

THE ROAD TO RECOVERY

26th May 2009



Following last years record car sales, the motor industry has hit a brick wall with sales plummeting and showrooms reduced to glass shrines of the once beloved Celtic Tiger. The question for now is how to kick start your business back into action.

Let's firstly paint the picture and put where we are today into some context. New vehicle passenger car registrations for the months January to April 2009 were as follows;

January – April 2009	36,997
January – April 2008	106,307
January – April 2007	117,174
January – April 2006	111,989

The figures speak for themselves, indicating a drop of 65% in the first 4 months of this year when compared with 2008. Taking account of international forces at play and recent Irish Government decisions affecting our car industry, we must now assess where we are at in Ireland and look to the future armed with uncertainty, hope and a certain sense of helplessness.

COMPLEX CAR TAXES

The announcement by the Finance Minister to defer his decision on the VAT Margin Scheme for second hand cars will come as a relief to the motor sector. This scheme which the Minister first proposed in the Supplementary Budget was designed to simplify the operation of VAT on the purchase / trade-in of second hand vehicles but is now recognised by the Minister and the Industry as potentially creating greater cashflow issues for an already troubled industry and thereby counter-productive.

Over the past few months the car industry has been faced with both the threat of cheaper imports of second hand vehicles as a result of the weakening of Sterling and the deterioration of the Irish economy. These factors have caused a significant devaluation of second hand car stock.

Not only are motor dealers faced with huge losses on the eventual sale of these second hands but they are also faced with the repayment of the excess VAT claimed on the original purchase of these cars if they are sold at a loss (VAT Clawback).

While the Revenue Commissioners have conceded to a deferral of the VAT clawback for a number of months, this simply pushes out the inevitable pain that will manifest itself in future cashflow pressure. The lack of cash flow and sales has been the hallmark of the industry for the past 12 months.

FOCUS ON PROFITABILITY

Alan Shaw, a Senior Manager with Russell Brennan Keane, Chartered Accountants believes that the smart car dealer must prepare for the inevitable return of normal business activity. Shaw has three simple words of advice "compete, compete, compete". Survival is the key for now and cash generation is the secret to survival.

“We are advising all our motor dealer clients to review in detail where their profitability can come from, be very realistic and focus on building the areas like service maintenance, while cutting all avoidable costs where possible.” The challenge facing the motor sector is that car auctions are setting new standards and new market prices for cars in all ranges across the country.

GOOD RELATIONSHIPS & CUSTOMER SERVICE

“Even in bad times, business will be built and sustained on good relationships. In order to build and maintain such relationships you must have the ability to see your business through the eyes of your customers”, says Alan.

The standard of customer service in many areas of Irish business is low and the deterioration is a result of the Celtic Tiger years when business came easy. This weakness provides you with an opportunity to beat the opposition and is not easily achieved. Put simply, you need to make your customer feel “valued”. This means;

- Opening hours that suit your customers
- Make an advance call to your customers that they are due a service.
- Use email and text to update your clients on new deals, new opportunities.
- Add value to keep your customers - consider providing a free car wash / valet with every service.

RE-INVENT THE WHEEL

Alan believes that innovative motor dealers who put themselves “in the shoes” of their customers will thrive in today’s economy but those that refuse to embrace change in the sector will suffer. “We have benchmarked a large number of motor dealers against one another and the conclusions are very simple. The most profitable motor dealers have similar characteristics – tight running costs, ability to reinvent themselves and have highly motivated staff”.

Through the benchmarking process Alan has identified a number of issues below that motor dealers must address in order to maintain and grow their business into the future;

1. **Key information.** Knowing your profit margins and having systems in place that will give you your margin by department at a touch of a button. Monthly accounts or profit reports are critical.
2. **Department diversification.** Being able to become less dependent on car sales as the main source of revenue will be key to many motor dealers survival. Extra focus should be put on increasing revenues from car services, parts etc, thus helping to partly negate the effect of a reduction of car sales on profit.
3. **Opening hours.** By reducing opening hours, the annual wage bill would typically fall by €3,000 per year. Are your opening hours structured to suit you or your customer?
4. **Staff costs.** Can you cut staff costs through implementing less hours, flexitime, or downsizing?

5. **Fresh Stock.** Sell old second hand stock and realise losses rather than deferring the inevitable. Reinvest in new saleable stock but only stock you can sell. Holding newly acquired stock for extended periods of time is not an option that any car dealer can afford.
6. **Further incentivise your staff.** Your showroom and store staff will perform better if they have incentives to do so, consider motivating them with greater turnover and profitability targets and make a greater percentage of their salaries performance related.
7. **Manage operating costs.** Engage with managers and staff and identify areas where operating costs can be reduced, prioritising any immediate savings which can be made.
8. **Business development.** Have you maximised exposure of the product ranges you carry? How is your motor dealership's profile? Have you maintained strong relationships with key customers? Who has responsibility for building your business development plan?
9. **Website.** With an increasing amount of business and trading now done through the Internet, it is imperative that car dealers have a user friendly and professional website which is easy to navigate around and is kept up to date.
10. **Be aware of your cash flow position.** Many business owners, in all sectors, are not fully aware of their cash flow position.

Having strong business advisors is essential to the survival of motor dealers today. If you require any further information or assistance please contact Alan Shaw, Client Services Manager at 090 – 6480600 or 01 6440100 or E-mail at ashaw@rbk.ie.

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About RBK

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, and an extensive client base served from offices in Athlone, Dublin and Roscommon.

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