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# A dangerous game

Used cars proved a success for dealers in the year to May but sourcing suitable stock is increasingly difficult and hitting profits, according to ASE

**D**ealers have yet to experience the full benefit of the scrappage scheme and so have looked to the used car sector to bolster profitability in the first five months of the year.

The sales mix of the average dealer remained heavily weighted towards used vehicles (1.4:1 new to used in 2009 against 0.9:1 at the end of May 2008).

Dealers' efforts to keep control of costs remained to the fore although the used car return on investment in the period fell back from the highs of earlier in the year (102.1 per cent in May as compared to 136 per cent in March).

This is still an excellent result



compared to a figure of 59.9 per cent as at March 2008, but will represent a worry if the downward trend continues into the second half of the year.

Linked to this is another worrying trend as vehicle sales expenses as a percentage of sales

have started to creep up again with a 2009 figure of 71.9 per cent being significantly higher than the 65.5 per cent last year.

This may well reflect a reduction in gross margins as opposed to an increase in costs, but it will be crucial in the second half of the

year for dealers to keep their focus on expenses and not to allow additional costs to creep back into their businesses.

Our clients are telling us that the concerns earlier in the year about the availability of used stock are becoming a reality, with good quality cars becoming harder to come by and dealers paying well over book at auction simply to maintain stock.

This could represent a dangerous game if and when the recent book increases in used car prices start to level off or even fall back again in the second half of the year. Any fall off in consumer purchasing could lead to some dealers being left with some very over priced vehicles.

Given that cars exchanged in scrappage deals won't be making their way into used stock this will place even more pressure on new sales under the scheme to make up for any shortfall of used stock.

Given the low value, low margin attaching to most scrappage sales this may prove to be a big ask. A clearer picture will, of course, come from the June figures.

In fact, the scheme may well magnify the used stock issue given that many of the trade-ins for new cars won't hit the forecourt as they will have been scrapped. In the long term, with scrappage buyers perhaps being of a mind to keep their cars for the long haul, it may well also be that the majority of the cars sold under the scheme may not find their way back onto used car displays any time soon.

Overhead absorption continues to sit at a very satisfactory 80 per cent for the year to date, precisely in line with the benchmark for this ratio. This does seem to an extent to be the result of a reduction in overheads as opposed to increased profitability in the service department with service expenses as a percentage of gross increasing to 49.4 per cent (45.4 per cent last year).

Overall efficiency and gross profit on labour sales remain reasonably constant (77.4 per cent and 83.1 per cent respectively) implying again that some extra cost may be creeping back into the system. **MT**

Ratio	National average May 2009	National average May 2008	Industry benchmark
<b>Sales</b>			
Used: New sales	1.4:1	0.9:1	1.5:1 min
Vehicle Sales expenses as % gross	71.9%	65.5%	50% max
Sales per salesman (annualised)	158	158	150
Used vehicle stock turn In days	49	64	45 days
Used car profit return on stock (Annualised)	102.1%	59.9%	100%
<b>Aftersales</b>			
Overhead absorption	80%	76.0%	80% min
Overall workshop efficiency	83.1%	84.6%	100%
Gross profit on labour sales	77.4%	77.5%	75% min
Service expenses as % of gross	49.4%	45.4%	40% max
Hours per retail job card	1.6	1.6	2.5 hours
Parts gross profit on sales	20.6%	21.6%	21-23%
Parts expenses as % gross	47.0%	49.8%	40% max
Parts stock turn	8.0	8.5	8 times
<b>Net Profit as % of Total Sales</b>	<b>1.0%</b>	<b>0.8%</b>	<b>3%</b>