

Autumn 2008

Automotive retailing

Taking care of business in tough times

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Driven to distraction?

How to steer a steady course through the downturn

Car sales

Hitting manufacturer targets will need focus and innovative approaches

The EU and your dealership

Defending your rights ahead of Block Exemption expiry 2010



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BDO Stoy Hayward

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Insight and experience



The wave of negative economic news in the last twelve months has damaged consumer confidence, particularly in the motor trade. Now more than ever, you need an adviser with a professional eye for detail and an instinct for business.

BDO Stoy Hayward understands the complex mechanics of automotive retailing. Our clients include franchised dealerships and used car operations, and range from single to multi franchised groups.

This means we can pinpoint where you can enhance efficiency and protect profit. And with our broader role in the industry where we have run seminars and workshops with the Retail Motor Industry Federation and The Institute of the Motor Industry, we can keep you informed of changes, challenges and opportunities as they arise.

This combination of breadth and depth has made us one of the top advisers to motor dealerships in the UK. In this newsletter we look at the key issues currently facing the industry, and how we can help you navigate them.

Economic uncertainty

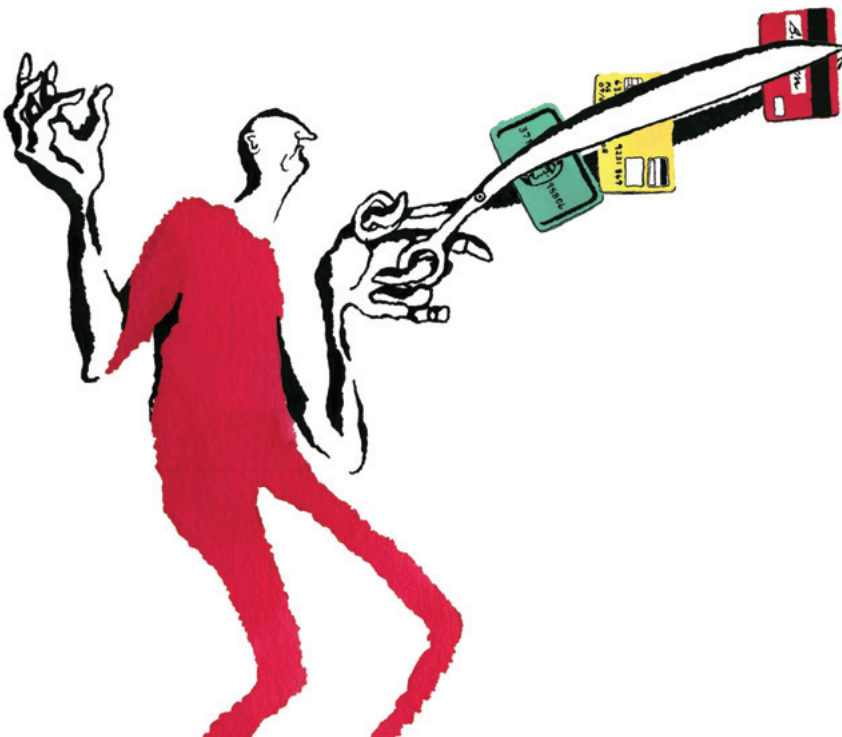
The automotive industry has seen a fifth consecutive fall in new car registrations, and there is considerable uncertainty about the state of the economy: how much worse can it get and how long will it last?

In these conditions relationships with banks and other financiers come to the fore, and motor dealers may find themselves contending with new issues:

- increased monitoring of overdraft and loan facilities taking up valuable management time
- switching of the basis of interest rate charging from base rates to LIBOR, and therefore increasing costs
- banks requesting increased interest margins to reflect market conditions
- restricted ability to borrow for expansion or additional working capital
- greater focus on existing covenants and if dealers are found in breach, possible discussions about renegotiating interest rates or reducing facilities
- concern about falling numbers of finance providers, and subsequent reduction in the availability and competitive pricing of financial products.

Customers are also finding it more difficult to arrange finance for new or used vehicle purchases, which will have an impact on numbers of units sold.

In the following pages, we give an overview of the issues facing the retail motor industry and suggest measures you can take to minimise their impact, and put your dealership in the best possible position to face the uncertainties ahead.



What's driving the market?

An overview

Issues

With recent unprecedented upheavals in the financial world adding to the economic downturn, consumer confidence is low. The motor retail sector has also been affected by the Government's green agenda, and the average increases over the last year in fuel prices and Vehicle Excise Duty. In addition, used car values have been falling dramatically, particularly in the prestige and 4x4 market.

However, the picture is not all gloom. 'Less is more' is the message, as fuel prices influence car choices. Consumers are moving away from 2-litre cars to smaller capacity models, and the fleet car market is currently proving more resilient.

Action points

Managing through a downturn demands a back-to-basics approach. Motor dealers should consider the following action points.

- Be realistic. Accept and work within the market share you have, rather than the one your manufacturer's representative would like you to have.
 - Maintain good housekeeping. Pay close attention to your balance sheet and make sure you understand its key elements. Keep a strong grip on working capital: in tough times, cash is king.
 - Encourage customer loyalty. Don't just focus on your Customer Satisfaction scores; proactively manage for loyalty. Give customers numerous reasons to come back to you, time and time again.
 - Retain good staff. You can't afford to lose valued employees. Invest in them and they will bring real returns for your business.
 - Focus on the areas you can control. Make customer retention and driving sales in the service and parts department your immediate priority.
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This is not the time to make big cost reductions, but make sure that your marketing is distinctive and customers know what you have on offer.

New car sales

Issues

The general perception is that dealers have to work harder just to stand still. In the current climate, with registrations down by over 20 per cent in September, manufacturers' quarterly targets become all the more important and the impact on profit of missing them extremely damaging.

However, sales in the fleet sector seem to be holding up, as employees are still renewing their company cars, perhaps as an antidote to belt-tightening elsewhere.

Action points

- Engage all sales staff with the strategy and targets set and ensure they are well aware of the financial implications if they are not met. Involve your service and parts department in this and reward them for any leads they produce.
 - Consider 'dealer-specific' special editions, rather than relying on those from the manufacturer. These have proven extremely beneficial to a number of dealerships.
 - Maintain up-to-date CRM systems to support a rigorous but well considered marketing approach.
 - Maximise all profit opportunities, especially in terms of F&I income. You should introduce F&I specialists to your sales customers throughout the sales process, from initial demonstration to final delivery.
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Used car sales

Issues

Falling values and a weakening in sales activity, particularly in the 4x4 and prestige market, mean dealers must take a long, hard look at stand in values. However, there is a view in the market that once values have 're-based', these cars could represent real value for money, despite increased running costs. Manufacturer incentives on delivery mileage vehicles are also impacting on used car values, particularly when coupled with longer warranty periods.

Action points

- Make sure that your used car stocking policy is clearly defined and strictly enforced. With falling values and higher interest margins being sought by lenders, the cost of holding stock more than 60 days can wipe out profit per unit very quickly.
 - Focus on marketing and follow-up. This is not the time to make big cost reductions, but make sure that your marketing is distinctive and customers know what you have on offer.
 - Establish strict controls over reconditioning costs, setting limits and approval procedures.
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Customer service

Issues

We all know that skilled customer-facing staff and excellent service can make all the difference in a competitive market. But finding, training and retaining good staff is an expensive, time-consuming business, and rarely a priority for dealerships at the sharp end of the credit crunch.

The sector also faces some specific problems in this area. Young people are heavily influenced by their parents when it comes to career choices, and parents' outdated perceptions of the motor trade can deter good candidates. In addition, apprentice-level wages for technical staff are unattractive and dealerships are reluctant to offer greater rewards to non-productive staff.

However, the challenging economic environment has reduced employee 'churn', giving a more stable workforce in which dealerships can invest.

Action points

- Invest in and protect valuable colleagues to maintain the highest standards of customer service.
 - Search beyond the motor sector for people with good interpersonal and leadership skills.
 - Ensure staff do not 'self-prioritise' to easier areas and avoid more important tasks.
 - Consider having open days for school and college students and their parents, to showcase modern training facilities and development opportunities.
 - Seek out government funding for apprenticeships – consult the Learning & Skills Council for advice in this area. Also look at incentives secured by The Institute of the Motor Industry (IMI), such as Train to Gain, which can provide around £1,000 per candidate.
 - Conduct your own customer satisfaction surveys and secret shopper initiatives to find out first-hand what is happening in your dealerships.
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The regulatory environment

Issues

The European Commission's Block Exemption Regulation (BER), which exempts new vehicle and spare parts distribution and servicing from mainstream EU competition rules, expires in 2010. A consultation process is currently under way to assess the options for its replacement.

The exemption was made due to the complexity of vehicles and their unique maintenance needs. We support the efforts of the Retail Motor Industry Federation (RMIF) to continue the reforms incorporated in the BER.

Retaining the benefits of Block Exemption: the industry view

Sue Robinson, Director, RMI National Franchised Dealers Association (NFDA)

The RMI National Franchised Dealers Association (NFDA) has been working behind the scenes for more than eighteen months to put the case for the recognition of dealer rights won through the BER.

We believe that the real value of the BER is as a package of measures designed to encourage competitive behaviour. With this in mind, any future framework should give dealers the right to:

- sell and/or service competing brands
- separate retail and after-sales activities.

To support these measures, we also ask that:

- dealers have the right to transfer their franchises to other dealers within their franchised network
- manufacturers must give a minimum of two years' notice of termination, to help safeguard dealers' investment in people and business facilities
- manufacturers must give detailed, objective reasons for terminating dealer contracts
- dealers have the right to refer disputes to an independent expert or arbitrator.

Increased competition in the retail motor sector has been achieved through a combination of industrial evolution and a form of benign legislative coercion. Because this two-pronged approach is still in the process of reforming the sector, it would be unfortunate if the EC removed half of it. The NFDA is lobbying to make sure that it remains.

Action points

- We advise dealers to keep up-to-date with likely changes at an industry, market and franchise level, and build these into your one, two and three-year plans.
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Environmental concerns

Issues

Over the last 12 months rising fuel costs have been doing a lot of the Government's green work for them, as consumers seek out small and hybrid cars with lower operating costs. Sales of these cars are expected to increase further in response to impending EU and UK legislation – although it seems consumers have not yet grasped the implications of proposed Vehicle Excise Duty banding and its effect on running costs.

In the current climate, alternative fuel technologies are not a priority. Electric and fuel cell cars are developing well, but questions remain over power generation, fuelling infrastructure and costs. Some dealerships report an increasing demand for lower-emission models such as the Volkswagen BlueMotion, but this seems to be driven by the need for lower running costs rather than environmental considerations.

Meanwhile, hikes in heating and lighting costs are having a major impact on the profitability of energy-hungry bodyshops.

Action points

- Expect to see a surge in small car sales in the next two to three years, as the effects of banding on vehicle running costs are more widely reported.
- Consider installing energy-efficient systems in your premises. The initial expense is soon recouped in reduced energy bills.
- Check the tax allowances available for investment in environmentally friendly plant and equipment.
- Carry out regular sales profiling of used cars to capture trends in demand for used cars in your dealerships, to ensure an appropriate stock mix.

Service department profitability

Issues

With falling volumes and margins in new and used car sales, it is more important than ever to maximise aftersales profits. Yet with service intervals increasing, customers deferring servicing and the emergence of stand-alone authorised repairers, dealerships are experiencing reductions in demand in their workshops.

Action points

- Encourage proactive 'service advisers' rather than reactive 'service writers'.
- Adopt a full and regular marketing plan for service customers.
- Develop effective service plans enabling customers to pay a regular amount to cover the annual service of their cars. This will help retain customers and improve cash flow.
- Revisit pay plans on a regular basis, so that your best technicians are motivated to meet your objectives.
- Update KPIs to the latest industry standards, measure against them and develop relevant action plans to achieve them.
- Establish effective controls over cash collection, loan cars and write-offs.



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At your service

Our advice to the motor dealer

Keep the profits you make

No business can afford to leak profit at the best of times. Control of the facts and figures is essential and that's exactly what our Exception Reporting, Internal Audit and Waste Audit services can give you.

The Exception Report takes data from your own reporting systems and pinpoints where profit leaks are occurring, as well as risk areas and policy discrepancies. Our service is geared to your needs: we can generate reports for you to analyse, or use our expert eye to do it for you, saving you considerable time and effort. We can also facilitate departmental meetings to maximise the impact of our reviews.

How secure are your systems? Check your exposure to fraud through our in-depth Internal Controls Review Programme, which can be used throughout the dealership or on a modular basis.

Did you know that waste is normally estimated at 15–25 per cent of total costs? Our highly effective Waste Audit Programme helps you reduce those losses, by involving your management and staff in finding solutions to inefficient processes, lost opportunities and unnecessary costs.

Increase your focus on VAT compliance

With the window for claiming overpaid or underclaimed VAT between 1973 and 1996/97 closing on 31 March 2009, it's in dealers' interests to sort this out quickly. We can also help with VAT compliance. As pressure on car sales prompts sales staff to make deals, and takes dealerships into non-core business areas, dealers must be aware of the VAT implications, especially with the introduction of the new penalty regime.

And as VAT inspectors intensify their inspection programme, carrying out an increasing number of targeted, issue-specific visits, we're there to advise dealers in their negotiations.

Get inside with business tax

We ensure that all your activities are tax efficient. Property matters and cash flow are key concerns for our clients: we'll show you how budgeting for tax payments and ensuring you don't overpay can help you offset the expense of expanding or upgrading your showroom or forecourt. We will also make sure you claim all allowances available, and that any property or business acquisition is correctly structured.

Many businesses are not aware of the new penalty regime that comes into force in April 2009. However, to avoid being liable for penalties in this stricter regime, we recommend that you contact us while your tax returns are being prepared, rather than waiting for HM Revenue & Customs (HMRC) to raise an enquiry.

Don't be penalised for benefits

Tax relating to car use and fuel benefits is top of our clients' agendas when it comes to employment tax. You need robust systems to keep track of who used what car, when, and how much fuel they put into it, and HMRC will test these systems. We can help ensure they are watertight, and handle the administration of the approval process.

We have been made aware of proposals by HMRC to change car averaging scheme arrangements from 6 April 2009. HMRC have confirmed that with effect from that date, all locally agreed schemes will cease and HMRC staff will not be authorised to agree any new schemes. Instead, a single national arrangement will apply. Although it is largely self regulatory, dealers will be required to comply with certain record keeping and car averaging calculation procedures.

Incentives such as vouchers are an important retention tool, but not so great if you have to pick up the Income Tax and National Insurance bill for them. We'll advise on the most tax-efficient approaches.

About us

As the automotive arm of BDO Stoy Hayward, we are one of the fastest growing providers of financial solutions to motor dealerships in the UK. We also foster strong working relationships with manufacturers.

We provide commercial advice in corporate finance, tax and accounting that adds real value to your business. Clients appreciate our straightforward approach and understanding of the issues they face.

Our greatest distinguishing feature is our team. With around 50 senior professionals representing years of experience in car and commercial vehicle retailing and after-sales, we can advise on all aspects of running a dealership. And deliver solutions that work in the real world.

Proven experience

Here are some examples of how we have helped companies like yours.

We assisted a £50m-turnover dealership in a cost-cutting programme, identifying £1m in savings and returning the company to profitability.

This was followed up with a re-financing exercise where borrowings were restructured to ease short-term cash-flow pressures, putting the client on track to achieve cost savings and budgeted cash-flow and profit forecasts.

A large multi-franchised group contacted us asking for assistance with their accounting function.

We were able to source staff with motor trade experience at short notice and make process improvements and recommendations relating not only to month end procedures but also to the internal controls within the company.

We completed a profit and loss review for a £90m-turnover multi-site dealership.

We were able to identify a combination of significant cost-saving and profit opportunities through the use of our Exception Reporting and Benchmarking products, to the extent that the dealership recovered the costs of the review over three months.

A £75m-turnover dealership contacted us to run a strategy day for senior management.

We carried out an in-depth analysis of the management team, identifying strengths and weaknesses and getting buy in for a programme to enhance working practices and significant profit improvement.

About BDO Stoy Hayward

BDO Stoy Hayward is the award-winning UK Member Firm of BDO International, the world's fifth largest accountancy network. We operate from 14 offices in the UK with more than 3,000 partners and staff.

How can we help?

To begin a conversation about how we can help your business, please contact a member of the BDO Stoy Hayward Automotive team:

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