

# Interest rates to put pressure on new car sales volumes

Dealers must maximise their opportunities for profit by keeping control of sales expenses and overheads



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With the first month of trading almost behind us there is an air of optimism within the retail motor industry about 2007, fuelled by a better than expected final quarter and strong business in January.

Many industry commentators were predicting net profitability as a percentage of turnover of approximately 0.5 per cent for this year. Early predictions for the full year show that the average dealership profitability should be well in excess of this.

This could, however, all be derailed by recent movements in interest rates.

Over the past five months we have seen three rises in interest rates with many analysts expecting further rises in the months to come.

This will add increasing pressure on vehicle sales and dealers need to ensure that they are doing everything possible to maximise every opportunity in order to keep the momentum going.

Results for December should be

Ratio	National average to end of November 2006	National average to end of November 2005	Industry benchmark
<b>Sales</b>			
Used: new sales	1.0:1	0.8:1	1.5:1 minimum
Vehicle sales expenses as % gross	75.3%	80.5%	50% maximum
Sales per salesman (annualised)	144	142	150
Used vehicle stock turn in days	56	63	45 days
Used car profit return on stock (annualised)	66.8%	46.5%	100%
<b>Aftersales</b>			
Overhead absorption	75.0%	67.3%	80% minimum
Overall workshop efficiency	86.4%	86.2%	100%
Gross profit on labour sales	78.1%	77.9%	75% minimum
Service expenses as % of gross	51.7%	52.4%	40% maximum
Hours per retail job card	1.9	2.1	2.5 hours
Parts gross profit on sales	21.6%	21.1%	21% - 23%
Parts expenses as % gross	48.6%	47.3%	40% maximum
Parts stock turn	8.8	8.5	8 times
<b>Net profit as % of total sales</b>	<b>0.8%</b>	<b>0.7%</b>	<b>3%</b>

Source: Trevor Jones and ASE

*'In a climate of falling new car volumes and margins it is paramount that dealers focus on profitability'*

used to drive improvements through all departments in the first quarter of 2007. Few commentators have predicted an improvement in profitability for 2007 so you need to ensure you are getting value for money on everything you spend – including wages.

#### Results of strong trading

The latest national average profitability results available, collated by ASE, show the overall performance for the 11 months to the end of November 2006 as a profit level of 0.8 per cent return on sales. This is a slight improvement on 2005's figure of 0.7 per cent.

The increase in profitability has been caused, in the main, by a strong trading month in September. Many dealers hit their targets and achieved a significant level of bonus. Some of this was a result of self-registration and

only time will tell if the dealers manage to retail out of these vehicles profitably.

Trading in September increased the net profit percentage from 0.6 per cent in August to 0.8 per cent in November.

In a climate of falling new car volumes and margins I believe it is paramount that the dealers focus on the profitability of all departments, not just the drive to hit new car volumes.

With average overhead absorption tracking at 75 per cent it is vital that dealers maximise the contribution from the used vehicle sales department to cover the overheads and release the pressure on new vehicle sales.

Dealers must understand that the additional overhead they have taken on, due to the block exemption regulations, needs to be covered by improved business practices and processes.

The importance of a controlled sales process cannot be underestimated to ensure every product is offered to every customer every time.

#### Set the right targets

In order to achieve sustainable profit levels out of the vehicle sales departments, sales expenses must be targeted at 50 per cent of gross which has been the benchmark

set by Trevor Jones Chartered Accountants for 20 years and is almost being achieved by the top 10 per cent of dealers.

It is interesting to note that the top 10 per cent of UK retail dealers – in profitability terms, regardless of location, brand or size – are only better than the average in three areas (see panel below).

The top 10 per cent are managing to get a good return on used cars and aftersales while matching the new car performance of other dealers and keeping tight control over expenses.

Results from the aftersales departments are broadly in line with the national average but improvements are still possible in hours per retail job card.

In addition dealers should focus on the shift away from retail work to internal and warranty as every month the percentage of retail work falls slightly.

Retail work gives the dealer the best opportunity to increase contribution through up sell to the customer.

If the top 10 per cent of dealers are achieving 4 per cent on turnover by controlling expenses, used car profitability and overhead absorption. You need to consider how your business needs to change to allow you to achieve this.

## A consolidating market?

More than 150 companies have registered with the DealerMatch service, a special online facility aimed at businesses looking to expand their operations or exit the motor trade.

DealerMatch offers UK motor dealers opportunities to either sell all or part of their business or expand their portfolio through acquisition, either in the UK or overseas, through a totally confidential register.

Registration is free of charge and completely confidential.

In order to register your requirements, please visit [www.dealermatch.co.uk](http://www.dealermatch.co.uk). You will be required to complete a short form with some basic information in order to clarify your requirements.

With in excess of 150 registrants you may be missing some valuable opportunities.

If you are unable to register your requirements on this site for any reason, or have any queries regarding this service offering, contact Deb Fox or David Kendrick on 0161 475 4700.

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#### Three main areas of dealer profitability

	Top 10% dealers	Average dealers
Sales expenses as a percentage gross	54%	74%
Return on investment in used cars	90%	67%
Overhead absorption	100%	75%