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Profitability under pressure

Strong used demand failed to lift profitability in February, according to the latest ASE figures

The average UK franchised dealer slipped further into the red in February despite the strong performance of used car sales, according to the latest financial performance analysis from ASE, the business management specialists.

The average dealer made a loss of £12,750 in February, bringing losses for the first two months of this year to £17,238. This compares with a loss of £2,120 in February 2008 and £5,711 for the first two months of last year.

The shift towards used vehicles continued apace in the month, with a national average of two used vehicles being sold for every new car in the first two months of the year. The comparable period in 2008 saw a ratio of 1.5 used cars

for every one new vehicle. This shift is brought home when one considers that the average dealer has sold 65 used vehicles since the turn of the year, compared to 41 for the same period in 2008.

The higher unit sales are to an extent offset by a reduction in the used car gross margin to £712 per unit (£881 in 2008). This reduction is partly explained by the reduction in the average used car selling price from £8,844 a year ago to £6,503, reflecting a percentage increase in the margin relative to the cost of the used cars. The reduction in the average used car selling price is a reflection of the market shift towards cheaper cars.

Used vehicle stock turn also reflects the overall pattern, down from an average of 59 days in 2008 to only 32 in 2009,



reflecting not only an improved used car market but also better control exercised over used car stocks by dealers. Interestingly, despite anecdotal evidence that used cars are becoming increasingly hard to come by, the average number of used vehicles in stock remained static at 35 when compared to 2008. The shortage of retail used vehicles will become more acute in the future as a result of falling new car sales.

The effect of all of these factors is a return on investment in used cars of 124.1 per cent year to

date, which is a remarkable result. This shows that dealers are really sweating their assets and that the message of the last five years on used cars is finally hitting home.

However, our conversations with dealers over recent weeks indicate this resurgence in used car performance has begun to fall away again, largely because of the shortage of retail used vehicles.

On a more positive note, vehicle sales expenses as a percentage of gross profit has fallen from 77.3 per cent in February 2008 to 48.8 per cent this year – another impressive outcome. Dealers at least are keeping more of the profit they make on vehicle sales, the benefits of cost reduction programmes continuing to flow through in this area of the business. Maintaining this control of costs is going to be vital in the coming months, particularly if used car performance is indeed going to fall back from the highs of the early months of the year.

Turning to the aftersales side of the average dealer, the indications are that this side of the business, in terms of the ratios, is performing at or around the same level as it was in 2008. However, a reduced volume means that overhead absorption, at 63.7 per cent, continues to be a source of concern. This represents a fall not only relative to 2008 (70.7 per cent) but also when compared to the January figure of 65.9 per cent. **M**

Ratio	National Average - February 2008	National Average - February 2009	Industry Benchmark
Sales			
Used: New Sales	1.5:1	2.0:1	1.5:1 Min
Vehicle Sales Expenses as % Gross	77.3%	48.8%	50% Max
Sales Per Salesman (Annualised)	111	169	150
Used Vehicle Stock Turn In Days	59	32	45 days
Used Profit RoS (Annualised)	70.1%	124.1%	100%
After Sales			
Overhead Absorption	70.7%	63.7%	80% Min
Overall Workshop Efficiency	83.5%	84.1%	100%
Gross Profit on Labour Sales	77.7%	77.0%	75% Min
Service Expenses as % of Gross	43.9%	42.6%	40% Max
Hours Per Retail Job Card	1.6	1.6	2.5 Hours
Parts Gross Profit on Sales	26.9%	21.8%	21% - 23%
Parts Expenses as % Gross	48.7%	50.6%	40% Max
Parts Stock Turn	7.3	11.5	8 times
Net Profit as % of Total Sales	-0.4%	-1.1%	3%