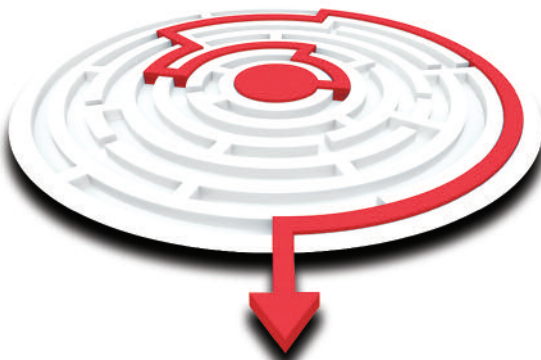


# Motor Dealer Health Check

A rocky road to recovery



Spring/Summer 2011

Restructuring and Recovery  
Real people, real solutions



# Dealers likely to have a rocky road to recovery

The correlation between the number of motor sector administrations and declining new car sales figures is both very clear and pretty instantaneous [Fig.1]. New car sales slide for a couple of quarters and administrations increase almost straight away.

Target-driven bonuses are a feature of the industry and are a frighteningly high proportion of the bottom-line figure.

Miss those bonus targets in the critical quarters and things quickly conspire to that crucial point where a dealer without the support of its manufacturer simply runs out of cash – critical in any ‘recovery’ phase of the economic cycle.

The link between property prices and car registrations is also easy to see [Fig 2]. Similarly to falling house prices, new car registrations decrease as consumers continue to put off major lifestyle purchases.

Additionally, our online poll with AM [far right] brought out the link between jobs uncertainty and falling new car sales. When we feel good about our job prospects then we are more likely to commit to finance obligations to buy both houses and cars.

Several dealers have had the double misfortune of a poorly-timed relocation decision combined with a decline in their manufacturer’s popularity because the model range just isn’t cutting it at the moment, for whatever reason.

Some of these dealers appear to believe that if they can hold their corporate breath long enough then their manufacturer will eventually bring out competitive new models and all will be well. The problem is that sometimes the decline can take five years to sort itself out and a strategy of ‘holding one’s breath’ needs to be bolstered somewhat to take along unwilling funders.

The SMMT continues to predict a recovery of the market in the second half of 2011. However, dealers may not be feeling quite as confident and 82% of respondents [poll question 1] still fear the Government spending cuts are most likely to affect new car sales.

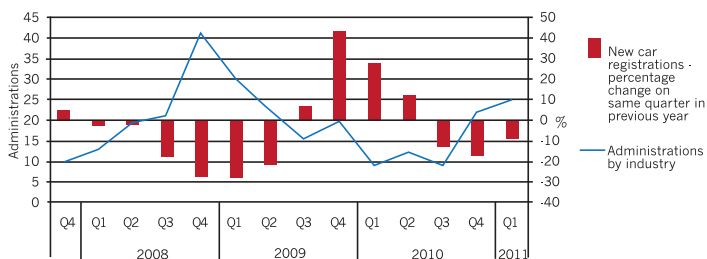
It is no coincidence, therefore, that the large motoring organisations fear that car owners will stretch the intervals between services to save money and put off any new car purchase.

In case economic recovery is less strong than we all would like to see, what can the dealer do to avoid meeting the ‘problem’ departments of the banks?

The most important factor for dealers is to keep their relationship manager fully informed about their performance. If a dealership sends their MI grudgingly or late the bank will wonder why. They should be sure to include:

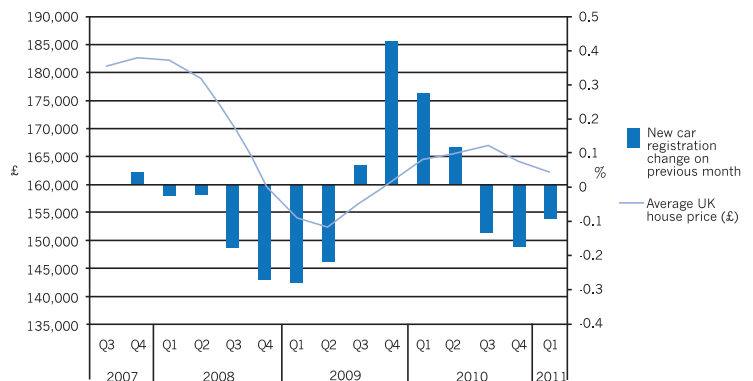
- how the industry is doing
- what the SMMT, their manufacturer and others in the industry are predicting
- cash flow requirements for the next 13 weeks and their progress against forecast
- the major events in the month
- planned model launches
- their aftersales initiatives
- their used car strategy and its progress

Fig 1: New car registrations v administrations



Sources: SMMT; The Insolvency Service

Fig 2: Average UK house prices v new car registrations



Sources: SMMT; Land Registry

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Head of Motor

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The dealer should demonstrate to their bank that they are proactively managing the situation and not just sitting on their hands waiting for things to change.

Where they have a small management team, the difficulty will be to convince their bank that they have the working capital to deliver their plan.

It may well be they have 25 years' experience, but if in reality it is the same year of experience 25 times over then the management will probably benefit from some external input.

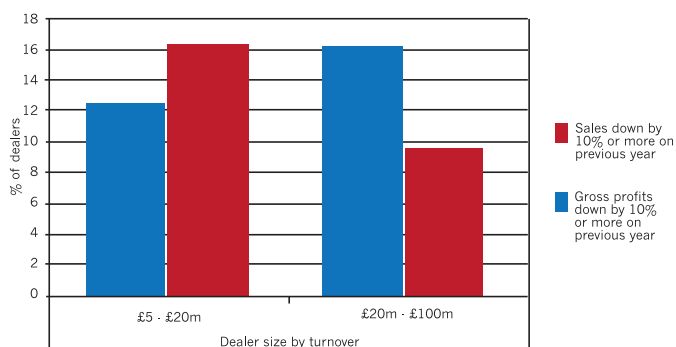
There are plenty of people around who can do this, but a dealer should choose someone who has much more varied experience than them and who can give their bank confidence that they are taking advice and not just seeking to get their own ideas endorsed. But it's their plan and they have to deliver it.

According to Baker Tilly/Company Watch research, the latest filed accounts of around one in six dealers (turnover £5-20 million) show a 10% or greater decline in their gross profits.

Manufacturer targets and rising costs look to have resulted in a greater fall in profits than sales – a likely result of the pursuit for much required cash. Potentially, up to 1 in 20 dealers could go through a formal insolvency or major restructuring process in 2011.

The pressures of the last few years continue to resonate as the market remains tough for dealers.

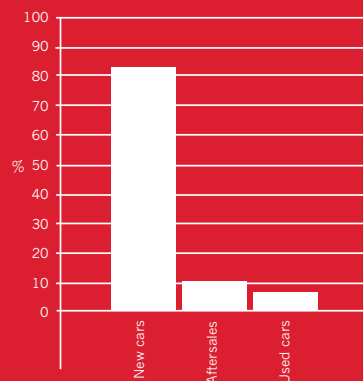
**Fig 3: Falling sales v gross profits**



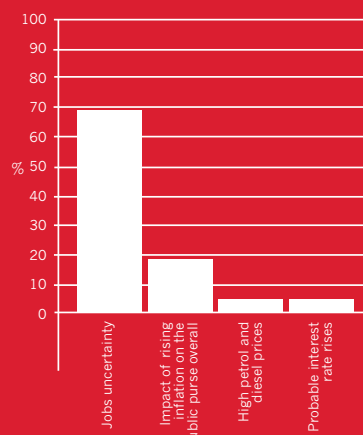
Sources: Baker Tilly analysis of Company Watch data

## Poll questions from AM online in association with Baker Tilly

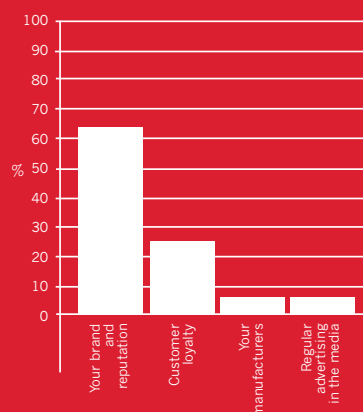
**Q1** In which segment do dealers think the industry will see the hardest impact of the Government spending cuts?



**Q2** What do dealers feel is the biggest factor behind current falling new car sales?



**Q3** What is most important to their marketing and profitability?



Source: www.am-online.com

## Baker Tilly's Restructuring and Recovery Motor Group

The 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. The combined skills of our national group provide a one-stop shop, offering practical and commercial solutions.

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