

November produces small average profit, with 2009 looking like a record year

The UK dealer profitability results, as collected by ASE, confirm the anecdotal reports of a slowdown in dealer activity in the last quarter of 2009 with the average dealer making a profit of £1,800 in November.

KEY Ratio	YTD Month 2009	YTD Month 2008	Bench-Mark
Net Profit as % Sales	1.4%	0.0%	3.0%
Overhead Absorption	70.8%	69.7%	80%
Used: New Sales	0.9:1	0.9:1	1.5:1
Vehicle Sales Expenses as % Gross	68.0%	76.8%	50%
Sales per Salesman	181	143	150
Used Vehicle Stockturn (days)	54	60	45
Return on Used Car Investment	86.1%	59.8%	100%
Overall Labour Efficiency	80.3%	82.9%	100%
Service Gross Profit % on Labour	76.8%	77.3%	75%
Service Expenses as % Gross	50.7%	47.6%	40%
Hours per Retail Job Card	1.6	1.6	2.5
Parts Gross Profit %	21.0%	21.9%	22%
Parts Expenses as % Gross	46.8%	50.6%	40%
Parts Stockturn	8.2	8.6	8.0

Whilst dealer profitability slowed towards the end of 2009, the UK Motor Retail sector remains on course to post record results for the year, certainly when measured as a Net Profit Percentage of Sales. The results are in total contrast to the prior year when the average dealer reported break-even for the 11 months whilst staring down the barrel of a big loss in December.

There are, however, a number of worrying trends which will need to be carefully monitored as we move into 2010 namely:-

- Used Car return on investment is dropping, largely on the back of a drop in average vehicle gross margin. Used cars must be an area of focus for 2010, particularly given the expected drop in new vehicle volumes. To keep the same level of overall vehicle sales gross profits whilst selling fewer new vehicles dealers must improve used vehicle volumes or used vehicle average gross profits (or both) in 2010. This will only be achieved through a strong focus on stock profiling.
- Service labour efficiency continues to remain stubbornly at 80%. Given the decreasing vehicle parc dealers must make the sale of retail hours a real priority looking to offer up sell products wherever possible. If we cannot move the hours per job card upwards then the lower volume of under 3 year-old vehicles will lead to lower service profits and a deterioration in overhead absorption. Dealers must focus on signing customers to service plans (for both new and used vehicles) wherever possible and some brands are now incentivising dealers directly to achieve this.

December's results are expected to be better than in previous years as dealers release bonuses for reaching volume targets, however all profit streams will have to be maximised to repeat the annual result in 2010, particularly given the forecast drop in new sales volumes.

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