



# Automotive Industry in Turmoil

Cunningham LLP is proud to issue its first automotive market trends issue. Cunningham LLP will also issue quarterly articles on a dealership only level, outlining operational, tax and accounting matters that may be of interest to automotive dealers in Canada.

## Monumental Changes

This past year the automotive industry has undergone monumental changes such as Chapter 11 proceedings of General Motors (“GM”) and Chrysler, the closure of GM/Chrysler points, and the emergence of the Korean car manufacturers as a dominant player in the North American car industry.

The bankruptcy of GM has sent shockwaves across the entire automotive industry impacting not only dealers but part manufacturers as well. Consumer confidence in GM is at an all time low because consumers are not willing to buy a vehicle if there are any uncertainties that the manufacturer will not be around to service the vehicle warranty. This has

had a significant impact and will continue to have a significant impact on sales of GM products until consumer confidence is regained. In addition, due to the “Credit crisis” and the tightening of credit markets by financial institutions, consumers are finding it difficult to get the necessary credit to finance new vehicles which will further impact sales.

Consumers are in “crisis” mode, reducing spending on household expenditures as they are unsure as to where the economy is heading. As a result, car purchases are now only being made if absolutely necessary; as opposed to historical trends in which consumers were purchasing vehicles on incentives and impulse. In the US, there are currently 765 motor vehicles per 1,000 people, as opposed to Canada

which has approximately 564 vehicles per 1,000 people. India has 12 motor vehicles per 1,000 people and China has 131 vehicles per 1,000 people and as a result this is where the growth in motor vehicles sales is likely to be.

To help US car dealers cope with the reduced demand for vehicles, the US Government implemented a “cash for clunkers” program, where a customer could receive up to \$4,500 for their trade if the car was manufactured no more than 25 years ago and got less than 18 mpg combined city and highway. The goal of this program was two fold, to get older non-efficient cars off the road and to help increase business for the struggling auto makers.

Although Canada had no “cash for clunkers” program of their own, they benefited from the US program due to the fact that the top selling cars were the Toyota Corolla and Honda Civic which are both assembled in Canada.

During the year, we saw the emergence of the Korean auto-makers, Kia and Hyundai, which continue to increase their market share due to the increase in quality, reliability and desirable models. As at October 2009, Kia and Hyundai had a combined market share of 10.5%, up from 7.3% at the same time in 2008. To put this in prospective, Honda had a market share of 8.3% at October 2009 and 9.4% at the same time in 2008. The Korean car manufactures are increasing their market share while the stable Japanese manufactures are losing market share.

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## Over the next several years, the automotive industry may see some of the following significant events:

### 1. Change in Dealership Groups

The expectation is that the dealerships will change the way they are currently structured and do business. We will see an insurgence of multi-ownership dealership groups and an increasingly more sophisticated dealer principal. These changes are occurring as a result of increasing pressure by auto manufacturers for auto dealers to meet additional financing requirements, image improvements, technology spending and performance tracking.

### 2. Improved Vehicles

The longevity of vehicles has improved significantly over the years and as a result, new vehicle sales are expected to curtail or increase marginally as consumers opt to keep vehicles for longer periods of time. There is however significant opportunity for used vehicle dealers to ramp up sales of used vehicles as consumers opt to purchase used vehicles given the significant improvement of quality as compared to 10-15 years ago.

### 3. Green Vehicles

The market for smaller and greener vehicles is growing and as a result, the ‘type’ of vehicles that a manufacturer has in their portfolio at any given time will dramatically impact their market share. Furthermore, dealers and manufacturers will experience lower profitability as smaller/greener vehicles have less profit per unit as opposed to trucks and mid-size vehicles.

### 4. Consumer Retention

Manufacturers and dealers will have significant pressure to retain their existing consumer base, both on fixed and variable operations. In today’s market, consumers are not necessarily brand loyal, and as a result will take their GM vehicle to a Honda dealership or independent ‘shop’ to have their vehicle serviced.

**As a result of the above trends and changing market conditions, it’s imperative that dealers and manufacturers adapt and react as necessary in order to ensure that they are not left behind.**

## WHO IS CUNNINGHAM?

Cunningham was established in 1971 and has since grown into a full service mid-market public accounting firm providing a wide range of services to privately held entrepreneurships. Our firm is led by seven partners, each offering a wealth of insight, objective advice and creative thinking in specialized areas of accounting, tax and business advisory services. We are an affiliate of Alliot Group, a worldwide network of independent accounting firms.

The advantage of choosing our team of auto dealership specialists in today's challenging economic environment is clear: our deep, insightful and timely industry knowledge and experience can get you on the road to meeting your business objectives faster.

Whether you are seeking to grow your dealership business, improve operations, reduce taxes, or protect assets, the fastest and smartest way to move your business forward is with our proven experience, vision and focus on accountability to our clients. By seeing beyond your numbers we see how to accelerate your business.

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- Succession management
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