

'Toughing it out' – Franchised Dealer Retailing Survey – Spring 2010 (in conjunction with Motor Trader)

The majority of franchised dealers do not think the car retail sector will emerge from recession until 2011 or 2012 at the earliest.

So far, 2010 has posed a lot of challenges for dealers with the end of Scrappage, higher VED on cars, the return of 17.5% VAT and the introduction of showroom tax. There is also election uncertainty with the prospect further ahead of rising interest rates, higher taxation to reduce government borrowing and the likelihood of public sector job cuts.

This, perhaps, explains why the majority of dealers, 77%, do not think the car retailing sector will pull out of recession until 2011 or 2012.

And yet the latest Motor Trade Survey and Baker Tilly *Franchised Dealer Retailing Survey*, carried out in March, finds UK dealers in pragmatic mood as they consider their prospects for the year ahead.

Mixed levels of confidence

We asked dealers on a scale of one to five how confident they were of the viability of their business following the end of the Scrappage scheme in March. The market has polarised since the survey was last carried out in October. This time around 24% of dealers are low on confidence compared to 20% in October. But 56% of dealers were more confident compared to 47% in October.

A majority, 80%, of dealers said their business had been profitable in 2009. Looking ahead the same percentage expects 2010 to be profitable.

We asked dealers what was their number one priority for 2010 and used cars emerged as the clear winner cited by 54% of respondents.

Dealers were asked what were the causes of lost car sales? Whereas in October, 34% of those polled said lack of finance was the cause, this had improved to 29% in March poll. Back in October two-thirds cited lack of buyer demand as the root cause of lost car sales and this had increased to 71% by March.

A sales salvation under scrappage?

The impact of Scrappage on sales varied quite dramatically. More than a third of dealers (36%) said it had a low impact whereas 39% said the effect on sales was high. This probably reflects the fact that some car makers, like Kia and Hyundai for example, had key budget models that sold well while other carmakers simply did not have the models or supply to cash in on the scheme.

What is going to happen to dealers' business with the removal of scrappage? Again the maker was polarised with 38% said it would have little impact the same percentage said it would have a high impact.

Separately, the majority of dealers, 70% thought scrappage vehicles were less profitable per unit compared to cars sold before the scheme was introduced.

A minority of dealers, 28%, said their carmaker had proposed post scrappage financial support with the balance, 72% saying they had not offered anything. Anecdotally, Kia and Hyundai emerged very strongly when it came to their post scrappage schemes with Toyota and Vauxhall also doing well in the survey.

Other important areas of attention

Used cars continue to be critically important for dealers and 43% said demand was currently 'very strong' or 'strong' whereas 57% said it was declining 'slightly' or 'significantly'. Demand is greater now than it was back in October when just 25% thought it was 'very strong' or 'strong' and 75% 'declining' or 'declining strongly'.

There has been much speculation as to whether the new VED tax and showroom tax would hit car sales and almost half of those polled (54%) said it would.

Looking to the future, a third of dealers would consider taking on a franchise over the coming 12 months with the balance not keen to do so. This is largely unchanged since the last survey in October. That said, a large majority, 77%, believe the car retailing sector will not pull out of recession until 2011 or 2012 and over 10% plan to exit car retailing in the next few years.

Few second chances – The views of Graham Bushby, Head of Motor, Restructuring & Recovery LLP, Baker Tilly

I wonder when respondents say that they think that the recession will end in 2011/12, if what they are really saying is “actually it’s tough now and I’m not sure I can see an end to it”? Certainly for some dealers who have done well out of scrappage, it is difficult to be positive about the immediate short term. Suddenly, 50% of their new car customers have disappeared and the uncertainty that surrounds any election may have an effect on showroom footfall.

Most dealers are reporting an increase in profits last year and it would seem that these profits are going to be needed to ride out the rest of 2010 and some of 2011. The survey also shows the polar effects that the scrappage scheme has had on dealers depending on where their manufacturer was positioned in the market. You can almost hear the disappointment of the 71% of dealers as they answered in the negative as to whether their manufacturer had proposed any post-scrappage support and the majority who are less than happy with their manufactures post scrappage retail programmes.

Focus for the future

Dealers need to choose carefully now where to focus their efforts. Many of the larger players in the market are stressing the need for focus on customers’ retention and after sales, but the respondents to this survey are looking to concentrate their efforts on used cars – a market that they also tell us is quiet at the moment.

You’d have to be brave to go against a strategy not focussed on customer retention and given the predictions for public finances going forward and the effect on customer confidence, we would urge dealers to think again about focussing to switch on one part of their market.

What’s certain is that there will not be many second chances going forward in what could be a time of increasing consolidation and change.

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