# Profits under pressure

## Dealers suffering on all fronts as used car returns dip in May

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| | National average to end May 2008 | National average to end of May 2007 | Industry benchmark |
|---|---|---|---|
| **Sales** | | | |
| Used: new sales | 0.9:1 | 0.9:1 | 1.5:1 Minimum |
| Vehicle sales expenses as % gross | 65.5% | 60.5% | 50% Maximum |
| Sales per salesman (annualised) | 158 | 142 | 150 |
| Used vehicle stock turn in days | 64 | 62 | 45 days |
| Used car profit return on stock (annualised) | 59.9% | 67.5% | 100% |
| **After Sales** | | | |
| Overhead absorbtion | 76.0% | 71.9% | 80% Minimum |
| Overall workshop efficiency | 84.6% | 85.4% | 100% |
| Gross profit on labour sales | 77.5% | 76.7% | 75% Minimum |
| Service expenses as % of gross | 45.4% | 44.1% | 40% Maximum |
| Hours per retail job card | 1.6 | 1.6 | 2.5 Hours |
| Parts gross profit on sales | 21.6% | 21.3% | 21%-23% |
| Parts expenses as % gross | 49.8% | 49.9% | 40% Maximum |
| Parts stock turn | 8.5 | 8.2 | 8 times |
| **Net profit as % of total sales** | **0.8%** | **0.9%** | **3%** |

Source: Trevor Jones and ASE

Dealers faced a difficult start to the summer with profits severely under pressure, according to the latest monthly dealer profitability data collected by ASE.

Whilst the average profitability of 0.8 per cent is only slightly down on the performance for the prior year there are a number of concerning trends which point to problems in the months to come.

For dealers to survive or even thrive in the current market they need to be very nimble and able to react quickly to changes in market sentiments, particularly in used cars. The used vehicle performance to the end of May is worrying, with the average dealer only obtaining a return on investment of 59.9 per cent (compared to 67.5 per cent the previous year).

The principal driver behind this is an increase in the average stand in value of the used vehicle stock from £7,325 in 2007 to £8,080 in 2008. This appears to be an indication of a level of self-registration during March to attain first quarter targets, with the vehicles yet to be retailed.

This is a dangerous position for the motor trade to be in. The used vehicle market is currently switching to smaller, more fuel efficient, slightly older vehicles. Customers are still buying plenty of cars, however the demand areas have switched, to the extent that dealers are struggling to obtain trade bids when valuing some of the larger more fuel inefficient vehicles on the market. A 10 per cent increase in the average stock price is moving against the market sentiment and there is a significant danger that these vehicles will become very difficult to move.

Having said that some dealers are continuing to thrive in the current difficult market. They are the ones who have monitored the movements in the market on a day-to-day basis and have made the decision to reduce their stock investment in some of the larger vehicles and focus on smaller models. Planning vehicle stocks is of the utmost importance at the moment and we still only see a very small percentage of dealers utilise formalised vehicle stock plans.

We are having a significant amount of success with some dealers operating “green sales” and marketing the CO2 emissions and fuel efficiency of vehicles. This also includes encouraging customers to downgrade from large relatively inefficient vehicles to smaller models. Concentrating on fuel efficiency in both vehicle sales and aftersales can bring about significant success, particularly when the price of fuel remains high on the media agenda.

### September planning

Dealers taking orders for September need to exercise a great deal of care in valuing any part-exchange, particularly if that vehicle is not part of their day-to-day stock. With significant book drops taking place on certain vehicles on a monthly basis and stories of certain 4x4 vehicles being currently available for sale at £5,000 behind book, any new vehicle profit contained within the deal could easily be wiped out by an incorrect part-exchange valuation.

Aftersales performance continues to remain steady although with customers feeling the pinch they may look to tighten their belts on servicing costs in the near future. The dealers who are insulated against this are the ones who have a large percentage of their customer base signed up to service plan programmes where customers spread the cost of the service.

Overhead absorption has improved year-on-year although this is largely driven by tight overhead management. It is vital that dealers review all of their costs and staffing levels as we move through this difficult period. Increases in sales per salesman and drops in overheads show this process is already underway. Dealers will need to remain vigilant over the course of the next few months to ensure staffing levels match income levels.

We are entering a difficult market with a lot of dealers not having a lot of fat on their backs. Indeed every week in the press we read about business failures, however it is important not to lose heart and it is encouraging to see that a large number of dealers have already reacted to the market and, by concentrating on the basics, they will continue to prosper.


SECONDHAND NEWS: Used car values dipped in May with an average ROI of 59.9 per cent

### The taxman cometh

Following the multi-million pound payouts from HM Revenue and Customs in respect of pre-1996 demonstrator vehicles, we are seeing a heightened level of activity from the taxman trying to get some of his money back from dealers. He traditionally sees dealer groups as soft targets and has very sophisticated methods to catch out the unwary.

- Do you provide fuel to your sales staff?
- Have you sold zero rated cars to the disabled?
- Do you subcontract your MoTs?
- Do you earn finance commission?
- Answered yes to any of these?

If so, are you comfortable your systems are robust enough to stand up to review?

A simple message - BE PREPARED.