

Good control of finances is vital after slow start to year

Reducing overheads and costs through expansion is not the panacea for all dealer shortfalls

As we approach the end of the first quarter of 2007, registration figures and general trading indicate that the current year is likely to follow the pattern of 2006.

The national average profitability results for January 2007, collated by ASE, show the overall performance for the first month of the year at 0.4 per cent. This reflects a slow start to the year, with both new and used vehicle sales being steady, if unspectacular. This appears to have continued through the remainder of the first quarter.

Most dealers we speak to are confident of achieving their first quarter target. However, some may have to enter into significant volumes of pre-registration in order to achieve this.

With the pattern looking set for 2007, and the interest rate rises only starting to bite, the question most dealers are asking us is how they can improve their performance for the rest of the year.

Facing challenges

The indication is that any improvement is not likely to come through increased customer activity. Achieving new vehicle targets is likely to continue to be a challenge and, therefore, if an improvement is to be seen it must come from changes inside the dealership.

A number of groups have made the decision that they can only make the step forward through growth, reducing the overhead impact through increased economies of scale. Through

Ratio	National average to end of January 2007	Industry benchmark
Sales		
Used: new sales	1.3:1	1.5:1 minimum
Vehicle sales expenses as % gross	76.9%	50% maximum
Sales per salesman (annualised)	132	150
Used vehicle stock turn in days	57	45 days
Used car profit return on stock (annualised)	91.3%	100%
Aftersales		
Overhead absorption	72.0%	80% minimum
Overall workshop efficiency	80.0%	100%
Gross profit on labour sales	77.7%	75% minimum
Service expenses as % of gross	51.7%	40% maximum
Hours per retail job card	1.8	2.5 hours
Parts gross profit on sales	21.7%	21%-23%
Parts expenses as % gross	48.1%	40% maximum
Parts stock turn	8.9	8 times
Net profit as per cent of total sales	0.4%	3%

'The best performing dealers achieve profitability by focusing on the used car performance and tight workshop controls'

increasing the size of their footprint groups can centralise activities and benefit from other cost savings such as shared advertising.

This option should not, however, be seen as the solution to all problems and an instant route to profitability. The margins within the motor trade are sufficiently low that with poor management and control it is possible to have poor performing large groups even with their lower proportional overheads.

We have seen a number of growth strategies fail due to poor management and are urging dealers to ensure that the infrastructure is in place before any acquisitions are completed.

Poor controls and spreading the current management team too

thin all too often leads to massive underperformance.

Irrespective of size it is vital for all dealerships to concentrate on becoming brilliant in the basics.

For a couple of years we have been stressing the importance of concentrating on used cars and aftersales in order to increase profitability and produce long-term security. This message has been taken on board by a number of operators and we have had some great successes, particularly with used cars.

Market forces

Every month we can see that the best performing dealers achieve profitability by focusing on the overall used car performance and tight workshop controls.

They keep vehicle sales expenses between 50-60 per cent of gross, which allows them to absorb the fluctuations in the market, and have extremely tight



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Source: Trevor Jones and ASE

daily operating controls to allow them to change strategy mid-month if required.

Unfortunately a large number of operators have chosen not to force through the significant changes which need to be made in these areas. This is reflected by the fact that we continue to highlight the same topics of underperformance. This year must be the year to address this issue.

We make no apology for continuing to drive home the message as we would like to be able to report improvements in used cars and service operations and turn retailers' attentions to new vehicle sales.

Our January figures show the used vehicle return on investment has continued to improve. It will be interesting to see whether this continues throughout the first quarter, or whether it is a direct result of low stockholdings at the end of January. We should know more next month.

Lords still to rule on VAT refunds



FINAL DECISION: Dealers are still waiting for The House of Lords to rule on demonstrator VAT

No date has been set for the House of Lords case which will determine whether dealers blocked from pursuing 2003's demonstrator VAT refunds can now be repaid.

"We had hoped for a hearing by now to resolve this protracted issue but we are still hopeful of a date before the summer," said Colin Mathieson of Barnard Atkins, the VAT consultants.

Although the lack of real movement is disappointing, a favourable decision should reward dealer's patience with enhanced interest repayments.



FIRM HAND: Used car performance and workshop controls are key to profitability