Dealer profitability: Rethink needed

Dealerships remain at the heart of the motor retail operating model, despite significant changes in the automotive landscape, driven by digital technology, OEMs (Original Equipment Manufacturers), and the overall economic environment in a country, according to Sewells-MSX International, a global business process outsourcing company specialising in the automotive industry, which is represented in South Africa.

Source: pixabay.com

Customers rely on dealers to help them weigh their options when looking to buy a new vehicle, provide test drives, for fulfilment in the ownership experience and for the quality of vehicle servicing.

Reconsider your business model

However, to remain profitable and competitive in the long term, Sewells-MSX International believes dealers need to rethink their current business model. This will require a radical shift in mindset for many traditional dealerships.

The organisation says that recent data shows that while the number of car dealerships in China has more than doubled in the past five years, the number of dealers in established markets like the United States and Europe has fallen by 15%.

Retail automotive dealers should be striving to achieve two of three times the cost of funds as a minimum return on their operating investment, according to another article in *Benchmarker* magazine.

For the most part, dealers around the world are engaged in business as independent franchise investors. Profitable dealers tend to focus their efforts on looking after customers and employees, while at the same time gearing themselves up to invest in any worthwhile opportunities that the business landscape may present.

Unprofitable dealers, by contrast, represent a major risk to everyone. As their profits spiral downward so does their loyalty to the brand. They stop following processes, stop investing in infrastructure and employees, and become unable to address.

Key drivers of dealer profitability

According to Sewells-MSX International, there are four key drivers of dealer profitability which serve as signposts for healthy returns.

These drivers are: An intelligent business mix, disciplined investment, healthy sales activity to investment ratio and increased staff productivity.

Intelligent business mix: Dealers need to rethink their current business mix, acting to proactively shift the balance of their operations to capitalise on the larger margins resulting from parts and service. A tell-tale sign of a healthy mix would be an overall gross profit to sales percentage between 15-18%.

Disciplined investment: In the short term, forward-thinking dealers should be seeking to retain around 20% of their gross profit. This is not easy and will require discipline and a concerted drive to off-set expenses with productive sales efforts. They should also be looking to invest in new facilities, technologies, and staff training to make the shift from pure bricks-and-mortar to a 3600 omnichannel, customer-centric environment.

Healthy sales activity to investment ratio: To remain profitable and to grow their business, dealers must actively monitor the relationship between their operating investment and their annual turnover. The goal should be to generate six to eight turns per annum.

Increased staff productivity: Personnel costs remain one of the largest expenses faced by dealers. Ensuring that the investment in manpower pays off is critical to the profitability of a dealership. A recent Sewells-MSX International benchmarking analysis of mature market dealerships found that profitable dealers produced monthly gross profit per employee of over R65,000.