

Dealers must make the most of growth in service sales

Workshops are benefiting from improved market but there are still ways to boost profitability further



Rob Jones
Partner
Trevor Jones Chartered
Accountants

Now that we have passed through the first quarter of 2007 reports coming from the motor trade are generally positive. Registration numbers have been strong for the majority of dealers with used vehicle performance and showroom traffic picking up after a relatively slow start to the year.

The dealership performance results for the two months to the end of February 2007, as collated by ASE, show that overall the motor trade made a loss of 0.5 per cent for the period. This marks a downturn compared with January, with the average dealer losing £10,000 during the month of February.

Hopefully this downturn was rectified during the bumper sales month of March as most dealers we talk to have achieved target with minimal levels of self-registration. We will report on our findings next month.

Service growth

The key ratios for February show a significant opportunity for growth in service sales.

The dealership landscape is currently split between dealers who have recently relocated into large new premises and dealers who are full to bursting.

It is therefore surprising to see that the average dealer is still only achieving 81 per cent overall labour efficiency.

This is a profit opportunity that dealers must exploit.

In large new premises it is important to generate additional hours to improve overhead absorption.

While, in time, this will come from increases to the vehicle parc, dealers need to act promptly in order to leave the profit from vehicle sales to hit the

Ratio	National average to end of February 2007	Industry benchmark
Sales		
Used: new sales	1.6:1	1.5:1 minimum
Vehicle sales expenses as % gross	86.1%	50% maximum
Sales per salesman (annualised)	105	150
Used vehicle stock turn in days	59	45 days
Used car profit return on stock (annualised)	74%	100%
Aftersales		
Overhead absorption	69.9%	80% minimum
Overall workshop efficiency	81.4%	100%
Gross profit on labour sales	77.7%	75% minimum
Service expenses as % of gross	51.7%	40% maximum
Hours per retail job card	1.8	2.5 hours
Parts gross profit on sales	21.7%	21%-23%
Parts expenses as % gross	48.6%	40% maximum
Parts stock turn	7.8	8 times
Net profit as per cent of total sales	-0.5%	3%

Training for results

Dealers could benefit from training sales abilities in service reception.

These staff members see more customers than sales staff, yet the traditional dealer spends little time with them working on sales skills. It is not fair to expect them to increase sales unless they are comfortable in making a product presentation and answering customers' questions.

It is vital to employ staff who are good with customers and work with them to improve their sales skills.

This is how the top 10 per cent of UK dealers protect the retail content of their workshops and drive forward performance.

Source: Trevor Jones and ASE

bottom line rather than merely cover the overheads.

For the dealers who are full to capacity, efficiency at that level indicates a significant missed opportunity.

In either case, from the dealer's perspective, this represents free profit. The hours have already been paid for and the technicians are there.

Additional sales go straight to the bottom line – with the exception of any technicians' bonus scheme payments – and that is without accounting for the additional parts which will be sold as a result.

Optimum efficiency

Whether you believe that 100 per cent efficiency is achievable, or

even desirable, is up to you. However, it is likely that all businesses could get to 90 per cent.

This would represent an 11 per cent increase in labour sales, which would flow straight to overall profit.

The most successful dealers manage this gap on a daily basis. At the end of each day the after-sales manager will review the service diary to see how many hours need to be sold the next day.

This will then be communicated to the entire service team.

Managers need the assistance of the technicians to find the potential areas for upsell and they need the service receptionists to close the sale.

Used vehicle performance

Following the focus on new registrations in March dealers must continue to monitor their used car departments.

Coupled with service, this is a key contributor to the bottom line. Profit returned on used cars was at a disappointing 74 per cent in February and every effort must be made to push this towards the 100 per cent benchmark.

Rotation of stock on the used car hotspots, operating a strict stock turn policy and keeping each vehicle spotless is likely to make a noticeable difference, especially with the weather forecast to remain mild over the coming weeks, thereby increasing forecourt traffic.

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Conferences to focus on key industry issues



MARKET FORCES: Delegates at the 2006 Change Strategy Conference organised by Trevor Jones and Motor Trader

A leading Nada speaker is being lined up as the keynote speaker at this year's Trevor Jones and Motor Trader conferences, sponsored by NatWest Motor Retail.

Once again the conferences will be held in two venues to enable dealers from around the country to attend.

The first date is scheduled for 9 October in Slough followed by 10 October in Manchester.

Full speaker and venue details will be announced shortly.

The conference will focus on key issues relevant to the current competitive industry conditions and offer practical advice on how dealers can achieve additional profit.