

# Small changes can lead to big leap in profitability

Maximising aftersales opportunities could see growth of up to 10.5%, says consultancy Bluefin



John Howell

By Jeremy Bennett

**D**ealers are failing to mitigate the impact of nose-diving new vehicle sales by exploiting the profit opportunities provided by their workshops.

Numerous aftersales opportunities exist in the shape of service plans, extended warranties and all jobs required as a vehicle gets older.

But the problem dealers are failing to address is the increased likelihood of customers migrating away from the

dealer network into the arms of independent sector competitors to get the work done, and this is just as the vehicle reaches the age when the returns on service work become that much more attractive (between three and six years old).

The trend has been identified by aftersales consultancy Bluefin.

**AM** has teamed up with Bluefin to offer dealers a workshop healthcheck enabling them to assess and measure the efficiency of their servicing and repair business against their peers.

Bluefin director John Howell said: "Car owners' options on where they can take their car have grown considerably. With more and more customers being internet savvy, internet searches prior to work being undertaken is widening the competitive market even further. Unfortunately, the underlying industry reaction has been to simply put labour rates up in an attempt to claw back the revenue in lost custom from fewer hours being sold. This has merely driven people further away."

Bluefin says despite understanding

that the market has become much more price conscious, average hourly labour recovery rates have still continued to rise – from about £73.50 at the end of July 2008 to £79.80 at the end of March 2009. In the last two years, rates have risen by 15% with some brands.

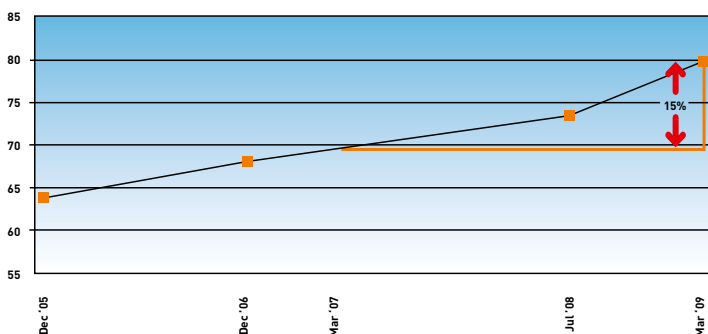
### Sold hours declining

"Sold hours have been declining and the average labour recovery rate has gone up (even though some brands have introduced lower older-vehicle rates). When considering the bottom line – the two have cancelled each other out," said Howell.

"But it reinforces the perception that dealers are an expensive option, resulting in customers using franchised dealers primarily as service and warranty centres, with other more lucrative jobs, such as brakes, exhausts, tyres and battery work, being lost to competitors. When vehicle sales were at record levels, it didn't seem so important. Things are different now."

Workshops, Bluefin says, should aim

### Labour recovery rates - trend



Growth in retail labour rates achieved

Source: Bluefin

### Sales revenue: actions to be taken

» **Charge for all work done** Don't write up the job card at the end of a job and miss out essential tasks – ie, if your technician is replacing brake pads, include the five minutes it took to disconnect all associated parts – comprehensive job write-up is essential.

» **Control ad hoc discounting** When a customer presses for a discount, most dealers, Howell said, 'buckle'. Resist the pressure and offer options instead – sales skills are key to justifying the price and creating the value for money experience.

» **Book an additional half-hour job in the diary, maximising technician**

**utilisation.** Too much time is being built into the workshop to allow for unexpected jobs and walk-in customers that seldom transpire.

» **Improve the work mix ie retail, internal and warranty** Look for 80% retail work, particularly high productivity jobs with high parts profit yield, such as exhaust replacements, brake pads, battery checks.

» **Create and maintain a proper approach to bought-in work** Negotiate the price you pay for work the dealer passes on to third parties such as windscreen replacement, MoTs and skimming heads.

### Cost of sales: actions to be taken

» As most of the cost here is what is paid to the technicians for the time sold, then productivity must be the prime focus.

» Review and influence the richness of the job mix.

» Focus on and improve the sales mix.

» Ensure high motivation levels in the dealership. Everyone in the business has a responsibility to generate work in aftersales. The money which can be made with minimal effort can outstrip the margins on vehicle sales.

» Introduce the '20 minutes to go' principle – when a technician gets to 20 minutes of finishing their job,

the workshop manager should be preparing the next one so the vehicle is ready and the parts ready picked, shaving many minutes off the time given to completing it. Don't forget that five minutes saved can easily equate to 1% of time that can be sold.

» Give the right job to the right technician based on skill levels.

» Stringent overtime control. Some technicians will work overtime because they want it, not because the business needs it. If they have a utilisation figure of less than 95% overtime, then a thorough review of how it's administered should be carried out.



to have a retail mix of business in excess of 70% with the balance split between warranty and internal work (ie sales department vehicle preparation). However, with the decline in vehicle sales and the increase in vehicle build quality (warranty levels down), even greater pressure has been exerted on dealers to replace this work with profitable retail business.

Dealers are very good at identifying the necessary extra jobs when a vehicle is already in the workshop for a routine service, but have little success in attracting the high profit jobs as and when they are required. The customers have learnt to cherry-pick and the dealers are coming off worse. In short, dealers have not managed to make up the shortfall being lost to the independent sector, autocentres and specialists.

#### The solution

Many dealers are still looking for the 'big fixes' which, of course, are few and far between, whereas attention should be on reviewing those areas where seemingly insignificant alterations

could yield dramatic results.

Dealers should target the jobs they want in their workshop by turnaround time and profitability.

Howell refers to these as "the best return on effort jobs".

The five ideals are: servicing, brake pads and discs, tyres, exhausts and batteries. Another significant bonus is that these customers would not be expecting a courtesy car (with the exception of some services) as they are considered quick and easy to do.

Howell said: "It is of paramount importance that the dealer does not just take a passive approach to business management and simply accept that the jobs they do are a result of solely what customers are prepared to give them. They must actively promote the business to attract the jobs that they want. Market the business as a specialist, tell customers why they should use them, give customers hard-hitting, compulsive facts (including pricing) and success is much more likely."

Bluefin puts forward the challenge to increase sales revenue by 1% and reduce cost of sales and expenses percentages by 1% each.

#### Minimum target

While the minimum target for improvement is 1%, Howell believes the focus outlined above to an average-performing aftersales operation can yield a growth in the region of 10.5%.

"Dealers can't turn the economy around and get people buying cars again, but they can, with a few low-cost changes, dramatically increase its profitability and survivability."

**10.5%**

How much an aftersales operation could grow by

### Expenses: actions to be taken

- » Review all expense areas. Is your marketing and training paying off?
- » Focus on reducing lost time, goodwill and rectification.
- » Ensure every expense item is legitimate, controlled and achieving its aims

## Case study

Bluefin worked with an East Anglian volume franchise with an experienced aftersales manager in an urban location with a population around 150,000.

The goal was to deliver a 1% increase in sales revenue, improve cost of sales percentage by 1% and reduce expenses percentage by 1%. The project lasted six months, with one inactive month due to internal changes within the dealership.

The financial performance in the previous three months prior to the campaign was analysed for comparison purposes. The dealer's database was analysed and put into a user friendly format that allowed the aftersales manager to easily identify the opportunities from:

- » Existing 'live' customers.
- » Pre-lapsing customers – ie, 13 weeks prior to them becoming the statistic 'lapsed service customers'.
- » Extended warranty prospects.
- » Specific campaign prospects – for example, winter checks.

They were targeted with focused mail shots with follow-up telephone calls throughout the month. The activity period generated a 21% customer response rate.

The service manager in the pilot programme said: "Using a very straightforward monthly report that has been generated from my customer data, I have been able to filter this into activity generating information that allows me to market my company's services effectively to the right people at the right time. The results to turnover and, more importantly, operating profit have been staggering."

#### Results

**Average monthly sales**  
**Three months prior to activity** £41,000  
**Pilot period of six months** £46,300  
**Inactive month** £37,500  
**Increase** 12.9%

**Average monthly service gross margin**  
**Three months prior to activity** 65%  
**Pilot period of six months** 71%  
**Inactive month** 68%  
**Increase** 9.3%

**Average monthly service gross profit**  
**Three months prior to activity** £26,700  
**Pilot period of six months** £32,900  
**Inactive month** £25,500  
**Increase** 23.3%

**Average monthly parts gross margin**  
**Three months prior to activity** 28.8%  
**Pilot period of six months** 32.8%  
**Inactive month** 29.2%  
**Increase** 14.1%

**Average monthly parts direct profit**  
**Three months prior to activity** £5,700  
**Pilot period of six months** £7,100  
**Inactive month** £5,900  
**Increase** 24.6%

#### Summary

- » Extra £26,500 in sales
- » Increase in gross profit of £31,000
- » Increase in direct profit of £22,750

## Online workshop health check

How fit is your workshop business? On our website we are hosting a questionnaire to measure how good your workshops are. In less than 25 clicks we will be able to gain a picture of your performance and compare with that of your peers.

Go to [www.am-online.com/news](http://www.am-online.com/news) and look for the Workshop Health-check link.

For every questionnaire completed we will donate £1 to Ben.

We will then analyse the results and report the findings in July. If you would like more detailed feedback from Bluefin, email John Howell at [john.howell@bluefin-as.co.uk](mailto:john.howell@bluefin-as.co.uk)