Break-even June heralds a tough second half for 2007

Dealers must review costs and stock profiles to profit in tough trading conditions

Ratio	National average to end of June 2007	National average to end of June 2006	Industry benchmark
Sales			
Used: new sales	0.9:1	1.0:1	1.5:1 minimum
Vehicle sales expenses as % gross	64.5%	73.2%	50% maximum
Sales per salesman (annualised)	140	132	150
Used vehicle stock turn in days	63	64	45
Used car profit return on stock (annualised)	67.1%	68.7%	100%
Aftersales			
Overhead absorption	73.0%	74.8%	80% minimum
Overall workshop efficiency	85.1%	86.6%	100%
Gross profit on labour sales	77.1%	78.1%	75% minimum
Service expenses as % of gross	46.2%	51.5%	40% maximum
Hours per retail job card	1.7	1.9	2.5 hours
Parts gross profit on sales	21.6%	21.5%	21-23%
Parts expenses as % gross	48.5%	48.6%	40% maximum
Parts stock turn	8.0	7.9	8 times
Net profit as % of total sales	**0.9%**	**1.0%**	**3%**

Source: Trevor Jones and ASE

With this month's collapse of Dixons followed by Pendragon announcing a huge profits slump for the first half of the year, motor trade profitability is at the forefront of news once more.

A look at the national profitability statistics, published by ASE, for the first half of the year indicates that all is far from rosy in the UK's beleaguered motor trade, with average profits running at 0.9 per cent.

This effectively indicates that June was at best a break-even month which is disappointing given that it represents a quarter-end and would be expected to deliver significant bonus earnings for dealers.

Overall performance is slightly behind the same period in 2006 in percentage terms but in line as far as absolute profits go. The year-to-date situation is causing concern given that the majority of the 2007 results has been made on the strength of a better than expected performance in March, with other months falling behind last year. First indications would therefore suggest that the result is likely to be slightly worse than the 0.7 per cent recorded in 2006.

Interest rate changes bite

Despite the increase in new car registrations in July continuing the volume growth shown in the first six months, the effects of the recent interest rate rises are starting to bite. Highly geared companies such as Dixons have struggled as the base-rate increases hit their interest charges.

This is without taking into account the effect that the rises have on the consumer, with the danger that the dealerships are hit by rising costs matched with decreasing revenues.

Mike Jones
Partner
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A review of the KPIs shows that the overall profitability results are slightly behind the comparatives for 2006. Valuable lessons can be learnt from looking beneath this headline result and breaking the result down between its component parts.

The main income generating ratios we would review, including used car return on investment, workshop efficiency and service department gross profits, are behind the comparative statistics for last year.

However, dealers have appeared to respond to this by tightening their belts, with the ratios between the departmental expenses and the profits generated improving in each department. This would appear to be more difficult to do on back-page expenses with overhead absorption falling slightly, partially a result of the increases in interest costs.

Bucking the trend

This slightly gloomy outlook does, as ever, hide a number of very good performances. The top 10 per cent of dealers have actually improved their performance on 2006 and are reporting a return of 4.5 per cent, with an increase of over £50,000 when compared with the prior year.

The increase in expenses has meant that overhead absorption within the top 10 per cent has dropped below 100 per cent for the first time. However, they have reacted most significantly in the profile of their used car stock. The average vehicle stand-in value has fallen to £6,000, compared with a national average of £7,400.

This represents an £800 fall within the top 10 per cent compared with the prior year, as opposed to the average dealer who has lowered stock prices by just £100. In spite of the lower costs the most successful dealers are still averaging unit profits of over £900.

Focus on basics

To prosper in the current environment dealers need to continue to focus on the basics. Costs need to be reviewed in detail to ensure they present value for money.

More importantly, however, dealers need to review vehicle stock profiles. It surely cannot be an accident that the better performing retailers are earning more per unit out of cheaper stock. Reports from the auctions indicate that demand is still strong for the right stock, with values of high-mileage vehicles suffering.

Filling the forecourt with well profiled vehicles, be that through active buying or targeting of existing customers to generate part-exchanges, is becoming increasingly vital.

There has also been a disappointing fall in hours per retail job card. This must be through either lack of focus or lack of sales skills.

When we visited Henderson Chevrolet outside Las Vegas during this year's trip to Nada, all of the aftersales team could quote the current hours per job card performance and the levels of upsells required to hit that level. This is very rarely the case in the UK, with most service teams not even aware of how many hours they need to sell that day to avoid idle time. This is a must-know and is a key differentiator in the best performing service departments.

It is heartening that, despite the interest rate rises and the drop in footfall, dealers are still finding ways to make profits. There remain, however, only a select few who, by maximising all of the profit streams available to them, are making a good return.

The challenge facing manufacturers, dealers and us is to move a greater number into this group.

LEARNING LESSONS: Dealer staff could learn from US sites such as Henderson Chevrolet where aftersales staff are expected to closely monitor the current hours per job card and ensure the team knows the number of upsell hours required

Demo VAT reclaims

The Group Litigation Order, which seeks compensation in the form of compound interest on the payments already received on the overpayment of VAT on demonstrators, is now in full swing with dealers signing up on a daily basis.

This represents a real opportunity for many dealers to earn some exceptional profit to help to prop up results in the challenging retail environment.

Unfortunately, the repayments may not be received for a number of years and, with the number of claimants increasing, the worst-case average cost per dealer is falling.