

Protect your profits during the lead-up to Christmas



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As September draws to a close the average dealer is enjoying what might only be their second profitable month of the year. For these retailers it is more important than ever to keep an eye on protecting that profit in the run up to Christmas.

For most dealers the trend in the last few years has been for revenues to tail off gradually until the end of November with December looking like a disaster until previously excluded year-end bonuses are included towards the end of the month.

The latest dealer profitability analysis, prepared by ASE and based on July's composites, shows dealer net profit as a percentage of turnover at 0.9 per cent. This is likely to follow the trend of the previous year's analysis and fall a further 0.3 per cent to 0.6 per cent by the year end.

Optimise your business as revenues traditionally tail off in November and December

Ratio	National average to end of July 2007	National average to end of July 2006	Industry benchmark
Sales			
Used: new sales	0.9:1	1.0:1	1.5:1 minimum
Vehicle sales expenses as % gross	60.9%	74%	50% maximum
Sales per salesman (annualised)	140	132	150
Used vehicle stock turn in days	59	62	45 days
Used car profit return on stock (annualised)	83.1%	71.7%	100%
Aftersales			
Overhead absorption	71.6%	73.5%	80% minimum
Overall workshop efficiency	85.1%	86.4%	100%
Gross profit on labour sales	76.6%	77.9%	75% minimum
Service expenses as % of gross	44.6%	51.6%	40% maximum
Hours per retail job card	1.6	1.8	2.5 hours
Retail hours %	58%	56%	70%
Parts gross profit on sales	21.3%	21.8%	21% - 23%
Parts expenses as % gross	49.3%	48.6%	40% maximum
Parts stock turn	8.1	7.9	8 times
Net profit as % of total sales	0.9%	0.9%	3%

Source: Trevor Jones and ASE

September trading

Early indications for September trading are not encouraging and are certainly not enough to bring profitability up from last year.

Many dealers are considering registration exercises before the month's end to hit September targets and bring profitability into the business in the form of bonuses. These registration exercises will have a knock-on effect for the last quarter as dealers slowly retail their way out of those cars.

One encouraging sign is the increase in profitability from the

used vehicle sales department. Return on investment from the capital invested in used cars has increased to 83 per cent as dealers focus on stock profiling and stock turn. The fear is that this hard work will be undone by the registrations needed in September to hit target.

Based on these profitability results and the preliminary indications on September trading, it is vital that dealers do not take their eye off the ball in the service department. Overhead absorption, currently averaging 72 per cent, is not high enough to protect the business from difficult vehicle sales months.

The top 10 per cent of dealers are averaging 102 per cent which makes weathering the storm significantly easier than the bottom who are at 44 per cent.

When promoting profitability in the workshop it is vital that dealers track hours and not just pounds because the profits can hide an underlying problem of reducing hours by increasing rates. Ideally a dealer should look at utilisation (hours attended v hours worked), productivity (hours sold v hours worked) and efficiency (hours sold v hours attended) when assessing the department's profitability.

Service managers need to realise that if they buy 40 hours of a technician's time in a week they should sell 40 hours and let the dealer principal concentrate on pricing and labour rates. They should also be able to tell you at any time how many hours they have sold and how many are left to sell. The best service managers understand that their job, first and foremost, is to sell hours.

Shift in hours

Another trend often obscured by looking at departmental profitability is the shift from retail hours to internal and warranty hours. Ideally, the split should be 70 per cent retail, 20 per cent internal and 10 per cent warranty. In some dealerships, particularly strong used car sites with a high used to new ratio, this may not be possible.

The level of warranty work is governed to a large extent by the product but with current levels at 23 per cent, retail at 58 per cent and internal at 19 per cent the averages are a long way from ideal.

Over recent years the retail percentage has fallen from the mid 60s to 58 per cent and we expect this to continue to decline unless something is done to stem the tide.

Where percentages of internal and warranty work are above average there will be a detrimental impact on gross profit. The drive to protect the retail labour percentage has been harmed by longer servicing intervals and some cuts in standard hours.

We would recommend that internal labour is charged at retail rates but most dealers take the view that car sales are the service department's biggest customer and should enjoy discounted labour rates. Whichever is adopted it must be seen as fair and must incentivise the service manager to sell retail hours.

It is also imperative that the right jobs are given to the most appropriately qualified technicians particularly with regard to warranty work, where excessive diagnosis could eliminate all chances of profit.

In recent years technician numbers have been constant, new car volumes have risen and require more internal time, service intervals have decreased and warranty periods have been extended. This has resulted in the number of available hours staying the same but with a higher percentage of internal and warranty work.

Dealers need to focus the service receptionist on retail customers and maximising hours per retail job card in order to increase the profitability of the service department and reduce the reliance on internal and warranty work.



UK DEBIT
IN SESSION: Paul Webb (above) and delegates at last year's event (right)



Conference focuses on retail skills

Next month car retailing specialist speaker Paul Webb will be coming to the UK to present some of his proven ideas on how to deal with customers, both in sales and aftersales.

The Extracting Real Profit conference, organised by Trevor Jones and Motor Trader and sponsored by NatWest, will be held in two locations starting in Slough on 9 October followed by Haydock Park on 10 October.

A popular speaker at the annual Nada dealer convention in the US, Webb will be explaining tried and tested techniques on how service departments can help to sell the additional hours required to help stem the decline in retail sales. Don't miss this opportunity to boost the productivity of your workforce.

● For further details contact David Kendrick on 0161 475 4700 or visit www.trevorjones.uk.com.