

MEASURING UP:

Depending on New Equipment Sales

By Dave Kanicki, Executive Editor

OPE dealers should consider reducing their dependence on new and used wholegoods sales and develop a more balanced revenue mix.

One thing is clear from studying the performance of OPE dealers in the United Equipment Dealers Assn.'s Cost of Doing Business Study in the 2012-2016 period: On average, dealers remain highly dependent on new wholegood sales to remain solvent and to be profitable.

Parts absorption improved slightly (2.6%) during this period, service absorption actually declined from a peak of 32.3% in 2013 to 28% in 2015 before recovering somewhat to 29.1% in 2016.

In other words, OPE dealers should be looking to reduce their dependence on new and used wholegoods sales and develop a more balanced revenue mix. As shown earlier in this report, on average, more than 70% of OPE dealers' revenue comes from new and used equipment, a little less than 20% from parts and less than 10% from service.

One dealer who replied to the *Rural Lifestyle Dealer* survey said, "We strive to be strong in parts and service. Our goal is 60% wholegoods, 25% parts and 15% service breakdown."

Should OPE Dealers Measure Absorption?

For many outdoor power equipment dealers, absorption is not a metric they monitor regularly. But should they?

For dealerships handling larger agricultural and construction equipment, aftermarket absorption is a critical measurement. It is calculated by dividing parts and service gross margins by total expenses.

The belief is the higher the absorption rate, the more fixed costs are covered in the event of a slowdown in wholegood sales. While this tends to take on more importance during periods when unit sales of new and used equipment decline, it can be difficult to increase absorption when a slowing equipment sales is evident.

The UNITED Equipment Dealers Assn. indicates that the benchmark or target for both farm equipment and OPE dealers for parts and service absorption is 80%-plus. For dealers handling large construction equipment, the benchmark is closer to 100%.

In 2015-16, OPE dealers' total absorption was 56.2% and 58.3%, respectively. For comparison purposes, the absorption rate during those same years for dealers handling large ag equipment was somewhat better, at about 64%.

A breakdown in aftermarket absorption rates shows that parts absorption for OPE dealers was 36.3% in the 2015 study and 34.2% in the 2016 study. For service, the absorption rate was 19.9% in 2015 and 24.1% in 2016.