

## January results reflect disappointing start to 2010.

There is a perception that January is a strong month for the retail motor trade and it is often commented as being the third most profitable after March and September. However, the last 2 January's have been poor with the average dealer losing over £3,000 in each month.

KEY Ratio	YTD Month 2010	YTD Month 2009	Bench-Mark
Net Profit as % Sales	-0.4	-0.5	3.0%
Overhead Absorption	56.8%	65.9%	80%
Used: New Sales	1.2:1	1.7:1	1.5:1
Vehicle Sales Expenses as % Gross	78.3%	45.7%	50%
Sales per Salesman	136	142	150
Used Vehicle Stockturn (days)	61	42	45
Return on Used Car Investment	71.4%	80.5%	100%
Overall Labour Efficiency	72.4%	83.2%	100%
Service Gross Profit % on Labour	74.9%	77.5%	75%
Service Expenses as % Gross	56.4%	42.6%	40%
Hours per Retail Job Card	1.6	1.6	2.5
Parts Gross Profit %	20.3%	21.6%	22%
Parts Expenses as % Gross	47.7%	49.9%	40%
Parts Stockturn	8.6	9.4	8.0

The average dealer lost 0.4% of turnover compared to 0.5% in 2009. There continues to be an amazing spread in the consistency of results with the bottom 10% reporting a frightening average loss of 11.9% whilst the top 10% have made a stellar 5.5%. As we have highlighted in previous reports, the banks continue to be negative on the sector and dealers experiencing losses of this magnitude without significant net worth to see them through a turn around need to be reviewing their cash flow and trading forecasts very carefully.

Overhead absorption is concerning at just 56.8%. However, this is one area that is likely to be weather driven with many service customers staying at home leading to a much lower technician efficiency level of just 72.4% (down from 83.2% in January 2009). To some extent this business will never be recovered although many dealers have reported to me anecdotally that February was a strong month for aftersales reflecting some level of catch up. The weather has proved a good test of the aftersales operating controls with those dealerships with robust customer follow up procedures and workshop control enabling very few lost hours when January and February are reviewed in combination.

Another trend that the results highlight is the change in mix from used to new cars. Throughout much of 2009 used cars (in conjunction with scrappage) proved a lifesaver for the average retail dealer contributing to a substantial improvement in overall profitability compared to the long term average. Demand for used cars appears to have faltered and to some extent been substituted by new reflecting strong manufacturer offers and the scrappage scheme. The laws of supply and demand have seen a substantial increase in the price of nearly new vehicles such that the differential between their retail price and the equivalent discounted new vehicle is small enough to tempt buyers into the new vehicle. The most profitable dealers spotted this trend some months ago and re-profiled their stock away from nearly new to a broader spread of one to three year old vehicles. Whilst a time consuming process that requires strong discipline, defining a desired stock profile and then working towards achieving that profile has paid significant dividends to those dealers who have successfully implemented it.

Given predictions of a 1.8m to 2m market (including scrappage) for new vehicles in 2010, the need to maintain focus on used vehicles and aftersales is as paramount as ever, particularly as we look into the second quarter and the end of the scrappage scheme.

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