

Industries
Automotive

Survey on car dealers market*

Central & Eastern Europe
2009 edition

*connectedthinking

PRICEWATERHOUSECOOPERS 



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Introduction

This study is an independent survey of the car dealer market in Central and Eastern Europe, conducted by the PricewaterhouseCoopers.

Aims

The aim of the survey, was to attempt to describe the situation in the car dealer segment in selected countries of the CEE – both with regard to its present condition, expected trends in its development, as well as opportunities and threats. We hope that the possibility of comparing the situation in selected markets in the region will prove useful in your work.

Methodology

The findings of this survey were made on the basis of answers given by representatives of car showrooms in the period from July to August 2008. The questionnaires were mainly filled out by showroom owners or managers. In the report, we present the most interesting relationships which came to our attention during the analysis of the data. We do not refer to the position or opinions of individual dealers, nor do we analyze any specific makes since we wanted to perform a comprehensive analysis of the sector and to focus on issues which concern all dealers and not just single showrooms or makes.

CEE Report Summary



CEE Regional Outlook

Global financial crisis

2008 has been without doubt the most difficult year for the global automotive industry since World War 2. The economic crisis which started with the United States sub prime mortgage market has now swept through the financial sector. This has led to a sudden reduction in consumer confidence which has had a devastating impact on the new cars market and the automotive sector in general. Clearly, the American market has been the hardest hit with a reduction of 40% of sales in light vehicles in 2008 and as at the date of writing this report the long term financial future of the Detroit 3 looks to be in some doubt unless there is intervention by the United States Government. The crisis is also evident in Europe, particularly Western Europe. The demand for new passenger cars fell by 7.8% to 14,712,158 units in 2008, recording the sharpest decline since 1993. The recorded drops in sales ranged from 13% in Italy, 18% in Ireland to 28% in Spain. In view of these numbers it is clear that the crisis has spread to Europe.

Impact on Central and Eastern Europe

The deteriorating economic situation is now also affecting Central and Eastern European countries, which are the focus of this year's edition of our report however the overall impact in 2008 was not that significant given that in terms of new vehicle sales there was only 0,7% decline compared to 2007 according to ACEA. In the largest markets in Eastern Europe (Russia, Poland, the Czech Republic, Slovakia, Hungary and Romania) the full impact of the financial crisis is likely to be felt in first half of 2009.

So far, Hungary (-9%) and Romania (-8%) have experienced the biggest declines in sales in year 2008, yet these are still much lower than those observed in Western Europe. The passenger car market in Hungary has been declining for a couple of years now, witnessing a 5.8% drop of new passenger car sales in 2007. The outlook for 2008 was already rather pessimistic and further forecasts will be additionally impacted by the current global financial and economic crisis. In fact, the numbers of passenger car registrations for the third quarter of 2008 were the lowest of any quarter since the turn of the century.

For the last 2 years, Romania has been experiencing the fastest growth in sales of new vehicles among the European Union Member States. A total of 312,532 new vehicles were sold in 2007, an increase by 26.3% as compared to 2006. The growth has been attributed to Romania's first year of EU membership and to an increased consumption. However, changes took place on the automotive market during the last year, triggered by the increase of used car import and by the recent credit restrictions. These new conditions have led to stagnation and even a decrease in new car sales. In order to counter that tendency Romania's Government approved the suspension of the pollution tax for new Euro 4 cars with less than 2,000 cmc engines, until December 31, 2009. Automotive industry representatives believe that the effect of the financial crisis had on loans was the main factor negatively impacting the car sales, since, for instance, approximately 60% of Dacia cars are being bought on credit or leased. It is estimated that the Romanian automotive market will face further decreases in sales during the next two years.

In Russia, Poland, the Czech Republic and Slovakia, an increase in new car sales in 2008 was reported, stemming primarily from robust GDP growth. The sales trend started to change mid-year, as the markets started to show signs of being affected by the global economic slowdown. Currency fluctuations and problems with access to credit facilities were the main factors influencing the market. Customers have been finding it harder to obtain a car loan – the number of loan applications rejected by banks is increasing sharply, while those who can get a credit are forced to contribute a bigger down payment and to pay higher interest rates.

In Russia, constituting the biggest market in Eastern Europe, foreign passenger car sales increased by just 26% in year 2008 although December demonstrated a negative result. At the end of June 2008, the sales of foreign makes were still up by over 40% in unit terms as compared to the previous year. However, since then the rapid growth rate has been slowing down sharply, and for the first time in recent months, some foreign OEMs have recorded drops in year-on-year sales. In addition, the sales of Russia's largest car manufacturer AvtoVAZ also decreased during the same period, falling by 19% in October – a drop by 1.6% as compared to January. There is also a perception that prices could come down – particularly for locally manufactured foreign brands priced in roubles – and Russians are postponing purchasing decisions in the hope of obtaining the bargain. Russian passenger car sales fell by 33% year-on-year (y/y) in January to confirm the end of the recent boom in the Russian passenger car market.

Our survey results reflects these trends and in each of the surveyed countries (Poland, the Czech Republic, Hungary, Slovakia), the majority of dealers believe that there is little prospect for increasing sales in 2009. Banks are introducing stricter lending criteria and consumers are being very cautious. In Poland, it is anticipated that there will be a significant reduction in bank lending. The great unknown here remain the currency rates as the majority of Eastern European countries still operate outside the Euro Zone, with their volatility rendering forecasts as unreliable. The situation will also depend to a large extent on whether consumer confidence can be restored.

Despite the current events on the CEE markets new car sales should in the longer term maintain their upward trend, owing to the larger numbers of first-time car buyers and a still higher economic growth than in Western Europe.

How does it translate into everyday dealers' operations?

As our regional research demonstrates, dealers are becoming more aware of both the risks and opportunities on the market, and are able to ever more quickly and effectively translate them into specific actions for their businesses. Thus, changes in the dealers' behaviour in individual countries of the region are becoming more visible, and – in the face of an economic slowdown and approaching crisis – it is likely that many dealers have already started taking steps to protect their businesses from the market downturn.

In their activities, dealers used mostly short-term rolling loans for financing of inventory. Due to the present economic situation, that particular finance source has become restricted and more expensive, leaving many dealers in a very difficult position in terms of cash flow. Where credit lines are still available financing companies are demanding ever more stringent conditions for financing. Moreover, sales volumes decline, profit margins shrink, interest rates are higher and the incidence of bad debt is going up. This is quite a handful for any business to manage. The dealers who have highest chances of survival will be those who have diversified product portfolios eg servicing centres, repair shops, and after sales products.

Although the dealers participating in the study (except for Hungary) perceived their financial situation as reasonably good, the dramatic slowdown in sales was not predicted or was on their radar screen. Those dealers who do not address who do not address the revenue gap from new car sales will decrease their chances for survival.

CEE Report Summary

Consolidation

Overall though, there is a sense that next year is going to be very difficult and that there will probably be more consolidation in the industry – in our view this will not be via acquisition of smaller dealers by larger ones, but through dealers waiting for the collapse of their competitors to pick up their assets and brands at bargain basement prices. This could be a very painful process for many players on the market. It is reasonable to believe that dealer groups, emerging after consolidations, will play a more significant role on the international stage. We believe that the new players in the CEE, including Russia, could rapidly outgrow their Western European counterparts by taking advantage of acquiring businesses at the bottom of the market.

Diversification

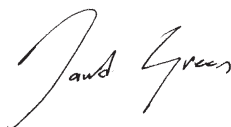
In their attempt to be proactive and avoid going out of business, many car dealers have decided to expand their scope of activities and invest in new areas. Bearing in mind the changes affecting the global market, this attitude has been recognised as a proof of dealers' understanding that continuous growth is necessary for survival. 16% of the Czech, 32% of Hungarian, 34% of Slovakian and 27% of Polish dealers plan to convert their showrooms into multi-make ones. This alone is evidence of how the dealers' attitude to changes has evolved in the last few years and what the future directions in this industry are. We predict that the traditional distribution model will be more and more often challenged by multi channelling, stemming from the evolving consumers' preferences and the hard product push driven by the supply not meeting the market demand. Thus, small, independent dealers are expected to gradually go out of business due to multichannelling and low economic viability – or they may be bought out by bigger players interested in their land assets.

Dealers have started to explore new business ideas, such as buy-back schemes and hourly rent-a-car services. These activities still require refinement but are good examples of creative thinking to adapt to the market situation. The current leading European dealers, who already achieved a cross-border presence, will continue to expand, adding new business streams (such as real estate, rental and leasing options, financial services) to their offer, enlarging their geographic scope, and accepting new members in their partnerships.

Summary

In summary Central and Eastern European dealers are likely to face some stiff challenges over the coming year with respect to a very difficult market situation. As in all crises there are likely to be winners as well as losers. The winners will be those dealers who adapt both structure of their businesses eg placing less reliance on new car sales and more on services as well as reviewing the financial situation in their business eg by taking out non value added costs, renegotiating agreements with suppliers and keeping a very close watch on the cash flow situation. We predict the sector will emerge from the economic crisis with fewer but potentially stronger dealer networks offering more varied and providing greater levels of quality and professionalism.

David Green
Partner
CEE Automotive Retail Leader



Poland



General description of the dealers taking part in the survey



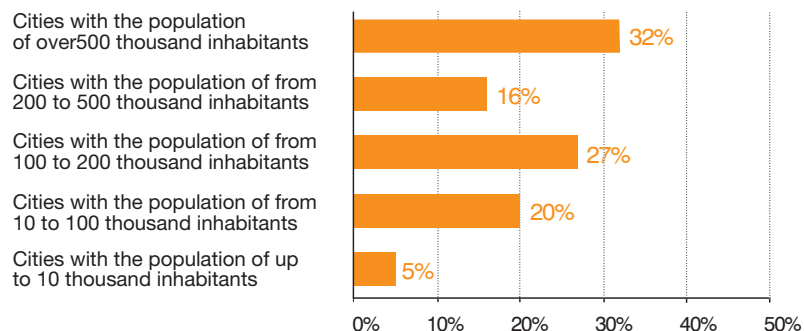
Location

The largest groups of dealers taking part in the survey have showrooms located in very large cities – more than 500,000 inhabitants (32%) – and medium-sized cities – from 100,000 to 200,000 inhabitants (27%). Slightly fewer of the dealers questioned (20%) operate in small urban centres of between 10,000 and 100,000 inhabitants, and even fewer (16%) in large cities of between 200,000 and 500,000 inhabitants. Only 5% of those surveyed conduct activities in the smallest towns of fewer than 10,000 inhabitants.

Method of managing the showroom

In larger cities, the model of using qualified managerial staff, employed from the market, dominates

Graph 1. Please specify the size of the town in which your showroom operates



Dealers using qualified managerial staff, employed from the market, think about expanding the business far more frequently

The model of management using managerial staff, employed from the market, proved far more popular (63% of responses) in the case of respondents from the largest cities (over 500,000 inhabitants). The model of the family business dominated in showrooms located in smaller towns (63%).

Among dealers managing a family business, owners of a single showroom dominated (53%), while only 14% had over two showrooms. These proportions were different among the group of dealers managing showrooms with managerial staff (the proportion of these who manage one showroom is just 39%, with a 35% share managing more than two showrooms).

Dealers operating as a family business think significantly more frequently about leaving the automotive industry

The method of managing the showroom also affects plans regarding the direction of business development. Dealers planning to expand the sales formula to multibrand use managerial staff far more frequently. The form of management of the showroom also affects the expansion plans of the activities conducted. Of the group of dealers using managerial staff, the percentage declaring the will to increase the number of showrooms was 44%, whereas the percentage of dealers managing a family business intending to increase the number of points of sale was just 23%.

General description of the dealers taking part in the survey

The method of management also affects possible plans to leave the automotive industry. The results from this edition are identical to those obtained from last year's report: only 2% of those using managerial staff, employed from the market, is thinking of leaving the industry, whereas the percentage of dealers managing the companies described as family businesses with this intention was once again 12%.

COMMENT

The analysis of the relationships between the form of management of showrooms and their development perspectives suggests a significantly worse assessment of the development of the business by people managing a family business. They have fewer showrooms, they plan multibrand sales and the opening of new points of sale less frequently, and they anticipate the need to withdraw from the industry more often. Such results could be evidence of greater prudence and concerns of owners of family showrooms. Even so, the distribution of responses obtained could also be explained by the increased optimism of the managerial staff managing the showrooms.

Piotr Wyszogrodzki

Director, Assurance and Advisory Services
PricewaterhouseCoopers

Period of activity

Decided network expansion by "young dealers" in the past year

One of the conclusions of the analysis of the responses to this question in the previous edition was the concentration of the activities of dealers with "short experience" on the management of just one showroom. However, the latest results completely disqualify this argument, showing evidence of decided expansion of networks by "young dealers" over the past year.

In previous years, dealers with little experience were usually concentrated on operating just one showroom. The latest results indicate rapid expansion of the networks they manage over the past year. Although, a year ago, 85% of dealers who had been operating on the market for less than five years only had one showroom (the remainder no more than two), it appears from this survey that this group is now just under half (48%). In turn, 15% of dealers conducting activities for less than five years have more than two showrooms.

The rule that dominated earlier is becoming less significant, together with the strong changes observed over the past year, namely that the number of the dealer's showrooms gradually increases as the period of his operation on the market lengthens. The results of this edition of the survey indicate a certain difference in the model of conducting business among the youngest dealers, who appear to be both more open to experimenting with new forms of activity (e.g. multibrand showrooms), as well as more dynamic in quantitative expansion.

However, those who offer one brand of vehicle still dominate among the dealers with little experience. It is also noticeable that the number of employees in younger showrooms is lower on average than in the case of dealers who have been in the market for longer.

Most dealers active on the market for five to nine years have more than one showroom

The model of operating a single showroom has ceased to dominate among dealers operating on the market for longer than five, but less than ten years, just as in the case of their younger competitors. Only 35% of them operate a single showroom, whereas this percentage is as high as 50% among the remainder.

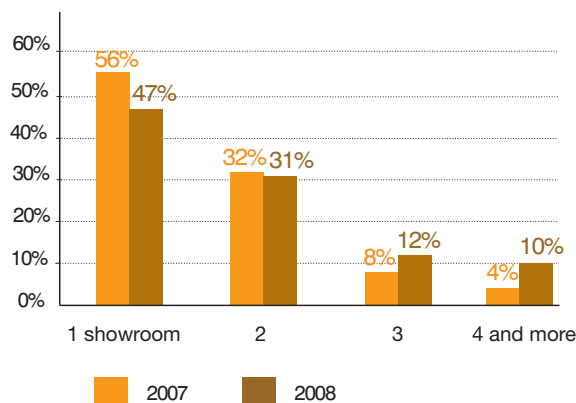
Dealers managing only one sales showroom dominated in this year's survey (48%). 31% of respondents have two sales showrooms and almost twice last year's percentage (now 22% of respondents) operate more than two.

General description of the dealers taking part in the survey

Number of showrooms operated

The number of dealers managing more than two showrooms increased over the past year

Graph 2. Summary of results 2007/2008:
How many sales showrooms do you have/operate?



The above chart presents the expansion of the number of showrooms – a decline in the share of dealers with just one showroom, with a simultaneous growth in the share having over two points of sale, is easily observed. This dependence confirms the responses of the dealers from last year's survey, when they demonstrated the inclination to increase the number of showrooms managed to a significantly greater extent than currently. The fact that dealers with one showroom were not then inclined to increase this number is slightly surprising (only 15% indicated such a willingness, whereas the proportion of dealers with at least two showrooms was almost three times more last year – 43%). In the case of dealers with only one showroom, as many as 63% of them operate as family businesses and only 20% of them have multibrand showrooms. As evidenced by further parts of the study, the short-term perspective is perceived by dealers as temporary and does not determine their decisions concerning the development of the sales network.

Compared with last year, the number of showrooms per surveyed dealer increased significantly – from 1.8 (according to last year's survey) to 2.1. Increasingly frequently, dealers have more than four showrooms. Last year, almost 60% of dealers had one showroom, and currently this proportion is less than 50%. The ratio of dealers with no more than two showrooms also declined; last year, it was almost 90% of the surveyed group, whereas it is currently 80%. The number of dealers having at least three showrooms increased to the greatest extent, which significantly increased their average per owner.

COMMENT

Last year's analysis showed that the tendency among existing dealers to open new showrooms has been maintained. This approach seems to suggest that most dealers should have at least two showrooms in the near future. This can already be observed if we look at this year's results: the percentage of dealers having more than one showroom is significantly higher. It is difficult to predict whether this tendency will continue in the future. As in the previous year, dealers having one showroom constitute the majority of those planning to maintain their existing number of showrooms (59%), whereas among those planning further expansion, the percentage of dealers currently with only one showroom is significantly lower (33%). Consequently, we can expect two dominant types of dealer to appear: the type that has one showroom and is not planning expansion, and the other that has several showrooms and that is more open to further expansion.

Piotr Michalczyk

Senior Manager, Assurance and Advisory Services
PricewaterhouseCoopers

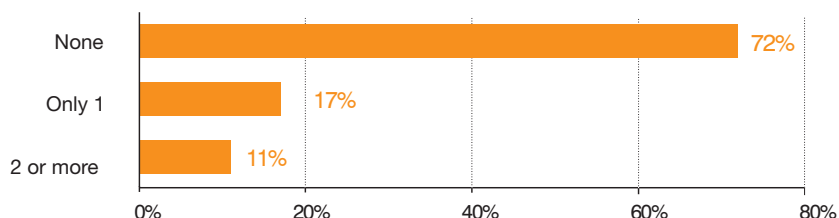
General description of the dealers taking part in the survey

Multibrand showrooms

Rising number of dealers with more than one multibrand showroom

In response to the question of the number of multibrand showrooms operated by the respondents, most dealers stated that they do not have these (72%). One multibrand showroom is operated by 17% of respondents, while the remaining 11% responded that they have at least two such points.

Graph 3. How many showrooms are multibrand?



Compared with last year, the number of multibrand showrooms increased particularly strongly among dealers operating several points of sale. This observation corresponds with last year's results of the analysis of the number of showrooms and the inclination to reformat those that exist into multibrand showrooms. This could be evidence of the fact that the owners of several showrooms have greater possibilities of achieving better conditions for themselves from the national distributor.

The inclination to reformat existing showrooms applies to both those who do not have multibrand showrooms and dealers having at least one such point already. In the latter case, the group of people declaring a willingness to reformulate the showroom (40% of all respondents), namely dealers with several monobrand showrooms, are planning to transform them into multibrand showrooms. For comparison, it is worth emphasising that the dealers who do not have any multibrand point of sale (72%) dominate among those not planning to transform existing showrooms into multibrand showrooms.

Economic description of the dealer



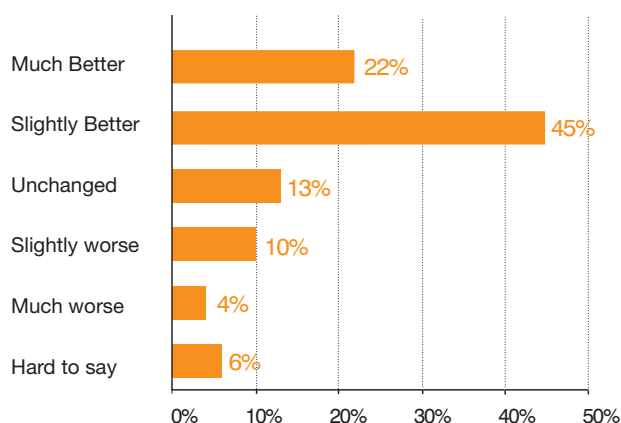
Financial situation of the dealers

Further improvement of the financial situation of the surveyed dealers

In comparing the responses obtained in 2007 with 2008, we observed that in the case of 45% of dealers, the financial situation improved slightly in this period, whereas it improved significantly for 22%; meanwhile, only 4% experienced a significant worsening of their financial situation and 10% a slightly worse situation.

The current survey results confirm the continuation of the positive trends in the sector over the past years. This is because the situation of dealers decidedly improved, just as last year. It is worth mentioning that the scale of the improvement this year was even greater, because as many as 67% of respondents (compared with 54% in 2007) stated that their financial situation was better, whereas only 4% of dealers considered it to be worse (compared with 27% last year). However for the last weeks we've observed that this situation may turn into worse.

Graph 4. What is your showroom's/dealer network's financial situation compared with last year?



Therefore, it cannot be predicted whether dealers will be satisfied with their financial situation. Should the value of the euro increase further against the Polish zloty, the present price decreases could be the last chance this year to buy a car for a good price. Should, however, the euro go down, further sales increase would be possible.

Economic description of the dealer

This year's results did not confirm the observations from last year, when there was a clearly positive dependence between the number of showrooms operated by the dealer and his financial situation. The previous analysis demonstrated that the more showrooms the dealer operated, the better he assessed his finances. The results currently indicate a reversal of the phenomenon: dealers with one or two showrooms more frequently declared a significant improvement in the financial situation than dealers with more than two showrooms.

The analysis of the impact of the location of the showroom on the financial condition indicates that showrooms in the largest cities (more than 500,000 inhabitants) are prospering best; in these cities, the percentage assessing the financial situation as significantly better amounted to 27%.

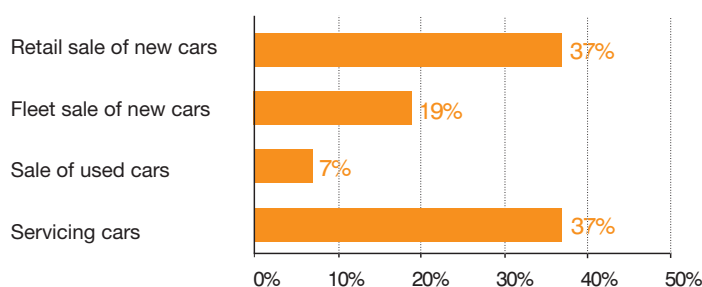
The improvement in the financial situation also appears to depend on the method of managing the showroom. In this case, showrooms managed by managerial staff recorded a greater improvement in prosperity – the proportion assessing the financial situation as “significantly better” was as high as 31%. In turn, in the case of showrooms managed as a family business, this percentage was almost halved – just 16%.

The results presented in the chart below present the average percentage shares of revenues of certain areas of activity of showrooms for all respondents in individual years.

Structure of revenues

Fleet sales and vehicle servicing are increasing their share of dealer revenues

Graph 5. What percentage share in individual years do the following activities account for in your revenues?



The proportion of responses compared with last year suggest a further increase in revenues from fleet sales, which is a confirmation of the situation we have been observing on the market for several years.

Another trend observed is the relative increase in revenues from vehicle servicing, which can be explained, inter alia, by the gradual increase in affluence of society, the willingness to retain the guarantee and, perhaps, the quality of the services offered. In effect, the interest of customers in servicing their cars in ASO is increasing.

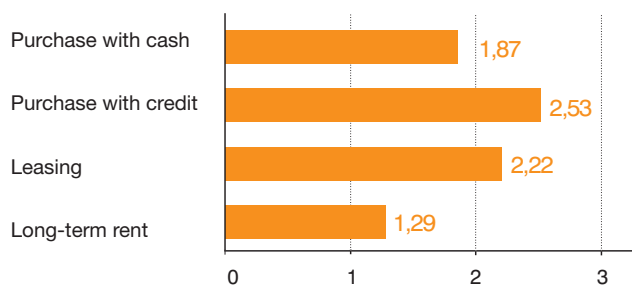
In this context, it is worth remembering that, in the years 2005-2007, the largest average percentage share of revenues from the activities of automotive showrooms was, to the same extent, sales of new cars and vehicle servicing and later fleet sales and retail sales of used cars.

Economic description of the dealer

Most popular forms of financing

Long-term rental is increasing in popularity

Graph 6. Which forms of financing were most popular in your showroom/network of showrooms in the individual years?



3 – Most popular form, 2 – Moderately popular form, 1 – Form used occasionally

When analysing the weighted average assessments of popularity of the methods of financing vehicles purchased, we can observe that, in all the years of the survey period, the popularity of loan purchase was assessed highest, followed by cash purchases. The declining trend of cash purchases was clearly maintained in the current year's survey in favour of the expansion of leasing. It is worth emphasising that purchasing in the form of leasing was relatively the least popular form in recent years.

COMMENT

For some time now, dynamic development of full-service leasing has been observed on the Polish market. It is in some respects similar to operating lease. However, in the case of full-service lease, the financing entity (usually a car fleet management (CFM) company) not only provides the client with cash, but also a number of additional services, including: technical support for cars, motor loss adjustment, replacement cars, management reports and many other services, which are specified in detail in the lease contract. To date, 13 thousand Polish entities have leased more than 112 thousand cars on the basis of CFM contracts. This means great profits for the whole leasing sector. The structure of the service portfolio shows that clients are interested primarily in long-term outsourcing of passenger cars (contracts for a few years). So, the direction in which the Polish CFM market is heading is clear. About 91 thousand cars are used on the basis of full-service leases. The CFM market seems to have good growth perspectives. Assuming that there are about 2.5 million company cars in Poland, only 5% of them are used under CFM contracts. In the West, this percentage amounts to approx. 35-40%.

Jakub Lech

Manager, Assurance and Advisory Services
PricewaterhouseCoopers

Economic description of the dealer

Used cars in dealer product ranges

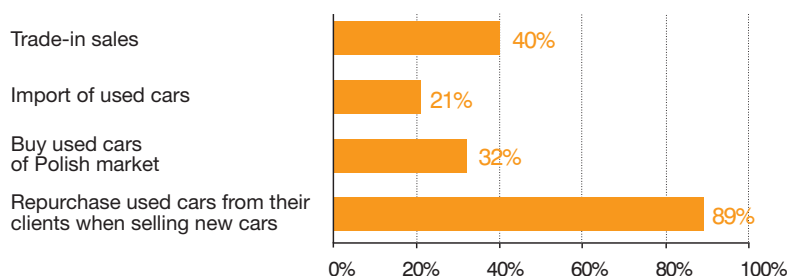
The percentage of revenues of used car sales has not changed, but increasingly more dealers are importing vehicles on their own

As many as 95% of respondents admitted that they also sell used cars. The structure of responses is similar to the results obtained in last year's survey; however the greater interest of dealers in selling used cars than last year is doubtless noteworthy.

The largest percentage of dealers, 89%, buys used cars from customers when selling new cars, whereas slightly less than half intermediate in the sale of cars placed into consignment sales points (so-called trade-in) which are owned by dealers operating a sales showroom (40% of responses). The share of dealers purchasing used cars in the trade-in form, which is less than last year, is somewhat perplexing. Together with the expansion of the automotive market, these forms of obtaining cars on the secondary market should become more significant.

Among the remaining forms of obtaining used vehicles, purchasing on the Polish market (32%) and imported from abroad (21%) dominated. Both of these gained greater popularity than last year.

Graph 7. If you sell used cars in your showroom/network of showrooms, please specify the source from which they originate.



COMMENT

Following the trends in the Polish economy, where most purchases of passenger cars are used cars, dealers cannot ignore this market segment. Having an appropriate sales infrastructure, they have an easy task, while buying used cars from their customers when selling new cars could be an excellent incentive supporting sales of new passenger cars.

The share of imported cars in dealer sales is equally significant. Due to the fact that the Polish zloty has been gaining value until recently, import of cars, both from the EU and from the USA, became even more profitable. This year, the share of cars that are not older than four years in total import increased. This category included quite a lot of new or nearly new cars, which resulted in lower sales in dealers' showrooms.

Marcin Dziamski

Consultant, Assurance and Advisory Services
PricewaterhouseCoopers

The latest statistics show that the import of used cars is still growing (by approx. 21% in the first six months of 2008)¹. Therefore, it seems that this line of dealers' business will continue to grow fast and, in addition to the sales of new cars, generate more and more revenues for car showrooms.

On the other hand, import is less and less profitable due to the growing exchange rate of the euro. The Polish zloty has gone down considerably since August, when EUR 1 was approx. PLN 3.2, and USD 1 was just above PLN 2. The import of used cars may slow down a little should this tendency continue.

¹ Special Automotive Report, p. 21

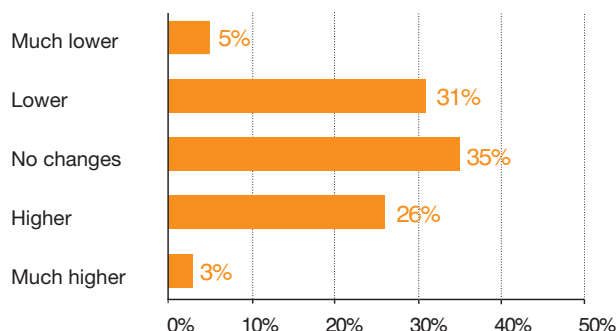
Economic description of the dealer

Margins in the passenger car segment

Increasingly fewer dealers are satisfied with their margins

Neutral responses of “no change” dominated the responses from the respondents when asked about the level of margins they applied in the years 2004–2007 in the case of passenger car sales compared with the previous year, with a simultaneously symmetrical distribution of responses between reducing and increasing margins.

Graph 8. How did your margins look in the segment of passenger cars (compared with the previous year)?



In previous years, the trend to leave margins unchanged gradually declined, together with the greater inclination of dealers to increase margins. Although there was still a relatively large group (49% of respondents) of dealers in 2004 maintaining margins at an unchanged level, in 2005, it amounted to 34%, while in 2006 it was just 21%. At the same time, the percentage of dealers satisfied with their margins was gradually increasing: a total of 20% in 2004, 21% in 2005 and 35% in last year's survey. The results of the current survey can indicate a change in the trend in this area: the proportion of those dissatisfied with the margins is significantly higher than it was in previous years, with a clearly higher proportion of dealers keeping margins unchanged and simultaneously with a lower proportion of dealers disclosing an improvement in margins.

Over the successive years for which these results were gathered, we observed a clear relationship between the above question and the dealer's financial situation. Usually, if the respondent specified the level of the margins in the given year as being far better or slightly better than in the previous year, he specified his financial situation in a similar manner. A similar relationship can be observed in the case of the respondents for whom the margins in the given year appeared slightly worse or much worse. This relationship is still present in the current survey: of the dealers specifying their situation as much better, everyone considered their margins as far higher (100%) and, of those who assessed the situation as slightly better, 42% considered the margins as significantly higher. Similarly, only 6% of dealers assessing their financial situation as slightly worse assessed their margins as better, while 20% of those assessing the financial situation as significantly worse considered their current margins as better (compared with last year).

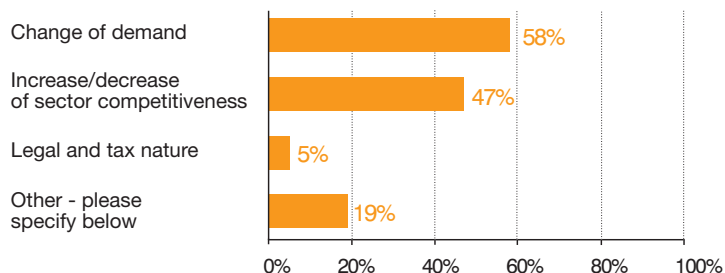
Reasons for changing margins

Similarly, just as last year, the climate dictates the margins, but with a significant influence of competition

In analysing the percentage structure of responses to the question regarding the most frequent reasons for changes in the margins applied, it can be noticed that the most frequently specified reason was the climate on the market: such an answer was given by as many as 58% of the respondents. The second response, slightly less frequently specified, was a change in the sector's competitiveness (47%). Only 5% of respondents believe that the most frequent reason for the changes in the margins applied are tax law conditions. Stabilisation of the market's supply conditions, together with rapid changes on the demand side, determines the level of the margins.

Economic description of the dealer

Graph 9. What is the most frequent reason for changes in the margins applied?



The respondents also mentioned a number of other factors affecting a change in margins. We chose the responses which were repeated most frequently from among those received:

- strong competition within the brand caused by tight sales plans and the bonus system used, leading to competition with the importer's showroom and other dealers
- competition between brands
- the margin policy implemented by the importer, including the lack of regulations on this in the dealership agreement and pressure to achieve the sales targets, and the importer's or manufacturer's pricing policy.

COMMENT

Last year, a certain trend appeared to keep the margins unchanged or even to reduce them, while only a small proportion of dealers decided to increase them.

The appreciation of the zloty doubtless affected the decision to hold margins, which resulted in the dealers profiting. On the other hand, the restrictions on increases arose from the strong competition on the automotive market both within the brands and between them. Similarly, the requirements of the tight sales plans meant that dealers rather maintained the current level of margins.

However, it can be expected that, in the near future, the need to compensate the rising costs of maintenance of automotive showrooms arising from, inter alia, the increase in salaries of the workers employed, will mean that the margins applied will once again need to be increased.

Marcin Dziamski

Consultant, Assurance and Advisory Services

PricewaterhouseCoopers

Employment in the showroom

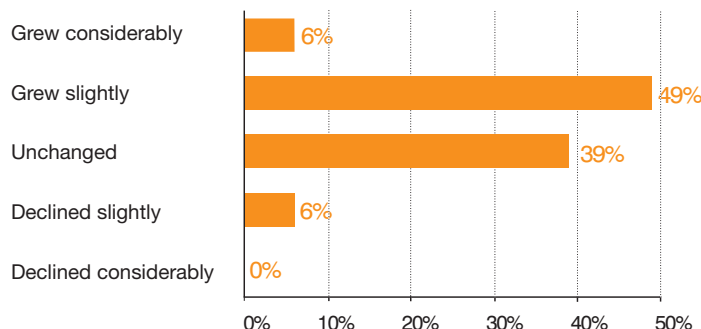
Increase in employment in the showrooms

In analysing the changes in employment in earlier years, the number of people employed did not change in the vast majority of showrooms. However, a clear decline in such responses has been noticeable since last year: in this year's survey, only 39% of showrooms indicated a lack of change of employment with a decided increase in the share of showrooms in which employment was higher than in the previous year. It is also worth noting that, in each of the periods studied, a larger number of showrooms are observed in which employment increased than those in which it declined.

Economic description of the dealer

Servicing employs the most people in all departments of dealer activities

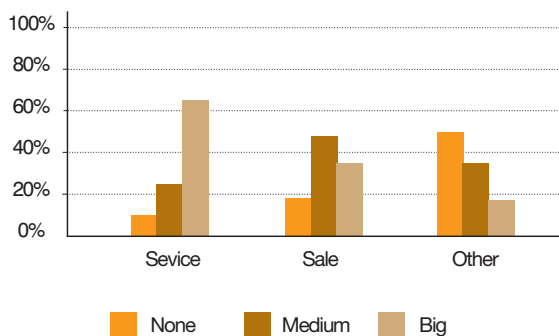
Graph 10. How did employment look in your showroom compared with last year?



Just as in the case of the questions about the change in margins in the years 2004-2006, the shape of employment in this year's survey also reflects the showroom's financial situation. The respondents who marked responses specifying a significant or slight increase in employment in the given year described their financial situation in a similar manner. This state of affairs is similar in the case of dealers who recorded a decline in employment in the given year.

Just like last year, the most labour intensive department is still servicing, which, on average, employs three times more people than the sales department. The number of workers employed in sales is similar to the level recorded in the other departments.

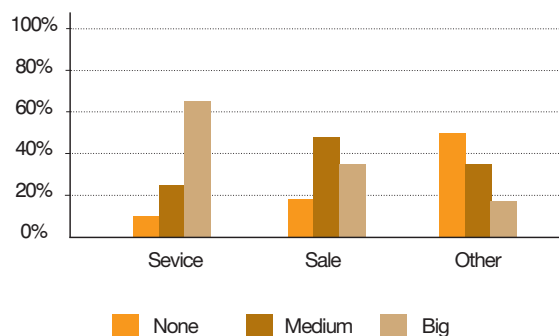
Graph 11. Employment



Employment in the sales departments remained significantly lower than in servicing. Most dealers employ up to seven people in this department (40% of responses). The good climate in the sector is particularly noticeable precisely in the resources of the sales departments. Just a year ago, only 11% of respondents employed more than 14 people in servicing whereas the percentage of these showrooms is currently almost 30%, while a further 31% employ between 7 and 14 employees (last year 25%).

Employment in the remaining departments is slightly lower than in the sales department. Almost half the dealers employ no more than seven employees.

Graph 12. Problems with recruiting employees



The problems with recruiting employees to the servicing department were reasonably similar among the dealers recruiting in towns of various sizes. However, in the case of recruitment to the sales department, this applied particularly to medium-sized towns.

COMMENT

The results of the survey show that employment increased in most showrooms. This trend is hardly surprising in the face of the improving climate and rising sales. However, on the other hand, the dealers taking part in the survey mentioned problems appearing in the recruitment of new workers.

These problems particularly apply to the servicing departments, where the largest number of people employed is generally mentioned. There are several reasons for this, but the most important include the large wave of emigration which affected Poland recently and – related to this – rising salary expectations.

Dealers offering servicing in their showrooms need to expect not only rising salary costs, but also additional outlay on training to introduce new employees and, increasingly, the costs of agencies searching for new employees.

Unfortunately, it cannot be expected that major turnarounds will take place in the short term; however, difficulties with employment are not only peculiar to automotive showrooms.

Jakub Lech

Manager, Assurance and Advisory Services
PricewaterhouseCoopers

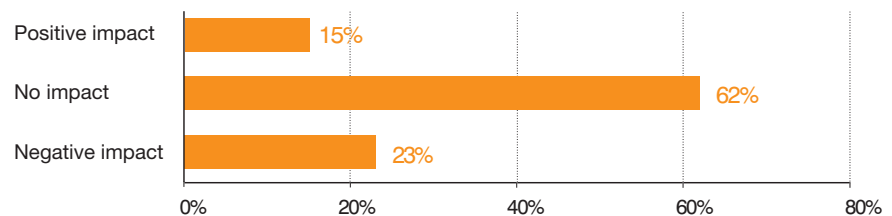
Market environment



Impact of the gvo regulations on the functioning of dealers

According to most of the dealers, GVO have no impact on their activities

Graph 13. How do you assess the impact of GVO on your business?



The majority of dealers surveyed (62% of responses) stated that the GVO regulations have no impact on their activities. Interestingly, supportive opinions appeared more frequently (positive impact of GVO on operations) than negative opinions. This is surprising because, during implementation, the regulations encountered a great deal of unwillingness from the market – perhaps the principle of being afraid of the new and the unknown applied at that time.

COMMENT

The European GVO regulations, which, among other things, regulate the relations between car manufacturers and dealers, will expire at the end of May 2010. It is up to a report being currently prepared by the European Commission whether and in what form GVO will remain in force. One of the arguments against these regulations remaining in force is the lack of significant effect on the automotive market (which shall be assessed in the report prepared by the European Commission). In a way, our survey confirms such a conclusion (62% of dealers surveyed say that these regulations do not affect their business). At the same time, it also seems that Brussels will yield to the pressure from big automotive companies, which do not benefit from GVO in any way.

David Green

Partner, Automotive Group Leader, Assurance and Advisory Services
PricewaterhouseCoopers

According to the expectations of the Polish Office of Competition and Consumer Protection (UOKiK), the cancellation of the GVO will have highly negative consequences on the automotive market, since it is threatening the dismissal of many thousands of employees of unauthorised repair stations and a significant increase in the costs incurred by vehicle owners. Therefore, the UOKiK applied to the European Commission to extend the validity of the GVO Regulation.

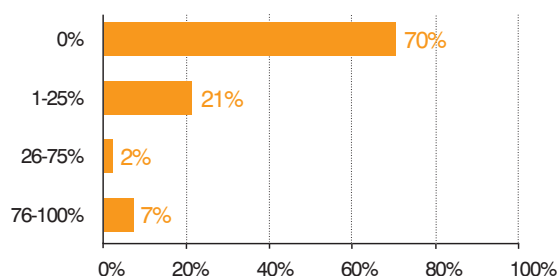
Market environment

Popularity of substitutes of original parts

Increase in interest in original parts

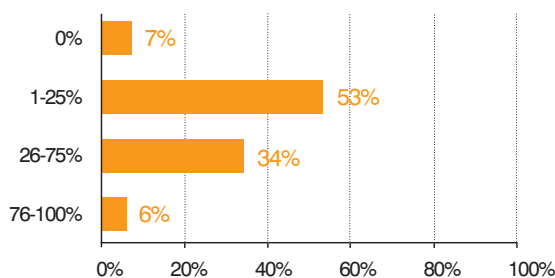
However, it is difficult to ignore the fact that what is a threat to independent garages is simultaneously an opportunity for further development of servicing by passenger car dealers (ASO). The difficult access to the technical data of vehicles means that only authorised service stations are appropriately equipped and prepared with the necessary knowledge. The question only remains as to whether the normal user of four wheels will benefit from the reduction in competition.

Graph 14. How frequently do customers use substitutes of original parts in guarantee servicing?



The analysis of the structure of responses to this question indicates that customers of the vast majority of showrooms do not use substitutes in the case of guarantee repairs. The significance of original spare parts clearly increased over the past year. The customers of 54% of showrooms used only original spare parts in 2006, whereas this proportion has increased to 70% at present.

Graph 15. How frequently do customers use substitutes of original parts in post-guarantee servicing?



In larger cities, customers use original parts more frequently, both in guarantee and post-guarantee repairs

The structure of responses on the frequency of using substitutes of original parts in post-guarantee repairs differs significantly from that regarding guarantee repairs. Although 7% of service facilities do not use substitutes, which could be caused by a lack of them, more than half of showrooms (53%) indicate that occasional customers (1–25% of customers) do use substitutes.

A unique qualitative breakthrough took place here. Even last year, the largest group of showrooms was those in which between 25% and 75% of customers used substitutes of original spares in post-guarantee repairs, while 9% of dealers surveyed indicated that more than three quarters of drivers use substitutes. Doubtless, customer awareness has increased and subsequently the inclination to use original parts has also increased, even in post-guarantee repairs.

In analysing the results of the responses to the above question, it can be noticed that, in larger cities, customers use original parts more frequently, both in guarantee and post-guarantee repairs.

Market environment

COMMENT

Nobody should be surprised by the increase in interest in original spare parts, both in guarantee and post-guarantee servicing, all the more so that it is most visible in large cities, where increasingly affluent customers buying increasingly expensive, better equipped cars can afford to use original spare parts – they do not want to take risks by using substitutes. Another element which influences the increase in interest in original spare parts is the increasing number of vehicle fleets. In their case, the majority of servicing is conducted with the use of original parts. The appreciating zloty and hence the decline in prices of parts also contributed to this state of affairs. It can be presumed that the trend being observed will become greater together with the increasing affluence of Poles and the further expansion of car fleets.

Piotr Michalczyk

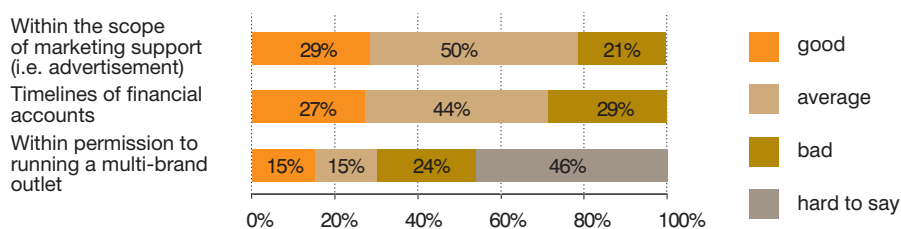
Senior Manager, Assurance and Advisory Services
PricewaterhouseCoopers

Cooperation with the national distributor

Of the areas of cooperation with the distributor assessed, the worst results are for punctuality of settlements

The respondents assessed the cooperation with the national distributor in three areas: marketing support, punctuality of settlements and multibrand sales.

Graph 16. How do you assess the cooperation with the national distributor?



Marketing support

Just like last year, the dealers assess the support in this area as average

Punctuality of financial settlements

A decided increase in dissatisfaction of dealers with punctuality of financial settlements

Multibrand sales

The largest group constituted dealers who assessed the cooperation with the national distributor in the area of marketing support as being average (50%). This group was however dominated by the respondents satisfied with the cooperation. It should be noted that, compared with last year, the share of positive assessments declined, just like the percentage of negative opinions.

A serious problem recorded in this year's survey is the matter of punctuality of settlements of distributors with the dealers. Last year, the share of positive assessments of the punctuality of financial settlements with the national distributor was 38%, with a level of negative opinions of 17%. Therefore, although the cooperation regarding punctuality of financial settlements was then best assessed among the aspects analysed, this year, the results give rise to certain concerns. The proportion of positive assessments decidedly dropped with a strong increase in negative opinions and an almost unchanged share of neutral assessments.

The matter of cooperation with the national distributor was analysed for the first time this year in the context of multibrand sales. However, the results indicate the relative insignificance of this subject to dealers. Almost half of the respondents (46%) chose the response "difficult to say" which, in the context of the aspect of cooperation analysed, can largely mean the non existence of cooperation with the distributor in this area.

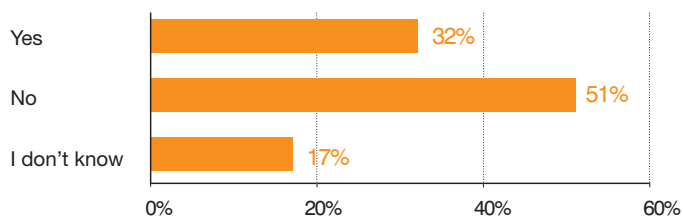


Future

Plans for quantitative expansion

Dealers employing Managerial staff, employed from the market, are more inclined to increase the number of showrooms

Graph 17. Are you planning to increase the number of showrooms managed over the coming year?



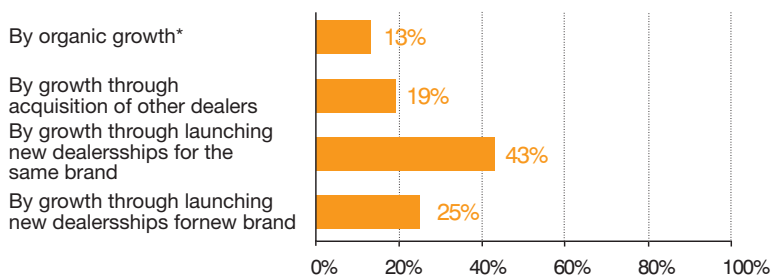
The inclination of dealers to increase the number of showrooms managed over the coming year (2009) only increased slightly over the past year. Although, on the one hand, the proportion of dealers declaring plans to expand the sales network increased to 32% (last year it was 27%), on the other hand, uncertainty, measured as the proportion of undecided people, also increased.

As mentioned earlier, a relationship is noticeable between the method of managing the showrooms and the willingness to increase their quantity next year. Of the dealers not planning to operate new showrooms, decidedly more operate a family business, while those managing through a managerial staff dominate those who want to increase their number.

The short-term perspective is seen by the dealers to be temporary and is not a determining factor in their decision-making on the expansion of the sales network. Similarly, dealers who are not planning to increase the number of showrooms are more frequently sceptical with regard to sales growth in the future.

If dealers are considering expanding activities, this is mainly in connection with the same brand

Graph 18. In the case of expansion plans, how do you intend to expand?

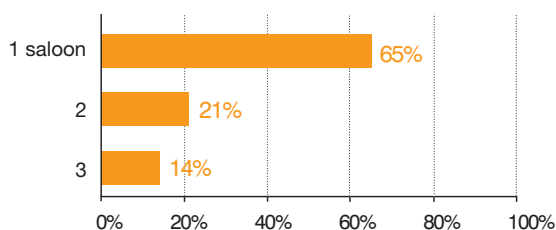


Future

The majority of people declaring a willingness to increase the number of showrooms operated are planning to expand through quantitative growth – opening showrooms of the same brand (43%). Lower down the list, some respondents are planning expansion within new brands and the acquisition of showrooms of other dealers. Organic growth, namely, with the use of internal funding, which gained greatest popularity last year because the question was formulated differently, is currently the least frequently specified form of expansion.

Plans for quantitative expansion/number of showrooms

Graph 19. I am planning to increase the number of showrooms



Among the responses of the respondents planning quantitative expansion – compared with last year's survey – there is a greater inclination to open a single showroom than two of them. Of the dealers wanting to expand activities, 14% are planning to increase their sales network by as many as three showrooms.

COMMENT

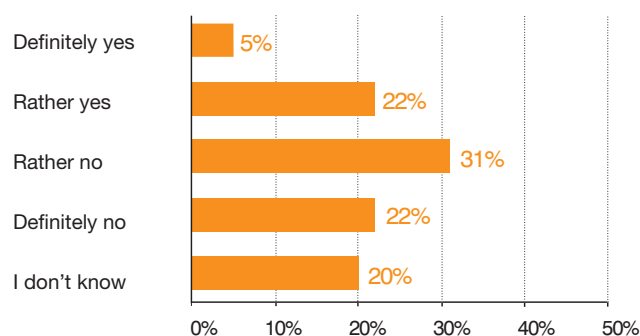
In analysing the development paths specified, the opening of new sites for the same brand dominates. This direction is reasonably safe because of the knowledge of the specific nature of the brand and the developed terms of cooperation with the national distributor. However, approximately one quarter of dealers indicated that they are considering new locations, but for other brands. This may partially arise from the willingness to try to work with another distributor and, in a way, diversify activities regarding the brands marketed. On the other hand, new brands entering the Polish market, such as Mazda, Bentley and Infiniti or the reasonably exotic brands from China, are encouraging to dealers. In a way, one method of combining plans to expand activities with the same brand or a new brand for a given dealer is the opening of new multibrand showrooms. This is an increasingly popular method of conducting dealership activities and its further expansion can be expected, as already confirmed in the results of our survey.

Piotr Wyszogrodzki

Director, Assurance and Advisory Services
PricewaterhouseCoopers

Plans for qualitative expansion / multibranding

Graph 20. I am currently planning to reformat my showrooms into multibrand showrooms



Future

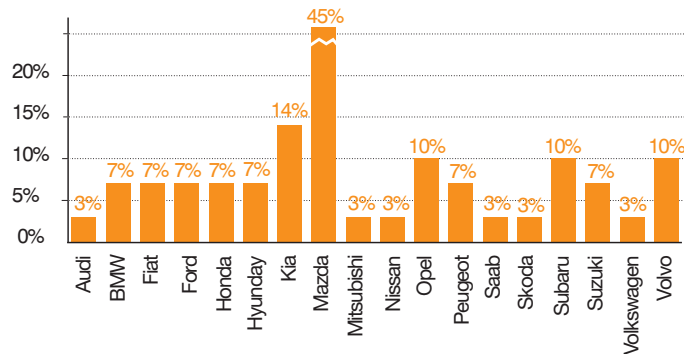
Just as in the case of last year's survey, around one fourth plans to reformat their showrooms into multibrand. Despite the group of those not planning this is still big, we can expect dealer's attitude to this will be changing.

Dealers behaviour could be explained in two ways. On the one hand, it could suggest a polarisation of attitudes arising from increasingly greater market segmentation. On the other hand, the drop in inclination to transform current showrooms into multibrand showrooms suggests the willingness to retain the status quo, almost certainly as a result of the growing uncertainty regarding perspectives of the climate on the market. A total of 27% have decided to change or at least admit such a possibility. Despite these shifts in the structure of responses (more conservative attitudes), the results are similar to last year's, which indicates a lack of significant change in preferences of the respondents participating in the surveys.

Mazda and Kia are most frequently considered by dealers planning to reformat their showrooms into multibrand showrooms

In this year's survey, the respondents planning to reformat their showrooms into multibrand showrooms were additionally asked about the brands they are considering. It should be remembered that the responses obtained only applied to 27% of all respondents because of the limitation of the question to only those respondents who gave a positive answer to the question about their willingness to transform their showrooms into multibrand showrooms.

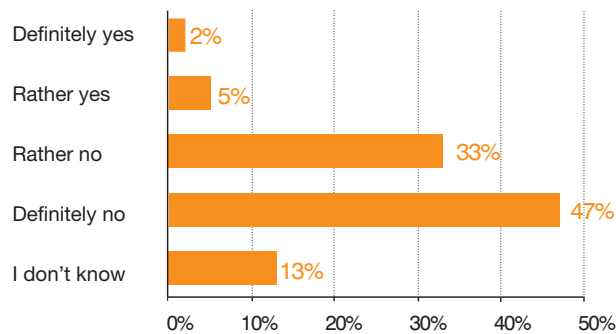
Graph 21. Which brands are you considering in the reformatting of the existing showrooms into multibrand showrooms?



Plans to exit from the market

Majority of dealers don't think about leaving the business

Graph 22. Are you considering exiting the automotive industry over the coming year?

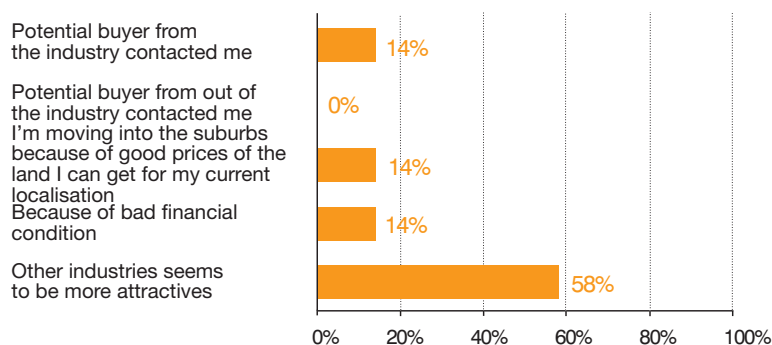


Future

As many as 80% of respondents are not considering or probably not considering exiting from the automotive industry over the coming year. Only 7% are considering such a solution, but to a different degree of determination. However, 13% of respondents have no opinion on this matter. The structure of results is almost identical to those obtained a year ago. The only difference fundamentally boils down to the stronger conviction of dealers about the willingness to remain on the market: the decline in the number of respondents doubting their willingness to exit from the market and undecided people translated into a decided increase in the number of dealers convinced that they want to remain in the industry.

The dealers who have been conducting activities for more than nine years are the main respondents who are considering the possibility of exiting from the automotive industry in the coming year. Similarly, their showrooms are more frequently managed in the form of a family business. Just as last year, the reasons for the willingness to exit from the industry include fundamental factors of conducting business: a poor financial situation in recent years, as well as poor cooperation with the national distributor. A reversal of these relationships can be observed in the case of the assessments of respondents who do not intend to leave the automotive industry: they have a good financial situation and greater optimism with regard to an increase in sales in the future. Likewise, these respondents tend to have better relationships with the national distributors.

Graph 23. If you are considering exiting the industry, then how?



The automotive dealers who are planning to change the profile of their activities mention the relatively greater attractiveness of other sectors as the major potential source of their decision.

COMMENT

In analysing the results of the construction industry in recent months, we observed the slow down to a certain extent, although the need for attractive sites which passenger car dealers often have, will continue to be in great demand and hence generate tempting land prices. Therefore, it can be expected that this trend will continue and, in line with the Western European model, the dealership network will expand in city suburbs. The low percentage of dealers intending to more or less decidedly withdraw from operating showrooms is a good omen for the future of the automotive industry. The slow pace of consolidation on the market, which is restricted by the entrance of new players, should not threaten the activities of the mechanisms of competition, while those most interested, namely the customers, will certainly not lose out.

David Green

Partner, Automotive Group Leader, Assurance and Advisory Services
PricewaterhouseCoopers

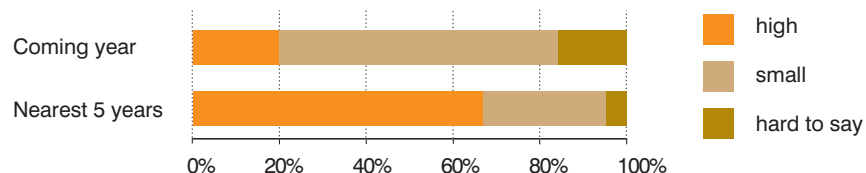
Future

Opportunities for sales growth

There is still lack of optimism with regard to opportunities for sales growth in the coming year

The respondents expressed their opinions about the opportunities for growth in sales of passenger cars over the coming year and the coming five years.

Graph 24. How do you assess the opportunities for sales growth over:



Dealer expectations express clear pessimism with regard to the outlook for the coming year. Almost two thirds of respondents assess the opportunities for sales growth as small. Only one in five respondents is expecting a further increase in sales.

Over the medium term (five years), dealers are already declaring greater optimism. 60% of them suggest significant opportunities for sales growth over this time horizon. Only one in three respondents views this matter pessimistically.

Comparing this year's results with those obtained last year, a decidedly greater similarity is noticeable in the profiles of the responses regarding the medium term (five years) than in the responses regarding the outlook for the coming year. In the short term, the respondents assess the opportunities for market growth more pessimistically than last year.

The respondents who do not believe in sales growth next year usually only have one showroom in a rather difficult financial situation and employ a relatively small number of employees. In turn, those who consider the opportunities for sales growth to be high, recorded better financial situation and better assess their relationships with distributors.

COMMENT

The optimism of dealers recorded last year regarding growth in sales of vehicles in the short term clearly declined this year. This is no wonder, because last year contained many events that could not affect the short-term views in any other way. The hope of a reduction in imports of used cars proved unjustified; in fact, the number of imported vehicles is breaking further records. It also cannot be expected that this matter will change in the short term. The problem of the possibility to offset the whole of the VAT, which is what entrepreneurs and dealers are impatiently awaiting, has still not been resolved. And despite changes in plans being publicised increasingly frequently, nobody now appears to believe this. The other equally important factors affecting such a view of the future include an increase in maintenance costs, including dramatically rising fuel prices, turbulence on the loans market arising from an increase in interest, as well as a drop in the income of investment funds.

Piotr Wyszogrodzki

Director, Assurance and Advisory Services
PricewaterhouseCoopers

Opinions

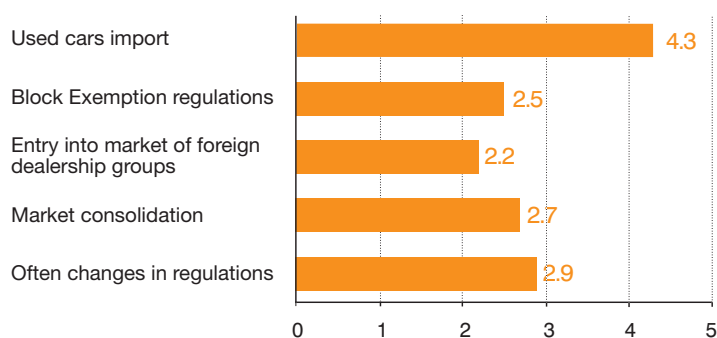


Areas of the greatest impact on the business of dealers

Rising imports of used cars is still mostly affecting the activities of passenger car showrooms

According to an analysis of the perceived impact of the factors mentioned in the survey on car dealers' business in Poland, the inflow of used cars remains the biggest problem. The second most important issue is the lack of legal and tax regulations creating good conditions for the sector's development, for which the whole industry has been lobbying for many months. The other factors, i.e. market consolidation, entry of foreign dealer groups into the Polish market, and European regulations concerning block exemptions, have (according to our respondents) a medium effect on their condition.

Graph 25. In your opinion, which of the areas mentioned below have the greatest impact on the dealer's business in Poland (average of the assessments)



Dealer consolidation

In viewing the percentage structure of responses to the question regarding the possible impact of dealer consolidation on the situation of the automotive industry, it can be noticed that the response of "elimination of the weakest players" was most popular. The second most frequent response given was that consolidation could result in a reduction of the competitiveness of individual dealers. Less than 10% of respondents believe that the weakest showrooms will have a chance of surviving as a result of consolidation.

COMMENT

VAT

The VAT regulations have a significant impact on the number of new cars sold in Poland. Although, as a rule, the tax should be neutral for entrepreneurs, the rule is often not complied with in respect of vehicles purchased by Polish taxpayers.

Two basic issues can be distinguished in this respect, i.e.:

- as a rule, it is impossible to deduct the full amount of VAT paid on the purchase of cars with an admissible total weight of up to 3.5 tons (in such case, entrepreneurs can only deduct 60% of the tax paid, but not more than PLN 6,000), and
- they cannot deduct VAT paid on the purchase of fuel (petrol, Diesel oil or LPG) used in such vehicles.

Initiatives undertaken on behalf of taxpayers, aimed at amending the existing VAT Act which would remove the said limitations for deducting the VAT paid, have not been accepted and understood by the Ministry of Finance. Consequently, the amendments to the VAT Act which were proposed by the Government and are now subject to Parliamentary work, do not foresee any such changes.

Nevertheless, for car dealers who look for opportunities to increase the sale of passenger cars, as well as for entrepreneurs that use such cars in their business activities, the position of the European Court of Justice (ECJ) in Luxembourg on the compliance of the said limitations with the Community regulations, may be important.

The ECJ is expected to issue a judgment determining this issue within the coming months.

If the ECJ rules that as from Poland's accession to the European Union, the Polish legislator did not have the right to impose such limitations, this could result in the unfavourable regulation being changed.

Excise duty and environmental fees

Excise duty

The implementation of the new regulations of the Excise Duty Act is planned for 1 January 2009. The regulations assume that the procedure relating to the taxation of passenger cars will be simplified, i.e. the multi-stage process for collecting the tax (applicable when a car has been subject to several transactions before its first registration in Poland) will be abandoned.

The new regulations stipulate that the excise duty will only be collected once, at the moment of:

- intra-Community acquisition or importation of a car in Poland – if the car has been brought in from abroad;
- the first sale within the territory of Poland (before the first registration of the car) – if the car has been manufactured in Poland.

This change should result in reducing the administrative burden on the part of the dealers who only handle the sale of passenger cars which were imported to Poland or manufactured in Poland by third parties. Such dealers will no longer be obliged to register for excise duty purposes and will not be obliged to file monthly declarations in this respect. They will no longer be obliged to pay excise duty on the cars sold, either.

Opinions

Nevertheless, these duties will still apply if a given dealer is an entity performing intra-Community acquisition or importing cars to Poland.

According to the latest news, there are also plans of increasing the existing excise duty rate for passenger cars over 2 litres engines from present 13,6% to 18,6%. The excise duty rate for cars below 2 litres engines is to stay at the same level as before.

Environmental fees

In addition to the excise duty, another factor which has an impact on the costs related to the purchase of a passenger car (and therefore the sale price thereof) is the recycling fee which must be settled before the first registration of such cars.

A recycling fee of PLN 500 must be paid before the first registration of a car in Poland by entities which:

- import a passenger cars;
- perform the intra-Community acquisition of cars, and
- manufacture cars,

that do not ensure having a so-called vehicle collection network.

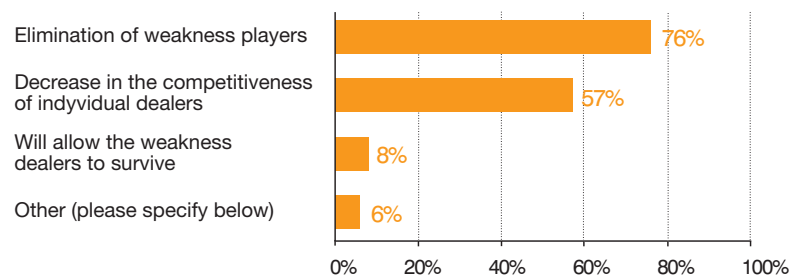
However, collection of the recycling fee gives rise to certain doubts from the perspective of the Community regulations.

Notwithstanding the above, it is worth mentioning that the European Commission is working on the preparation of new regulations related to the implementation of an environmental tax on passenger cars in the Member States. The amount of the tax would depend on the amount of carbon dioxide released.

Tomasz Kassel

Director, Tax Department
PricewaterhouseCoopers

Graph 26. How can dealer consolidation affect the situation in the automotive industry?



However, an overall comparison provides certain observations: primarily, the conviction that consolidation could eliminate the weakest players from the market is currently stronger. The expected worsening of the climate increases concerns about the condition of the business in the near future and similarly – in the context of the expected changes in the level of concentration of the industry – the chances of survival on the market.

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Basic features of dealers participating in the research

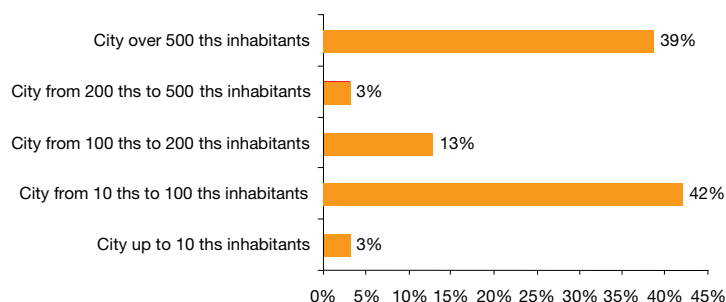


Dealership management method

Owners or family members manage the dealerships

Nearly two thirds (63%) of car dealerships participating in the survey are still being managed by owners or family members. Nearly one half (42%) of dealerships are located in one of the three largest cities (Prague, Brno, Ostrava). However, the dealerships located in smaller towns play the biggest role on the market (57%).

Graph 1. Locations of car dealerships



Form of cooperation with national distributor

Agreement with national distributor is the dominating form of cooperation

The definite majority (87%) of dealership surveyed cooperates with a national distributor through contracts. Only 3% are owned by a national distributor. The remaining 10% indicated other forms of operation:

- sub-dealer, or subordinated to another dealer
- individual imports
- combined the contract and other forms of operations.

Basic features of dealers participating in the research

Duration of active dealership operations on the market

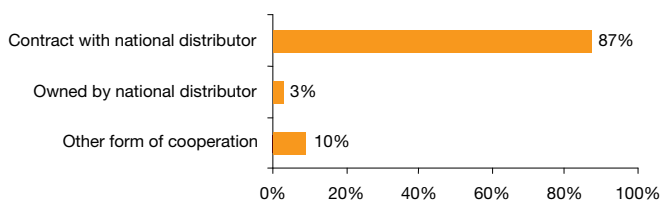
Most dealers continue to operate on the Czech market for more than 10 years

Number of showrooms

Almost half of the dealers run a one point of sale business

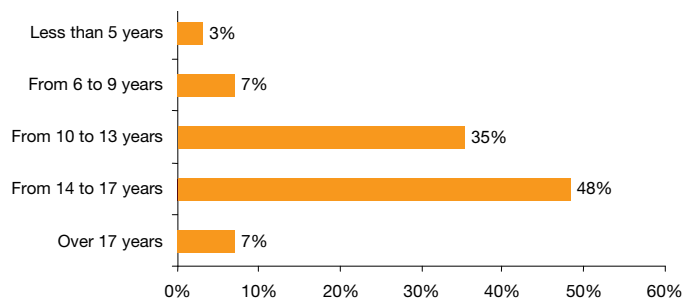
Family business model has the majority both in single and multi-showroom groups

Graph 2. Form of cooperation with a national distributor



Looking at the age structure of companies surveyed, we have to note that nearly 90% of dealerships have been operating on the Czech market for more than 10 years. The group is dominated by dealerships that have been running their businesses for 14 to 17 years. It means that nearly half of the surveyed companies were founded within the years 1991–1994.

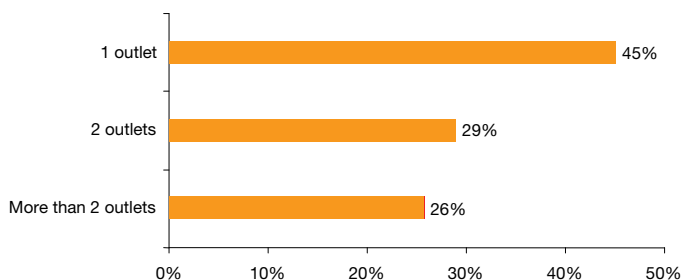
Graph 3. For how long has the dealership/dealership network been in operation?



45% of the surveyed dealerships run one showroom business. One quarter of the dealerships run multi-showroom businesses with more than two showrooms. The majority (65%) in the one showroom group is represented by dealerships younger than 14 years. In the multi-showroom group, the definite majority (71%) is represented by the companies operated on Czech market for 14 years or more. Not surprisingly, the definite majority (71%) of the dealerships running only one showroom business is represented by companies based on the family business model. In cases of the company running two or more showrooms, the proportion is a little bit different, but the companies led by owners or family business members still have the majority (59%).

Basic features of dealers participating in the research

Graph 4. How many sales outlets are you running?



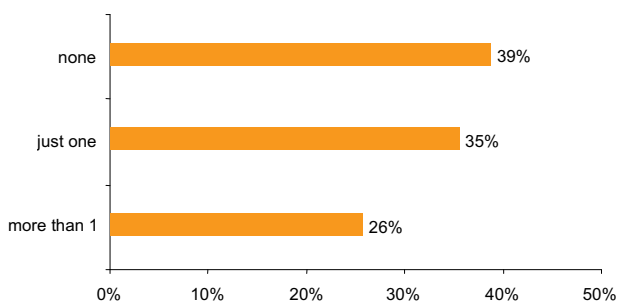
Multi-brand dealerships

Multi-brand outlet is an operating model for 61% of dealers

1 from 2 dealers selling only one brand is oriented on domestic producer Skoda Auto

The multi-brand showroom is an operating model for 61% of respondents. The remaining 39% preferred one brand showroom. The half of the dealers selling only one brand is focussed on the domestic producer Skoda Auto. 65% of dealerships have decided not to expand within the next year. Dealerships that decided to expand are mainly multi-brand oriented dealers (82%).

Graph 5. How many of your showrooms are multi-brand?



One must also note the fact that as many as 41% of dealers participating in the survey are selling the domestic brand Skoda.

COMMENT

The car dealers market is changing. While dealerships are still mostly run by owners or family members, certain restructuring processes could be observed such as more powerful dealers or importers taking over dealers with financial difficulties, in order to establish multi-brand and multi-showroom groups. Market consolidation may result in a decrease in the number of players.

Economic description of dealers

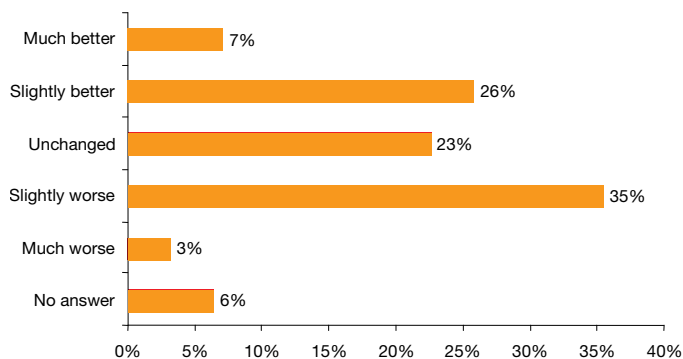


Revenue structure

In the year 2007, the average financial condition of dealers has been unchanged or slightly worse than in the previous year

The financial results of 2007 in comparison with the previous year are better for 33% of the surveyed companies. The economic situation was getting worse for 38%. The rest of the respondents feel no significant change. The most common reasons for the situation getting worse are the change of margins, the CZK exchange rate and decreasing sales. Looking behind the answers one can note that management methods seem to be related to the financial results. While nearly 74% of companies based on a family business label their situation as “not better” (53% marked their situation as worse or much worse), 72% of the companies managed by professional managers label their situation as “not worse” (46% marked the situation as getting better).

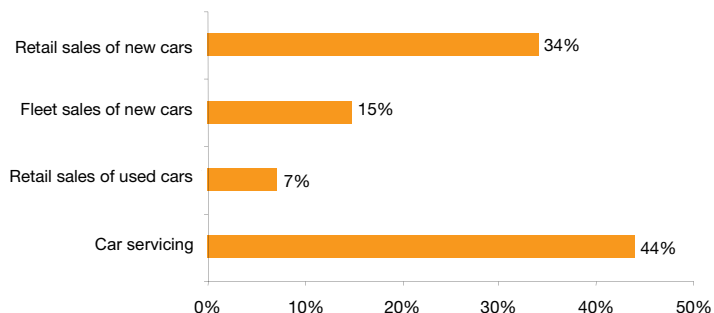
Graph 6. Financial condition compared with the previous year



New car sales and car servicing operations generate highest percentage share of car dealership revenues

Looking at the relationship between the numbers of outlets and economic situation, 62% of multi-outlets companies are in the categories unchanged or better. On the other side, 71% of companies operating only one outlet did not mark their situation as getting better. If we compare the location and financial results, the most interesting finding is that only 15% of companies located in the three biggest cities in the Czech Republic evaluate their financial situation as slightly or much better. Even if the survey was aimed at companies selling new passengers cars, nearly all of them combine retail sales with car servicing. This combination generates 78% of revenues.

Graph 7. What percentage of the revenues from your activities did the following items constitute in 2007?



Economic description of dealers

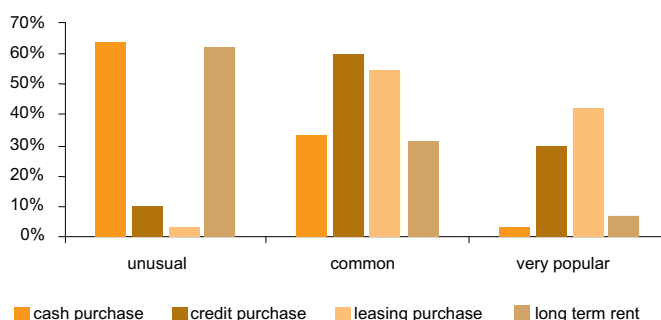
Most popular forms of financing

Credit purchase and leasing are common forms of financing

Cash purchases are more popular in smaller towns

Analysing the popularity of various forms for financing new cars purchases gives us a pretty clear message. Nearly two thirds of the respondents surveyed admit that cash purchases and long-term rent are unusual forms of financing. On the other hand, credit purchases and leasing purchases are very popular forms for more than one third of the companies surveyed. The definite majority of companies (90%), who participated in survey and marked the cash purchase as very popular, are placed in towns smaller than 100 thousand citizens. Alternatively, 73% of companies, where purchases through long-term rent is popular, are located in one of the three biggest cities (Prague, Brno, Ostrava).

Graph 8. Preferences for various forms of financing new car purchases



Preferred passenger car segments

Medium-class compact cars are most popular

The car dealer market can also be analysed by sales preferences. The results show us that customers preferred quite economical medium class cars. The second preferred class (small) is not far behind the medium class. The upper class ranks third. There is a significant gap between upper class and off-roads. The second significant gap is between vans and sport class with convertible cars. It can be said that rankings for the first three positions are to be expected.

Table 1. Segmentation by sales preferences

Preferences	2007
1	Medium class
2	Small class
3	Upper class
4	Off-road
5	Van
6	Sport class
7	Convertible

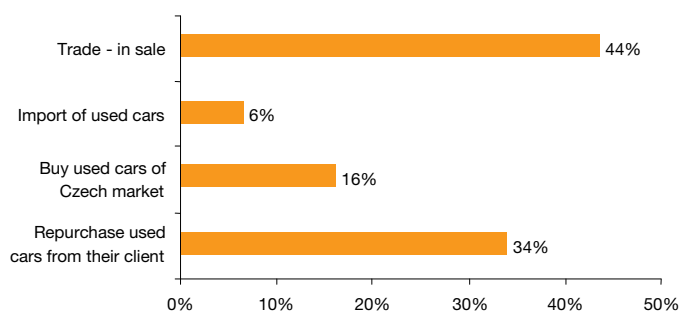
Used car sales

Although most of the dealers sell used cars (from trade-in sale), the revenue generated is small

Import and selling of used cars from abroad is not common

Although the 62% of companies surveyed admit that the revenue generated by sales of used car is not higher than 5%, a full 93% of all companies sell used car. If we look closer at the companies where used car sales generates more than 10% of revenues, we can note that the economic situation has worsen for 67% of them, the remaining 33% marked their situation as unchanged. Nearly 90% of dealers buy used cars as trade-in sales. It can be noted that even the fact that one of the most popular origins of used cars is imports, especially from Germany, the importing and selling of used cars by new car dealers is not common. (Only 13% of dealers buy used cars abroad and only 6% of used cars sold by dealers surveyed are imported. Nearly 66% of used cars dealers purchase used cars from more than one source.)

Graph 9. Origins of used cars sold in your dealership



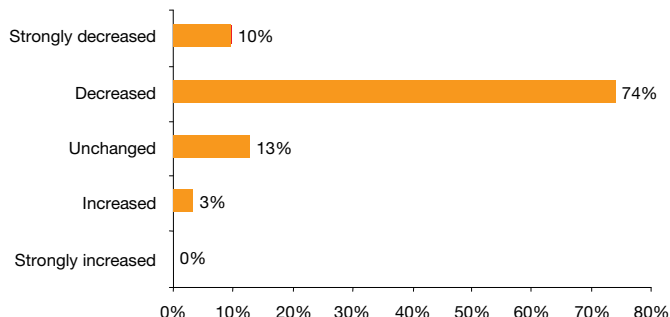
Economic description of dealers

Margins in the passenger car segment

In 2007 most of dealers decreased their margins

The definite majority (84%) of new car dealers decreased their margins within the last year. Nearly half of them (42%) consider current market prosperity as the main reason for decreasing the margins. The second biggest group (38%) indicates the reason as increasing sector competitiveness.

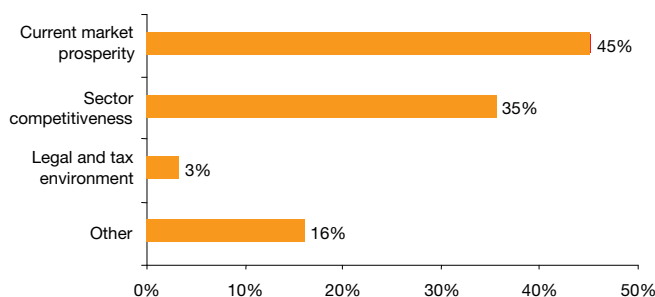
Graph 10. How did your margins in the passenger car segment change (compared with the previous year)?



Causes behind margins changes

Market prosperity most frequently quoted as the cause of margin decrease

Graph 11. Most frequent causes of margin changes



Dealership employment levels

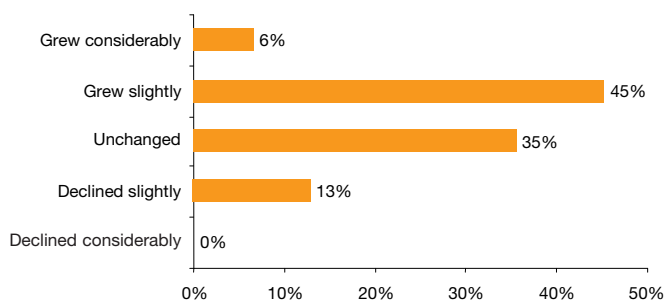
Average employment levels at car dealerships are growing

In the category Other, the most mentioned reasons by the companies surveyed were:

- national distributor's policy
- improving negotiation skills of customers.

The analysis of changing employment levels indicates that more than 50% of companies surveyed increased their number of employees slightly. The second group is represented by the companies with unchanged employment. As one of the main reasons, the companies indicate the growth in sales. The second most common reason is increased interest in car servicing. Looking at the economic evaluation (see graph 7), one must note that 80% of the companies evaluating their situation at least as slightly better also indicate growth in the number of employees. The remaining 20% mark their situation as better and indicate a decrease in employees. From another point of view, we can compare the relationship between multi-brand dealers and changes in the employee count. A full 75% of companies expanding their staff are companies offering more than one brand.

Graph 12. How did the number of employees at your dealership change (compared with the previous year)?



Economic description of dealers

An average dealer employed three times as many persons in the service function compared to other departments

Recruitment for the Service function is the most problematic area due to lack of suitable human resources

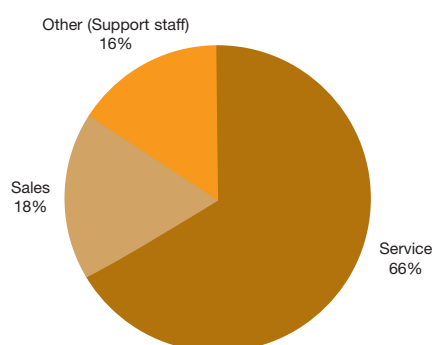
Looking closer at the employee structure one can note the following structure:

About two thirds of employees are working in a function related to car servicing and barely 20% of total staff is sales personnel. Nearly 75% of companies surveyed have between 60% and 75% of their staff in the service function.

Table 2. Descriptive statistic in group of service function

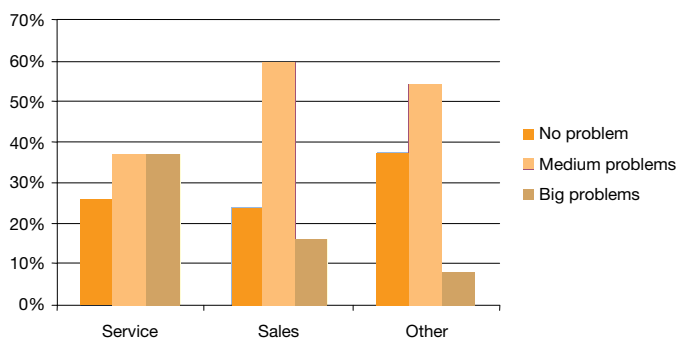
Service	Sales	Other
Mean 63%	Mean 20%	Mean 17%
Median 67%	Median 18%	Median 16%
Most common 67%	Mode 13%	Mode 20%

Graph 13. Common structure of employees



The lack of human resource is obvious in the next graph. 65% of the companies surveyed marked at least a medium level problem with recruiting in two employment categories. One must note that over 44% of dealers who answered the question wherever there were problems with recruitment indicate big problems in at least one category of employees. Most of them (74%) mention the Service category as being the most problematic.

Graph 14. Problems with recruitment of new employees in 2007



COMMENT

Dealerships are exposed to significant competition which is forcing car prices down. There is also an easily available comparison between prices of the same car models in the Czech Republic and other EU countries. Although some the customers find a way to import cheaper cars from abroad, dealerships try to attract customers via limited editions, promotions and special actions.

The financial results in 2007 in comparison with the previous year did not change significantly, but dealers focus more on car maintenance and servicing because these operations bring significant contribution to car dealership revenues and they are growing. The reason behind this is the large investment in sophisticated servicing facilities in the past incurred by dealerships which are now starting to pay off. The new vehicles are much more complex than five years ago and the usage of service is growing due to required maintenance and higher vulnerability of cars to defects. Quality services resulting in customer satisfaction are necessary to keep customers loyal both within and post-guarantee period. The servicing team requires expansion because of the growing customer base and also requires continuous training and updating knowledge is needed to cope with new products and their features.

Although the European car sales market was decreasing in 2007, the local car dealer market in the Czech Republic was not following this trend and there was growth of 15% in the number of passenger car registrations in 2007 (both new cars and used cars) compared to 2006. The recession is somehow delayed and there were some specific factors (the strong crown, growing GDP), which influenced the market and allowed the trend to be different from the global and European ones.

Market environment and dealership operations

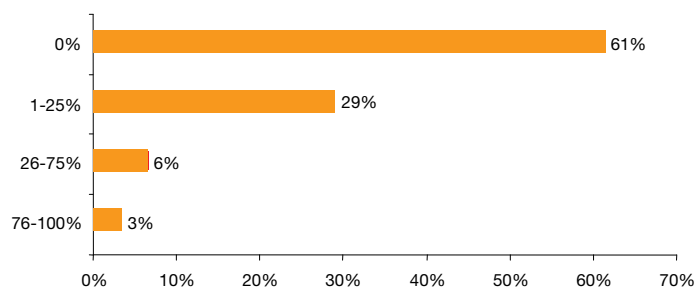


Preferences for generic instead of original parts

Majority of car service customers do not prefer to use generic parts to original parts in the course of guarantee car service

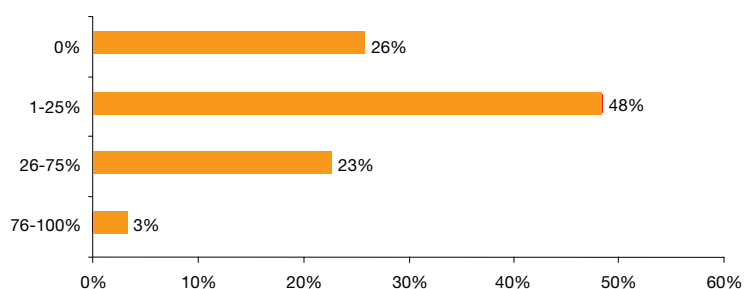
Analysing of the structure of answers to the questions concerning preference of generic parts during guarantee and post-guarantee service, we must note that the popularity of generic parts is falling off. The definite majority (61%) of surveyed companies offering car service indicate no interest by customers in generic parts. 29% of those companies indicate up to 1 in 4 customers asking for generic parts. Only 9% of companies admit that there is a notable group of customers preferring generic parts.

Graph 15. What percentage of your clients prefers to use generic parts during guarantee service?



The situation is a little bit different in the demand for generic parts instead of non-original parts. In 23% of service outlets surveyed, the clients are not interested in generic parts. Looking at the biggest group of answers, where from 1-25% of customers are interested in opportunity to purchase generic parts (48% of answers), one can note that even if the car is not under a guarantee, the definite majority (at least 72% of surveyed companies) is not interested in generic parts at all. It can be caused by the sample of surveyed companies. All of them operate as authorised services. Looking behind the simple data, the 75% of companies, where at least 1 in 4 clients are interested in generic parts for their post-guarantee cars, are settled in towns with up to 100 thousand citizens.

Graph 16. What percentage of your clients prefers to use generic parts after guarantee service?



Market environment and dealership operations

Cooperation with national distributor

Cooperation between dealers and national distributors has been assessed by the biggest group of surveyed dealers as good in most aspects

The assessment of cooperation with a national distributor was surveyed in the three following categories.

1. Permission to run a multi-brand outlet
2. Timelines of financial accounts
3. Marketing support

1. Satisfaction with the permission to run a multi-brand outlet

The largest group (37%) of dealers surveyed assess their cooperation with a national distributor within this theme as good. Omitting the group where dealers have no experience with this form of cooperation, we must say that the significant majority (67%) assessed the cooperation as non-problematic (good or average).

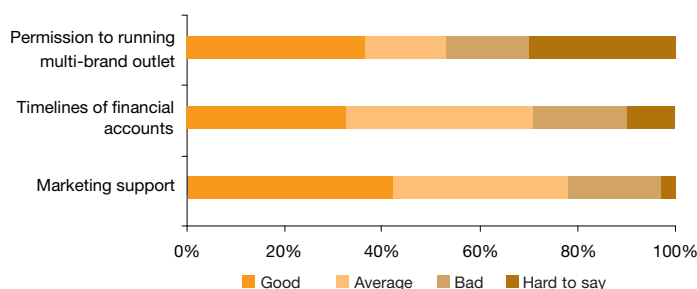
2. Satisfaction with timelines of financial accounts

In this category the largest group assessed the cooperation as average (nearly 39%); the second biggest group evaluated their satisfaction as good (32%). One can note that in the field of timelines of financial accounts, there is satisfaction with national distributors (total 69%).

3. Satisfaction with marketing support

The best situation is in the category “satisfaction with marketing support”. A full 41% assessed the support from a national distributor as good and almost 34% assessed their satisfaction as average. In summary, it means that three quarters of companies surveyed are satisfied with a national distributor.

Graph 17. How do you assess cooperation with national distributor?



Block exemption regulations

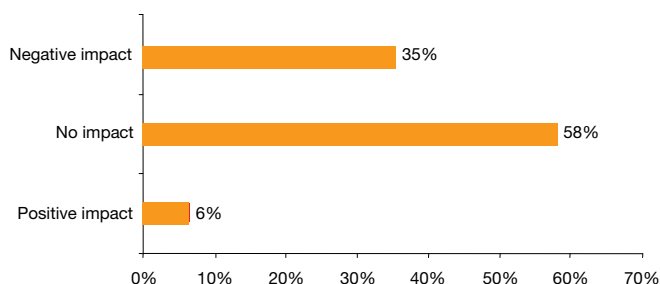
European block exemption regulation bears negative impact to every 3rd dealer business, for other dealers the effect is neutral

Before talking about BER (Block Exemption Regulation) we assume that it is better to present some background information:

Block Exemption Regulation, a regulation from the European Union, became fully effective in the Czech Republic as at 1 November 2004. The exemptions are mainly about multi-brand retailing separation of sale and repair, new ways of car sales, sharing technical information about cars from producers to dealers and car-services. BER is effective only until May 2010. The main reason for the regulation was customer protection, easier access to after-sales services, lower prices, wider choice of new vehicles and easier cross-border purchases.

After nearly four years of having an impact on the Czech automotive market, more than half of the companies surveyed assess the impact of BER as neutral to their business. More than one third of respondents assess the impact as negative.

Graph 18. How do you assess the impact of BER?



Market environment and dealership operations

There are two main reasons for assessing the impact of BER as negative. The first one (47%) that was presented by dealerships is that the competition within the industry is now stronger. The second reason is the rising costs (42%). Even if the companies assess the BER as a negative factor to their businesses, there are no significant relations between the margin trends or willingness to expand or leave the business.

COMMENT

Unfavourable regulations could significantly influence the dealer business. Regulatory requirements directly increase the cost of the business, car purchasing costs and could also indirectly influence customer behaviour and consumption. In the period of margin reduction, dealers need a stable regulatory situation. Any interventions from the state bringing frequent amendments to the laws and regulations lead to a decrease in sales and profitability. There is uncertainty about the next steps related to Block Exemption Regulation after its expiry in 2010, which might influence, for example, the decision of dealerships regarding expansion, car servicing and multi-branding.

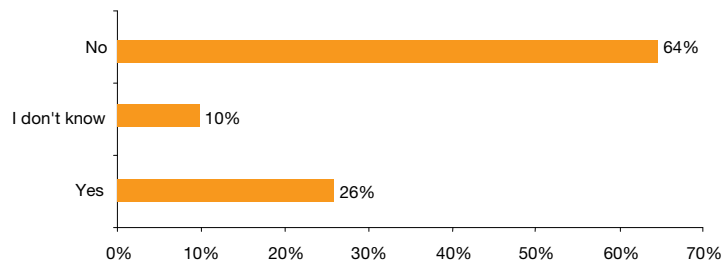
Future



Most dealers are not planning further growth through expanding the number of dealerships

Almost two thirds of respondents are not planning to expand the number of dealerships over the next year. However, 26% do think of this option and only 10% do not think about this topic at all.

Graph 19. Are you planning to increase the number of dealerships held in the coming year?



Family-run businesses are likely to remain where they are

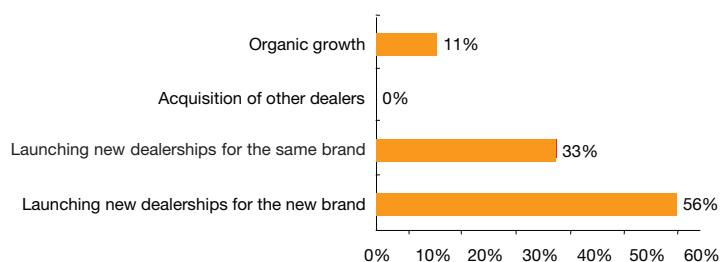
One must note, there is a dependency between the type of dealership possession and willingness for expansion in the coming year. Family-run businesses are mostly willing to “stay where they are” (65%) and continue operations without a focus on further expansion. On the other hand, only 25% of dealerships under professional management do not think about expansion.

For those who do plan, expansion in the following period by launching of new dealership is the most common way. Almost two thirds of new dealerships are planning to expand by starting with a new brand and only one third by expanding the same brand to new locations.

New dealerships are mostly planning to start with a new brand

Also, 62% of those planning to expand already have experience from the past – they have more than 3 dealerships already. Those who are in less than 3 locations are in the business for less than 10 years. On the contrary, 95% of non-expanders have up to two dealerships and all of them are more than 10 years in the business.

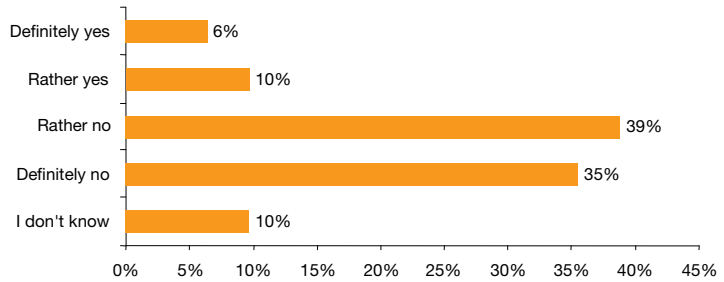
Graph 20. How am I planning to expand my dealership?



Future

None of the respondents willing to expand were able to state the number of new dealerships to be opened.

Graph 21. I am planning to reformulate my current outlets into multi-brand premises



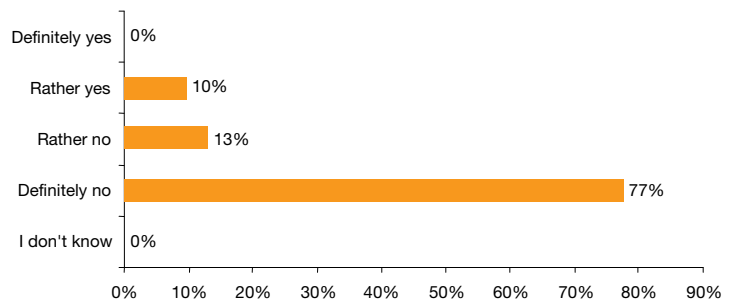
Plans to reformulate current outlets into multi-brand premises are rare

Regarding the strategy, only 16% of dealers are thinking of potential reformulation of their current outlets into multi-brand premises. Almost three out of four respondents do not plan that – 35% of them stated “definitely no” and 35% “rather no. Negative responses were obtained mostly from family-run services (78%) and dealerships from rather small cities (65%). On the contrary, 80% of dealerships planning a change to multi-brand are led by professional management.

Most dealers are certain to stay in the motor industry in the coming year, although a few of them are potentially considering exit from the sector

Increasing competition and the unsatisfying results of selling the current brand/s was stated as a reason for planning the reformulation. The costs of introducing a new brand exceeding income was stated as a reason for not planning a reformulation.

Graph 22. Are you reconsidering the possibility of exiting the motor industry sector in the coming year?

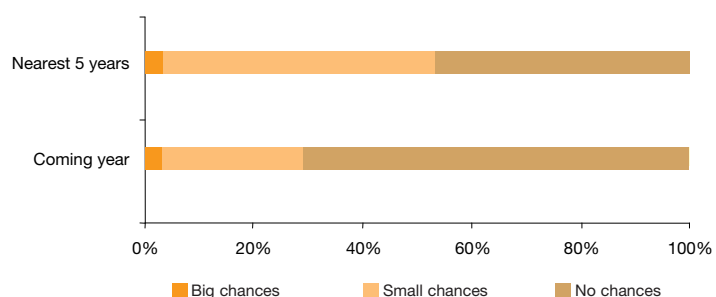


Chances for sales growth have been assessed as small in the short term

Only ten percent of the companies surveyed are potentially considering exiting the motor industry sector; however, none of them have already firmly decided. Those considering exiting the motor industry mainly stated three reasons – potential offer from the industry to acquire their businesses, greater attractiveness of other industries or financial difficulties while running their businesses.

In the long term all dealers are expecting either high or small chances for growth

Graph 23. How do you assess your chances for sales growth in the course of



Future

In the long term all dealers are expecting either high or small chances for growth

Considering sales growth over the coming year and the next 5-year period, car dealers are quite sceptical. In the upcoming year, 26% of them expect small chances of sales growth and only 3% expect big chances. Over 70% of dealers do not see any chance for sales growth at all. In the long-term, car dealers tend to evaluate their chances for sales growth in a more positive way. Over half of them expect small growth in sales and big chances for growth are expected by the same percentage of respondents as for the upcoming year. Car dealers see a high level of instability when forecasting. Some of the reasons stated are the construction of the new Hyundai factory in Nošovice, the rate of fluctuation of customers connected with individual imports from abroad, competition from abroad, and unpredictable evolution of the Czech crown exchange rate as well as petrol prices.

COMMENT

The fact that most dealers do not plan to expand their number of dealerships over the next year and they are quite sceptical regarding sales growth in 2008 and further has to be attributed to the current economic situation. The good news is that most dealers are not thinking of closing the businesses in the future. Managerial staff overseeing the showrooms is slightly more optimistic than owners of family businesses, who more often show concerns about future and sales growth. However, the global financial crisis which started in the US over the summer and spread to Europe in September 2008 is moving fast and nobody is certain of its extent and duration. It is clear there will be an impact on the local car market, mainly manufacturers, but also on importers and dealers. There is significant uncertainty given the combined financial crisis, the aggressive pricing policy of Korean producers, growing competition and growing used car imports – all of these factors contribute to the necessity of car dealers reformulating their business strategies.

Opinions

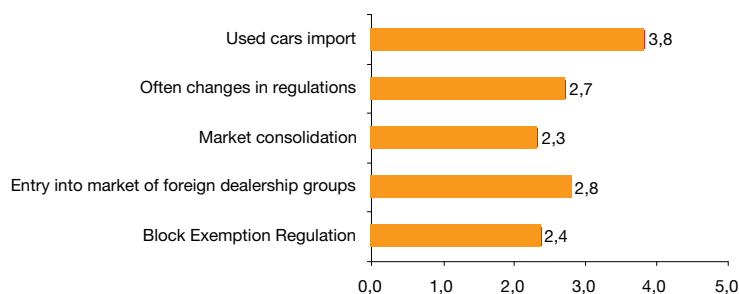


Areas of the strongest impact upon dealer business

The strong influx of used cars has had the strongest impact upon the surveyed companies

We asked our respondents to assess which of the areas specified have had the strongest impact upon their operations.

Graph 24. Which of these factors bear the strongest impact upon dealer business? (1-lowest, 5-highest impact)

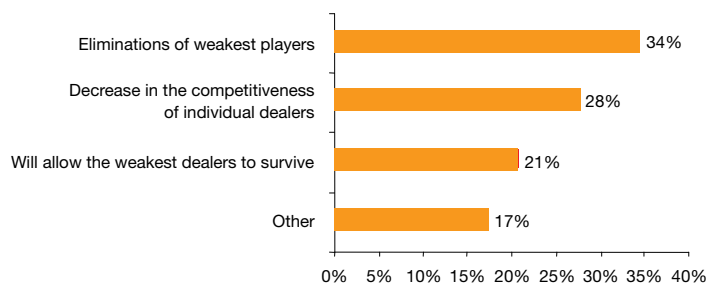


As many as 71% of respondents stated that the import of used cars has had the most significant influence upon their business. Another strong factor influencing car dealers is the entry of new foreign dealers into the local market. This does not only mean entry of new foreign dealers, but also dealers profiting from new cars imported from abroad. Other factors such as frequent changes in regulations and block exemption regulation are of only average importance for local dealerships. In general, most of the dealers do not feel regulations as major obstacles for their undertaking. Only 29% view European regulations related to block exemption as the most painful factor influencing their business. Moreover, only 10% of respondents consider other regulations to be a major factor.

Dealer consolidation

In the opinion of the largest group, consolidation may eliminate the weakest players

Graph 25. How may the consolidation of dealers influence the situation in this segment?



Opinions

Most dealers assume that consolidation can help to get rid of the weakest players in the first place. They also expect that it can serve as a peacemaker for individual dealers by decreasing the rate of competitiveness among them. On the other hand, 21% think about consolidation as a way of enabling the weakest dealers to survive. The answers included are based on the assumption that car dealer consolidations may improve services provided and enable access to high quality standard.

COMMENT

Consolidation in the automotive industry is quite common. To increase the market share and customer base, strong dealerships will be buying weaker competitors with financial problems. The Czech Republic is a traditional automotive market, where customers can decide what brand and configuration of car they buy and where. The prospects for growth in the automotive sector are dependent on the development of customer demand, which is higher with the growing economy and purchasing power of the population. These factors will impact the car dealer market in the future.

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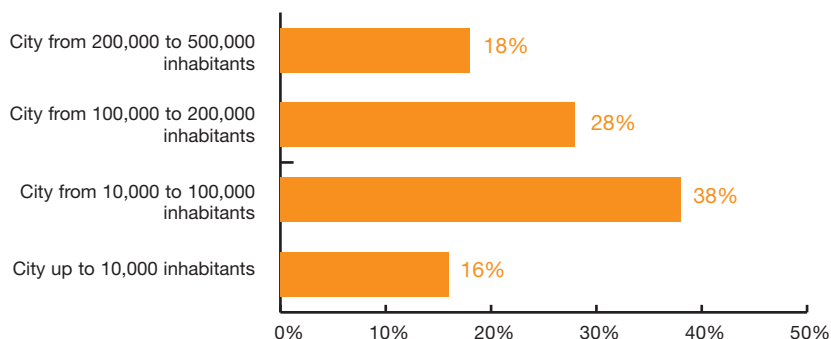
Basic features of dealers participating in the research



Dealership Management Method

Increasing role of qualified management in the management of car dealership

Graph 1. Locations of car dealerships under professional management



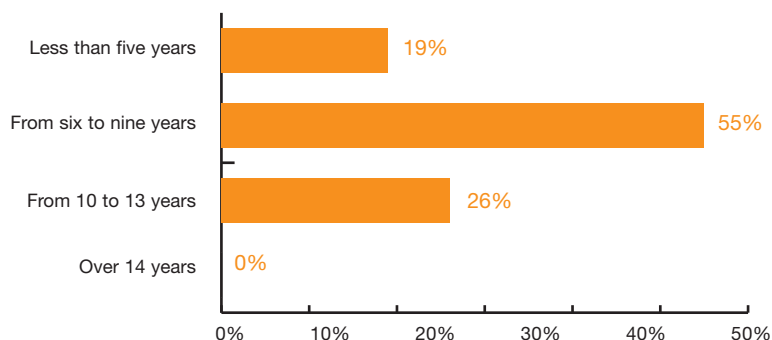
More than half (63%) of the car dealerships participating in the survey are still being managed in a traditional manner – as a family enterprise. However, the percentage of dealers employing professional management personnel is very high (34%).

Nearly one half of dealerships (46%) are located in Slovakia's largest cities (more than 100,000 inhabitants).

Duration of active Dealership Operations on the Market

Local car dealers market is very young compared to those in Western Europe

Graph 2. How long has the dealership/dealership network been in operation?

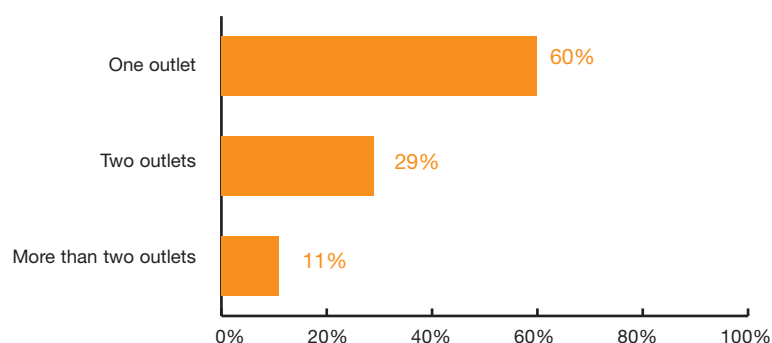


Slovakia is still quite a new market for dealers. The dominant group of dealers have been operating for six to nine years (55%), and from ten to 13 years (26%).

Number of Dealerships

Owning 1 outlet is still the most common type of selling cars

Graph 3. How many sales outlets are you running?



Most dealers are running just one sales outlet (60%).

Single-dealership owners

Of the dealers owning only one sales outlet, as many as 65% operate as family businesses. Just over a tenth (12%) of the respondents runs multi-brand outlets. In future, the vast majority of dealers (75%) have plans to increase the number of outlets. This will have an impact on how their business is managed.

Owners of at least two dealerships

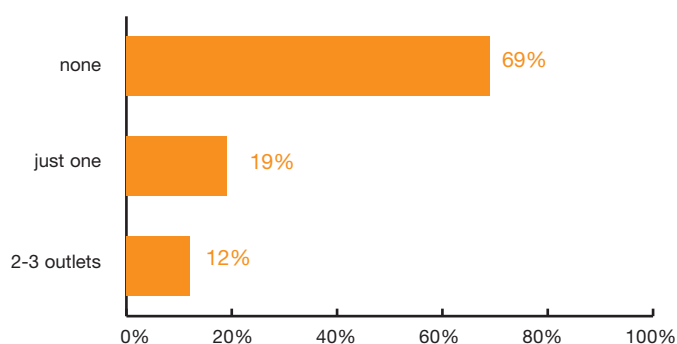
The majority of dealers owning at least two outlets manage their business using the services of professional managers (86%). We noted that the majority (92%) of dealers from this group are not planning to expand the number of dealerships in the coming year.

If the trend to increase the number of outlets continues in future, we expect dealers not own more than two outlets to dominate the market.

Multi-brand Dealerships

Multi-brand type of selling just starts

Graph 4. How many of your outlets are multi-brand?



“Multi-branding“ is not very popular, and dealers prefer cooperation with one brand’s importer. Many multi-brand dealerships sell different car brands imported by one importer.

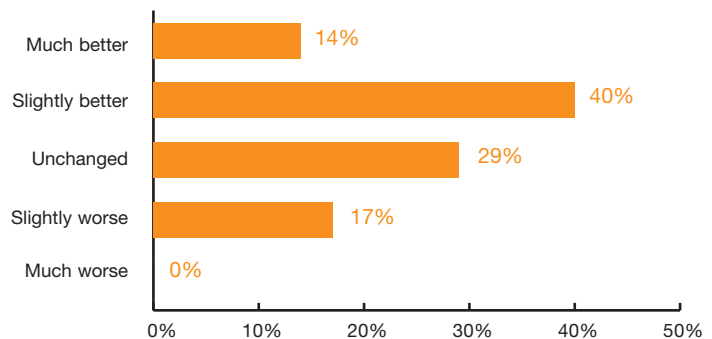
Economic characteristics of dealers



Financial Condition of Dealers

Financial conditions of dealers improved over the last year

Graph 5. Financial condition compared with the previous year?

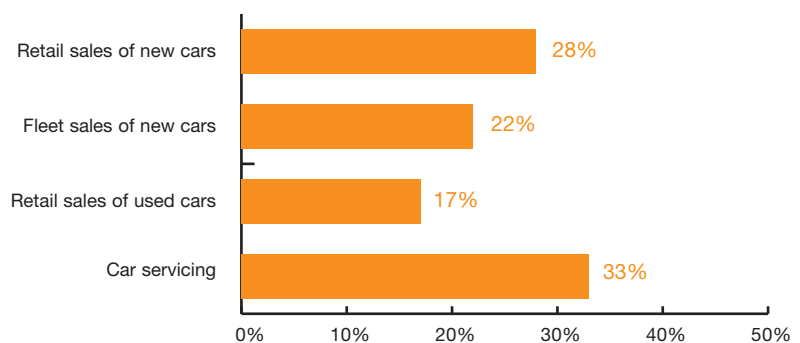


Presenting the financial development, we note the correlation between the number of outlets run by a dealer and its financial condition. The more outlets a dealer is running, the better its financial condition is.

Revenue Structure

Revenues are resulting equally from sales and servicing

Graph 6. What percentage of the revenues from your activities did the following items constitute in 2008?



The percentage of revenue shown above is strongly affected by the geographical location of car dealerships. As respondents were mainly situated in larger cities, revenues from service (33%) and fleet sales (23%) are higher than average in Slovakia.

We also note that there is a strong correlation between the number of fleet sales and car servicing, as business cars are serviced three times more frequently than those sold to the general public.

Economic characteristics of dealers

Regarding the stability of revenue, dealers also specified the following operations:

- financial services: credits and leasing; and
- non-guarantee service of used cars.

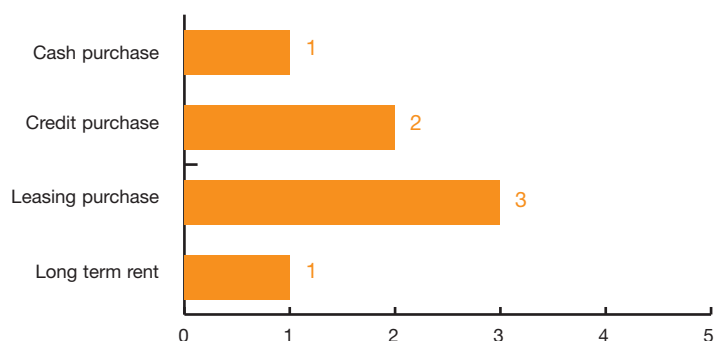
The structure of revenue has also had an impact on the answers to questions regarding the form of financing. The collected data shows the correlation between the financing of a leasing purchase and the size of retail and fleet car sales.

Surprisingly, dealers reported positive support for used car sales from specialized financing (leasing and credit) for used cars introduced on the market three to four years ago.

Most popular Forms of Financing

Finance leasing is still the most popular type of cars purchase

Graph 7. Preferences for various forms of financing new car purchases



Analyses of the weighted average of the popularity of financing methods confirmed the strong position of leasing companies on the car market. The popularity of leasing is supported by a strong relationship between leasing companies and dealers, which also helps dealers to finance their cars in showrooms.

A credit purchase (through a bank loan) is still seen as a “harder” way of financing. However, the lower interest rates strongly support the positive development and higher popularity of this method.

Paying cash and long-term rent are not attractive for consumers for two reasons:

1. A car purchase is still a large investment in relation to salaries.
2. Credit over longer periods of times is perceived as very expensive.

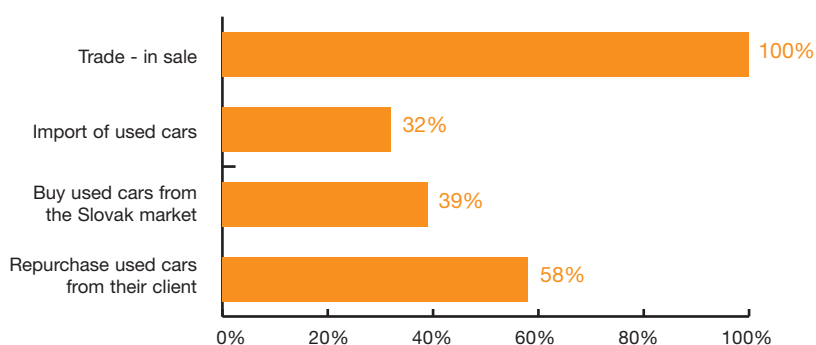
Market Environment of dealers operations



Used Car Sales

Beside direct sales dealers use purchase of used cars to support sales and revenues of new cars

Graph 8. What are the sources of used cars sold in your dealership?

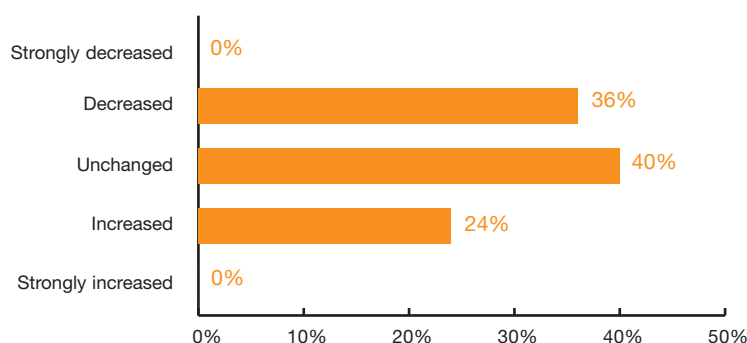


Many dealers sell cars from more than one source. Trade-in sales are the most popular, followed by the repurchase of an old car from a client. Moreover, some brand marketing encourages dealers to “buy old” and “sell new”.

Margins in the Passenger Car Segment

Margins are stable and supported by strong local currency

Graph 9. How did your margins in the passenger car segment change (compared with the previous year)?



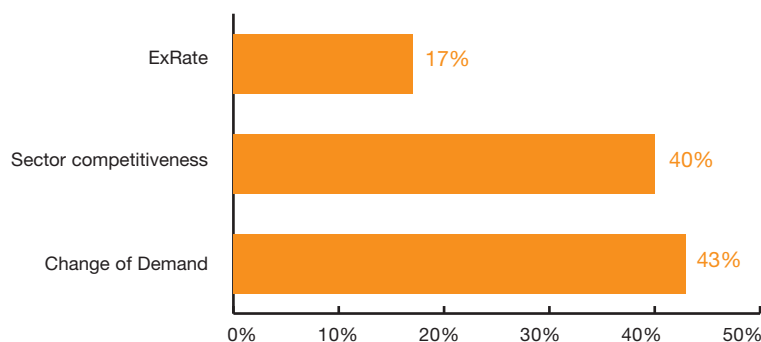
Results showed a strong correlation between the car brand and margin development. Margins during the last year were also no longer just a result of sales strategy or pricing policy of importers, but also a reflection of development in currency exchange rates (Slovak crown-Euro). The strong development of the Slovak crown surprised the entire market and affected the margin in both ways: positively for those car importers and brands who did not hedge the exchange rate, and negatively for those who did.

However, traditional issues that had an impact on margin (such as competition and market demand) still played the most significant role.

Causes behind Margins Changes

Positive development of the Slovak crown, slight increase of competition and positive change of demand are behind a current stabilization of margin

Graph 10. Most frequent causes of margin changes



In the year 2008, three main issues having an impact on margin were recorded by dealers:

1. the development of the Slovak crown-Euro exchange rate;
2. an increased demand for fleet and used cars; and
3. an increase in competition.

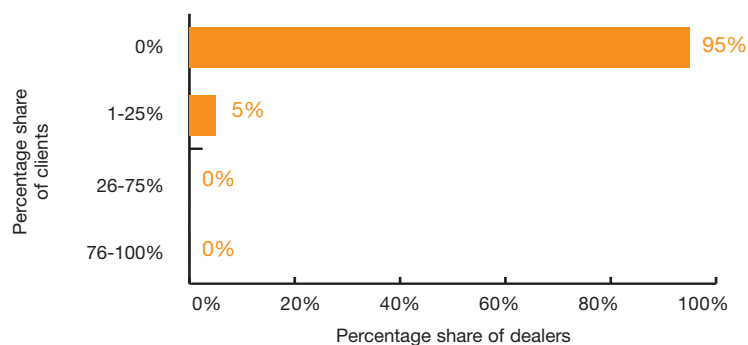
Dealers listed several other factors influencing margin levels, such as:

- a brand importer's or producer's price policy (such as transferring the costs of promotions or rebates to dealers); and
- the geographical location of the dealership.

Preferences for generic Instead of original Parts

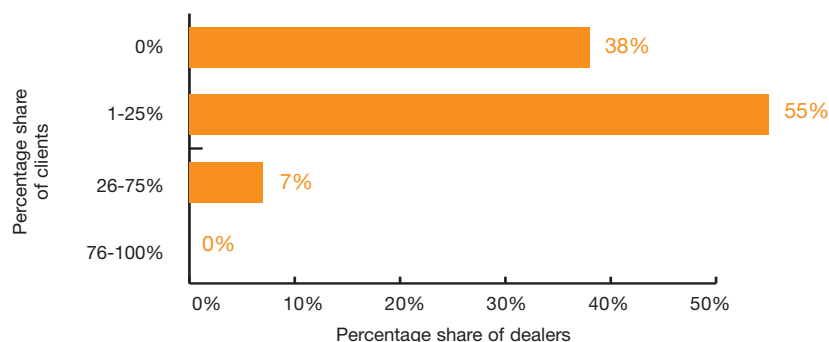
Results showed very low preferences for generic parts during guarantee period and significant increase during post-guarantee time

Graph 11. What percentage of your clients prefers to use generic parts during guarantee service?



Clients of the dealers who responded do not prefer using cheaper generic parts for service. We believe that clients do not trust generic parts. No radical changes for the next period are expected.

Graph 12. What percentage of your clients prefers to use generic parts during post-guarantee service?



Based on the numbers above, we can state a correlation between the end of a guarantee period and the use of generic parts for service. Once the service is not mandatory, clients prefer cheaper alternatives and ask for generic parts. However, original components are used for repairs after accidents.

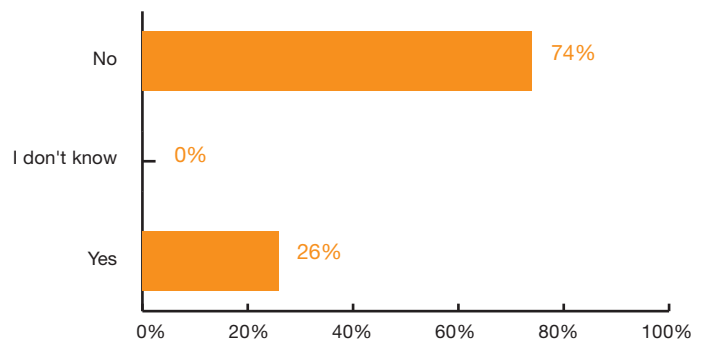
Future



Changes in the Number of Dealership outlets owned

Probability of increasing the number of dealerships is very limited

Graph 13. Are you planning to increase the number of dealerships in the coming year?



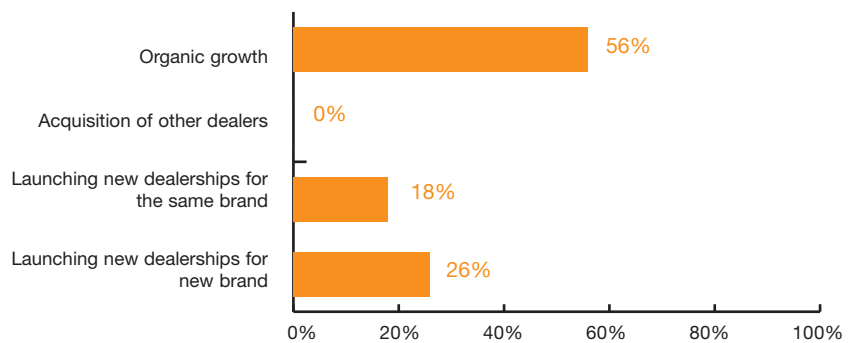
One-quarter of the respondents plan to increase the number of outlets in the course of the coming year. However, as many as 74% of dealers are not interested in such expansion.

These numbers are just a reflection of dealers' negative and sceptical approach to the chances for sales growth in the near future (80% say there is no chance for such growth).

The majority of those willing to increase the number of outlets are also willing to do so by using their own financial assets. The results are shown below:

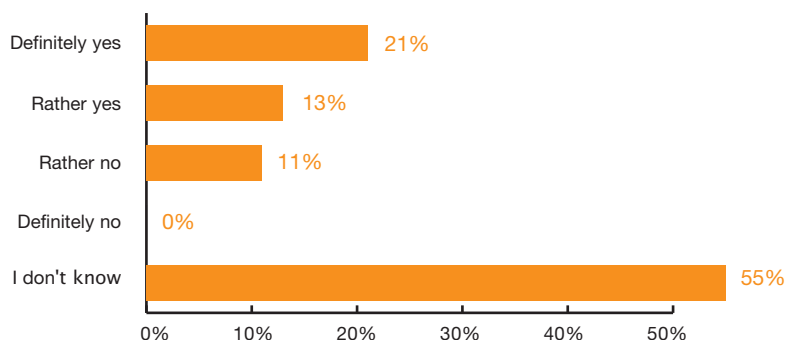
Expansion is expected to be driven by organic growth

Graph 14. How am I planning to expand my dealership?



Multi-branding is not a trend on the market yet

Graph 15. I am planning to reformulate my current outlets into multi-brand premises



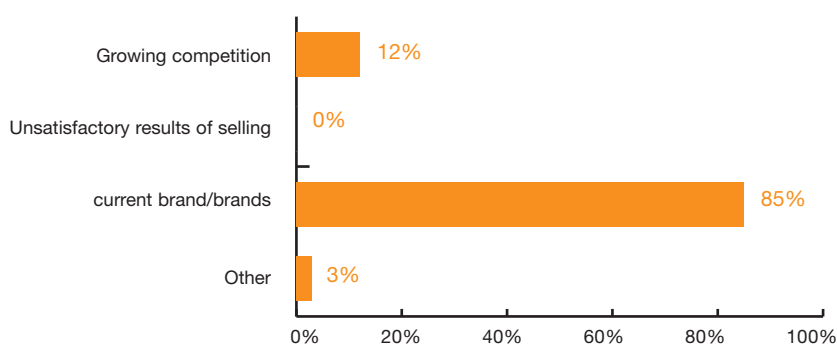
More than half (55%) of respondents are not sure about reformulating their present outlets to multi-brand facilities. The ones thoroughly convinced of doing so make up 21% of the total number of respondents.

The dealers who decided to reformulate their outlets, or who are at least considering such a possibility, make up 13% of respondents.

In summary, dealers who, in general, are starting to consider more brand outlets have not yet decided, mainly due to a lack of data which would support a final decision.

Main driver for outlets reformation is dissatisfaction with current brand

Graph 16. Why are you planning reformation?

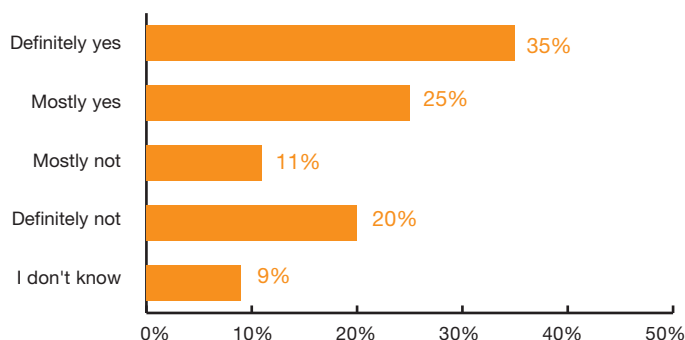


The main motivation for change to multi-brand outlets is dissatisfaction with selling the current brand (85%). Competition is not acknowledged as a main reason for change.

Exit from the Sector

More than one third of dealers consider seriously to leave the industry

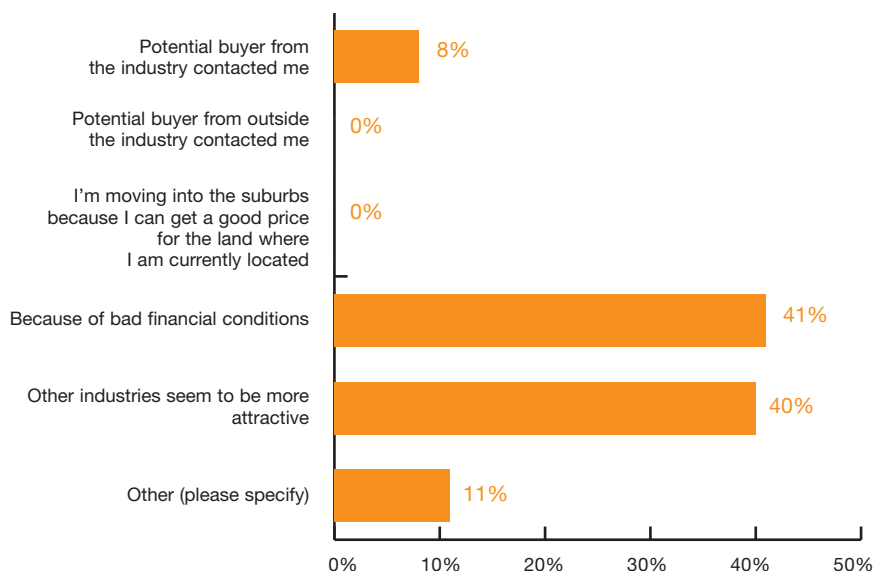
Graph 17. Are you reconsidering the possibility of leaving the motor industry sector in the coming year?



As many as 35% of respondents are considering leaving the motor industry sector in the coming year. Only one-third of respondents want to maintain their current business, and 9% of the respondents are still uncertain whether they will take this course.

Bad financial condition and attractiveness of other industries explains plans for exit

Graph 18. Planned exit strategy from the sector



The reasons given for leaving the industry are very common ones – a bad financial condition and feeling that other industries are more attractive. Deeper analysis shows the difference between the true bad financial conditions recorded in books and the dealers' feeling that the business is not running very well. However, the attractiveness of other industries cannot be avoided, and must be put into consideration for further management of dealerships.

Only a few dealerships confirmed the current interest of potential buyers to acquire outlets, but an increase in this aspect in future cannot be excluded.

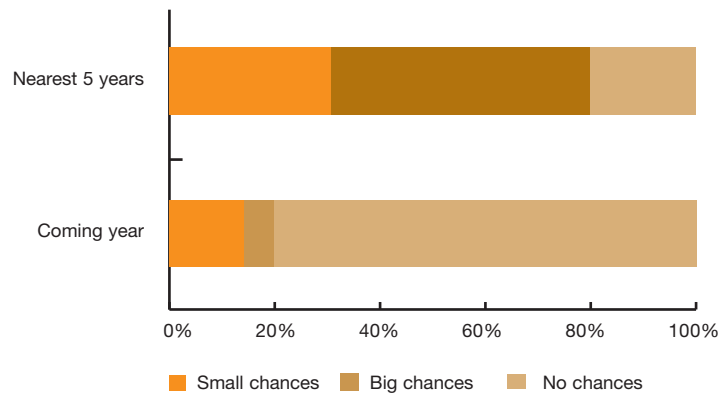
Opinions



Chances for Sales Growth

In short term course dealers do not expect higher sales growth

Graph 19. How do you assess your chances for sales growth in the course of the following periods?



The respondents expressed their opinions on the chances for growing passenger car sales in the course of the coming year and the next five years.

Growth in the course of the coming year

For the majority of dealers (76%), the chances for sales growth in the coming year are very small. Only 18% of dealers consider sales growth in the coming year to be highly probable.

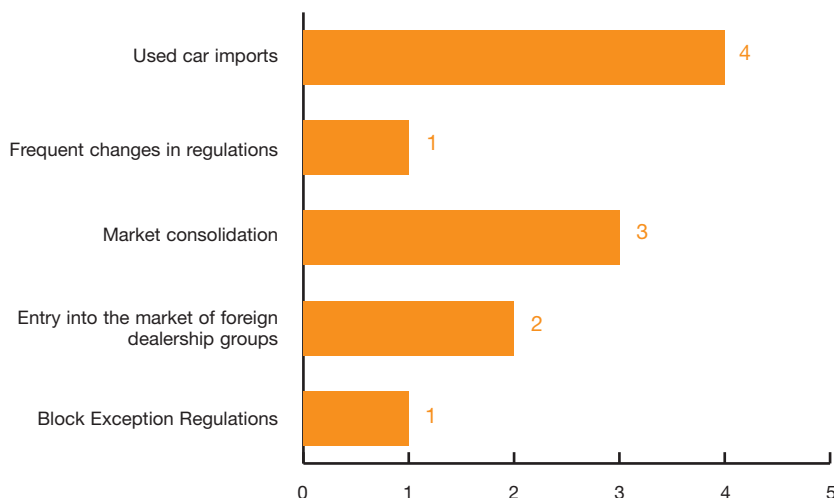
Growth in the next five years

As far as the sales growth forecast for the next five years is concerned, the answers are considerably different from those for sales growth in the coming year. As many as 55% of respondents anticipate high possibilities for sales growth, while 28% assess these chances to be average. The number of respondents who consider the chances for sales growth in the next five years to be small is considerably smaller than the number of dealers who gave the same answer for the coming year.

Areas of strongest impact upon Dealer Business

Strong used cars import filled up the whole growth of the cars sales industry during a prior year

Graph 20. Which of these factors have the strongest impact on a dealer's business? (1-lowest, 5-highest impact)



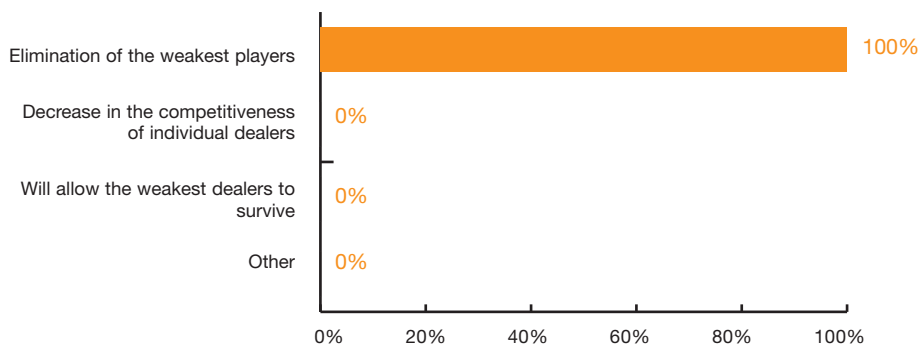
We asked the respondents to assess which of the areas specified have had the strongest impact on their operations.

As many as 68% of respondents maintained that the influx of used cars had the strongest impact on their businesses. Another factor strongly influencing the condition of dealers is market consolidation pressure. Other factors such as entry into the local market of foreign dealership groups and European block exclusion regulations have a low or average impact on the respondents' businesses.

Dealer Consolidation

Consolidation of dealers market is anticipated as elimination of weakest players

Graph 21. How may the consolidation of dealers influence the situation in this segment?



All respondents are convinced that the expected consolidation process will eliminate the weakest players.

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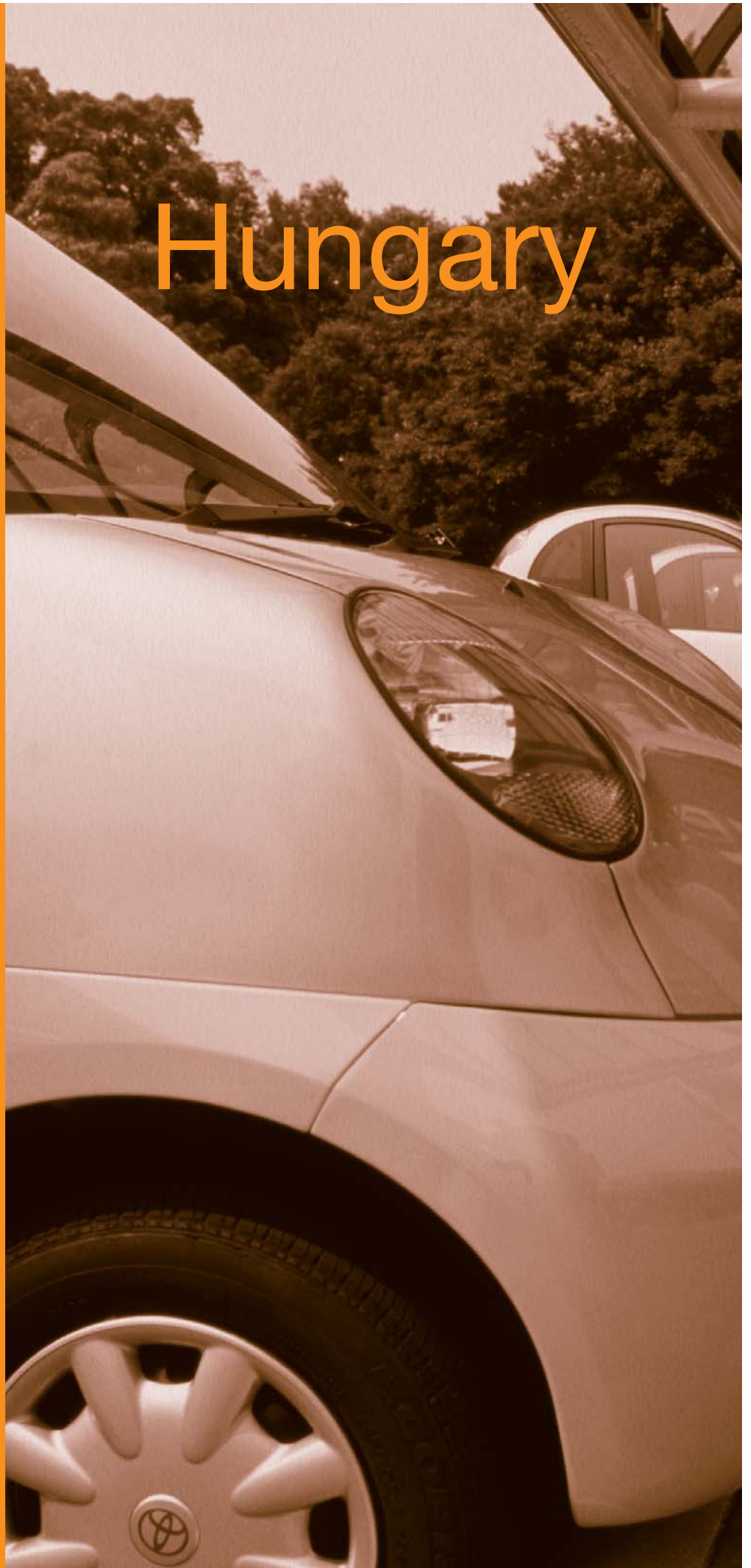
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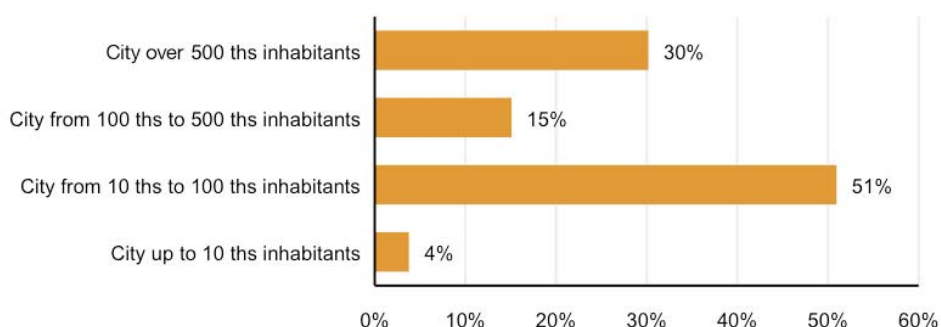
Basic features of dealers participating in the research



DEALERSHIP MANAGEMENT METHOD

30% of dealers do business in Budapest

Graph 1. Locations of car dealerships under professional management

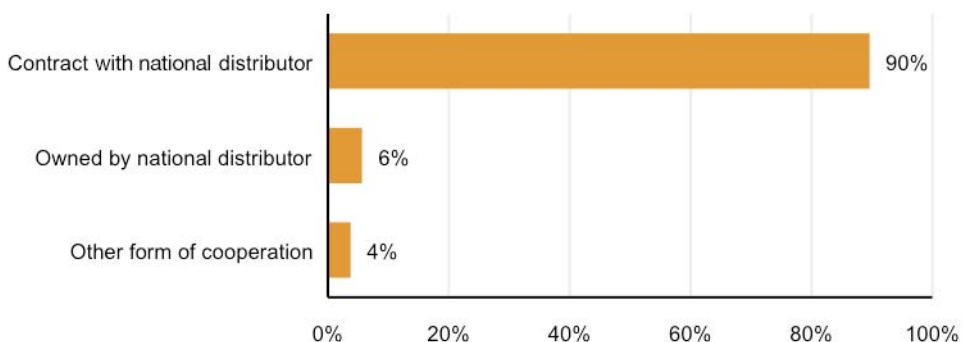


Over half of Hungary's professionally managed dealerships are located in smaller cities with populations between 10,000 and 100,000. This is closely followed (45%) by cities with more than 100,000 residents. Slightly less than a third of professionally managed dealerships are in large cities with more than 500,000 inhabitants.

FORM OF COOPERATION WITH NATIONAL DISTRIBUTOR

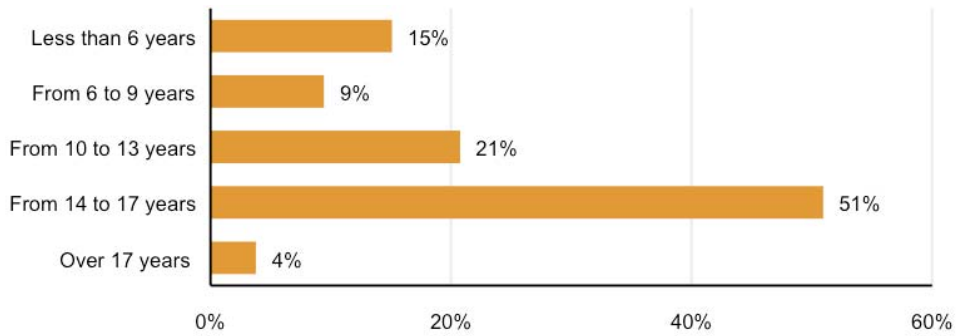
90% contract with national distributor

Graph 2. Form of cooperation with national distributor



The overwhelming majority of dealers surveyed (90%) operate under a contractual agreement with their national distributor, and only 6% are actually owned by the national distributor. The remaining 4% operate under some other form of cooperation such as individual import, or being a sub-dealer.

Graph 3. For how long has the dealership/dealership network been in operation?

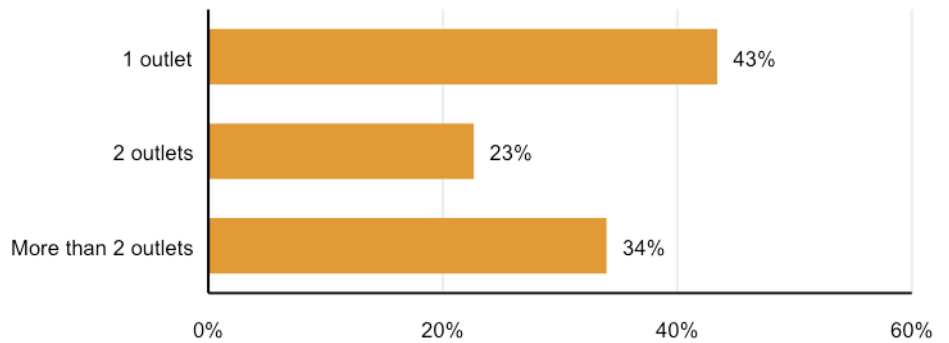


More than three-fourths of all dealers in Hungary (76%) have been in the business for more than ten years, and a majority (51%) has had dealerships for more than 14 years. There are very few (4%) that have been around for more than 17 years, and less than a quarter of them (24%) have come onto the market in the last nine years.

NUMBER OF DEALERSHIPS

Two- and more outlet dealers dominate the market

Graph 4. How many sales outlets are you running?

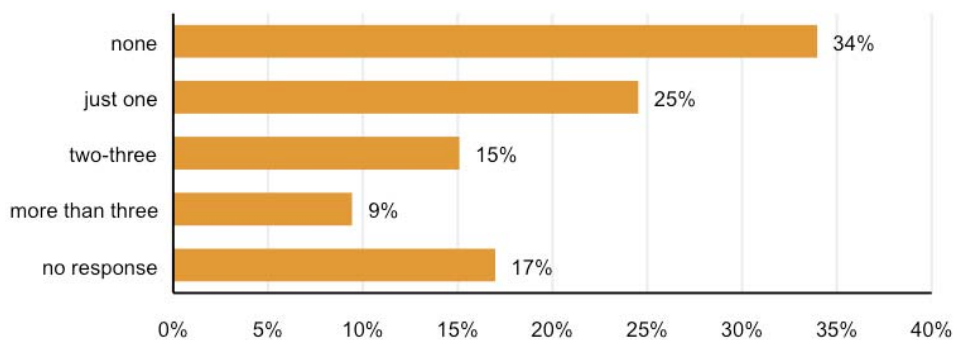


A little more than half (57%) of all dealers operate more than one outlet, though slightly more than one-third of multiple outlet operators only run two outlets. More than a third (34%) of all dealers has more than two outlets.

MULTI-BRAND DEALERSHIPS

Strong presence of multi-brand dealers

Graph 5. How many of your outlets are multi-brand?



There is a strong presence of multi-brand outlets on the Hungarian market, with only 34% of surveyed dealers reporting that they do not run any multi-brand outlets at all. Of those dealers selling more than one brand, the largest group (25% of those surveyed) have only one multi-brand outlet, slightly fewer (24%) having two or more multi-brand outlets, and less than a tenth (9%) running more than three multi-brand outlets.

Multi-brand dealers are quite independent in choosing their suppliers, although different brands are not usually sold in the same showroom.

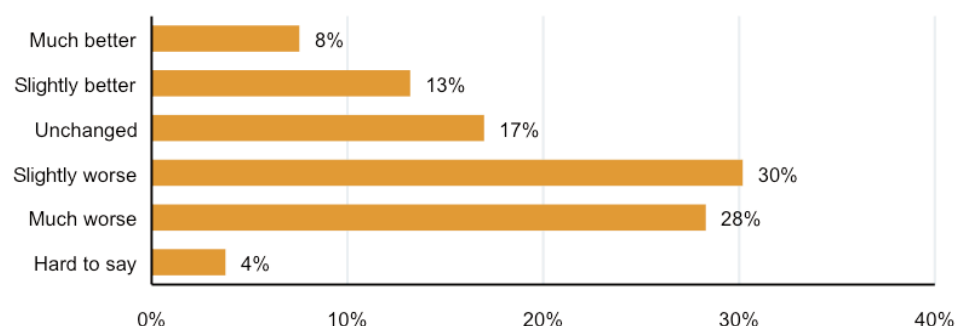
Economic characteristics of dealers



FINANCIAL CONDITION OF DEALERS

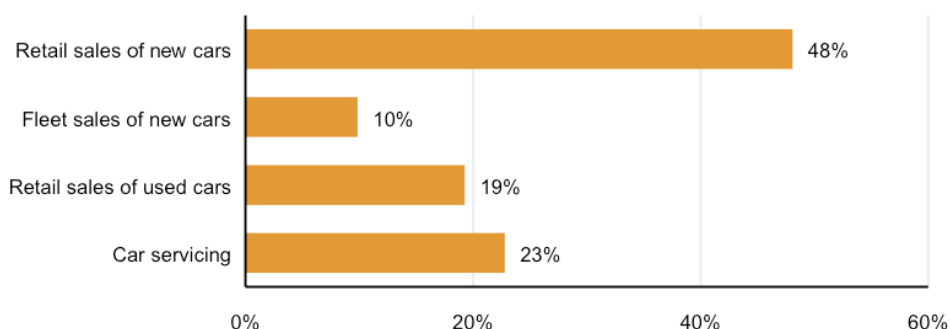
Financial conditions getting worse

Graph 6. What is your financial condition compared with the previous year?



Dealers' finances were obviously being negatively impacted at the time the survey was taken (late summer of 2008); even considering that it was well in advance of the severe financial crisis that hit in October. Only 21% of all respondents perceived their financial conditions to be better than the year before, and fully 75% of all dealers said their situation was either unchanged or worse. Well over half (58%) of those surveyed thought their financial situation was worse, with over a quarter (28%) characterizing their financial condition as "much worse".

Graph 7. What percentage of the revenues from your activities did the following items constitute in 2007?

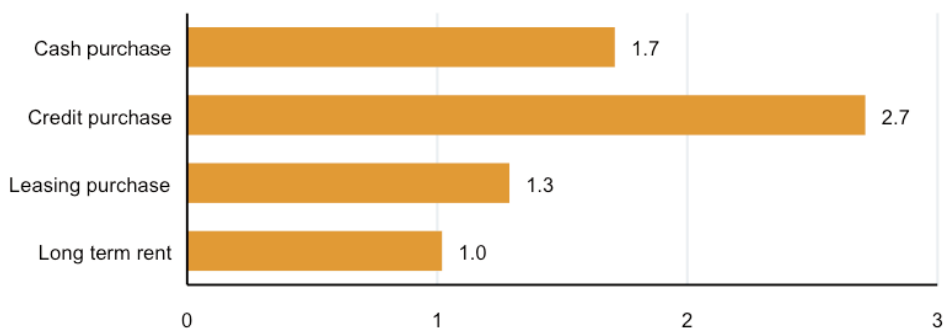


Hungary's dealerships continue to make the lion's share of their revenue (48%) on retail sales of new cars. Fleet sales (10%) and car servicing (23%) still have potential for growth. Used-car sales make up 19% of revenues, which is in the high end of the range for Central Europe.

MOST POPULAR FORMS OF FINANCING

Cash & Credit rule

Graph 8. Preferences for various forms of financing new car purchases



Buying cars on credit is already an essential part of Hungary's automotive market, with that preference being nearly twice as popular as the preference to the now old-fashioned mode of buying with cash. Leasing is not far behind cash purchase in popularity, with long-term renting being, as expected, the least common consumer choice.

PREFERRED PASSENGER CAR SEGMENTS

Medium class cars are most preferred

Table 1. Segmentation by sales preferences

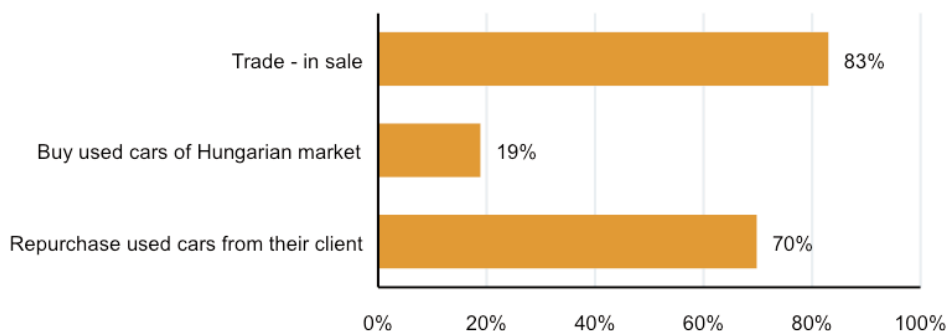
Preferences	2008
1	Medium class
2	Small class
3	SUV
4	Off-road
5	Luxury
6	Sport class
7	Convertible

Car sales in Hungary are dominated by Medium class and Small class cars, with a combined market share of 86.9%. Medium class cars form the most preferred group with a share of 46.4%. Based on a quite low market share, Luxury cars show the highest increase, whereas Small class cars show a significant downturn in 2008 so far. This is opposite to the trend in Western Europe where smaller and more fuel economic cars are gaining consistently higher market shares.

USED CAR SALES

Import of used cars still rare

Graph 9. Origins of used cars sold in your dealership?

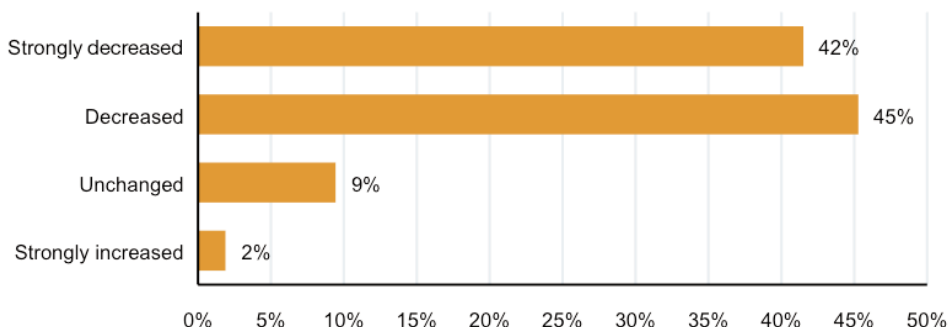


A very high percentage of Hungarian dealerships obtain their used-car stock as trade-ins from their customers, with more than four-fifths of respondents reporting that they acquired used cars in this manner. Also, more than two-thirds of the dealers (70%) bought back cars they had previously sold to customers. In contrast, slightly less than a fifth (19%) actually actively bought cars on the domestic used-car market. None of the car dealers responding to the survey imported used cars into the Hungarian market, although legal conditions for import of used cars have been more favorable since 2007.

MARGINS IN THE PASSENGER CAR SEGMENT

Margins are under pressure ...

Graph 10. How did your margins in the passenger car segment change (compared with the previous year)?

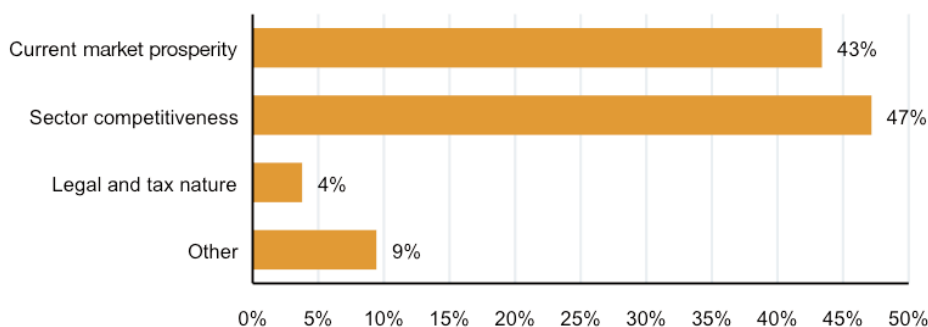


It is very evident that Hungarian dealers' margins suffered in 2008, with an impressive 87% of respondents reporting that their margins were down, and over two-fifths of respondents (42%) answering that their margins had "strongly decreased".

CAUSES BEHIND MARGINS CHANGES

... as a result of sector competitiveness

Graph 11. Most frequent causes of margin changes

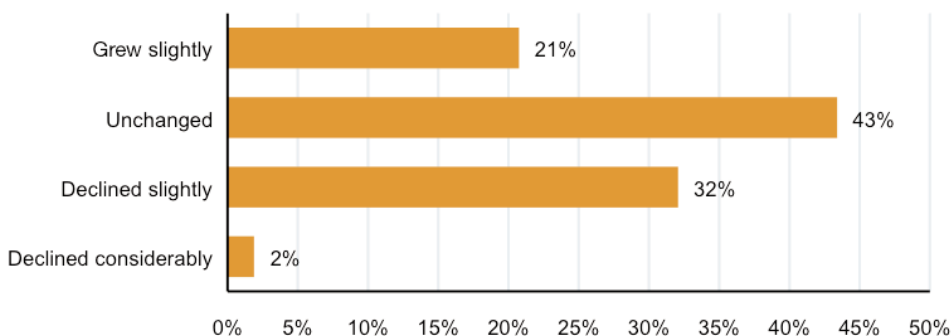


When asked why their margins had changed, nearly half of those surveyed said it was because the sector had become more competitive. Nearly as many said they were impacted by a decrease in demand on the market. Both of these reasons made tax matters, legal complications and other causes nearly insignificant in comparison.

DEALERSHIP EMPLOYMENT LEVELS

Staff remains stable

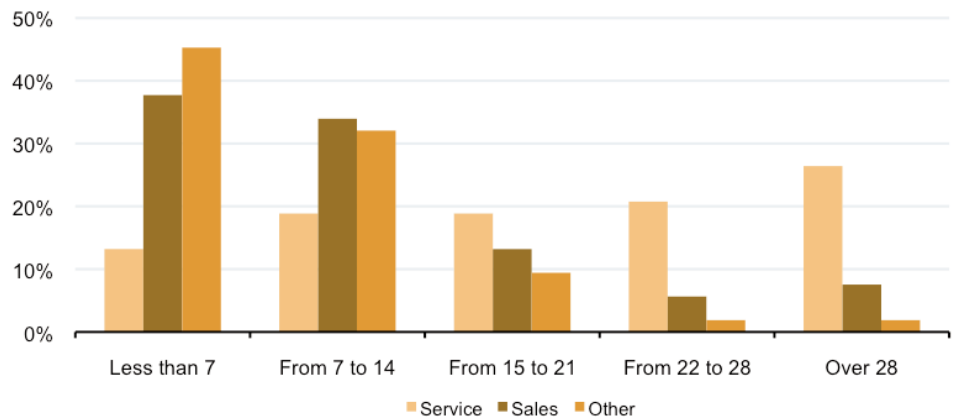
Graph 12. How did the number of employees at your dealership change (compared with the previous year?)



The labor situation at dealerships appeared to be relatively stable in 2008, with over two-fifths (43%) of respondents reporting that the size of their workforce had not changed, and 53% reporting that their employee numbers had either increased or decreased slightly.

The larger the dealer the more service is provided

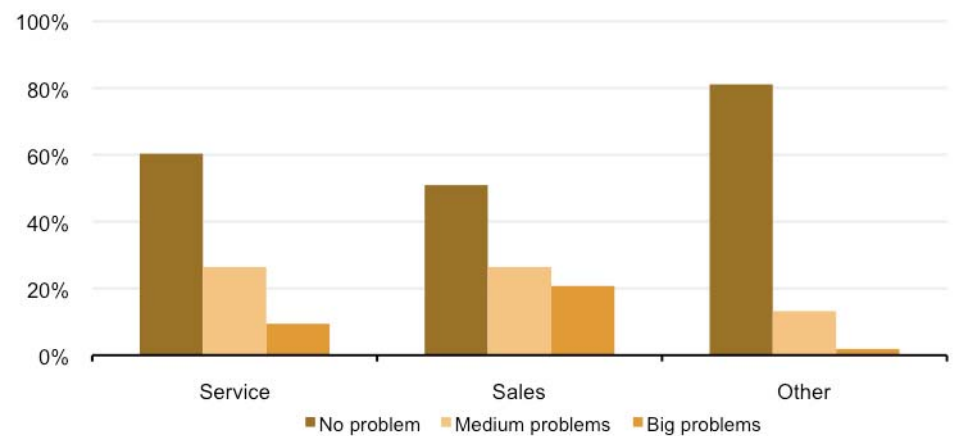
Graph 13. Employment level in the following service functions



At dealers who employ a small workforce, sales and administration staff seem to dominate, whereas at larger dealers the number of service staff gets more and more important.

Recruitment of sales staff is most difficult

Graph 14. Problems with recruitment of new employees in 2007



Overall, the respondents give the impression that it is not too difficult to recruit staff for their operations. The standout response is that over 40% reported they have either “medium problems” or “big problems” recruiting sales staff. Over 20% of those surveyed said they had “medium problems” hiring service personnel, which are the most technically qualified staff outside of upper management.

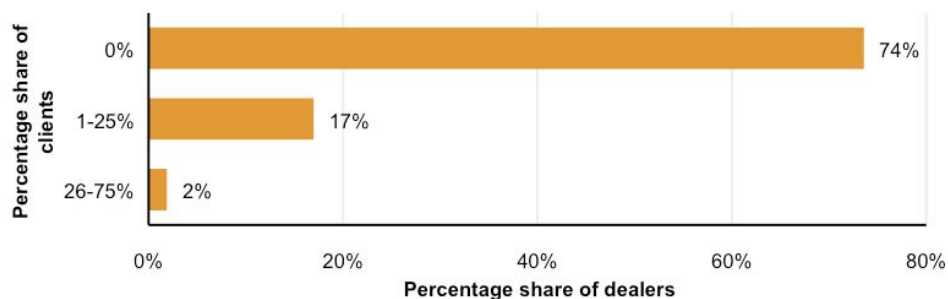
Market environment and dealership operations



PREFERENCES FOR GENERIC INSTEAD OF ORIGINAL PARTS

No generics during guarantee term ...

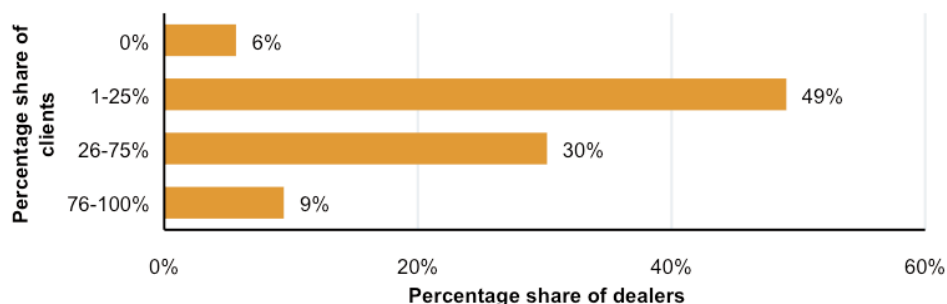
Graph 15. What percentage of your clients prefers to use generic parts during guarantee service?



Nineteen percent of respondents report that customers prefer to use generic parts during guarantee service, which is in the low range in Central Europe. And of those respondents, the vast majority reports that 25% or fewer of their customers request the use of generic parts.

... but afterwards

Graph 16. What percentage of your clients prefers to use generic parts past guarantee service?

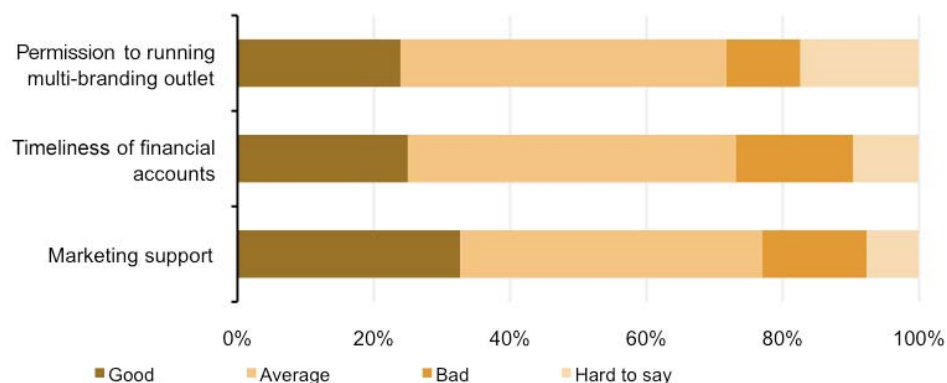


After guarantee terms have expired, customers tend to use generic parts. Only 6% of dealers report that their customers do not at all consider using generic spare parts after that period.

COOPERATION WITH DOMESTIC DISTRIBUTOR

Good cooperation with national distributor

Graph 17. How do you assess cooperation with national distributor?

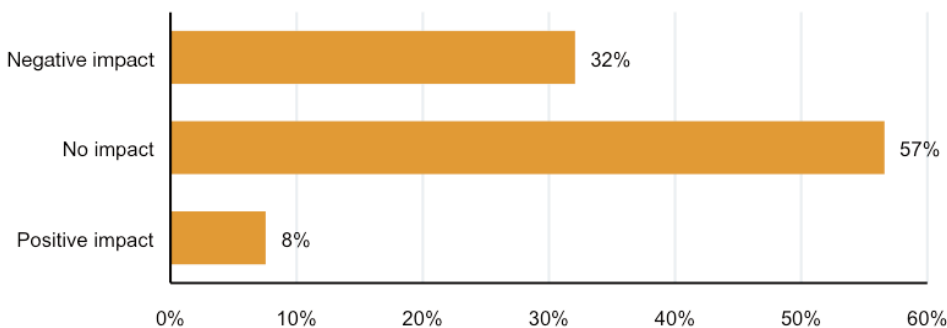


National distributors are best rated regarding marketing support.

BLOCK EXEMPTION REGULATIONS

Block exemption does not affect business

Graph 18. How do you assess the impact of BER?



Almost 2/3 of the respondents do not see the Block Exemption Regulation (BER) as a negative factor for their business.

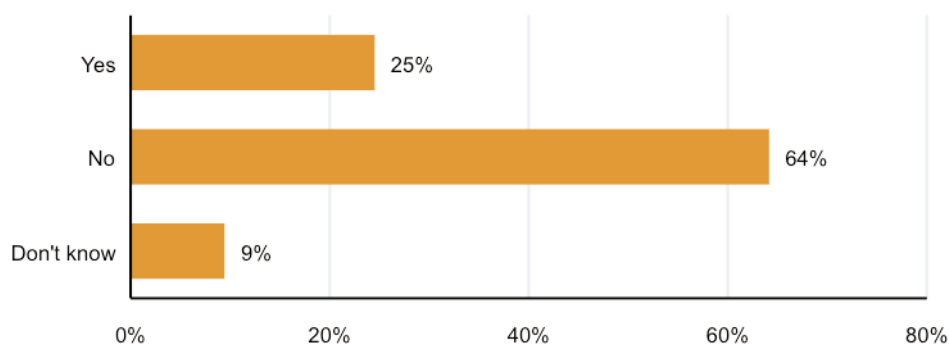
Future



CHANGES IN THE NUMBER OF DEALERSHIP OUTLETS OWNED

Expansion is put on hold

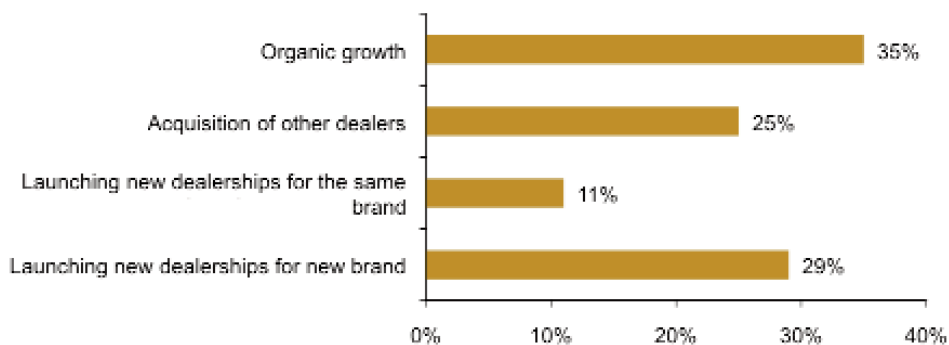
Graph 19. Are you planning to increase the number of dealerships held in the coming year (2009)?



At the time the survey was taken, fully a quarter of dealerships saw opportunities in expanding their territory with new dealerships. Over half had no plans to invest in new sales locations, and only 10% were unsure what they would do.

Cutthroat Competition

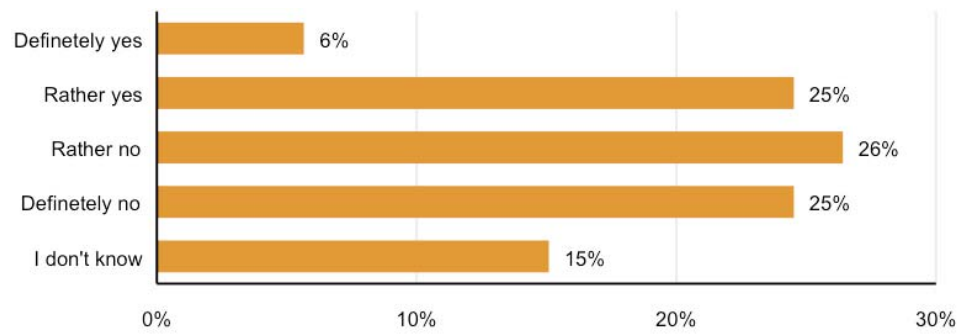
Graph 20. How am I planning to expand my dealership?



Acquisition of other dealers and opening new brand dealerships are the most viable expansion alternatives, whereas only 1/3 of the dealers consider organic growth to be the most preferred strategy. As a matter of fact this indicates cutthroat competition, most likely resulting in a reduced number of car dealers in Hungary.

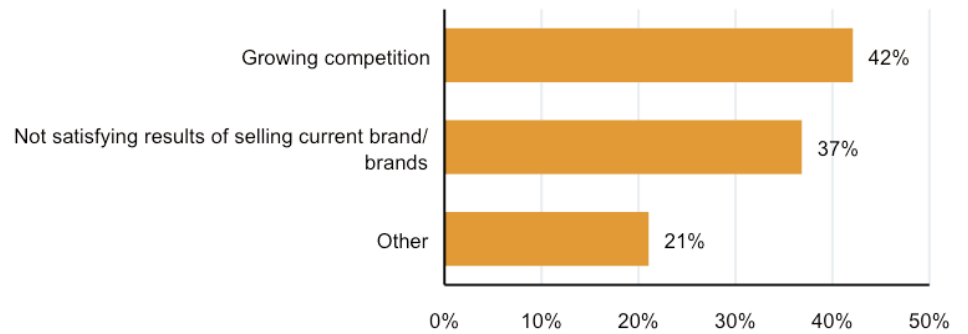
**NO CLEAR TREND
TOWARDS MULTI-BRAND
OUTLETS**

Graph 21. I am planning to reformulate my current outlets into multi-brand premises



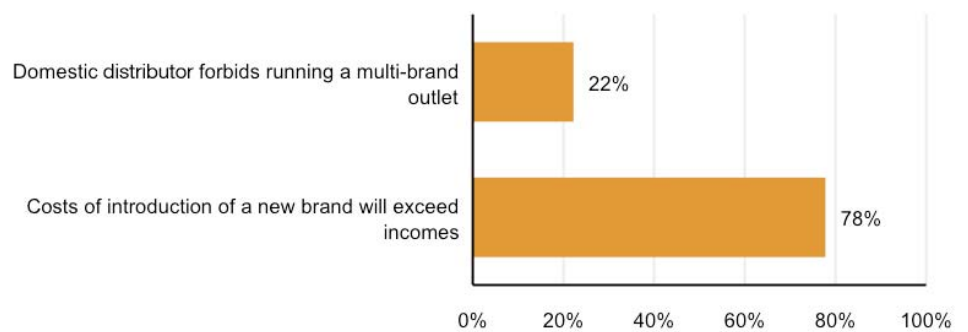
Unlike other Central European countries, which showed stronger trends, respondents were spread across the board on this issue. It seems to be a difficult question for decision-makers at Hungarian dealerships whether it is better for them to be single-brand or multi-brand. Nonetheless, more than a quarter of the dealerships seem to believe multi-brand would be to their advantage.

Graph 22. Why are you planning reformation?



Of those dealerships that plan to become multi-brand outlets, more than two-fifths (42%) are doing it as a means of reacting to increasing competition on the car sales market. Better than a third of those planning to expand their offerings do not feel they are doing as much business as they could selling only one brand.

Graph 23. Why are you not planning reformation?

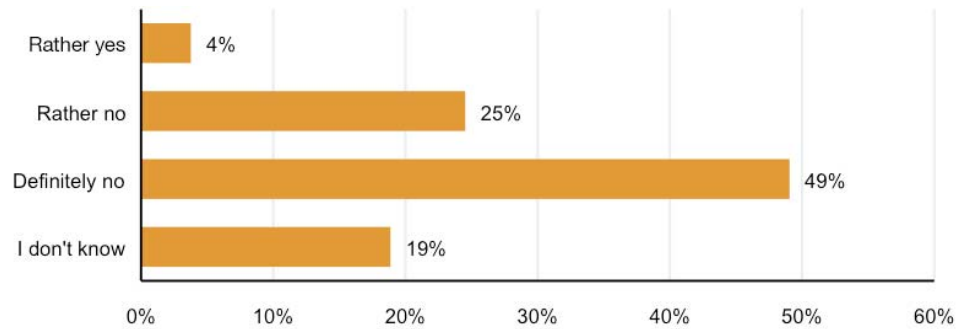


Of those respondents who said they do not plan to sell more brands in the near future, a surprisingly large proportion (78%) is inhibited by the perceived or estimated cost of introducing those brands. More than three times as many respondents cite this as grounds for not expanding as those not allowed to go multi-brand by their domestic distributor.

EXIT FROM THE SECTOR

Only 4% want to exit

Graph 24. Are you reconsidering the possibility to sell your outlet in the coming year (2009)?

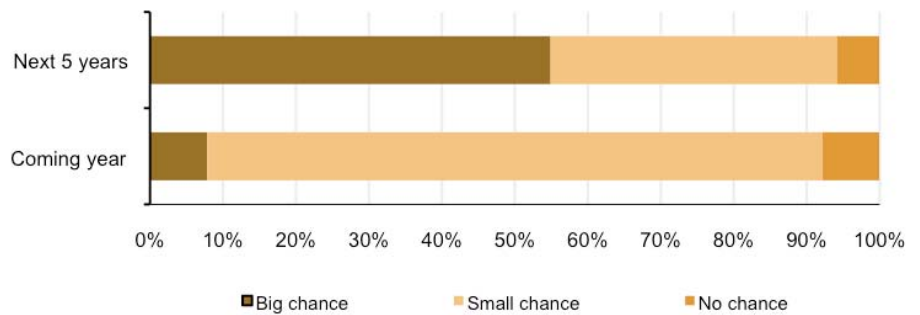


Despite the fact that answers to other questions on the survey indicate that business conditions in Hungary have been tough for dealerships lately, nearly two-thirds of them do not plan to withdraw from the market. Only a scant 4% are ready to give up.

CHANCES FOR SALES GROWTH

There might be light at the end of the tunnel

Graph 25. How do you assess your chances for sales growth in the course of:



As can be seen in other Central European countries, what is remarkable about the responses to this question is the stark contrast between the short-term pessimism and the long-term optimism expressed by the respondents. It must, again, be noted that these results preceded the financial crisis that came in the autumn of the year.

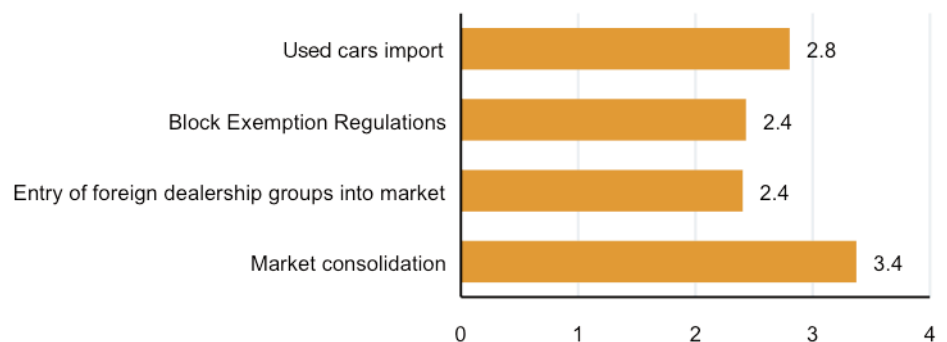
Opinions



AREAS OF STRONGEST IMPACT UPON DEALER BUSINESS

Market consolidation impacts the dealership most

Graph 26. Which of these factors bear the strongest impact upon dealer business? (1-lowest, 5-highest impact)

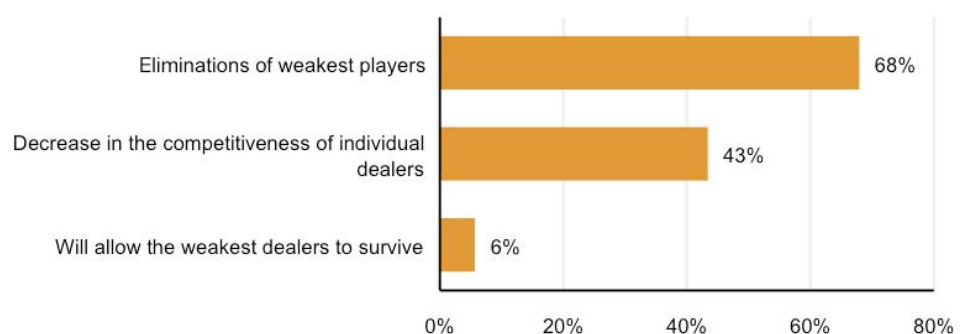


The response to this question shows different pressures in Hungary than on some other Central European car markets where the greatest impact comes from used car imports. Hungarian dealerships perceive that they are more greatly affected by the shrinking of the number of businesses involved in the selling of cars. Both of these factors weigh more heavily than the effects of either Block Exemption Rule or new competitors from abroad.

DEALER CONSOLIDATION

Small dealers might disappear

Graph 27. How may the consolidation of dealers influence the situation in this segment?



Car dealers expect a trend towards market consolidation. Lots of smaller dealers are going to disappear from the market resulting in a less competitive market looking forward.

This perception of the car dealers is also supported by other market observers.

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Picture on the front cover page taken by: Adam Pawlicki – Tax Manager, PricewaterhouseCoopers.