Poor August profitability results mirroring 2006

Many dealers have been struggling to make adequate returns this august

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Ratio	National average to end of August 2007	National average to end of August 2006	Industry benchmark
Sales			
Used: new sales	1.0:1	1.1:1	1.5:1 minimum
Vehicle sales expenses as % gross	62.8%	77.5%	50% maximum
Sales per salesman (annualised)	135	128	150
Used vehicle stock turn in days	53	53	45 days
Used car profit return on stock (annualised)	77.7%	80.1%	100%
Aftersales			
Overhead absorption	70.5%	74.7%	80% minimum
Overall workshop efficiency	85.1%	86.4%	100%
Gross profit on labour sales	76.6%	78.6%	75% minimum
Service expenses as % of gross	44.8%	52.3%	40% maximum
Hours per retail job card	1.6	1.8	2.5 hours
Retail hours %	58%	55%	70%
Parts gross profit on sales	21.3%	21.7%	21-23%
Parts expenses as % gross	49.7%	48.6%	40% maximum
Parts stock turn	8.1	8.4	8 times
Net profit as % of total sales	**0.6%**	**0.6%**	**3%**

Source: Trevor Jones and ASE

August was a poor month for car retailers with the average dealer losing over £10,000 while overall performance for the year to date virtually mirrors that of 2006 with returns of just 0.6 per cent.

These figures are based on the latest national dealer composites produced by ASE, the automotive specialist along with Trevor Jones which provides financial data and business management services across the motor retailing sector.

With September, the second largest sales month, having just passed and the SMMT reporting an unexpected 1.28 per cent increase in registrations on the prior year, it will be interesting to see whether this feeds through to increased profitability, or whether dealers have merely been selling units at very thin margins or entering "self registration" exercises in order to hit target.

Slightly higher turnover figures for the year to date have resulted in a marginal increase in overall profitability, however the majority of dealers are struggling to make an adequate return.

Some franchises and dealers are successfully managing to buck this trend. A number of manufacturers are reporting increases in profitability year-on-year and the top 10 per cent performing dealers reported a profit of 4.2 per cent in the eight months to August. This should see the top performing dealers once again producing an annual result in excess of 4 per cent.

A number of the key differentiating factors were examined in detail during our recent Extracting Real Profit conference by the keynote speaker Paul Webb. During the remainder of 2007 it is vital that all dealerships give adequate emphasis to their used car departments. This needs to be viewed by all dealers as a separate franchise and a very profitable one at that. If this is to be the case then it requires the same level of management focus and drive as any of the other franchises. Stock needs to be profiled and a harsh line taken on aged vehicles which, instead of producing potential losses, are also limiting current and future profit opportunities.

Cars sitting on display for significant periods are frequently retained out of an emotional attachment to the vehicle or a desire to try and retail out of a potential loss. The display spaces are, however, hugely valuable with each space needing to generate over £750 per month. This lost profit is frequently forgotten, without taking into account any book-drop on the value of old vehicle and the demotivational effects on the sales staff of having aged vehicles sitting around.

The best used vehicle operators, whether within the franchised or independent sectors, are currently reporting strong demand with sales currently in-line with expectations. These operators are spending time and effort predicting the way the used market is moving and stocking vehicles to meet these requirements. The lull encountered over the summer, whether as a result of the poor weather, or the repeated increases in interest rates, appears to have passed.

It is no accident that the top 10 per cent consistently operate with vehicles 10 per cent cheaper than their peers. Whist the desired average stand-in value differs between brands and locations, the dealers producing the best results display vehicles in a slightly lower price range than their brand competitors.

The results of the bottom 10 per cent of dealers, reporting a loss of 4.3 per cent for the 8 months to August gives significant cause for concern. A number of the franchises are looking at increasing their risk management efforts in order to identify at risk dealers and either produce turn-around strategies or look to minimise their exposure. This shows that the manufacturers are concerned about the risk of further dealer failures, a concern which we would echo having reviewed the performance of some franchised operators.

The lowest performing dealers tend to be heavily reliant on new vehicle sales, with profit from after-sales only covering 43 per cent of the total overhead. With sales of new vehicles currently challenging in spite of the registration increases, these dealers will have to put a concerted effort into used vehicles if they are going to produce an acceptable result for the final quarter of the year.

The challenge over the final three months of the year is to maximise the benefit from every customer interaction. All of the dealership's sales processes need to be developed and implemented, whether they are in new cars, used cars or service. The best dealers are making an extra £50 to £100 from every customer – that is the challenge for the remainder.

EXECUTIVE DECISION: The Nada convention which will be he held in San Francisco in February, hosts a trade show which provides a useful insight into the latest US dealer services. Once again Trevor Jones is hosting a UK dealer group which flies out from Gatwick on 7 February.

Nada 2008 – San Francisco

With the industry more competitive than ever, Nada 2008 San Francisco will prove extremely beneficial to UK dealers.

The US dealer convention will provide you with new ideas, information, approaches and training to succeed in today's rapidly changing retail environment. One new idea may make the significant difference to your bottom line that all dealers are striving for. In addition to the ideas to be gleaned from the US you will also have unrivalled opportunities to network with the largest group of like-minded dealers from the UK attending the conference.

There are a limited number of places still available with the Trevor Jones group (7-13 February 2008) with a package which includes flights from Gatwick, accommodation, a US dealer visit, conference briefings and much more.

● Please contact 0161 475 4700 or e-mail nada@trevorjones.uk.com for further information and to reserve your places.