

A photograph of a lighthouse with a black base, a red middle section, and a white top section, situated on a concrete pier extending into the ocean under a blue sky with scattered clouds.

Viewpoint

Motor Dealer Services

Model change for the Motor Industry

The sad reality is, in our view, that many dealerships will not survive this period of economic uncertainty.

It is almost impossible to recall a more difficult set of circumstances than those that currently face the retail motor industry. The record period of economic growth which has fueled almost year on year record new vehicle sales, has lulled many dealers into a false sense of just how difficult it is at the leading edge of consumer spending.

In a very short period, the industry has been turned upside down by numerous external and internal influences. Those influences include:

- Record new vehicle sales, a double edged sword in that it results in downward pressure on used vehicle prices and ultimately grosses;
- Increased facility costs driven by rising real estate values and redevelopment of showroom facilities, often mandated by the manufacturer through the franchise agreements to promote branding;
- Shift in consumer preference to smaller, more fuel efficient vehicles driven by rising fuel prices and greater awareness of environmental issues;
- Statutory obligation to pay superannuation on commissions and bonuses;
- Increase in the Luxury Car Tax (LCT) rate;
- Consumer confidence battered by economic uncertainty and ongoing negative media;
- The credit crunch which has ultimately seen the recent withdrawal of two major industry financiers in GMAC and GE, with those remaining adopting a cautious approach to both the provision of floorplan finance and retail finance; and
- The uncertain future of the big 3 US brands (Ford, GM and Chrysler) as a result of dramatic slump in sales and crippling losses.

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Our observations

Firstly, we believe a number of dealers will not be able to find an alternative financier to replace those who have left the market. That will most likely be the case for the regional dealers who typically have smaller turnovers than their metro counterparts. They may also fall short of the financier's thresholds for profitability and asset backing. The alternative financiers will no doubt also consider their cost of servicing the regional areas as well as the outlook for the various franchises.

Secondly, we believe many dealers will fail to concede early enough that due to poor performance the dealership will eventually become insolvent, in which case they risk losing their businesses and potentially other assets which have been provided as security. We believe the failure to concede early enough will in some cases be due to the perception that the goodwill value inherent in the dealership should be comparable, relative to turnover, to a number of transactions that have occurred in recent years. In some cases the goodwill values paid have simply ignored the valuation principles which evaluate goodwill based on a level of return, relevant to the risk incurred. Dealerships are risky businesses, and now we are being reminded of just how risky they really are!

For many, the necessary disciplines to manage cash and expenses during tougher economic times have been poorly applied during the more recent prosperous times. It is true generally that in recent times, dealers whose cash and expense management disciplines have been poor have done well, and those with good disciplines have done exceptionally well, give or take the variances that are bought about by geographic locations and franchises.

BDO Kendalls Motor Dealer Services believe that the culmination of issues currently presented by the external economic environment which have arisen in a relatively short period of time, when combined with the internal industry pressure points which are largely historical but magnified in tough economic times, will force an unprecedented level of change to the model under which this unique industry operates. That change will be most noticeable at the retail level but will also impact on the other stakeholders who include the manufacturers and financiers.

In Australia we currently have 60 brands represented with an enormous level of model proliferation. The supply push model promoted by manufacturers in their relentless drive to increase market share requires the retail dealer to hold and finance high levels of inventory on vast tracts of prime real estate. In prosperous times with the right franchise or mix of franchises, the return on investment is sufficient to match the level of risk. In a difficult economic environment, that risk to return relationship is just unacceptable and ultimately unsustainable.



The way forward

To ensure you survive this difficult period you should consider the following 10 tips, all of which BDO Kendalls Motor Dealer Services can assist you with:

- Make your balance sheet your new best friend, understand it!;
- Live with the market share you have, not that which the manufacturer/s dream of;
- Understand the position of your financier and don't assume you are safe just because they are a continuing player;
- Know what security you have provided to your financier;
- Make decisions early, procrastination may be costly;
- Reduce expenses and manage cash daily;
- Compare your dealership's expenses to 2005 when new unit sales were comparable and you were profitable;
- Manage employee's leave entitlements;
- Manage all departments, communicate regularly with managers, report often, reward good behaviour and results, discourage poor performance;
- Communicate with staff your strategy and their security where possible.

About us

Motor dealerships are unique businesses. Built on many years of experience BDO Kendalls' Motor Dealer Services have developed a range of services catered to motor dealerships. Our in-depth understanding ensures our advice aligns the business issues of the industry with the goals of the owner. BDO Kendalls Motor Dealer Services can assist you with the most contemporary information backed with international experience across the automotive industry.

More information

Phone 1300 138 991 or visit www.bdo.com.au

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