

Dealership Financial Trends

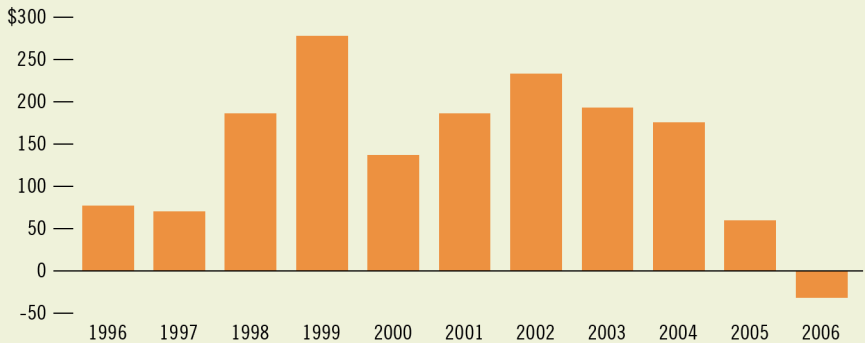
THE AVERAGE DEALERSHIP'S new-vehicle profits rose from 2001 through 2004. In 2005 the department saw a significant decline in profit margins, contributing just 14.5 percent of total operating profit. In 2006 new-vehicle department net profit posted further declines, slipping below break-even. Large inventories, generous incentives, and higher floor-plan costs cut into dealer profits.

Total used-car profits increased in 2006, accounting for 28 percent of the average store's total operating profits. Dealerships of all sizes and makes continue to rely heavily on used-vehicle departments for profits because of modest returns on new-unit sales. Consumers find used vehicles a good value now because of better quality and durability. Similarly, financial institutions are more willing to offer competitive rates for used-vehicle purchases.

Total service and parts profits increased slightly in 2006, as gross margins improved and expenses were largely held in check. Service and parts department profits accounted for 77 percent of total dealership operating profits, up from 66 percent in 2006. Revenue for the average dealer came in 1 percent higher in 2006 and potential for future growth remains strong as 2006 concluded as one of eight best years ever in light-vehicle sales. Dealers will continue to compete with independent service outlets for the fewer repairs required on more durable and complex vehicles.

New-vehicle department net profit

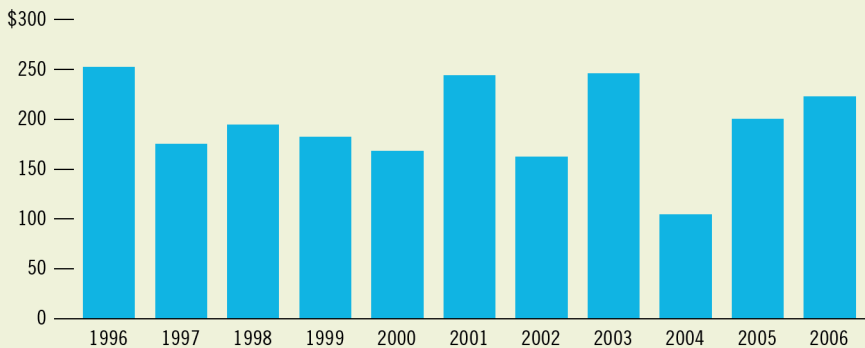
Average dealership, in thousands of dollars, including F&I



Source: NADA Industry Analysis Division

Used-vehicle department net profit

Average dealership, in thousands of dollars, including F&I



Source: NADA Industry Analysis Division

Service and parts department net profit

Average dealership, in thousands of dollars



Source: NADA Industry Analysis Division