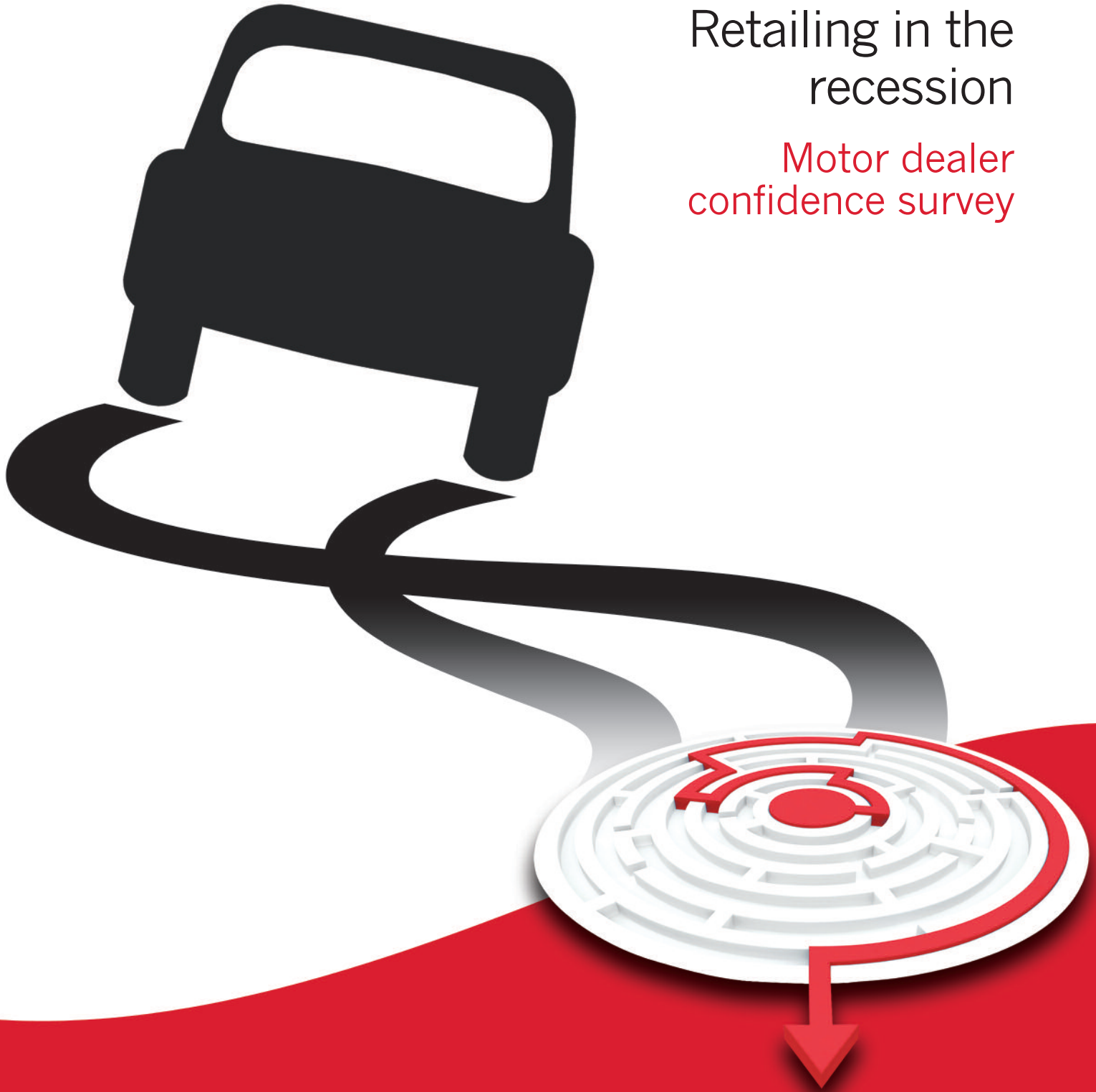


Retailing in the recession

Motor dealer confidence survey



Results summary
November 2009

Restructuring & Recovery
Real people, real solutions

In association with:

MOTORTRADER



BAKER TILLY

Battling it out

Dealers have proven to be remarkably resilient in 2009 with the majority expecting to be profitable for the year on the back of good used car margins and strong aftersales.

Dealers battled against tough economic conditions in 2009 with new car sales under pressure and the spotlight increasingly falling on aftersales and used cars to boost the bottom line.

Motor Trader and Baker Tilly carried out the second 'Retailing in the recession' survey in October to poll the views of dealers as they grapple with the challenges and opportunities presented by the downturn and turn their attention to what looks like a difficult 2010.

We asked dealers how confident they were in the viability of their business in the current market conditions.

Dealer confidence has improved since the last survey (table 1). A fifth (20%) lacked confidence this time around compared to 29% of dealers in March.

In a year when overall UK car sales are down 12%, dealers were asked what caused this decline. More than a third (table 2) said lack of finance was the problem whereas two-thirds attributed lost sales to lack of buyer demand. In the last survey, 24% cited finance and 76% lack of buyer demand.

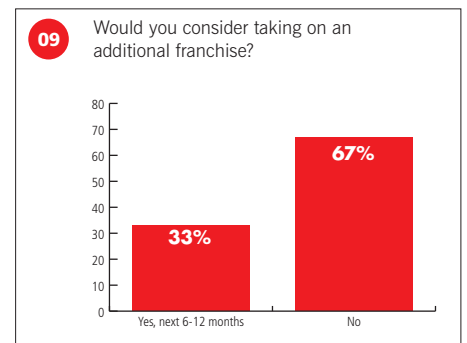
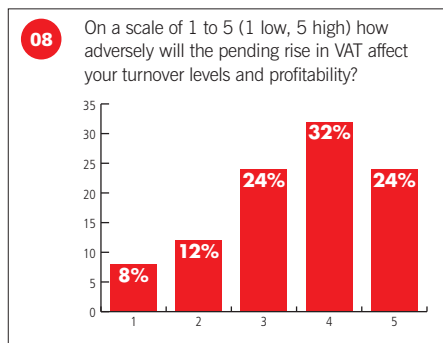
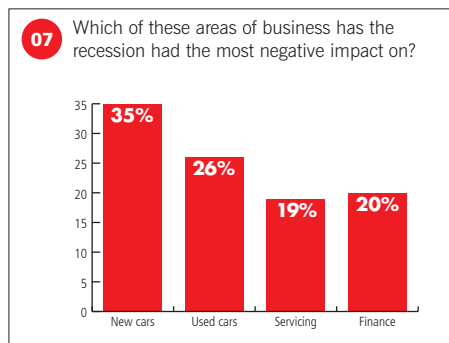
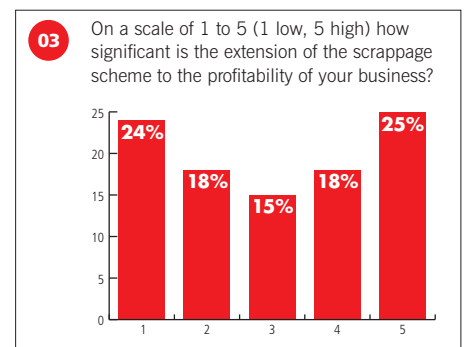
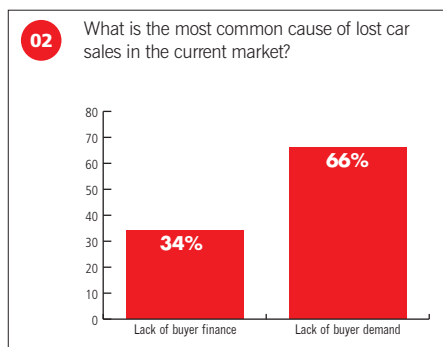
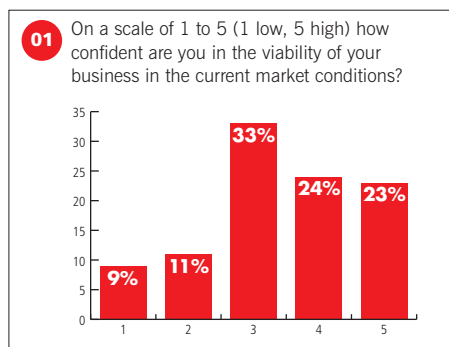
The scrappage scheme was never far from the headlines in 2009 and its extension was welcomed by dealers and carmakers alike. But what impact did it have on business? Dealers rated the impact on a scale of one (low impact) to five (high impact). Almost half (table 3) of those polled said the impact on their business was low. That said, 43% of dealers said the extension had a high impact on business and almost three-quarters (table 4) said their scrappage sales had been profitable.

“ The majority of dealers think car retailing will not pull out of recession until 2011. ”

If scrappage has dominated the new car headlines, it is the used car sector that helped thousands of dealers stay in profit in 2009. But judging by the results of the poll on used car demand, the market is now past its best. Just 7% (table 5) said used car demand was 'very strong' while 18% thought it 'strong'.

Almost half (45%) thought it had 'declined slightly' and 30% thought it had 'declined significantly'.

The used car market may be softening but dealers have enjoyed good margins on used cars in the nine months to September.



Putting up a fight

In our April survey, the underlying flavour was one of stoic optimism. It now looks like the ever-defiant British car dealer may be beginning to flag despite the industry's true grit. As winter draws in and the nights darken, we can all begin to feel a little gloomy.

The scrappage scheme is excellent for some of the volume manufacturers and not so good for the more expensive and specialist marques. 'Cash for clunkers' in the US and the various scrappage schemes in Europe are driving these results – 30% of some of the volume manufacturers' sales since the scrappage scheme was introduced have been powered by it whereas the figure for some manufacturers is minimal. Unsurprisingly, few of the respondents to the survey are looking forward to the VAT rise of 2.5% increase in VAT on 1 January 2010 and with the scrappage scheme being predominantly retail driven the VAT increase can only reduce the positive effect that the scheme has had on registrations since August.

Used car profits and volumes are fading fast and the reduction in new car demand is worrying to all. Equally worrying is the inevitable hit that the weakened new car market will have on aftersales – the engine room of profits. Some marques have experienced a 50% downturn in new car sales since 2007, so 2010 will be the year when customer retention will be more important than ever if the service department is to be kept busy.

So it's probably realistic for dealers to accept that it will be beyond the next 12 months before things improve. The message now is that it's tough out there and likely to remain so. Bring on the spring... of 2011!

Graham Bushby, Head of Motor, Baker Tilly Restructuring and Recovery LLP



The used car sector was singled out by half (table 6) of those polled as the sector which had benefited most from the recession while 22% put servicing in top slot.

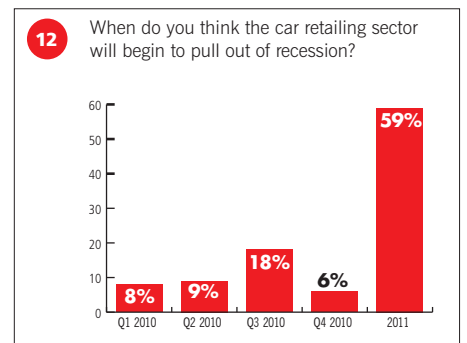
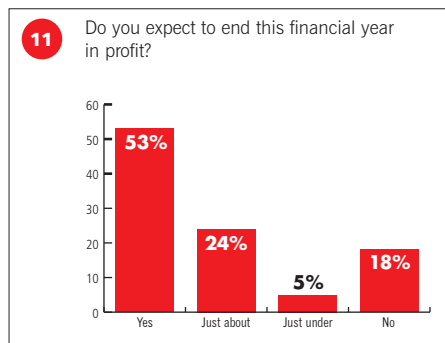
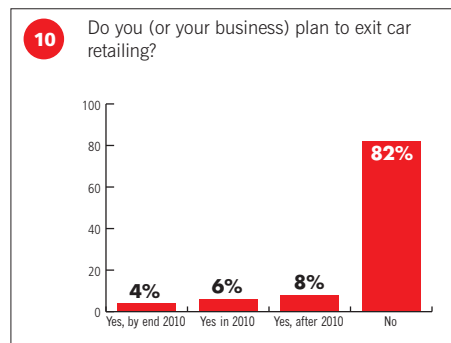
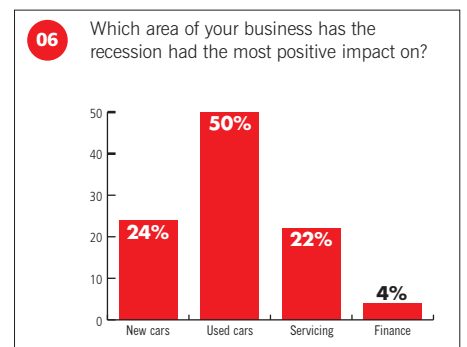
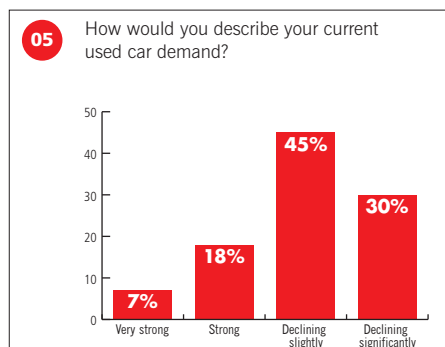
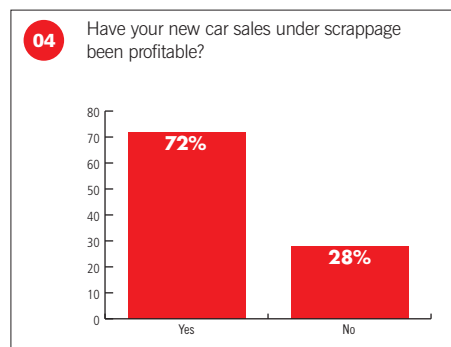
Looking towards January 2010, over half (table 8) of dealers think the return of VAT will have a big impact on their business – clearly a major worry for dealers looking ahead.

Despite 2009 being a grind of a year, some businesses are keen to expand through acquisition. For those dealers polled in October, a third (table 9) said they would consider taking on an additional franchise over the next 6-12 months. To further gauge confidence, dealers were asked whether they had any plans to pull out of retailing and a resounding 82% said they had no plans to exit the sector (table 10).

Although 2009 has been demanding, most retailers expect to be in profit for the year.

Over three-quarters (table 11) believe they will be in profit or 'just about' in profit in 2009 with 23%, saying they will be 'just under' or in loss.

Looking to the future (table 12), the prognosis is gloomy. The majority of dealers, 59%, think car retailing will not pull out of recession until 2011 at the earliest, a clear indication of just how badly hurt the sector has been over the past 12 months.



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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