

# forward drive

Motor retail briefing  
March 2011



Restructuring and Recovery  
Real people, real solutions

## Weighing up the options

At the end of 2010, we forecast that 2011 may be more challenging than other commentators were suggesting. Almost a quarter on, it has not been a good start to the year from the consumers' point of view.

The Nielsen Company and the British Retail Consortium reported that 27% of individuals have no spare cash and their confidence levels have suffered the largest drop in nearly 20 years. Therefore, it was to be expected that the new car registration figures for January may be disappointing – and they were. If January is as reliable an indicator of the annual registration figures as it was for the eight years before the scrappage scheme, then this year could see a 15% reduction in new car sales compared to last year.

In January, the four manufacturers (with market share of more than 1%) experiencing the largest fall in sales were:

	Registrations: Jan 2011 v 2010
1. Hyundai	↓ 45%
2. Kia	↓ 38%
3. Fiat	↓ 37%
4. Renault	↓ 34%

Given the heavy participation of the first three in the scrappage scheme, one might think that there are no real surprises here. But there is a more interesting story beneath these statistics.

“This year could see a 15% reduction in new car sales compared to last year.”



## Welcome

The 11 plate is now with us and on it ride dealers' hopes for an improved start to 2011. If March doesn't happen for the industry, then it could be the start of a very tough year.

To guard against this, many manufacturers have announced large discounts aimed at boosting the retail market. The fleet market is stronger but is low-margin and cash-challenging for dealers. With the full impact of the public sector cuts yet to be seen, oil prices spiralling and interest rate rises imminent, the future is characterised by greater uncertainty than at any time since the recession started.

Through this maze of external influences, dealers are left to try and plot a profitable course and this edition of *forward drive* looks at some of the issues they face on that path.



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The last really good year for the motor trade was 2007.

If we compare the January results of these marques with the start they had to 2007, then the results show that Hyundai and Kia may well have dropped back this year – but during the last four years, they have firmly established themselves as substantial UK operations. Together, they had just 2.3% of the market in 2007 compared to Fiat and Renault's 6.7%. In 2011, Kia and Hyundai command 5.5% of the market whilst Fiat and Renault have dropped to 4.9%.

	Registrations: Jan 2011 v 2010	Registrations: Jan 2011 v 2007
1 Hyundai	↓ 45%	↑ 90%
2 Kia	↓ 38%	↑ 86%
3 Fiat	↓ 37%	↓ 25%
4 Renault	↓ 34%	↓ 50%

The point is that change happens very quickly in the motor industry – simply waiting for a market to recover without continually reviewing options and strategies is not the sign of a well-managed business.

So, if the new car market turns out to be as disappointing as we are suggesting could be the case, what are the options facing dealer groups who do not simply want to follow the downward trend of new car sales? Public statements by the larger

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dealer groups show that everyone is looking to focus on aftersales. Strangely, one of the groups saying this has installed a call centre to handle service bookings which may save money initially but breaks a key link in the value-added chain of providing a personalised service.

But retaining customers in a recession is always a good idea and such initiatives will keep the aftersales people busy – but what about the sales department? Here, it appears that the new accepted wisdom is to focus more on used car sales to fill the void left by absentee new car customers. But this seemingly simple solution brings with it a host of other issues. If we drill down from the national issue of poor new car sales to what a focus on new car sales means for SMEs, then we see the following:



## Industry issue

Tough retail market, especially for those marques who rely on retail sales rather than fleet/corporate sales

## SME effect

Look to increase used car sales

## Issues for SMEs

Deciding on used car stock profile

- Does the dealership have the MI on past trading to decide upon a stock profile?

Sourcing used cars – does the dealership have the internal skills/experience to do this?

- What historic MI is there on GP and source of used cars?
- Where will they source from?

Are appropriate stock funding lines in place?

- What's the oldest/highest mileage vehicles that can be financed?

Are appropriate retail finance arrangements in place?

- Does the dealership need to open up lines of retail finance for 'poor credit risk' customers?

Used car ageing – does the dealership have a policy and the determination to adhere to it?

Are there enough experienced staff in place to trade successfully?

Are policies in place to ensure that the used car sales profile will also keep the workshops busy in profitable aftersales rather than just incurring costs on expensive preparation and policy work?

## Stock shortages?

Perhaps the major problem that the trade is looking at is the shortage of used car stock in their 'comfort zone'. Most franchised dealers are comfortable and experienced at selling cars up to five years old with the majority in the 0-3 years old age group. But look at car registrations for the last four years and the size of the problem becomes apparent – those cars are in short supply.

Actually, the problem is bigger than this. In the last two years, the market was skewed by scrappage registrations. Of the 400,000 cars sold under the scheme, many were sold to people who intend to keep them for as

long as they kept the one they traded in and these cars are not about to start entering the market as used car stock.

The effect of this has been for auction prices of used cars to rise. BCA reported in December that the average used car price at auction was £5,905 – over £1,000 more than two years ago. Interestingly, the largest price increase last year was in the nearly new car category where cars going through the auction rose 20% in price. Given that used car prices are ‘set’ in relation to new car transaction prices, the inevitable outcome is that used car margins will reduce. And if manufacturers offer dealers trading incentives on new cars later this year to boost a flagging new car market, then dealers may well find themselves with expensive used car stock on their hands that they can only trade at a loss.



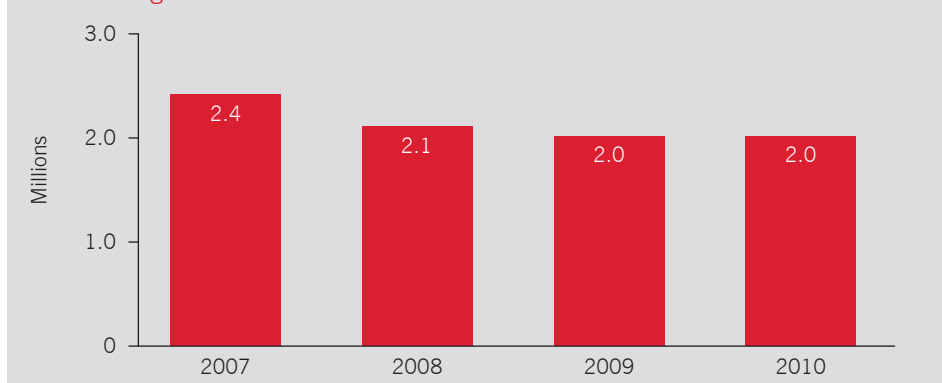
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## Another option?

So is there another option for dealers? Well, there is but it takes them into an area that many of them have little experience of and which also carries risks. It is the older used car market. Talk about older used cars to most dealers and they will regale you with the story about the seven year old mint Range Rover with 25,000 miles on the clock that they brought in for £15,000 and sold for £23,000. But those deals are few and far between and whilst dealing older cars can be profitable, dealers need to be very careful with stock holding, preparation costs and warranty burn rates to make money in the longer term. There is also the issue that not all used car stocking finance covers cars over five years old and dealers need to plan carefully before they start using their overdraft facilities as a source of capital for stocking older used cars.

One dealer we were working with recently had put a lot of thought and planning into this area of his business. A thorough strategic review of the various franchises operated by his business showed that

New car registrations 2007 to 2010



one of the specialist marques offered only a challenging future. The space and overhead it occupied really did not justify the continued investment and the decision was made to terminate the franchise. A makeover of the premises, together with the raising of a specialist used car funding line for older vehicles, has established the business as a separate profit centre focussing exclusively on used cars. The SWOT analysis had identified that the key strengths of the business were its longevity with family ownership and the remaining prestige and specialist marques it holds franchises for.

The trick has been to get the reflected glory of these two key features into the selling proposition for the used cars that is done in the telephone greeting given to the used car customers. This immediately distances this used car business from the opposition and takes doubts away from the prospective customers’ minds that an older used car bought from here will have provenance and will be prepared to a high standard all of which means that they can justify their prices.

The morals of the story are that:

- it would be simplistic to think that the lack of new car sales can be replaced by stocking a few more used cars;
- successful used car trading requires very good planning and strict adherence to policies;
- specialist funding is available and should be considered to avoid using the overdraft;
- a strategic review of the contributing units to the business can be a powerful wake up call to the alternative of rearranging the deckchairs without changing the fundamentals.

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# Back on yer bike?



The motorbike market had a good January with sales up 25%. Perhaps, after a poor December caused by the weather, they were due a good month.

Down 34% in sales since 2008, bike dealers need a good run. But bikes are a strange market. There is a 'club' feeling to bike dealerships brought about by the enthusiasm of the owners and their staff. You don't get many owners of reasonably priced family saloons going out for a drive on a weekend and ending up at a dealership for a chat do you?

But the peculiarity doesn't stop there. Some of the normal management processes, like the production of MI and composites, that you would expect to see because car dealers

do it are simply not there. Undoubtedly, the bad weather in December had a major effect on their trading and now they are just praying for a mild spring and for the season to start again. Manufacturers are advancing bonus money to them to keep them viable in the short term, but in the longer term, they will have to take up the management skills of some of their car dealer counterparts if they are to survive and prosper.

One positive factor affecting the bike market this year will be the continued high price of petrol. With prices up 13% on the year, the

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drive towards a more economical means of transport inevitably brings motor bikes onto the agenda for many commuters, hence the 45% rise in January in the sale of bikes with engines between 51cc and 125cc. And, coupled with the industry's own 'Get-on' campaign 2011, this could offer bike dealers some reasons to be cheerful.

## About the Restructuring and Recovery Motor Group

Baker Tilly's Restructuring and Recovery Motor Group brings together a multi-disciplinary team of partners and senior staff, all of whom have significant experience of working for both lenders to the sector and dealerships. We believe the combined skills of our national group provide a one-stop shop, offering practical and commercial solutions.

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