

POWER

S T E E R I N G

*Steering your dealership
to higher profits*

A publication of Woodward & Associates
Consultants to the Automotive Industry

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The results from January 2024 are continuing the downward trend that we have seen over the final few months of 2023. Based on our limited sample of dealers for January, the average dealer made approximately 2.0% pre-tax profit percentage of sales. Our larger dealership groups averaged closer to 2.4%. These lower profits are generally a result of larger holding costs and a reduced gross profit on new and used inventory. Dealers should start analyzing their statements to pre-COVID time (“normal times”) to see if there is any opportunity to increase their profitability.

Several individuals in the industry have asked about profit and loss trends. Below we have reflected some of those trends. The year 2019 was the last “normal” year before COVID.

HISTORICAL FINANCIAL PERFORMANCE

	PERCENTAGE OF DEALERS THAT LOST MONEY FOR THE YEAR	AVERAGE PRE-TAX NET PROFIT PERCENTAGE OF SALES
JANUARY 2024	35%	2.4%
2023	12%	3.5%
2022	3%	4.8%
2021	1%	5.4%
2020	8%	3.6%
2019	19%	2.3%

**"The failure is the man who
stays down when he falls."**

-David Dunbar Buick

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MONTHLY FINANCIAL RESULTS – DECEMBER 2023*

	DECEMBER BETTER THAN NOVEMBER	DECEMBER WORSE THAN NOVEMBER	NET PROFIT % SALES - DECEMBER	NEW UNITS	USED UNITS
CHRYSLER	15%	85%	LOSS	29	39
FORD	25%	75%	LOSS	27	31
G.M.	35%	65%	LOSS	29	37
IMPORTS	35%	65%	2.0%	59	42
OVERALL	30%	70%	LOSS	40	38

Automotive Customer Complaints

We received an attorney general complaint list from the Iowa Auto Dealers Association. The following categories of consumer complaints are as follows:

Parts and faulty repair work	46%
Warranty plans and servicing	28%
Failure to disclose prior damage	26%

It might be worthwhile to review the above with your service and sales departments to emphasize making more of an effort to reduce these types of complaints.

National Economic Metrics

We receive an INTEREST RATE RISK MANAGEMENT WEEKLY UPDATE courtesy of KeyBank. Some of the informative metrics include (March 18, 2024):

SOFR (comparable to LIBOR)	5.31%	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.

Dealership Valuation

We perform many dealership valuations each year. We also see and review many dealership valuations prepared by others, at the request of dealers and attorneys for various reasons. Many of these dealership valuations have serious issues or flaws. The firms that prepare these might be large valuation firms but lack knowledge or experience in the auto industry. Some of the obvious missed adjustments that are not allowed for include:

- * No adjustment for uncollectible accounts receivable
- * No adjustments for material leasehold improvements
- * No adjustments for material used inventory and parts inventory differences
- * No allowance for factory required facility upgrades or requirements (including EV) that would affect either future profits and/or the current value equity of the dealership.
- * No reserve on the accounting records for reasonable, unrecorded, estimated future finance, insurance, and service contract chargebacks

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

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Reinsurance and Retro Finance Department Issues

Many dealers either have ownership in their own reinsurance companies or receive a “retro commission” on how well their sold service contracts perform on the repair claims incurred. Occasionally, we find some dealers are required to forfeit their future profits on previously sold service contracts when they sell their dealership. This can be a substantial six figure or more loss of income. In these cases, we see the selling dealer usually is not aware of the huge loss of income that is included in their written reinsurance/retro agreement. Dealers should take the time to read their reinsurance or retro written agreement (or a professional read for them) to see what they forfeit in the event of a future sale or switching to a different service contract provider. Some reinsurance or retro administrators do not pay out the unearned funds until all service contracts have expired, and the needed reserve is zero. We have seen this situation occur numerous times with Ford dealers. We suggest you have someone qualified read your re-insurance/retro agreements and let you know if you will be “penalized” if you want to leave or sell your dealership. We find these vendors will re-negotiate on these types of agreements.

Individual Income Taxes

As we all hear from certain politicians, at times the “rich or high income” individuals do “not” pay their “fair share” of income taxes. We thought some income tax facts from the IRS might be appropriate.

For the tax year 2020 some of the metrics are:

Top 1% of individual filers paid 42% of federal income taxes while receiving 22% of the total adjusted gross income.

For the tax year 2021 some of the metrics are:

Number of personal income tax returns:	160,000,000
Number of personal returns with AGI > \$250,000	7,900,000 (4.9%)
AGI % of total AGI – Group > \$250,000	41%
Income taxes paid by top 4.9% of taxpayers	65%