



"A CPA firm that understands dealership management, accounting, and tax issues"

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## ***New Vehicle Gross Profits Continue To Fall***

The manufacturers continue to implement programs that reduce new vehicle gross profits. Manufacturers continue to shrink the gap between dealer cost and the sticker price. In some cases, a dealer's gross profit may be only \$500 if lower priced vehicles are sold at full sticker price. Offering manufacturer employee pricing has obviously hurt the dealers gross as well. Increased competition between dealers has also contributed to lower grosses.

Many dealerships are recording net losses in their new vehicle departments. New vehicle gross profits are often as low as three to six percent. Considering these figures, should dealers be selling new vehicles for the opportunity to gain future parts and service customers? It is imperative that dealers gain the service business of the customers that purchase vehicles from their stores.

Gross profits in the service department generally range between sixty to seventy percent while parts and service grosses range between thirty to thirty-five percent. It is rare to experience net losses in these departments.

A successful dealership today focuses much of its attention in maintaining an efficient and customer friendly parts and service operation. A dealer obviously must sell a significant amount of vehicles to support a growing service operation, but the monthly success of a dealership should not be evaluated solely on the number of new vehicles sold.

Dealership management needs to gain a better understanding of the "back end of the store," dedicate more financial resources to the parts and service operations, and monitor the operations and work to improve the CSI scores of the service department. Many dealerships have a back log in the service department and lose customers. Consider expansion opportunities by adding service bays. Introduce all customers that purchase vehicles at your store to an advisor in your service operation.

In the future, the long-term viability of a dealership may be driven by the success of its service and parts operation. Small to medium sized dealers should strive to cover eighty percent or more of their fixed expenses with gross profits from the service and parts operations. A dealership with a high fixed absorption coverage will still be profitable in a month that the new vehicle department under performs.

If you are interested in learning more about a CPA firm that has specialized its practice to service dealerships, please contact Paul McGovern at [pmcgovern@downeycocpa.com](mailto:pmcgovern@downeycocpa.com) or call 800-849-6022.

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