2008 may not be all doom and gloom

Profits static for 2007, but will 2008 be a profitable year for dealerships?

Ratio	National Average to End December 2007	National Average to End of December 2006	Industry Benchmark
Sales			
Used: New Sales	0.9:1	1.0:1	1.5:1 Minimum
Vehicle Sales Expenses as % Gross	62.8%	77.0%	50% Maximum
Sales Per Salesman (Annualised)	134	130	150
Used Vehicle Stock Turn In Days	63	64	45 days
Used Car Profit Return on Stock (Annualised)	59.1%	65.0%	100%
After Sales			
Overhead Absorbtion	68.5%	73.6%	80% Minimum
Overall Workshop Efficiency	84.5%	85.5%	100%
Gross Profit on Labour Sales	76.3%	78.1%	75% Minimum
Service Expenses as % of Gross	45.7%	52.9%	40% Maximum
Hours Per Retail Job Card	1.7	1.9	2.5 Hours
Parts Gross Profit on Sales	21.3%	21.5%	21% - 23%
Parts Expenses as % Gross	50.4%	48.8%	40% Maximum
Parts Stock Turn	8.0	7.9	8 times
Net Profit as % of Total Sales	**0.7%**	**0.7%**	**3%**

Source: Trevor Jones and ASE

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The 2007 profitability results, as reported by ASE Ltd, show a disappointing overall result for the year of 0.7 per cent. The fact that this mirrored the result for 2006 shows that, whilst new vehicle sales volumes increased in the year, dealers failed to retain any of the increased profit.

Reviewing the key ratios shows that little progression has been made from previous years for the average dealer. Top performing retailers are still making in excess of 4.0 per cent return on sales equating to a profit in excess of £350,000 for each site.

Depressed profitability and potentially difficult new vehicle sales was a key theme at the 2008 Nada convention held in San Francisco. The American dealers were informed that a key route out of this market would be used vehicles. In general, UK dealers are considerably ahead of their US counterparts when it comes to used cars, however there are still significant lessons to be learnt from some of the speakers.

The 2007 average performance shows significant scope for improvement in used vehicles, with the return on used vehicle investment particularly disappointing. In the current market with challenging profitability and cashflow, we are still wasting a considerable amount of the money we have invested in used vehicles.

One of the areas highlighted for improvement at Nada was the use of technology when it comes to used vehicle stock profiling. All too often we go into a dealership to review used car stock and find the stock is heavily weighted towards self-registered or ex-demonstration units. In the current market climate this poses a huge risk for dealers.

Initial indications on performance for 2008 have shown a healthy aftersales market, combined with healthy used vehicle sales. It is only in the areas of new vehicle sales and forward orders for the 08 plate change that the expected downturn in activity has been felt. Should this continue, there is a strong possibility that the vehicle manufacturers and distributors will react by decreasing the price of vehicles (or increasing the bonuses, which recent history indicates would have the same net effect).

Dealers left with nearly new stock could see considerable losses on these vehicles so it is vital to ensure that, where vehicles are self-registered, they are turned as quickly as legally possible.

As we travel the country visiting audit clients and other dealers we see very few who operate a robust stocking policy. Most dealers consider that having a fixed vehicle disposal policy (which they may stick to rigidly or bend based on individual circumstances) constitutes a stocking policy. What we would recommend, however, is greater time and effort being spent on determining what vehicles are actually stocked rather than just when to formally dispose of aged stock.

Very few of the dealers we visit utilise the information readily available from their DMS to guide their used car stock decisions. We have recently worked with a number of dealers to produce an analysis of recent used vehicle sales history detailing which makes, models and price bands have generated the most gross profit and in the fastest time. When compared to current stock holding this regularly produces the conclusion that the stock profile is weighted too heavily towards nearly- new vehicles with little volume of the more profitable older models.

Partially this is a result of registration pressures, however it is also usually attributed to ease of purchase (particularly with regards to manufacturer remarketed vehicles) and the requirements of the manufacturer warranty. We feel this is missing a huge opportunity, a belief which is backed up when we review the data. The challenge is actually finding these vehicles. They are harder to find and cannot be easily purchased in bulk, however many dealers have had success reverse purchasing from customers (and then turning a purchase into a sale) or buying from the internet.

In light of the economic and new vehicle risks, moving towards slightly older vehicles seems to make financial sense. However the overall conclusion is that the used vehicle stock should not be arrived at by accident. It should be planned, based on factual data on profitability allied to a belief about the direction of the market and seasonality. Only then will franchised dealers be able to maximise used car profitability and prosper rather than struggle in 2008.

DRIVE TIME: Dealer stocks are heavily weighted with self-registered or ex-demonstration units

Another reason to be cheerful

The VAT ruling on the Fleming/Conde Nast cases should provide an additional boost to a significant portion of the UK motor trade in 2008. Dealers previously denied a payout, or those who did not make a claim, now stand to receive a significant windfall. If the GLO claiming compound interest in addition to the existing interest payments proves successful as well, the UK motor trade should reap significant exceptional VAT income.