

Market adjusts to downturn

Average national profitability levels dipped in July but some dealers still outperformed the market



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Profitability tumbled in July with the average retailer losing over £5,000, according to the latest national dealer performance data produced by ASE.

The fall saw the average return on sales for the seven months to the end of July of just 0.6 per cent of turnover. Anecdotal evidence suggests that dealers suffered significant losses during August, with many businesses also failing to hit all-important registration targets for September.

All this points to the forecast result for the year-end being slightly above breakeven, however it looks like being the lowest performance in both percentage and absolute profit terms since we started publishing the performance statistics in 2004. This is very concerning particularly when combined with the recent drops in commercial property values. In the current financial climate dealers are likely to struggle to extend their funding facilities and they may indeed find their banks are looking to reduce their overall exposure.

In spite of this the top performing dealers are still looking at a return of over 4 per cent for the first seven months with profit per site in excess of £200,000. The bottom 10 per cent of dealers over the same period lost over £150,000.

Once again the main differences between the best and worst performing sites are in used vehicles and aftersales revenues. In the current environment dealers need to work even harder to ensure they have the used vehicle stock their customers want to buy. Too often we see dealers who have used vehicle stock with 70-80 per cent of the wrong vehicles in it with a high proportion of unwanted part-exchanges. In the current climate pricing these vehicles is becoming increasingly difficult. For some cars it is almost impossible to obtain a competitive trade bid leaving the sales manager with the choice of either

Ratio	National average to end July 2008	National average to end July 2007	Industry benchmark
Sales			
Used to new sales	0.9:1	0.9:1	1.5:1 Minimum
Vehicle sales expenses as % gross	68.0%	60.9%	50% Maximum
Sales per salesman (annualised)	182	140	150
Used vehicle stock turn in days	52	59	45 days
Used car profit return on stock (annualised)	67.2%	83.1%	100%
Aftersales			
Overhead absorption	74.9%	71.6%	80% Minimum
Overall workshop efficiency	84.2%	85.1%	100%
Gross profit on labour sales	77.3%	76.6%	75% Minimum
Service expenses as % of gross	46.0%	44.6%	40% Maximum
Hours per retail job card	1.6	1.6	2.5 Hours
Retail hours %	52%	58%	70%
Parts gross profit on sales	21.5%	21.3%	21% - 23%
Parts expenses as % gross	49.8%	49.3%	40% Maximum
Parts stock turn	10.0	8.1	8 times
Net profit as % of total sales	0.6%	0.9%	3%

losing out on the new vehicle sale, with the obvious implication on targets, or stocking a vehicle with the hope of selling it.

Used stocks are also profiled incorrectly with an average stand-in value of £8,033 compared to £7,431 12 months ago indicating an increasing shift towards self-registered and nearly-new stocks. This is a concerning trend particularly as the manufacturers will inevitably push new discounted stock during the final quarter of the year. The outlook for the valuation of this late stock over the coming months appears bleak. The best performing dealers currently have a stock profile biased towards older fuel efficient vehicles and have innovative marketing programmes to differentiate themselves from the traditional independent used car dealer that operates in this segment.

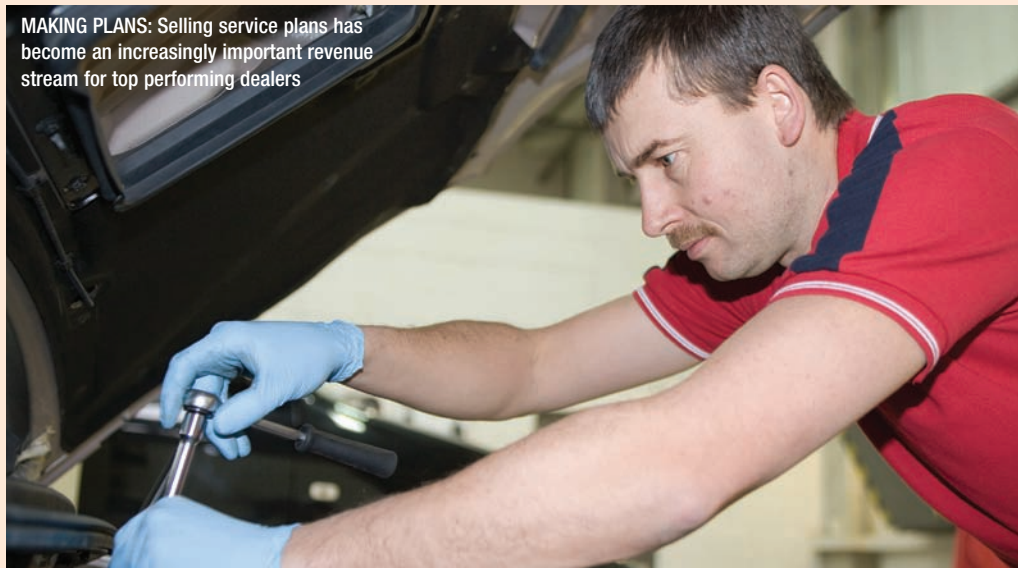
Stock profiling vital

The demand for assistance with planning vehicle stock mixes has led us to work with several clients to develop a stock profiling tool. This application helps dealers identify their most profitable profile by reference to their recent sales history which they can then use to develop an ideal stock mix. This is then easily compared against the current stock-holding to identify the scale of the problem.

Whether using a sophisticated program or a more rudimentary spreadsheet it is vital that all dealers work to plan and limit their stock exposure. Managers saying they know what they want to stock does not necessarily produce the correct stock levels and it is no accident that the most profitable used vehicle performers use the most scientific methods.

The service departments of a

MAKING PLANS: Selling service plans has become an increasingly important revenue stream for top performing dealers



number of dealers are also experiencing difficulties. Some brands were heavily reliant on warranty work during the first half of the year and this is now starting to decrease. The retail hours percentage remains low at 52 per cent and, with customers looking to save money rather than spend it, it is proving difficult to attract customers.

The dealers who are reaping the rewards from past hard work are those who have invested significant time and effort in the sales of service plans. There is little incentive for these customers to defer their service as they have already paid the majority of the bill. Whilst it is never too late to start a service plan programme, especially as some brands are launching approved schemes, dealers need to ensure they are pushing this concept forward. Sold correctly it works for the customers and the dealer and is the best single way to ensure aftersales customer retention.

Role of training

Irrespective of whether a service plan is in place or not service reception staff must ensure they are offering all of the products to the customers every time. Too few dealerships have reception staff who are comfortable giving a sales presentation on why a customer should purchase the products they have on offer, such as air conditioning recharges, fuel and engine flushes, or regular

maintenance work. The dealers who spend the most time training internally, working regularly and practicing role plays, produce significantly different results than those who do not. Just merely tracking the up-sell penetrations of the staff you have will point to greatly differing results between the team. Whether it is sales or after-sales, particularly when it is quiet and business is difficult, there is no excuse not to train your staff.

Managing and motivating the team

In the current retail environment management and sales staff can easily become demotivated. It is vital for dealer managers to get the most from employees to enable them to develop and deliver outstanding customer service and increased profitability.

This November Dave Anderson, one of America's top car retailing speakers, will present several key strategies to enable dealers to motivate and manage staff as well as improve and protect profitability.

The Maximum Leadership conference will be held in Slough on 4 November and Haydock Park on 5 November. This event will be vital to keep the motor trade above break-even in 2008.

● Limited places are still available by calling Dave Kendrick on 0161 475 4700 or emailing conference@trevorjones.uk.com for further information.