



DEALER INSIGHTS:
**MISSING PROFIT
OPPORTUNITIES UNCOVERED**

2019 MAXDIGITAL DEALERSHIP PROFITABILITY STUDY

When a dealership sells cars, they should make a profit. It sounds logical. But it's not always the case. According to NADA's 2018 Midyear Report, dealers are selling the same number of new cars as they did last year but making less.¹ The numbers for used are almost as bad.

Where are the profits going? More importantly, how can we get them back? MAXDigital took the initiative to find out.

MAXDigital, in conjunction with Erickson Research, surveyed automotive dealers across the United States in order to:

- ① Understand trends in dealership profitability
- ② Explore possible drivers of profitability
- ③ Understand what changes to the sales process are being considered

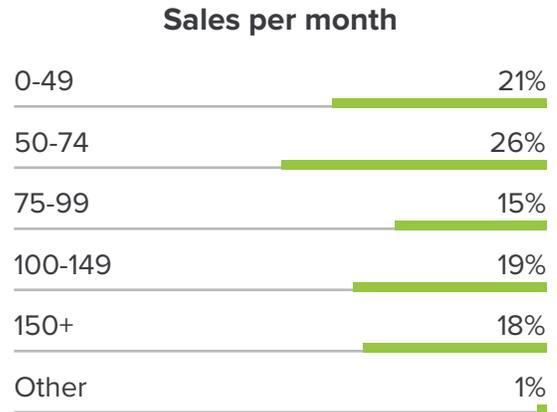


KEY TAKEAWAY:
PROFIT OPPORTUNITIES

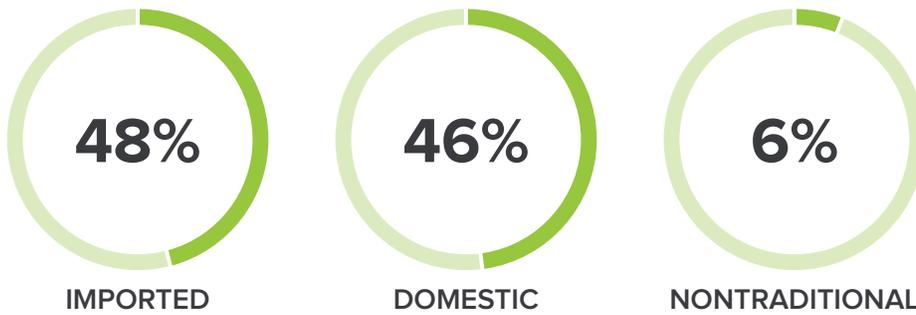
Our study revealed where dealers can capture more profit.
Read on to learn more!

METHODOLOGY

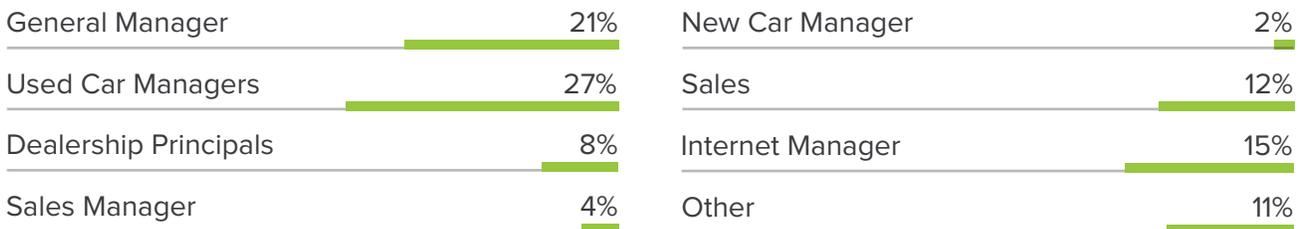
Online survey, November 2018



Dealership type



Respondent job titles





of dealers report **new car profits are down**

NEW CAR PROFITS ARE SHRINKING

In our survey, 60 percent of dealers reported new car profits were down the past two years by an average of \$170 per vehicle. Those same dealers saw only a minimal increase in used car profits, with \$25 per used vehicle sold.

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Let's face it, the car business is very difficult today — not only selling the car but holding gross, or even being profitable.

Todd Currie, Pre-Owned Manager
BMW of Peabody, MA

USED CARS ARE MORE PROFITABLE

Dealers in our survey reported higher profits on used vehicles compared to new. This is consistent with current trends. In fact, average used car sales continue to deliver a gross profit that's higher than new vehicle sales.¹ With more profits to be gained, dealers should take a closer look at their pre-owned strategy.

MEDIAN PROFIT PER VEHICLE



PRO TIP: PRE-OWNED OPPORTUNITY

Historically, dealers have reported higher profits from used vehicles compared to new. To capture this additional gross, dealers should make their pre-owned business a strategic priority.



Trade-ins are the new frontier in gross profits.

Johnny DeArmond, GM
Price Leblanc Toyota, Baton Rouge, LA

WHAT DEALERS BELIEVE: BACKEND IS MOST PROFITABLE

In our study, 50 percent of dealers reported that the backend is the leading source of vehicle profits. That means they're relying heavily on things like extended service contracts and other F&I products. By relying on F&I to increase gross, dealers are missing a very important opportunity that can boost both profits and the Customer Satisfaction Index: **Trade-ins.**

TRADE-INS: THE SLEEPING GIANT OF PROFITS

Only 15 percent of dealers said the trade-in was a top profit source. And less than half of dealers are under allowing on the trade-in, with an average of just \$250 per vehicle. This is a missed opportunity.

"Trade-ins are the new frontier in gross profits," says Johnny DeArmond, GM of Price Leblanc Toyota, Baton Rouge, LA. His dealership has been using a new appraisal method that allows customers to evaluate their own cars alongside the salesperson. It's an effective approach, as customers are often just handed a sheet of paper with a number on it without an explanation. When the process is fact-based and collaborative, customers feel like they're getting the best deal.



PRO TIP: **TRADE-IN BETTER THAN AUCTION**

There's an old saying: **You make your money when you buy.** Dealers focus a lot of effort and energy on acquiring vehicles from auction. However, at an auction, you're competing against other bidders which drives up the price.

In contrast, a trade-in is an auction of one. That gives you a much better opportunity to acquire the car at the right price. Plus, you'll avoid auction fees, transportation costs and end up with a lot more margin in that vehicle.

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Making trade-ins more collaborative with customers fits in great with our value selling philosophy. Last month we made an additional \$19,356 on 69 trade-ins.

Large Honda Store
South Florida

HOW TO MAKE TRADE-INS COLLABORATIVE

When customers are involved in the trade-in, they see the logic in how you price the car. That leads to less friction in the process and a greater opportunity to create an under allowance. Here's how you can do it:

- ① Have the customer evaluate the car. Walk around the car with them and discuss scratches, worn-out tires, etc.
- ② Take a test drive together. Let them tell you what that noise is and why it pulls to the left.
- ③ Let them know what you think it will cost to repair the damages and wear and tear, so you can sell it to another customer.
- ④ Show them what the market value is using Kelly Blue Book, NADA or Black Book.
- ⑤ Make a fair offer on the spot, whether they buy the car from you or not.

A COLLABORATIVE TRADE-IN OFFERS:

- **Reduced frustration:**
Customer is involved; there's no "man behind the curtain"
- **Improved trust:**
Customer sees the evidence that supports the dealer's number
- **Increased confidence:**
Customer believes they received a fair price
- **Increased efficiency:**
Less time is spent negotiating
- **Greater profit:**
Dealer is able to under allow on the trade-in



\$500+ off
the listed price



2017



2018

DEALERS ARE DISCOUNTING AWAY PROFITS

In our study, 65 percent of dealers said they negotiate more than \$500 off the listed vehicle price. This is up from 56 percent in our 2017 study. Why are dealers continuing to discount when margins are already razor thin? Customers are conditioned to ask for some discount and salespeople are under pressure to move inventory, even if it means undercutting profits. Also, many salespeople simply don't have the necessary tools to help them justify the price and demonstrate the true value of the vehicle. **Salespeople who can speak to the features and benefits of a car and can share pricing proof points are able to hold the asking price.**



PRO TIP: **STOP THE DROP**

Don't leave money unnecessarily on the table. Close the gap between asking price and selling price by setting a dealership-wide goal:

- Calculate out your average discount
- Set a goal to lower it
- Do the math: a decrease of just \$250 adds up

EXTRA GROSS PROFIT
\$250 x 100 vehicles = \$2,500/month or \$300,000/year



of dealers are
**ready to
change their
sales process**

DEALERS ARE READY TO CHANGE THEIR SALES PROCESS

More dealers are dissatisfied with their current sales processes. Our study found that 45 percent are looking to change their process — up 4 percent from our 2017 study. The top drivers for a new sales process are to improve sales and to increase margins. In other words, dealers believe a new process will help improve sales and profits.

MOVING TOWARD CONSULTATIVE SELLING

Dealers in our survey said they want to move to a consultative sales process. It makes sense as today's consumers are interested in quality and value — and a vehicle that meets their needs. Salespeople who lead with a consultative approach and really understand what their customers need, will be more effective in earning their customers' trust and closing the sale.



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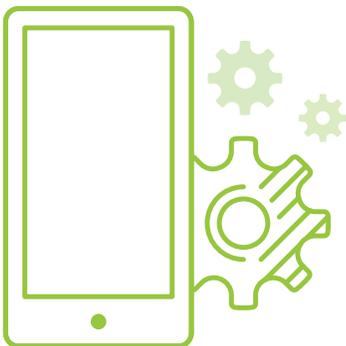
The average consumer spends 14 hours researching online before buying a used car.

EMBRACING TECHNOLOGY

Another priority is technology. In our survey, it's the second top change dealers want to make in their sales approach. Integrating tech-based tools like iPads and other mobile devices into the process gives salespeople the information they need at their fingertips, like pricing proof points or special features about the vehicle. Salespeople will know as much or more than consumers who do an average of 14 hours of research online before purchasing a vehicle.²

MORE TRAINING = MORE PROFITS

Dealers in our study said regular training for sales staff was the biggest opportunity to increase profitability. Seven in 10 dealers said their salespeople have told them they don't have enough training or information.³ When salespeople are informed, they're more confident. Their confidence helps build trust with customers which increases their likelihood to buy. This is important as Gallup shows only 1 in 10 consumers have a high level of trust for car salespeople.⁴ **Bottom line:** when salespeople are trained, they're more successful in their jobs and that means more sales.



PRO TIP: SMALL CHANGE. BIG IMPACT.

If a new sales process seems overwhelming, focus on small incremental steps that can be measured and mastered. For example, identify one part of the sales process that needs to be improved, e.g. appraisals, and focus on that first.

PROFIT OPPORTUNITIES EXIST!

At a time of fair market pricing and shrinking margins, it seems tougher than ever to capture gross profit. The good news? There are profits to be had. Dealers just need to look in the right places. We found them.

1. TRADE-INS

Trade-ins are a huge untapped profit source. But many dealers in our study believe that backend transactions are the end all be all. They're missing the golden opportunity at the trade-in. To capture more gross profit, dealers need to treat trade-ins with the same level of importance as the front- and back-end.



2. USED CAR SALES

Dealers in our survey said they're making more profit on used car sales. This is consistent with historical trends, making a strong case for dealers to make pre-owned a priority. Dealers who do will see the ROI — especially if they can also minimize price drops.



CONCLUSION DO THE MATH

- Give trade-ins more attention
- Don't ignore pre-owned
- Acquire inventory at your store
- Dealers who do these things will take their profit to the max

ABOUT MAXDIGITAL

Founded in 2011, MAXDigital provides cloud-based software and mobile applications to the automotive industry. As the industry's premium end-to-end software solution for automotive dealers, MAXDigital empowers thousands of dealerships across the U.S. to manage inventory, increase gross profits and sell more cars through digital retailing.

**MAKE MORE MONEY ON EVERY CAR
WITH MAXDIGITAL**

PROFIT TO THE **MAX**

For more information: **(888) 841-0884 | maxdigital.com**

Resources

¹ 2018 NADA Midyear Annual Report

² 2016 Auto Trader Study

³ 2018 MAXDigital Dealership Process and Salesperson Turnover Survey

⁴ 2017 Gallup Trust in Professions Survey