Dynamic vehicle pricing is crucial in a difficult market

It's time to stop chasing deals and review used car prices

	National average to end February 2007	National average to end of February 2008	Industry benchmark
Sales			
Used: new sales	1.6:1	1.5:1	1.5:1 minimum
Vehicle sales expenses as % gross	86.1%	77.3%	50% maximum
Sales per salesman (annualised)	105	111	150
Used vehicle stock turn in days	59	59	45 days
Used car profit return on stock (annualised)	74.0%	70.1%	100%
After Sales			
Overhead absorbtion	69.9%	70.7%	80% minimum
Overall workshop efficiency	81.4%	83.5%	100%
Gross profit on labour sales	77.7%	77.7%	75% minimum
Service expenses as % of gross	51.7%	43.9%	40% maximum
Hours per retail job card	1.8	1.6	2.5 hours
Parts gross profit on sales	21.7%	26.9%	21%-23%
Parts expenses as % gross	48.6%	48.7%	40% maximum
Parts stock turn	7.8	7.3	8 times
Net profit as % of total sales	**-0.5%**	**-0.4%**	**3%**

Source: Trevor Jones and ASE

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Since the start of 2008 there have been a string of articles prophesising about the demise of the world economy, falling house prices, business failures and general economic uncertainty. This has filtered through all elements of the economy including the retail motor sector, where the value of each individual transaction is so large that customers' uncertainty is magnified.

It is not known yet whether this is a market correction, as described by the chancellor in the last month's Budget, or a more prolonged period of recession like that experienced in the early 1990s. One thing for certain is that our industry will be in for a challenging remainder of the year.

However, it may not be all doom and gloom. Good dealers will turn this into a profit opportunity by not chasing deals simply to drive volume but playing a tactical game by concentrating on driving profit out of the deals. This is possible where overhead absorption is approaching 100 per cent and sales department expenses are kept under control at 50-55 per cent of gross. The top performing 10 per cent of dealers are managing to achieve this with absorption at 103 per cent and expenses at 50.4 per cent, against a national average of 71 per cent and 77 per cent respectively.

The current uncertainty in the market led to a weak January and February for new vehicle sales, forcing some dealers to sell cars internally in March in order to meet their first quarter volume target. This is only good business if they can trade out of the cars profitably. The danger is that the cars suffer several book drops before they are finally disposed of, wiping out any profit gained from the bonus.

As stated in previous articles stock profiling is paramount while riding the storm. Dealers should track their used vehicle sales over the last 90 days, working out make, model, colour and specification to determine the stock they should carry. This however, is only half the story.

As a result of the dynamics of the internet it is not only about holding the right cars it is about making sure they are priced correctly. Gone are the days of adding a fixed amount onto the invoice cost of the car. This is because used cars are no longer one of a kind. The internet allows buyers to find identical cars and therefore compare on price.

As a result the market for used cars is an efficient market. This is an economic term which basically means that in a market of equal knowledge between buyer and sellers of the product three factors will determine success; supply, demand and price sensitivity. The table (left) shows how the market price changes and how they are reacted upon by two different types of dealers.

Days in Stock		Dealer 1	Dealer 2
1-30	Price v market	101%	108%
	No days to sell	52	67
31-60	Price v market	96%	105%
	No days to sell	54	73
61-90	Price v market	-	105%
	No days to sell	-	76

Dealer 1 will be continuously tracking prices via the internet and will adjust accordingly. In the first 30 days it will be just above the market price, 101 per cent, compared to Dealer 2 who will be well above because it is pricing based on gut feeling rather market research. Hence Dealer 1 will sell much quicker and turn the capital into profit.

In the 31-60 day timeframe Dealer 1 will have dropped the price to just below the market price driven on the internet and will again turn the stock quickly into cash. Dealer 2 has reduced its price slightly, may be in line with book percentage fall but is still well over the price available on the web. The result is that it will take the business much longer to sell its cars.

Between 61 and 90 days Dealer 1 has disposed of the original vehicles and has reinvested money in the vehicles which are selling quickly, following the market. Dealer 2 has still not reduced price enough and is now a full 5 per cent overpriced, probably without knowing, as he has not checked the web for comparison pricing. Only then will it price the vehicle to sell.

Therefore it is important not to take a part-ex without a price check on the web to determine quantity of identical vehicles and the price. For cars which have been registered to hit volume constant review of the market price is required to retail out of the cars quickly and cleanly. In the new efficient market do not price from cost or wait too long to re-price.

If you continue to trade on this basis there is no reason why you cannot stay ahead of the competition while making a sensible profit in a difficult market, especially as we are experiencing strong contribution from aftersales.

PRICE WATCH: With used stock dealers can control prices but need to keep an eye on the web