



# Franchised Dealer Retailing Survey

Toughing it out



Results summary  
Spring 2010

Restructuring and Recovery  
Real people, real solutions

In association with:

**MOTORTRADER**



**BAKER TILLY**

# Toughing it out

## 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 Trader 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.

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 (table 1).

A majority, 80%, of dealers said their business had been profitable in 2009. (table 2). Looking ahead the same percentage expect 2010 to be profitable (table 3).

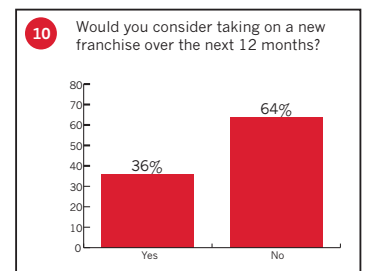
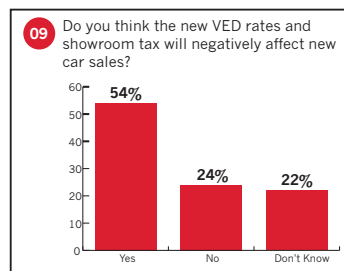
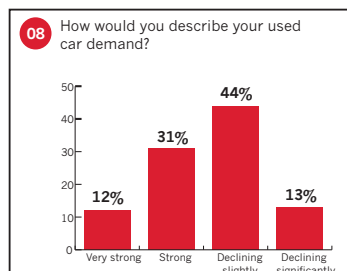
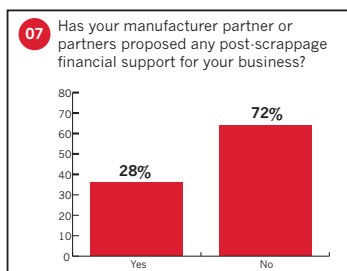
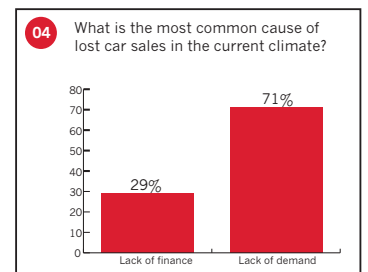
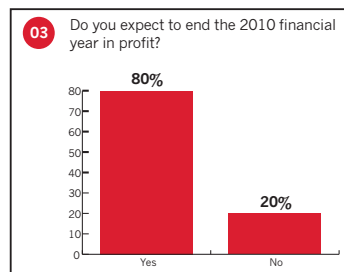
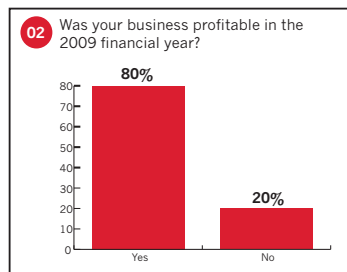
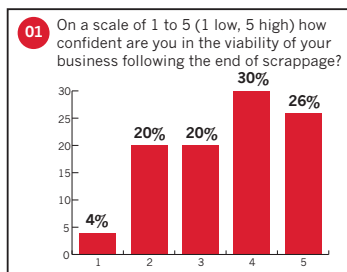
We asked dealers what was their number one priority for 2010 and used cars emerged as the clear winner cited by 54% of respondents.

Dealers were asked what were the causes for 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 (table 4).

**“Dealers are pragmatic as they consider their prospects for the year”**

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 (table 5). This probably reflects the fact that some carmakers, 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 market was polarised with 38% said it would have little impact and the same percentage said it would have a high impact (table 6).



# Few second chances

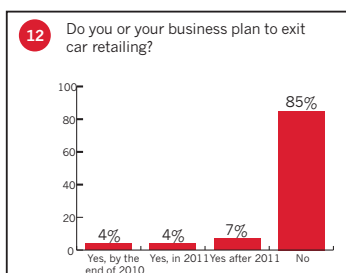
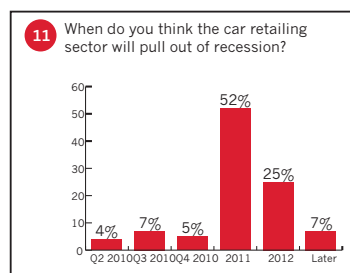
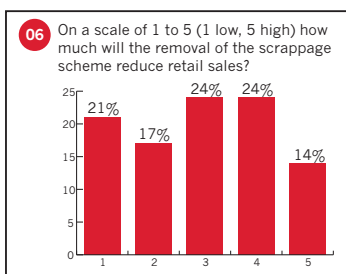
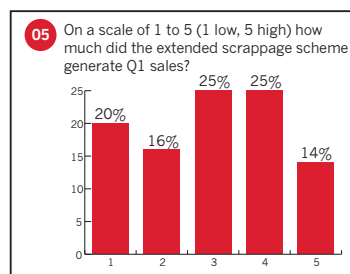
Separately, the majority of dealers, 70%, thought scrappage vehicles were less profitable per unit compared to cars sold before the scheme was introduced.

A minority of dealers, 28%, said their carmaker had proposed post scrappage financial support with the balance 72% saying they had not offered anything (table 7). 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.

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' (table 8). 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 (table 9).

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. (table 10). 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 (table 11) and over 10% plan to exit car retailing in the next few years. (table 12).



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 manufacturers post scrappage retail programmes.

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 customer retention and aftersales, 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.

**Graham Bushby**  
 Head of Motor  
 Restructuring & Recovery LLP  
 Baker Tilly



## 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.

---

**Birmingham**                      **0121 214 3100**  
Graham Bushby

---

**Bristol**                                **0117 945 2000**  
Andrew Sheridan

---

**Guildford**                         **01483 307 000**  
Matthew Wild

---

**London**                              **020 7002 8600**  
Simon Bower  
Bruce Mackay  
Bob Tallentire

---

**Manchester**                      **0161 830 4000**  
Lindsey Cooper

---

**Watford**                            **01923 816 400**  
Mark Wilson

---

### Restructuring and Recovery experts also in:

Crawley, Bury St Edmunds, Edinburgh, Hull, Leeds, Milton Keynes, Newcastle and Peterborough.

This publication is designed for the information of readers. While every effort has been made to ensure accuracy, information contained in this document may not be comprehensive and recipients should not act upon it without seeking professional advice.