

Strong 2010 performance continues in April but highlights warning signs for the year ahead

The performance statistics for the 4 months to the end of April paint a rosy picture for the UK retail motor sector, however there are significant signs of potential issues on the horizon.

KEY Ratio	YTD April 2010	YTD April 2009	Bench-Mark
Net Profit as % Sales	1.8%	1.2%	3.0%
Overhead Absorption	73.1%	81%	80%
Used: New Sales	0.8:1	1.2:1	1.5:1
Vehicle Sales Expenses as % Gross	64.6%	50%	50%
Sales per Salesman	188	247	150
Used Vehicle Stockturn (days)	58	36	45
Return on Used Car Investment	79.6%	139.1%	100%
Overall Labour Efficiency	80.6%	83.5%	100%
Service Gross Profit % on Labour	76.8%	77.5%	75%
Service Expenses as % Gross	49.9%	42.6%	40%
Hours per Retail Job Card	1.6	1.6	2.5
Parts Gross Profit %	20.8%	22.5%	22%
Parts Expenses as % Gross	44%	46.1%	40%
Parts Stockturn	8.8	12.6	8.0

The average motor retailer made a £6,000 profit during April continuing the strong start to the year. On average operators have made a £70,000 profit for the 4 months producing a creditable return on sales. This has largely been a result of a strong performance from the vehicle sales department, although the results also produce a number of significant risk points for the remainder of 2010.

Used car performance has slipped over recent months and has now reached a stage where dealers need to take direct action. Return on Investment has slipped well below the benchmark of 100% (which was being achieved in the prior year) as a result in a significant increase in Used Vehicle Stockturn. Over recent weeks we have seen auction prices and the books falling. Based on the stockholding and stockturn figures for April, a 4% drop in the book produces a used vehicle stock write-down of £15,000 per month. Dealers need to mitigate these losses through an improvement in stockturn as we are currently perilously close to the average vehicle suffering 2 book drops prior to sale.

One of the key drivers behind the increase in stockturn would appear to be the continued rise in the average value of used vehicles held in stock which is now 33% higher than April 2009. This is partially driven by the impact of self-registration activity which has definitely returned. In the current economic climate there is little indication that customers have an increased appetite for more expensive vehicles. Dealers should consider, therefore, whether they should be reprofiling their stock to drive the average stand in values down. This would have the effect of improving performance in the second half of the year as well as minimising any losses from drops in the valuation guides.

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The ASE Key Ratios are a simple way to benchmark performance and quickly assess the strengths and weaknesses of a motor retail dealer.

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