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SURVIVAL OF THE MOTOR TRADE DEALER DURING A RECESSION

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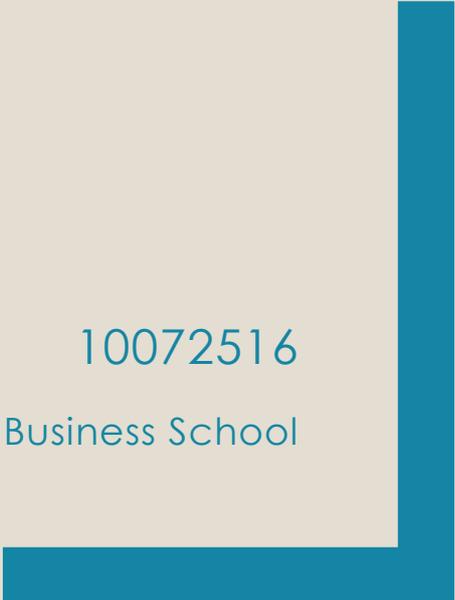


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Introduction

over the past eight years the Irish motor industry has been significantly affected by one of the worst recessions Ireland has seen and the first since the 1980's. Although it has started to vastly improve again, there are still signs of the damage it has caused, mainly evident from consumer confidence and government policies. In Ireland before the recession hit there were 58 Ford dealers. When the recession hit in 2008 within three and a half years there were ten closures, which is over 17%.

This study aims to gain a deeper understanding of successful business management strategies during a recession through a means of an interview with a garage proprietor.

On completion of this paper, it will offer valuable recommendations to businesses going through recessions and how they can survive.

Literature review

overview

Used cars and New Cars have shown a peak in registrations in the years 1999 to 2001, particularly in 2000. The consultations have suggested that this resulted from the wish to obtain the '00' registration plate and economic factors, in particular the fall in interest rates that preceded the introduction of the Euro. The then existing stock of cars in Ireland showed that there was similar peak around 2000 thereby indicating that there was a big renewal of the car stock in Ireland in these years.

The weakness of the Euro in the year following its introduction also made it profitable to export new cars from Ireland to the UK. These cars were never registered in Ireland and so they are not accounted. However, the fact that exports took place supports the idea that Ireland and the UK are potentially a single market for cars. The operation of this market is severely distorted due to the separate currencies and the very different registration tax systems in the two areas. Despite this, a sufficiently big movement of the Euro/UK£ exchange rate will cause cross border sales to rise. In 1999-2001, this led to the export of cars from Ireland.

In the past two years the strength of the Euro has led to the reverse flow of about 60,000 nearly new used cars per annum. Data on cars registered for

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the first time in Northern Ireland that have been imported from outside the UK – to a considerable extent these will be from the Republic show a peak in 1999 to 2001. In these years the annual totals were 5,073, 3,473 and 1,218 respectively.

In the period 2002 to 2007 the average annual total was 852. Strategic Review and Outlook: The Irish Motor Retail Sector Peter Bacon & Associates Economic Consultants This suggests that along with economic factors, the wish to have a '00'- plate was an important determinant of the big increase in registrations in 1999-2001. This obvious identification of a car with the year of manufacture is an important characteristic of the Irish market that has considerable impacts and costs in terms of the seasonality of car sales through the year. These cars are still registered in Ireland so this peak has an effect on the projections for future demand developed. It continues to influence the stock of cars throughout the time period of the projection, although it is of decreasing importance.

A second issue refers to the number of new registrations of used cars, particularly in recent years. They have risen from a low of 13,472 in 2003 to 60,091 in 2008. This is believed to reflect mainly imports from the UK, with some additional imports from other EU countries as immigrant workers moved to Ireland. These are included in the stock of cars.

The Irish Motor Retail Sector Peter Bacon & Associates 18 Economic Consultants provide some estimates of what this contraction means. According to SIMI estimates, turnover in 2007 in respect of new cars was about €4.3 billion falling to €3.5 billion in 2008. The 2009 projections would indicate that it will be about €1.4 billion. Consultations suggest that new car sales account for in the region of 40 per cent of revenue in the sector so total turnover will have fallen from €10.75 billion to around €3.5 billion.

VRT revenue earned by the exchequer from new car sales is likely to fall from the €1.4 billion earned in 2007 to under €400 million. Similarly, VAT is likely to fall to about €230 million. CSO statistics indicate that in 2006 there were 17,589 people employed in the sale of motor vehicles in Ireland. A further 8,000 were employed in maintenance and 6,319 working in parts supply and repairs. While it cannot be concluded that a 65 per cent fall in the sales of new cars will result in a fall in magnitude of similar level in employment, there is likely to be significant job losses. SIMI have estimated that the fall in sales will result in

5,000 job losses in the sector in 2009. Since this statistic was recorded in 2006 the figure has risen to over 47,000 employees.

As with any other part of the economy, the motor sector is not a stand-alone entity but interacts creating demand in other sectors. Thus, this fall in business will impact these other sectors also.

According to work undertaken by the CSO, the sector defined as motor fuel, vehicle trade and repair has a gross output multiplier of 1.35524. This means that the aggregate reduction in demand for the outputs of other sectors in the economy falls by €1.335 for every €1 fall in gross margins in this sector. Gross margins are estimated to be in the region of 10% of the value of sales so the fall in demand that has been experienced will reduce demand in these other sectors of the economy by about €175 million in 2009. It is notable that the main impacts all fall on service sectors where employment ratios tend to be high. As a result, the employment impacts of the fall in demand will be substantial. However, employment multipliers are not available to provide estimates of what this impact is likely to be.

Customer confidence

Looking specifically at consumers' spending intentions, there was a 13 point increase (123 to 136) in sentiment between Q1 2014 and Q1 2015, with consumers thus feeling that they will be spending more in 2015 compared to 2014 – highlighting the potential for more consumers to buy big ticket items such as cars.

In Rol confidence levels have also seen a strong increase, increasing from 90.5 in December 2014 to 97.8 in March 2015

Figure 12: Consumer Confidence Index, Rol, January 2021- March 2015



Source: ESRI/KBC/Mintel

The ESRI/KBC Bank Ireland noted that in March 2015 that the level of consumers reporting improved finances had increased 17% compared to March 2014 – further highlighting that ROI consumers are also increasingly better positioned to buy a car in 2015.

Research from SIMI published in April 2015 notes that in 2014, the level of luxury brand car sales increased compared to 2013 – highlighting that consumers are increasingly more confident splashing out, with BMW, Mercedes, Audi, Lexus, Land Rover and Porsche vehicles seeing their strong sales since 2007.

Key analysis: With consumers in general feeling that the economic situation in NI and ROI is more stable, combined with a slight uplift in personal spending intentions, they are more likely to consider buying a new car compared to any other time in the last five years.

With new car registrations (see Market Size and Forecast section) increasing between 2014 and 2015, Mintel expects that the trend will continue for the foreseeable future.

Between 2013 and 2014 new car registrations increased by 21% for ROI, with over 57,000 new cars in NI and 96,000 in ROI for the year.

Moving forward into 2015, Mintel estimates that improved consumer confidence and the high availability of affordable credit will see the level of new car registrations increase by 10% in NI compared to 2014, while ROI is expected to see registrations increase by 24% during the same period. Within ROI, Volkswagen, Toyota and Ford are the top three car brands registered by drivers in 2014, while hatchbacks and saloon cars account for the largest segment of the market.

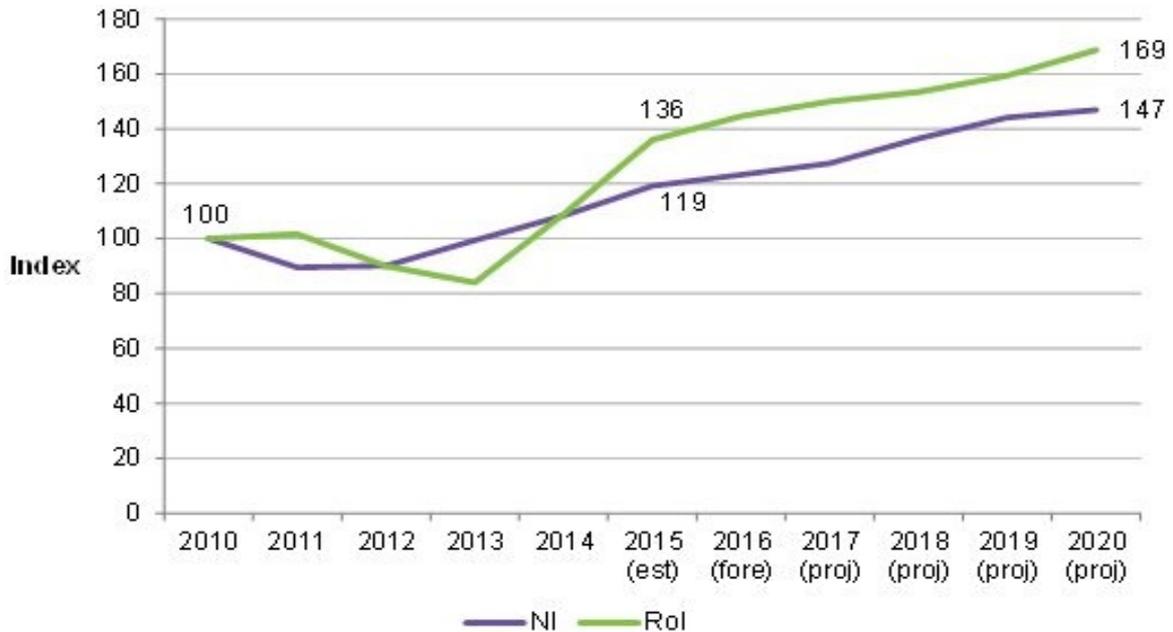
While diesel engine cars account for the largest segment of new cars registered between 2012 and 2014; petrol cars have seen strong growth levels of 30% during this period – compared to 20% growth in diesel car registrations.

Hybrid and Electric car registrations have increased by 60% between 2012 and 2014. Incentives such as zero road tax and free charging points will help to boost purchasing among Irish consumers.

New car registrations

Moving forward into 2015, the level of new car registrations in NI and RoI are expected to continue to grow. The Society of Motor Manufacturers & Traders (SMMT) notes that the estimated consumer price inflation level of 0.5% for the NI/UK for 2015 will help to boost the market by a further 9-10%.

Figure 18: Indexed total new car registrations, Iol, NI and RoI, 2010-20



For RoI, the SIMI has noted for the first quarter of 2015, registrations of new cars have increased by approximately 29% compared to Q1 in 2014; with estimates for the rest of 2015 expected to see similarly strong levels of growth. Moving forward into 2016-20, growth is expected to continue with consumer confidence levels anticipated to maintain growth.

Strengths

export

Strong growth in new car registrations – The number of new cars registered in both NI and RoI increased between 2013 and 2014, and is set to increase again in 2015 as the economic situation continues to improve.

Decreasing fuel costs – The decline in petrol and diesel costs in Ireland between 2014 and 2015 signifies a fall in the running costs of a car, and may encourage more consumers to drive and/or purchase a new car.

Strong growth in electric and hybrid car usage – Between 2012 and 2014 the number of electric cars and hybrid cars in RoI increased by approximately

60%, pointing to growing demand for more environmentally friendly car options.

Strong level of car ownership in Ireland – With seven in 10 consumers in Ireland owning a car, this highlights a strong future level of demand for cars.

Weaknesses

export

Personal finances remain shaky – While confidence is improving among consumers, many are still struggling to make ends meet – which will limit the level of spending that consumers will be willing to make on a car.

High youth unemployment hampering 18-24 market – With unemployment levels among those aged 18-24 still remaining higher compared to the national average, it will make it more difficult for young consumers to buy cars.

Changing household composition could be a threat to larger car types –

With strong growth in the number of one- or two-person households, it could see declining demand for larger cars such as people carriers or sports utility vehicles in favour of more compact options.

Still headway to be made with female drivers – With Irish women less likely than men to own a car and more likely to feel stressed when buying a car (Toluna 2015), there is still progress to be made by automotive retailers in attracting female customers.

Recession dilemma

The paper 'Business strategies and performance during difficult economic conditions' says recession presents businesses with a dilemma: whether to cut costs to conserve resources, or to invest in new products and processes to exploit competitor weakness.

Retrenchment, investment, and 'ambidextrous' strategies, most businesses when facing a recession would apply one of these strategies to survive.

- *“Retrenchment strategies involve cutting operating costs and divestment of non-core assets. These appear to be the most common approaches adopted by businesses to deal with recession conditions, especially in the short-term. Analysts report divestment of businesses, closure of establishments, reductions in employment, expenditure cuts*

on a wide range of activities including R&D, marketing and employee training.

- Investment strategies involve expenditure on innovation and market diversification. Recession is regarded as an opportunity to implement strategic change that would otherwise not have occurred. Many of today's household names launched successful businesses during recessions. The evidence on businesses adopting investment strategies to manage through recession, however, is patchy. Such strategies are risky and many firms are likely to be too preoccupied with short-term survival to think about innovation and growth, or lack the resources to implement such strategies effectively.
- 'Ambidextrous' strategies combine retrenchment and investment. It is likely that most firms adapt under recession conditions through judicious cost/asset-cutting behavior and through investment in product innovation and market development. Choosing the appropriate investments to make and costs to cut takes on additional importance during recession when market selection pressures are at their most severe." (Business strategies and performance during difficult economic conditions)

In a recession, consumers become value oriented. Businesses are concerned about cash and employees are concerned about their jobs. But a downturn is no time to stop spending on marketing. Strategies must be adapted to accommodate changing consumer behaviours.

The following marketing strategies are key according to professor John Queich:

1. Research the customer
2. Focus on family values
3. Maintain marketing spending
4. Adjust product portfolios
5. Adjust pricing tactics

(John Queich, March 3, 2008)

Ford Ireland

- Established in 1917 as a private venture, Henry Ford & Son Ltd (a division of the Ford Motor Company), is one of Ireland's biggest car brands, with the company claiming to have over 60 Ford dealerships throughout Ireland.
- Globally, the Ford Motor Company maintains some 66 car manufacturing plants, and a workforce of 194,000, and is the number one seller of commercial vehicles in Europe in 2015.
- In 2015, during the first quarter the Ford Focus was the second bestselling car model within RoI, behind the VW Golf according to SIMI.
- In April 2015 the Ford Motor Company announced that for Q1 in Europe, sales increased by 2% to 376,000 vehicles in the quarter, with revenue down €801m to €6.1bn and pre-tax losses totaling €165m.

Nissan Ireland – main competitor

- Nissan Ireland is a subsidiary of the Nissan group which is a Japanese multinational automobile manufacturer and distributing company.
- Nissan Ireland is one of the multiple regional distributors of the group and is responsible for distributing the full range of Nissan new cars, commercial vehicles, vans and forklifts within the RoI. The brand entered the RoI market in 1977.
- Nissan Ireland has a large variety of models under the franchise including Micra, Juke and Qashqai models. The company also oversees the management of aftersales services for the brand, including: servicing, the provision of parts and accessories and roadside assistance.
- Nissan Ireland operates 43 official dealerships across RoI and a head office in Dublin where 80 people are employed. In NI, Nissan is distributed through the group's UK operations, which has 10 authorised dealerships.
- The Nissan group reported net revenues of 8.09 trillion Japanese yen (€63.574 billion) and an operating profit of 417.9 billion yen (€3.285 billion).

Research methodology

Somekh and Lewin (2005) define methodology as both "the collection of methods or rules by which a particular piece of research is undertaken" and the "principles, theories and values that underpin a particular approach to research" (p.346) while Walter (2006) argues that methodology is the frame of reference for the research which is influenced by the "paradigm in which our theoretical perspective is placed or developed" (p.35). The most common definitions suggest that methodology is the overall approach to research linked to the paradigm or theoretical framework while

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the method refers to systematic modes, procedures or tools used for collection and analysis of data (Mackenzie and Knipe (2006)).

The intention of this study is to assess methods and practices used by a Ford proprietor during a recession and how the business survived. This section of the study details the methodology behind the research including the research design, data collection and analysis methods, as well as the associated dilemmas that research of this nature can encounter.

Research question

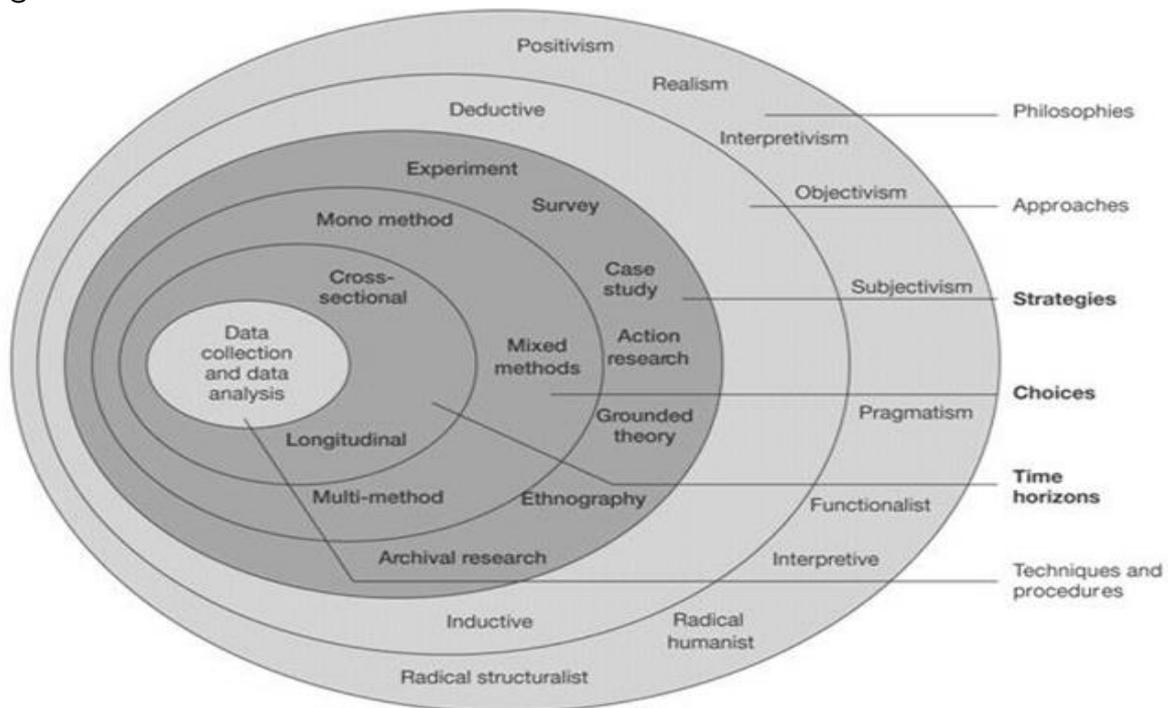
Saunders et al. (2007) describe the research question as a key driver behind the research process. Therefore it is important that the research questions are clearly defined in accordance with the objectives of the research. For the purposes of this research the following questions have been formulated to assess the methods of the garage proprietor.

- How did this dealership stay afloat through such difficult financial times? What sort of planning did it use, what strategies were implemented, what business model was in place? Other businesses can learn from this and recommendations can be drawn from this successful business to serve as a guide for businesses in the future that will have to battle a recession.

Proposed Methodology

Using the research onion see figure 1, this will map and develop the research methodology for this study. This will include selecting a suitable research approach, relevant strategies and philosophies as well as the techniques involved in the collection and analysis of the data.

Figure 1, the research 'onion'



Research Philosophy

The first layer of the onion deals with the philosophical approach to conducting the research. The research philosophy according to Saunders, Lewis and Thornhill (2007 p.101), "contains important assumptions, these assumptions will underpin your research strategy and the methods you choose as part of the strategy."

Developing a philosophical perspective requires that the researcher make several core assumptions concerning two dimensions: the nature of society and the nature of science (Burrell and Morgan, 1979). Society is viewed as unified and cohesive, whereas the sociology of radical change views society as in constant conflict as humans struggle to free themselves from the domination of societal structures (Burrell and Morgan, 1979). The other dimension, science, involves either a subjective or an objective approach to research, and these two major philosophical approaches are delineated by several core assumptions concerning ontology (reality), epistemology (knowledge), human nature (pre-determined or not), and methodology (Holden and Lynch, 2004).

Positivism

The positivism approach is normally adopted by researchers that prefer to seek facts or causes of social or business phenomena using logical reasoning such as precision and objectivity as methods of investigation.

The positivism approach is normally adopted by a researcher that prefers to work with an observable social reality in order to come up with law-like generalizations similar to those produced by the physical and natural scientists (Remenyi et al, 1998), and in this tradition, the researcher becomes an objective analyst, coolly making detached interpretations about those data that have been collected in an apparently value-free manner (Saunders et al, 2003). Furthermore, the emphasis is on a highly structured methodology to facilitate replication (Gill & Johnson, 1997) and on quantifiable observations that lend themselves to statistical analysis (Saunders et al, 2003). The assumption is that the researcher is independent of and neither affects nor is affected by the subject of the research (Remenyi et al, 1998; Saunders et al, 2003).

Research Approach

The next element or layer of the onion is the type of approach the study will utilize. There are two types of research approaches namely inductive and deductive research.

Inductive approach

Saunders et al. (2007: 17) state that inductive approach involves the development of a theory as a result of the observations of empirical data. Qualitative research strategy is regarded as inductive. According to Rocco et al. (2003), inductive logic and qualitative methods are generally employed with the goal of understanding a particular phenomenon of interest within its social context.

Research Strategy

The next level of the research onion is the research strategy. Saunders et al, (2003) describes the research strategy as a generic plan guiding the way for the researcher to answer the research questions set forth. Each type of

research strategy could be used for all three purposes: Exploratory, descriptive and explanatory (Yin, 2003). According to Collis and Hussey (2003), the types of research strategy available are: cross sectional studies, experimental studies, longitudinal studies, surveys, action research, case studies, ethnography, grounded theory, hermeneutics, and participative enquiry. The claim that one research strategy is better than the other research strategy is a myth (Saunders et al, 2007).

Research Choice

The next element or layer of the onion is research choices which refers to the methods used for quantitative and qualitative research.

Qualitative research

Qualitative research is one in which the researcher usually makes knowledge claims based on constructivist perspectives (Creswell, 2003). Strategies used in this research design involve participative inquiry, phenomenologies, ethnographies, grounded theory studies, or case studies. Qualitative research normally emphasizes words rather than quantification in the collection and analysis of data (Bryman, 2004: 206).

Time Horizon

The next layer of the research onion refers to the time horizon of the study. There are two types of time horizons, cross-sectional studies and longitudinal studies. Longitudinal research involves study over longer periods of time and is typically involved in measuring change during this time period which is not suited to projects with short term time restrictions whereas cross-sectional studies are noted as snapshots of a particular phenomenon at a particular time (Saunders et al, 2007).

Due to time restrictions for this research, the study is cross-sectional. A cross-sectional study engages the collection of data on more than one case at one specific time in order to collect quantitative or quantifiable data when more than one variable is considered (Bryman and Bell, 2003).

Data Collection Method

An in-depth interview has been selected as the primary data collection method in a Ford garage, the technique collates qualitative data. After the researcher's interpretation of this qualitative data on service quality, the researcher then develops theories relating to the topic.

Where appropriate the researcher makes use of existing sources of data that are publicly available, also known as secondary sources of data. Secondary sources of data collection are used in the form of company and industry specific organisational websites (internal secondary data), as well as any previous and relevant research papers or journal articles (external secondary data).

Primary research and analysis

For my primary research I conducted an interview with the owner and managing director of a successful Ford garage. The questions I asked gave a great insight into how he runs his business and how he survived the recent recession. This research is based on one dealership so instead of gaining a vast amount of shallow information from many companies I instead accumulated narrow but very deep information from one.

The following are the questions I used:

1. When did you start in the motor trade business?

1988

2. How many ford dealers were in operation when you started?

54

3. In your view was the motor trade an attractive business to be in when you started?

Yes because in 1988 there was prospects of growth. It was a bit of a risk at the time but thankfully it paid off.

4. When did things start to dramatically improve and decline in the motor trade in Ireland?

There was no one constant period of improvement at the beginning. From 89' to 92 there was an improvement and then a decline set in from 93' to 95'. The next dramatic improvement was when the government introduced the scrappage scheme in the late 90's which resulted in the highest number of car sales in Ireland in the year 2000, finishing off the year with 240,000 registered passenger vehicles. With the withdrawal of the government scrappage scheme numbers then declined until 2005 when they again started to increase until 2007 to 180,000 registrations. Then the biggest decline came in 2009 when only 57,000 passenger vehicles were registered.

5. Do you have any specific techniques on how you manage your staff and run your business?

At this stage we have a lot of loyal staff, a number of them being there 20 plus years and they have set their own standards and know what's expected, within reason the outfit manages itself.

6. What do you think you done differently to those few who had to close down during the recession?

We were lucky at the point in time it all happened, we were not over exposed to the banks because we had re developed in the year 2000, when the cost of building wasn't as high as later years when others were forced by manufactures to upgrade their facilities.

It was a family run business, there was no high cost management fees. We had always concentrated on the parts and service business which continued through the recession while vehicle sales dramatically declined.

Also, an opportunity arose to take on another franchise that became available because of another business closure at a drastically reduced cost compared to what it would have cost in the boom years.

7. If another recession hit in the future, like the last one, could you offer any advice to someone not as experienced in the motor trade that hasn't experienced business during a recession?

Make sure they immediately speak to their bank and have an understanding of what's going on, meet their staff and request everyone digs deep to get out the other side. Manage their vehicle stock to reflect the market requirement. Look out for opportunities which do arise during recessions, and at all costs continue to promote you business in all areas of advertising.

8. What do you think acted as the most important aspect of your business during this recession?

We concentrated on parts sales and the service department, we also got a major understanding from staff that things were tough and they all agreed to work extremely hard for the few years it took.

Analysis

From my analysis of the interview, a few key points stood out to me about how this business survived:

- He talked about concentrating on the parts and service department "we had always concentrated on parts and service business which continued through the recession while vehicle sales dramatically declined". This shows diversification was a big player in the survival of the business as vehicle sales (which is generally the biggest driver in the business) were extremely bad.
- Another big point that stood out to me was when he explained the business was not over exposed to the banks. The business was re developed in the year 2000 when construction was not at an extremely high price. Other businesses re developed later in the boom and they were then at the mercy of the banks.
- He was very adamant when he said opportunities do arise in a recession. He firmly believes this and they certainly did arise for him. He took on another franchise at a much lower rate than it would have cost in normal economic times and now the business is reaping the rewards.

Conclusion

To conclude, I have learned a lot about what it takes to survive a recession in the motor trade business. The interview I conducted and the answers I received could also be beneficial to someone looking for advice on how to survive. The literature links to the answers I received. A philosophy he lives by is "you have to spend money to make money" and this is evident from when he says never stop promoting your business in all areas of advertising. He has made this a successful business when so many others failed. The management techniques makes staff feel appreciated and valued therefore staff turnover is low and motivation is high. The constant push and willingness to expand is very clear from my interview. The advice and information I gathered is excellent advice for a less experienced leader going through a recession but a major point that stood out to me was his luck. The business wasn't over exposed to the banks because they re developed and expanded early. This had a knock on effect in later years when they could afford to take on another franchise. All of his management techniques and information are very valid but luck still has to be present. I think the main reason for so many closures was this factor of being over exposed to the banks. Businesses went under and couldn't stay afloat.

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