



SIMI

Serving the Irish Motor Industry

Peter Bacon Report

Strategic Review of the Retail Motor Industry

Arising out of grave concerns they had for their businesses and for the retail motor sector in general, a group of 20 dealers commissioned a report, looking strategically at the retail motor sector in Ireland. This group of dealers took the innovative step of engaging eminent Economist, Peter Bacon, to undertake this study. The report has the full support of the SIMI Franchise Committee. We are delighted that Peter Bacon has agreed to give a presentation on his findings at the SIMI Franchise Dealers' Conference

in Killashee House Hotel on Tuesday, 7th November 2009. In advance of this presentation, it is important that members are aware of the key issues arising from this report, and in this regard, please see below an outline of the key findings. We acknowledge the efforts of the group of dealers in driving this project, in particular Arthur O'Sullivan (Sheehy Motors), Jim Ring (Newgate Motor Company) and especially Denis Murphy (Blackwater Motors) who prepared this outline of key findings.

The retail motor industry commissioned Peter Bacon to conduct an independent strategic review of retail motor industry in Ireland. Dr. Bacon has now completed and delivered his report. The industry decided to commission the report for the following reasons.

The retail motor industry is in crisis following the collapse of the new car market in 2009. The outlook for 2010 and 2011 is not much better. Long established businesses have closed, jobs have been lost, pay has been cut and the Government has lost a significant revenue stream. Several different and conflicting arguments were made to explain the collapse. The exact reasons for the collapse

The main findings of the report are:

1. The long term economic model used in the report did not predict the market collapse in 2009.
2. This model predicted a fall of 9.2% while the actual decline will approximate 65%. The decline in the market is significantly greater than in other European markets.
3. There are four main reasons for the collapse, a significant increase in transaction price caused by a collapse in used car values which was in turn caused by the devaluation in sterling and the VRT changes in July 2008, the inability of the retail sector to supply cars to the car rental sector, the credit crunch, and consumer sentiment.
4. The new car market will remain at 2009 levels in 2010 and 2011 in the absence of any stimulus package.
5. The industry did not oversell the market during the boom years.
6. The VRT change in July 2008 happened at the worst possible time for the industry.
7. The prices of used cars fell on average by €5,000 or 22% in the year to February 2009.
8. The transaction prices for new cars increased by 31.6% in early 2009.
9. The banks curtailed funding to the industry in late 2008 resulting in the industry not having sufficient funds to enable normal trading and the consequent inability to accept trade ins in early 2009.
10. Operating margins in the industry are very low. The average return on turnover ranges from 1% to 1.5%.
11. There was no profiteering by the industry during the boom years.
12. Pre tax prices for cars in Ireland are at the European average and mirror UK pre tax prices.
13. The devaluation in sterling from October 2008 resulted in a significant disparity in prices between Ireland and the UK in early 2009.
14. Post taxes prices for cars in Ireland are the second highest in the EU due mainly to VRT. Post tax retail prices in Ireland are €2,400 above the European average.
15. The tax take from cars in Ireland is the highest in the EU.
16. UK post tax prices are among the lowest in Europe.
17. VRT places the industry in Ireland at a competitive disadvantage.
18. VRT is a debilitating tax and there are significant costs to the economy and particularly the consumer as a result of this tax.
19. VRT acts as a barrier of entry into the Irish market.
20. Cars are the only commodity taxed for carbon emissions while cars account for only 10% of the greenhouse gas emissions in Ireland. Why cars and not the other 90%?
21. The large investment in premises by the industry in recent times resulted from the industry's obligations to comply with European legislation.
22. There is no evidence to suggest that the problems in the sector are as a result of excessive investment in premises.
23. The major cost in the industry is payroll and this cost increased significantly in 2007 and 2008.
24. In the absence of any stimulus package for 2010, labour costs will have to be reduced by 25% to enable the industry to survive.
25. The seasonality of sales in Ireland is significantly out of line with the rest of Europe.
26. This seasonality (caused by putting the year of first registration on the registration plate) places enormous risk in the industry through excessive working capital requirements (estimated at €278m) and through the depreciation risk in used cars.
27. The banks have curtailed the availability of working capital in the industry therefore limiting the ability of the industry to cater for the seasonality of demand created by the registration plate.
28. The car rental sector and the retail sector are inextricably linked. The car rental sector will only be able to meet tourism demands for short term car hire by the retail sector supplying cars to the rental sector. The retail sector was unable to meet this demand in 2009 and will be unable to meet the demand in 2010.
29. The changes to the road tax system introduced in 2008 have created an apartheid road tax system resulting in cars with the same CO₂ emissions being taxed at different rates.

Recommendations

The report has six major recommendations to assist the sector in the short term and ensure that the long term economic and competitive disadvantages are removed. However, these recommendations should not be seen as propping up the sector in its current format or to avoid business closures and job losses where there are reasons to doubt the long term viability of these businesses.

1. Introduce a revenue-generating scrappage scheme in December's budget. This scheme will generate net revenue for the exchequer in 2010, stimulate the industry, save jobs and reduce the pressure for significant pay cuts.
2. Abolish VRT on a phased basis following detailed consultation on the abolition method used with the Industry.
3. Introduce a VRT refund system for cars exported from the country.
4. Change the registration plate removing or de-emphasizing the year of first registration from the plate.
5. Rebalance the road tax system.
6. Changes to the VRT system as it affects car rental companies should be delayed for at least two years.

The industry will now consider the report in detail in the coming weeks and use it to inform decision makers of the necessity for reform of the Industry.

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