

## 12 Dealer Analysis: Monthly profitability

# Underperformance in sales hit dealer profitability in 2007



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Dealer profitability averaged 0.7 per cent in the 11 months to November 2007, 0.1 per cent down on the previous year, according to the latest data profitability information published by ASE.

It shows the Motor Trade has continued to have a difficult year with profitability for the 11 months to November averaging at 0.7%, 0.1% behind the same period last year.

Some may argue that this is a success in a climate of declining consumer confidence, the well publicised 'credit crunch' and manufacturers striving for increased volumes. However, on an average total turnover per location of £10.1m others would ask whether it's actually worth the considerable "why bother?" effort.

It is true to say that if the

### 2007 tails away through sales department underperformance

Ratio	National Average to End November 2007	National Average to End November 2006	Industry Benchmark
<b>Sales</b>			
Used: New Sales	0.9:1	1.0:1	1.5:1 Minimum
Vehicle Sales Expenses as % Gross	61.7%	75.3%	50% Maximum
Sales Per Salesman (Annualised)	136	144	150
Used Vehicle Stock Turn In Days	61	56	45 days
Used Car Profit Return on Stock (Annualised)	65.9%	66.8%	100%
<b>After Sales</b>			
Overhead Absorption	70.2%	75.0%	80% Minimum
Overall Workshop Efficiency	84.9%	86.4%	100%
Gross Profit on Labour Sales	76.4%	78.1%	75% Minimum
Service Expenses as % of Gross	44.9%	51.7%	40% Maximum
Hours Per Retail Job Card	1.7	1.9	2.5 Hours
Parts Gross Profit on Sales	21.3%	21.6%	21% - 23%
Parts Expenses as % Gross	50.1%	48.6%	40% Maximum
Parts Stock Turn	8.1	8.8	8 times
<b>Net Profit as % of Total Sales</b>	<b>0.7%</b>	<b>0.8%</b>	<b>3%</b>

Source: Trevor Jones and ASE

average level of capital currently invested in the motor trade was invested in the bank it you would certainly get a return of in excess of 5 per cent and playing the stock market in 2007 may have given you an even higher return.

The top 10 per cent of dealers are able to match these rates of return when you combine the net profit as a percentage of turnover of 4.3 per cent and the increase in property values.

For the bottom 10 per cent of dealers, who are reporting a loss of 3.8 per cent or £222,000 drastic action is required,

especially as the market is predicted to be static for 2008.

Once again it is the control of expenses which has made the difference for the most profitable dealers. Sales expenses have gradually declined throughout 2007 as dealers realised that they would have to strictly control the level of expenditure in a declining market. To assist there has also been a number of manufacturer initiatives and incentives which have reduced the real cost price of the vehicles, however, on further analysis it appears that it is the easily controllable

expenses that have been addressed at the dealership level.

The most expensive cost to the dealership is an underperforming sales manager and with sales per sales executive falling year on year dealer principals should question if they are achieving the maximum out of their sales teams.

ASE has always benchmarked 150 sales per year for every sales executive. This is working on the principle that if a full time sales person cannot sell one car every two days they are in the wrong job. This benchmark is by no means an unachievable target for prestige dealers as the best sales people in the country, within a franchise environment, are hitting well over 200 and in a used car supermarket at least seven per week.

The number of used vehicle sales in comparison to new is broadly in line with last year at 0.9:1 for the average dealer at a time when the total number of new vehicle sales has increased by approximately 60,000 and total used vehicle sales have remained static. Dealers are therefore taking a slightly larger slice of the used car market but approximately 5million used cars are still being sold outside the franchised environment.

Used vehicles represent the best opportunity for additional profit in a static new vehicle market and as the top 10 per cent of dealers are tracking at 1.3 used for every new vehicle sale this is having a significant effect on their bottom line. In

addition to an increased volume they are also achieving £114 per car additional gross above the average and £227 gross more than the bottom 10 per cent. This is being achieved by a lower used vehicle cost of £6,500 against the average at £7,500 and the bottom 10 per cent at £7,900 but with higher stock levels.

In order to increase the performance in the used vehicle department for 2008 it would be worthwhile asking the following questions.

- Do you we have a rigid stock profile?
- Do you we have a rigid stock holding policy – with no exceptions?
- Do you we achieve three days to display then two days to deliver?
- Do you we buy 60 per cent used vehicles for cash?
- Do you we trade retail cars and retail trade cars?

These are simple questions that have all been asked before but are not always answered. The most profitable dealers will have answered "yes" to all of them all and would be confident that they are followed day in day out, without exception.

During 2008 it will be vital that you maximise one of your most expensive assets, the sales executives and only by having a tight sales process removing the ability to cut corners and ensuring that there is sufficient management focus on used vehicles will you start to bridge the gap between being average and being one of the best.

### Top Nada speaker Paul Webb returns to the UK



Following the success of the October event, where top US speaker Paul Webb presented to over 400 delegates in two days, he will be returning to the UK in April to deliver additional sessions for maximising dealer sales opportunities.

Webb, a popular Nada speaker, will be focusing on providing tools for the sales staff enabling them to sell more cars and retain more gross profit – both which will be vital in 2008.

If you are interested in attending, or sending a team of sales executives to Stratford Upon Avon Racecourse, on 22 or 23 April, please contact 0161 475 4700 or e-mail [events@trevorjones.uk.com](mailto:events@trevorjones.uk.com) for further information and to reserve your places.