

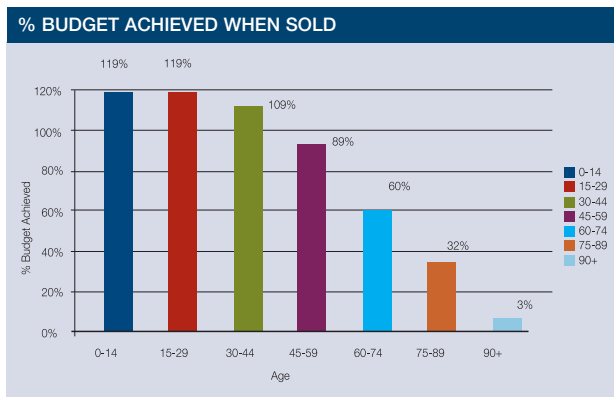
# USED CAR MARGIN: RACE AGAINST TIME

by Barry Cooper

“ Every car that achieves a figure less than the budgeted margin is likely to have failed the 7:7 KPI ”

It's common knowledge in the industry that used cars depreciate over time, that a faster stock turn is preferable to a slow one and that we make more money from fresh than aged stock. We know that speed and cost of preparation are factors in used car profitability and that in order to comply with most manufacturer used car programmes, a car cannot be advertised until it is fully prepared.

However, common sense and common knowledge doesn't prevent common practice resulting in 26% of 20,540 used cars sold between January and June this year being over 60 days old when the order was taken – according to figures taken from a selection of dealers using one or more Cooper Solutions product over that period.



Those 5,170 cars were sold for an average profit of only £254 per unit against a budget of £850, barely enough to cover stocking interest and salesmen's commission, but more than enough to make a hole in performance against budget.

Dilution of unit profitability on such a large scale puts significant pressure on the business to overachieve at the other end of the scale. So, in order to achieve budgeted profit levels on used cars, you are effectively in a race against time.

Various factors influence the margin achieved and age of a car when sold; price, condition and specification are crucial. Just as important is to ensure that processes are in place to optimise the speed and quality of preparation. This requires cooperation between sales and service departments and attention to detail from the used car appraisal, through the preparation process and during the time the car is on sale.

It's important to know how many cars are unprepared, for sale and sold but not delivered. The best businesses know this,

can produce data quickly and easily and take action as a result.

If the car is to achieve budget margins there are two objectives:

- Prepare the car to retail standard in less than 7 days
- Sell the car in less than 7 weeks

Every car that achieves a figure less than the budgeted margin is likely to have failed the 7:7 KPI. Given the simplicity of 7:7 as a concept and the impact it has on profitability, it might be expected that most dealerships measure their performance in both elements when reviewing stock and sales.

If they did you might expect to see less than 26% of cars sold when over 45 days old. The truth is, few dealerships achieve less than seven days preparation time and even fewer take steps to ensure stock does not exceed 60 days, let alone 45.

Our figures show that 10% of stock is over 90 days old before being sold when breakeven margins are achieved and in effect a lot of time, resource and money is wasted failing on such a large proportion of cars.

Given the variance in profitability as stock ages, used car stock management requires constant evaluation, decision making and action if revenue from good deals is not to be diluted by poor margins from overage stock.

UNSOLD RETAIL STOCK BY AGE BANDING				
AGE	NO OF UNITS	% OF TOTAL STOCK	COST PRICE	LIKELY £GP
0-14	972	32%	10,847,518	1004
15-29	548	18%	8,080,245	1006
30-44	382	13%	5,865,371	916
45-59	384	13%	6,470,507	748
60-74	257	8%	4,285,351	508
75-89	142	5%	2,381,145	266
90+	361	12%	6,087,957	26
<b>TOTAL:</b>	<b>3046</b>		<b>44,018,093</b>	

In addition to achieving the 7:7 KPI, managers need two more objectives; maximise margins on fresh stock and take action to minimise the adverse impact of everything over 45 days old.

Most dealers are much more focused upon and therefore successful with the former. The proportion of stock at most dealers over 45 days old is evidence that the overall performance of most used car departments is failing.

The goal is to be able to answer the following questions to influence performance:

#### ■ How many cars are currently unprepared?

Unprepared cars are effectively dead stock; they are paid for yet not for sale. They take up space and don't appreciate in value while waiting to be prepared. The best dealers work this like a well oiled machine; too many dealers believe they have it sorted but in reality operate poorly.

Prep time KPIs of five days are the norm, yet few dealers achieve less than 10 days and many are closer to 20. These early days are the prime selling time for every fresh unit.

#### ■ When will they be prepared?

Estimated dates of preparation commit the service department or bodyshop to a preparation time. If sales and service do not work well together, preparation time and cost can easily spiral out of control.

Retail service work may take precedence in the workshop; lead times might be longer for internal work than retail. Labour productivity on internal work may exceed that of retail and warranty work quite markedly; in the worst cases, productivity on internal work can be so high it hides under performance on retail and warranty if not monitored separately.

#### ■ Is the prep cost monitored?

The quality of used car appraisal is key. It shouldn't matter how much is spent preparing a car so long as the amount is identified at the time of appraisal and factored into the purchase price of the car.

Serious overspend can result in an inflated selling price being set in order to maintain a decent margin compounding the problem, as an unrealistic selling price is the biggest obstacle to a quick sale. Appraisal quality will only improve if those that undertake them are accountable and if actual against estimated spend is monitored.

Successful retailers maximise the margin in the best deals every month and minimise the losses or poor margins achieved with overage stock. So price reviews should be regularly undertaken to ensure the car is competitive within its segment.

The bottom line is: with only 45 days to achieve budget margin and up to 10 days preparation time, a car in stock for seven weeks should be viewed as a liability rather than an asset.

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## ONLINE PARTS THAT FIT

A couple of months ago we wrote in *Auto Retail Bulletin* about the opportunities for online parts and accessories sales through eBay Motors. All the evidence shows that more and more customers are buying online (and online mobile) and we believe parts is a significant, untapped sales channel for many franchised auto retailers.

Put quite simply, you need to be there before this valuable market is snatched away by the independents and other specialists who are already active players. Remember this one fact: in 2010, an average of more than 50,000 parts and accessories were sold each day on eBay UK.

Until recently, one of the potential challenges for online parts and accessories retailing was the question of compatibility and fit. Despite the assurances offered by trading through eBay, some customers have been unsure whether the item they buy will fit their car when they make their purchase.

But, from next month, online parts and accessory sellers on eBay will be able to show all the cars that are compatible with any part or accessory in one listing. The new service will be rolled out for most car categories within vehicle parts and accessories using a Master Vehicle List (MVL) during October.

This should help result in fewer queries and returns, and help to increase your sales. Plus, you save time and money because there's no need to create a separate listing for each car model.

This functionality was launched last year in the US and has already resulted in increased sales for those who have adopted the new technology. James Scott, European managing director at ChannelAdvisor, the e-commerce specialist, believes that the UK launch is likely to have a similar impact.

"The launch of eBay Motors fitment in the UK is hugely significant for automotive parts retailers," he says. "Increasingly, customers expect their online shopping to be simple and user friendly and this new platform is aimed at helping eBay deliver that high quality user experience."

"We work with thousands of businesses who sell through eBay, including eight of the top 10 auto part sellers. Since the service launched in the US in June last year, it has driven annual growth rates among our customers of more than 25%."

The MVL is available now, before the change comes into effect, and we suggest existing sellers of parts and accessories take the time to familiarise themselves with it before the system goes live.

But, if you're a senior manager who has been toying with the concept of online parts and accessories but hasn't yet acted, we suggest now is the time to make the move. If you would like to learn more, do talk to your eBay Motors support team.

■ *This editorial was supplied by Andreas Wielgoss, UK head of eBay Motors*  
([www.ebaymotorspro.co.uk](http://www.ebaymotorspro.co.uk)) a commercial partner in *Auto Retail Network*