

WHAT TO DO IN CASE EMERGENCY

1

THREAT: Decline in new car market and growth in direct manufacturer online sales

RISK: Dealer left with high fixed overheads and headcount, while revenues are falling

DIVERSIFICATION: If predictions that the retail new car market has peaked are accurate and more people are likely to transact directly with manufacturers, many dealerships may suffer from a decline in sales.

One option could be to turn over space to used cars or diversify into used car supermarkets or even selling higher-margin classic cars.

Pendragon, which sold 159,000 used cars last year and has plans to open five sites in the first half of this year, is one example of how this can be achieved.

Chief executive Trevor Finn said: "We believe we can achieve at least double-digit growth in used revenue in 2017 (£1.92 billion in 2016) and our aspiration over the next five years is to double our used revenue."



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TREVOR FINN, PENDRAGON

TrustFord has increased its used car capacity, by about 15% across the network, which has been a big part of recent refurbishment at its Dagenham, Birmingham, and Castleford sites. It also opened a new FordStore in Epsom in June with space for 100 used vehicles. The dealer opened its Long Marston fleet distribution centre in February, expanding capacity to 22.5 acres, room for about 7,000 vehicles, to cater for used cars.

Chief executive and chairman Steve Hood said: "We have a refurbishment facility with the compounds there where we can put them through prep and put them into the used market."

Sytner Group acquired CarShop in January and estimates the car supermarket will generate £275 million this year.

Sytner said the acquisition enabled it to expand and diversify its business, and it is a good cultural fit.

2

THREAT: Next-generation cars that require less servicing; possible move to four-year MOT exemption

RISK: Dealers could lose significant sources of profit

DIVERSIFICATION: The introduction of next-generation electric cars and the Government's proposed increase of the MOT exemption for new cars to four years will result in a reduction in servicing requirements, and thus profits, for many car dealerships.

In order to overcome this, dealers could instead focus on aftersales retention and broadening their offering by becoming a one-stop shop providing everything from tyres, online part sales and service plans to MOTs and diagnostics checks, as well as running campaigns to win new customers with older cars.

Gerry George, Stoneacre's aftersales director, said dealers need to start offering some of the services they traditionally used to, including tyres and glass maintenance.

Providing service plans for used cars is another opportunity, using discounted labour rates and second-line parts to ensure the cost is attractive.

In February, Stoneacre launched its Stoneacre Connect app, which enables its customers to access a range of cost-saving and peace-of-mind benefits, from crash alerts to car tracking.

"Tyres are key, particularly for electric vehicles," said George. "The development of service plans into mini-maintenance agreements [on items] such as braking systems and tyres can also help to offset reduced service requirements and the possibility of four-year MOT exemptions."

Kevin Ledger, general manager – operations at Lexus, whose sales are 98% hybrid, said Lexus has focused on building a value chain for the customer over the past 10 years through the use of service plans and used car warranties.

The company also provides tyres and accessories as well as a full hybrid health check. He said: "We have targeted our network partners in terms of providing service plan sales, not only on new cars, but also used cars, where the opportunities are actually bigger, and used car warranties. As part of the same programme, we recently introduced a full diagnostic hybrid health check for customers with a warranty between five and 10 years, regardless of if they have a service or not, and a free extended one-year warranty."

OF BUSINESS

Tougher trading conditions, greater regulation and the rise of technology and the internet will increase pressure on car dealerships to stay afloat. But for those that are willing to change their business model and diversify, there are opportunities. Here we look at four such scenarios:

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THREAT: New regulations, such as FCA compliance or the apprenticeship levy

RISK: Costs of doing business increase

DIVERSIFICATION: Dealers operate in a highly regulated environment and that is unlikely to change. Momentum towards real-life fuel and emissions measurement, a diesel backlash, and IMI campaigns for licensing, the costs dealers incurred for FCA compliance and the apprenticeship levy may be just the beginning.

Headcount and training requirements may change as a result or outsourcing could increase expenses. A priority will be to maximise the value generated. Take the apprenticeship levy, for example.

Car dealerships with an annual payroll of £3 million or more will have to pay 0.5% of their wage bill, minus a £15,000 allowance, towards the new apprenticeship levy from this month (April 6).

Dealers will have until May 2018 to use what they have paid in on hiring and training apprentices or lose it.

One way of offsetting this additional financial burden is for a dealer group to establish itself as a training provider, allowing it to reclaim all of the training funds it has paid in.

The Institute of the Motor Industry (IMI) has appointed a senior apprenticeship manager to help dealers understand how they can best use the funding to recruit an apprentice and how much is available to them after they have paid for manufacturer-mandated training for technician apprenticeships.

Bradley Burgoyne, head of academy at Jardine Motors Group, said the AM100 dealer had set up an internal working group to look at how it can align its development programmes with the apprenticeship 'standards' system.

This will enable Jardine to draw down from the levy, thus retaining as much of the funding as possible as well as enhancing its current programmes and opening them up to a wider audience, he said.

"Through retail apprenticeship schemes like the Jardine Academy programme, automotive retail has been opened up to a whole new audience that might not necessarily have considered going into the trade before," he said. "That has enabled us to bring a new generation of employee into the business, with a fresh perspective and ideas, who view the automotive industry as a viable career option."

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THREAT: Mobility solutions reduce car ownership demand in urban areas

RISK: Some franchised dealers go out of business if they don't adapt

DIVERSIFICATION: With use of car rentals and liftshares in urban areas growing, the need to buy and own a car is declining.

That means car dealerships will have to realign their premises as a destination, turning it into a community or work space for other individuals or businesses with a focus on technology and the introduction of additional EV charge points.

Mark Frostick, associate, automotive and roadside at Rapleys Estate Agents, said that with the issue of diesel pollution and the push to get London taxi cabs to move over to electric, one way of diversifying is to provide EV charge points.

Dealerships sited near retail parks or business parks may in future earn income from charging and maintaining hybrids and EVs.

Another option, he said, is to rent out office or parking spaces, or even allow another retail franchise to set up, such as a convenience store, to drive footfall.

"Retailers like Tesco, Sainsbury's, M&S, Aldi and Lidl are actively looking for more space and due to the lack of availability they are willing to pay a premium," he said.

"You could even include a Starbucks or a sandwich bar in your customer waiting area as a way of providing an extra service."

Paul Gordon, managing director of Autotorq, said dealers could also use technology to reinvent their work space by following the model of Hyundai's Rockar digital retail stores (See Page 34).

"In order to survive, dealers need to understand that customers want a truly multi-channel experience and they need to adapt in order to meet that demand," he said. **ALEX WRIGHT**



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**MARK FROSTICK,
RAPLEYS ESTATE AGENTS**