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Reaping the benefits

The scrappage scheme and strong used demand boosted dealer profitability in July raising hopes of a strong calendar year

A combination of continued benefits from the scrappage scheme and strong used car performance meant that the average dealer had another strong month in July 2009.

Net profit as a percentage of sales stood at 1.3 per cent for the seven months to July 2009, representing a small drop off from the figure of 1.4 per cent as at the end of June, but a big improvement over the figure of 0.6 per cent for the same period last year.

This provides some cause for optimism for the year as a whole given that the real hits on used car values were not felt until late 2008; if dealers can maintain a consistent level of performance for the last five months of the year the full year result should



BOOSTED: Average net profits, as a return on sales, for dealers was 1.3 per cent to the end of July

represent a great step forward.

The ratio of used to new sales remained consistent with June's figures at 1.1 per cent. Continued improvements in volumes of new car sales under the scrappage scheme meant that sales per

salesmen increased from an annualised June figure of 159 to 165 for July, although this is still well down on the annualised figure of 182 as at July 2008.

With increased speculation that scrappage money is going to run

out as early as the end of October there is concern that new sales will take a real hit when it ends.

Used car performance continued to be strong, with an annualised return on investment figure of 102 per cent only marginally down on the June's 102.5 per cent but still ahead of July 2008's 67.2 per cent. There is no sign yet of the predicted drop off in used car performance, but the inability to recycle scrappers as used stock is contributing to an overall lack of availability, combined with ever strengthening used car values this leads us to expect this ratio to fall away as the year progresses.

It is heartening to note that the vehicle sales expenses as a percentage of gross figure is virtually unchanged from the previous month's figures at 69.8 per cent – although still higher than the benchmark this shows that extra direct costs are still not being allowed to creep back in.

Turning to aftersales there is perhaps more immediate cause for concern. While the performance against the majority of the benchmarks remained broadly unchanged between the June and July figures, overhead absorption has fallen significantly. In the June figures this was running at 82.2 per cent but by July this figure had fallen by 10 per cent to 72 per cent in the space of a month, lower also than the figure for the same period in 2008.

There are two possible underlying causes for this – a fall in service department profitability or an increase in indirect costs. The fact that the other performance measures remain unchanged suggests that the profitability of the service department should have held up well over the month. Indirect overheads is the prime suspect.

If indirect costs are starting to creep back up this is could be storing up problems for the later part of the year once the effects of scrappage tail off and used supply starts to bite. If this happens will the profits of the sales department be sufficient to cover the absorption shortfall due to these increased costs?

It would be a pity if all the hard work of the first half year were undermined by a loss of focus on costs in the next six months.

Ratio	National average to end July 2009	National average to end July 2008	Industry benchmark
Sales			
Used: New sales	1.1:1	0.9:1	1.5:1 min
Vehicle Sales expenses as % gross	69.8%	68.0%	50% max
Sales per salesman (annualised)	165	182	150
Used vehicle stock turn in days	49	52	45 days
Used car profit return on stock (annualised)	102.0%	67.2%	100%
Aftersales			
Overhead absorption	72.0%	74.9%	80% min
Overall workshop efficiency	83.1%	84.2%	100%
Gross profit on labour sales	76.9%	77.3%	75% min
Service expenses as % of gross	50.2%	46.0%	40% max
Hours per retail job card	1.6	1.6	2.5 hours
Parts gross profit on sales	21.1%	21.5%	21-23%
Parts expenses as % gross	46.4%	49.8%	40% max
Parts stock turn	8.0	10.0	8 times
Net profit as % of total sales	1.3%	0.6%	3%

Source: ASE