

# Interest rate rises start to bite into dealers' margins



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Dealers are starting to feel the impact on showroom traffic of the five interest rate rises imposed by the Bank of England since last August.

Customers appear to be deferring the decision to purchase a new vehicle while borrowed money is relatively expensive. This inflation control mechanism is forcing them to reconsider their spending habits with the average household approximately £160 per month worse off through increased mortgage payments compared with 12 months ago.

The latest dealer profitability figures from ASE cover the month of May 2007 and were therefore collated before the most recent interest rate rise at the beginning of July.

The average profitability for the five months to May was 0.9 per cent, while the spread between the top 10 per cent and the bottom 10 per cent of dealers continues to widen with the difference now at 8.8 per cent.

The key differences appear to be volume driven and the decline in footfall will simply exaggerate the problem as dealers compete over fewer customers who are still in a

Focus on business basics to ride out the economic storm and turn a profit

Ratio	National average to end of May 2007	National average to end of May 2006	Industry benchmark
<b>Sales</b>			
Used: new sales	0.9:1	1.1:1	1.5:1 minimum
Vehicle sales expenses as % gross	60.5%	72.9%	50% maximum
Sales per salesman (annualised)	142	142	150
Used vehicle stock turn in days	62	57	45 days
Used car profit return on stock (annualised)	67.5%	74.1%	100%
<b>Aftersales</b>			
Overhead absorption	71.9%	74.7%	80% minimum
Overall workshop efficiency	85.4%	86.5%	100%
Gross profit on labour sales	76.7%	78.2%	75% minimum
Service expenses as % of gross	44.1%	51.7%	40% maximum
Hours per retail job card	1.6	1.8	2.5 hours
Parts gross profit on sales	21.3%	21.6%	21-23%
Parts expenses as % gross	49.9%	48.8%	40% maximum
Parts stock turn	8.2	8.3	8 times
<b>Net profit as % of total sales</b>	<b>0.9%</b>	<b>1.0%</b>	<b>3%</b>

Source: Trevor Jones and ASE

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position to change their car despite the increased interest rates.

The best dealers in the country are selling over twice as many vehicles as the worst, split evenly between new and used, but they are managing to do this by incurring the same level of sales expenses. In fact we estimate it costs the worst dealers £112 to generate £100 of gross.

#### Innovative thinking needed

With decreasing footfall, a key focus area for dealer managers is to ensure that expenses do not spiral out of control in an attempt to bring customers into the showroom. Dealers will have to be innovative in their thinking in order to generate footfall without significant increases in costs.

Advertising spend needs to be reviewed to ensure that it is

providing value for money, possibly reducing newspaper advertising in favour of lower cost internet advertising.

The UK dealers who went to the Nada conference in Las Vegas earlier this year were exposed to the latest US ideas in internet advertising which included video clips from the department managers and the best ways of presenting vehicles for sale.

It is imperative that every vehicle advertised on the internet has several photographs and includes a full specification in order to give the customer enough information to want to come and drive the car.

Any dealer who does not present their stock properly will lose customers who are prepared to travel further to source the car that they want.

achieving over 100 per cent absorption of overheads. However, the bottom 10 per cent of dealers, with an absorption of only 46 per cent, will struggle to cover the overheads of the business as vehicle volumes decline.

Increasing hours per retail job card and maximising every opportunity to up-sell should help to ease the situation in conjunction with tight cost control.

Workshop managers should also be focused on ensuring that efficiency is as high as possible and that internal or warranty work does not become an easy substitute for retail work, which offers the opportunity to generate additional gross.

The increase in interest rates will also increase costs as a result of the substantial borrowings to fund both property and stock. Dealers need to ensure their business model continues to work on a higher cost base and now may be the time to consider re-budgeting for the last five months of the year.

The combination of a decline in vehicle sales and increase in overheads may be enough to force some dealers to close the doors or indeed have them closed by creditors.

There is nothing new here but only by focusing on the basics will you be able to ride out the storm. The best dealers do these things day in day out and are better prepared to survive the fall in vehicle sales and increase in costs which will inevitably follow the increases in interest rate unless the dealership proactively changes its daily processes.

## Disposals and acquisitions



**MATCHMAKER:** Dealermatch offers an online transaction service

The buoyant market for acquisitions and disposals continues with significant consolidation still available.

Trevor Jones' online Dealermatch service has registered interest from a significant number of groups who are looking to expand, despite the difficult market conditions.

Having just completed the disposal of Grantham Motor Company to the AIM-listed Vertu Motors, the service has proved that for a good business there is significant goodwill to be achieved. Unfortunately unless sustainable profit can be demonstrated, asset value may be all that can be achieved.

Further details are at: [www.trevorjones.uk.com/Dealermatch/dealermatch\\_home.php](http://www.trevorjones.uk.com/Dealermatch/dealermatch_home.php)