

Dealers should concentrate on service sales in 2007

Results for 2006 show sales were slightly up on the previous year but more must be done to boost profits

The full year profitability figures for 2006 have been finalised with the UK motor trade producing a return of just 0.7 per cent on overall sales.

This is only slightly up on the 0.6 per cent achieved in 2005 and consistent with the return earned in 2004. However, it is a result that is completely unacceptable in most sectors, particularly given the level of investment required in facilities.

Dealers must strive to further improve on this in 2007, in what is expected to be a similar market to the previous year.

Overall 2006 was buoyed by a stronger than expected last quarter and this result may be improved further once any Month 13 adjustments are posted.

The top 10 per cent of performers in the industry managed to significantly exceed this figure, reporting profits of 3.8 per cent, with the bottom 10 per cent losing 3.8 per cent on sales.

Looking at the performance compared with previous years, it appears that dealers are finally coming to terms with the expenses incurred as a result of block exemption and concentrating on the profitable areas of their business.

The improvement in overhead



SELLING HOURS: Henderson Chevrolet in Las Vegas gets 3.1 hours per job card

'Dealers are finally coming to terms with the expenses incurred as a result of block exemption'

absorption appears to be a result of strict control of overheads.

This improvement could, however, be under threat from the lengthening service intervals and the decrease in hours per retail job card.

Lessons from the USA

During the dealer visit arranged as part of the Trevor Jones trip to Nada earlier this month attendees learned how high it is possible to set the bar on hours per retail job card. The Henderson Chevrolet dealer in Las Vegas was reporting results of 3.1 hours, and that incorporates the fact that it also performs a significant number of 3,000 mile oil and filter changes.

The driving force behind this appeared to be that everyone in the service department was concentrating on selling hours to the customer. All of the management team were aware of the hours per jobcard figure, a situation which is not replicated in the UK.

All of the technicians were awarded bonuses based on hours sold but, more importantly, they adhered to a proper sales process for all service customers.

This is an area requiring significant focus in the UK in 2007 if we are to address the fall in retail labour sales which currently stands at only 57 per cent of total work performed. We must develop and implement a formal sales process into the service department if this is to improve and dealers should look to drive the retail content to at least 70 per cent of total sales.

Used car investment

The most positive area of performance for 2006 relates to the improved return on investment on used cars. This ratio, which we first started measuring in 2005, relates the return earned on used vehicle sales compared with the stock held at the period end.

During 2006 this improved from 43 per cent to 65 per cent. Dealers have had to focus on used vehicle sales as a reaction to the tight new vehicle sales market and this is starting to have a positive effect. Used vehicle profiling and further concentration on performance will further improve this and help insulate the dealer against what is predicted to be a continuing tough market for new vehicle sales.

Looking at the trends over recent years shows that dealers are still not controlling expenses in the vehicle sales department. They are also getting a decreasing return from their biggest investment,



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staff. Sales per salesperson has fallen from a high of 162 in 2003 to 130 in 2006. We are effectively employing one more salesperson to sell the same number of vehicles. As we enter 2007, dealers need to consider whether they will really be able to drive sales up, or whether they need to cut back on the largest sales department expense.

This year, to drive up the overall result, dealers must concentrate on correctly applying the basics.

Costs should be questioned and focus placed on used cars and service which show significant potential for growth.

As Lee Harkins, a delegate at the Nada 2007 conference, said: "There are no advanced techniques. There is only advanced application of the basics."

It is through this that the top dealers are earning an extra £300,000 per annum compared with the average dealer.

Ratio	National average to end of December 2006	National average to end of December 2005	Industry benchmark
Sales			
Used: new sales	1.0:1	0.8:1	1.5:1 minimum
Vehicle sales expenses as percentage of gross	77.0%	80.9%	50% maximum
Sales per salesman (annualised)	130	140	150
Used vehicle stock turn in days	64	64	45 days
Used car profit return on stock (annualised)	65.0%	43.4%	100%
After-sales			
Overhead absorption	73.6%	66.3%	80% minimum
Overall workshop efficiency	85.5%	85.9%	100%
Gross profit on labour sales	78.1%	77.7%	75% minimum
Service expenses as percentage of gross	52.9%	52.8%	40% maximum
Hours per retail job card	1.9	2.1	2.5 hours
Parts gross profit on sales	21.5%	21.1%	21% to 23%
Parts expenses as percentage of gross	48.8%	47.6%	40% maximum
Parts stock turn	7.9	8.4	8 times
Net profit as per cent of total sales	0.7%	0.6%	3%

Source: Trevor Jones and ASE

Transactions set to increase

The consolidation of the retail sector looks set to continue with a significant number of groups looking to grow over the course of 2007.

Registrations with Trevor Jones' Dealermatch service are continuing to grow with a number of deals expected to be concluded in the first quarter. As a result of the limited returns reported for 2006 a number of groups have decided that the only way they can achieve an acceptable profit is to grow and hope to see significant economies of scale.

The key to whether this is achieved revolves solely around people and process. A large number of groups are now running short of top quality people and will have to improve their processes if they are to manage businesses on a bigger scale.