Australian Automotive Dealer Association Ltd.
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The Editor,
The Australian Financial Review,
VIA: email

Dear Sir,

We write to seek your assistance in correcting the damaging misstatements and distortions that appeared in the Australian Financial Review on Thursday August 10 in the article headlined "*ACCC attacks 'appalling' car dealers".* Perhaps the most egregious statement (among many candidates) was the blatant misrepresentation that dealers are making a 'whopping' 64% profit on car servicing. Dealers are making nothing like that.

Accounting 101, day 1, page 1 – gross profit is not net profit.

Even those with a passing familiarity with business would also surely know that gross margins of that dimension are common in many sectors in this country, and around the world. In fact, many non-automotive businesses such as fashion, electronic goods and professional services would go broke if their gross margins were only 64%. We won't even begin to talk about the gross margins involved if you ask a tradie to come to your door and fix a leak.

We were surprised that the AFR would not point out the obvious inappropriateness of gross margin as any sort of meaningful benchmark.

A well run franchised new car dealership in Australia will turn a net profit of about 2% to sales – but many run well below this benchmark. In the financial year just ended the average return on sales is likely closer to 1.5 cents in every $1of revenue – it's a tough, tight margin business that takes great skill to manage.

I note that Sue Mitchell writing in your fine paper on October 16 last year documented Coles and Woolworths' net to sales margins in the 5% range – roughly twice the result a good car dealer might expect to achieve.

No one is calling them 'appalling' in the pages of the AFR.

Carsales.com.au, a business with low capital investment compared to the franchised new car network, does not own a single vehicle of inventory and has little in the way of physical assets. Last year, they reported a NPAT of $119 million on revenue $372 million for a net margin of 32% - and good luck to them. But again, no one is outraged.

Contrary to the surprisingly immoderate statements attributed to Mr Sims in the article, dealers are not making 'enormous' profits from service – franchised new car dealers are not making enormous profits anywhere in their businesses.

Mr Sims' use of gross margin in his comments was inappropriate. We trust it was not calculated.

Yours sincerely

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Chief Executive Officer