POWER STEERING

Steering your dealership to higher profits

A publication of Woodward & Associates
Consultants to the Automotive Industry

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

August 2023 was a better profit month than July 2023, with 60% of dealers improving performance month over month. Also, 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 seven months of 2023, net profit as a percentage of sales is trending downward or holding steady. From our sample of the almost 300 new vehicle dealers we serve, January 2023 net profit as a percentage of sales was only 2.6%, while February was 2.8%, March was 3.4%, April was 3.3%, May was 3.8%, June was 3.1%, July was 2.7%, and August was 3.3%. Year-to-date net profit percentage of sales through August was 3.5%. The enclosed survey of a sample of our dealer clients reflects 4.4% for August and 4.0% year-to-date. Pre-tax net profit as a percentage of sales is slowly declining due to a lower new front-end gross profit margin average of $2,900 and a lower used front-end gross profit margin average of $2,700, as well as increased floor plan interest expense.

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

MONTHLY FINANCIAL RESULTS – JULY 2023*

	JULY BETTER THAN JUNE	JULY WORSE THAN JUNE	NET PROFIT % SALES - JULY	NEW UNITS	USED UNITS
CHRYSLER	45%	55%	1.8%	28	40
FORD	30%	70%	2.4%	24	44
G.M.	25%	75%	2.2%	39	49
IMPORTS	55%	45%	4.5%	39	64
OVERALL	45%	55%	2.9%	34	52

"Mediocrity is not worth the trip."
- Sergio Marchionne

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

MONTHLY FINANCIAL RESULTS – AUGUST 2023

	NET<3.0%	NET 3.0% - 3.99%	NET 4.0% - 4.99%	NET > 5.0%
CHRYSLER	50%	10%	15%	25%
FORD	50%	15%	20%	15%
G.M.	60%	20%	10%	10%
IMPORTS	25%	10%	10%	55%
OVERALL	45%	15%	15%	25%

National Economic Metrics

We receive an INTEREST RATE RISK MANAGEMENT WEEKLY UPDATE courtesy of KeyBank. Some of the informative metrics include (September 18, 2023):

SOFR (comparable to LIBOR)	5.31%	trending upward
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

You can see the enclosed results on the following page for approximately 60 new vehicle dealers. Several dealers have "out of ordinary" metrics such as low new front-end gross, low used front-end gross, low net profits percentage of sales. 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).

Dealership Transition

Some dealers that call us, older dealers, discuss selling out while "selling is good." I ask them, even if they obtain a good price, what do they plan to do with their after-tax proceeds. Usually they have no answer or say they will invest the funds. My next question is what kind of return on investment they expect to make? Usually the answer is 5% or less. I suggest they hire or find a qualified general manager to buy-in, maybe 10-20%, and run the store. Most dealers comment that they think the general manager they hire will not be a good as they are. It most instances it is doubtful that this is the case. If you hire someone that does not perform adequately throw them out quickly and hire another general manager. It is more likely the replacement general manager can earn the dealer a reasonable return on their dealership equity rather than putting the funds at risk in the market. Consider this alternative before selling.

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Current Dealer Commentary

With the automotive industry in the forefront of the news cycle, two dealers have reached out to me with their opinions on the current status of EV and other factory issues. One, a Stellantis dealer, expresses how, “these CEO’s [Stellantis] are all in on EV, they truly think they will get tech level stock valuations and pay like they run Apple,” the dealer goes on to explain the executives are aspiring to the likes of Elon Musk saying, “they are the problem, they forget they build cars.” As the UAW strikes, the disconnect between workers and the executive’s expectations become more apparent. This dealer points out that the CEOs believe they are, “just held back by unions and dealers,” and elaborates with their own experience of attending National Dealer Council meetings while their executive had not attended one themselves. They finish their opinion by stating, “once these EV only companies start losing their asses, then they can talk. But an established OEM is never going to bring the multiples that a “tech” company will.”

The other dealer to reach out is a Ford dealer who says, “in the last three wholesales Ford has resorted to begging dealers to take electric allocations. It has gotten so bad, they are bribing dealers with very hard to get inventory just to take one or two [EV units].” The dealer continues by pointing out, “plus you can buy them from wholesalers for 5 to $8000 under retail.” It was the first time in this dealer’s life they had read a wholesaler note asking for dealers to not offer any electric vehicles due to a lack of buyers. They end their sentiment with, “if it’s that bad right now what can we expect in the future? We will all have too much electric inventory very soon.”