trying to solve them."

- Henry Ford

Inside

Dealership Ownership

We suggest dealers sell and gift ownership equity to family members that work at the dealership along with possibly the non-family general manager. If you do not have family working at the dealership, it does not hurt to sell to your qualified general manager some percentage ownership of the dealership. Why? You have some continuity if by chance you pass away unexpectedly. This will limit the factory on what they can do to the owners of the dealership like trying to force a sale of the dealership to some favorite of the factory. This can slow down the factory so your family, can have an orderly sale of the dealership. Where family members work at the dealership apply, as you get older, why not sell or gift some equity. If you do this with “strings” attached, you have a good start on an estate plan. Also, you should obtain factory approval for these sales or gifts of equity to your family. It is good to obtain the approval while you are alive, versus hoping the factory will treat your family well after passing. Also, there are some IRS limitations on gifting “S” corporation stock. Some advisors want to have a second class of stock, not in violation of “S” corporation rules, for non-voting stock gifted to family members. Other advisors may suggest that you gift ownership shares but retain the right to vote on the shares gifted family and others. This will then allow you to have less than 50% of the ownership, yet retain and keep voting control.

Parts Inventory Discrepancy

A common problem to many dealers is their parts inventory accounting. It is an account most office managers do not look at, and an account dealers do not review until there is a large issue appearing or during the annual parts physical. There are a few things the accounting office should do monthly that only take a few minutes and can save a lot of future headaches or reveal issues sooner. First, they should compare their accounting parts inventory ending balance to the parts summary provided by the parts manager. The parts manager will need to print this off at the end of each month. This document, depending on the DMS, is just a few pages long. It does need to be printed at the end of the month as most systems do not let you go back in time to obtain it. The office manager should expect to see that their accounting balance is within 10% of the parts manager’s inventory. Generally, there will be a differences due to timing from parts purchases, returns and sales, and in-process inventory. At this time, they should also look at the aging of the parts. Anything over 12 months generally is an issue and the sign of a weak parts manager if the amount is material. Secondly, the office should ask for a list of open repair orders. If your dealership is not timely closing tickets, the parts inventory could have a large discrepancy. Not closing tickets timely could cause a wide array of issues for your dealership and should not be tolerated. If either of these items are an issue, they should be addressed with the parts manager and dealer. Annually your dealership should have a parts physical done. It is common that these physicals are not performed correctly and/or do not consider obsolete parts. We do recommend that at least every few years you have a third party do the physical for you (these generally cost around 1% - 3% of your total parts inventory value).

Warranty Claims

At times we find some dealers do not record the warranty claim in accounting until the warranty claim is paid by the factory. Some say they do not want to enter the claim in accounting until it is paid. Some say they want to accurately enter the warranty claim based on the amount of the payment. This is a terrible policy. The claim should be entered into accounting the day after the work is completed, even if the customer has not picked up the vehicle yet. Why? How will the dealer know if the service department is promptly and accurately completing the warranty claim? How will the dealer know if there are problems with the accuracy of the submitted warranty claims? By entering the warranty claim in accounting when the work is finished, the dealer or office personnel can look at the aged accounting schedule at the end of each month to see if claims are being promptly paid. If the claim is not paid within 30 days, the dealer or office will be aware of this and can find out why the warranty claims are not paid timely and accurately. If this is the case for your dealership, make sure you inquire and meet with the service department to find out what they are doing incorrectly and act on this shortcoming.

Enclosed Survey

As you can see on the survey on page 3, we reflected the new unit sales, front-end new gross profit margin, used retail unit sales, and front-end used gross profit margin and new units in stock as of the end of August. The day’s supply of new unit sales is low for some dealers, which is expected. Overall as of the end of August, dealers new vehicle day’s supply was: Chrysler dealers had a 31 day’s supply; Ford 30 day’s supply; G.M. 32 day’s supply; and Imports 13 day’s supply.

Employee Retention Credit

We continue to find dealers not utilizing the employee retention tax credit (ERTC) even though they are eligible. Over simplifying, these are the rules. Generally, for 2020, dealers are eligible if their state had a partial shutdown and they had fewer than 100 employees. During that shutdown period they could be eligible for 50% of what was paid to their employee up to $5,000 per employee for the year. For 2021, the business could be eligible for 70% of what was paid to an employee, up to $7,000 a quarter. To be eligible, the businesses (if a dealer has several business' they need to account for them all together) need to be down 20% in sales in any quarter of 2021 compared to that same quarter in 2019 and have fewer than 500 employees. For both years, the credit cannot be utilized while using PPP funds. Again, as we have mentioned in the past, this credit is relatively simple to claim and there should not be a need to pay a third party 10 – 20% of this credit as a fee. As this could be a large credit, please spend a few minutes to see if you meet the requirements of either year or consult with your tax advisor.

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