

## Cost control during COVID-19: Our Top 10

The events of the first half of 2020 represent one of the greatest challenges to business in the last 100 years and there is no doubt that the UK automotive sector has been hit hard by the coronavirus pandemic. The economic downturn that follows will result in many businesses struggling, from both an operational and a financial standpoint, and it is important to act decisively to mitigate issues.

As we start to negotiate the road to recovery, we have outlined ten practical solutions to help you manage costs, improve operational efficiency and boost your resilience.

### 1 Does the role sell a car, part or hour?

Any motor retail cost base is heavily influenced by head count. In better economic times, we often see additional roles being created, particularly in the larger businesses where layers of management and support teams can become part of the norm. Headcount budgets should be created from a clean sheet annually to ensure that the 'last year plus a bit of inflation' doesn't creep into the business. For larger businesses, central headcounts get absorbed into dealer profit and loss via a management charge. It is important more important than ever that there is an appropriate degree of challenge over these management charges as these can be a real point of differentiation.

### 2 Take full advantage of offers and collect bonuses

From a cost reduction perspective, there is often too little focus placed on seeking to reduce the net cost of the new vehicle. This is due to the perception that there is little influence that can be placed in this area. Whilst this may be true for the initial invoicing of the vehicle, the same cannot be said of bonuses, especially tactical. From an accounting and process point of view, we still see a real difference in approach to this critical area. On the one extreme, we see dealers place their trust in the sales manager and manufacturer to ensure the bonuses due are correct. On the other hand, there are businesses that are totally dedicated to understanding the nuances of the complex manufacturer offer with extremely strong controls over the collection of the amounts due.

### 3 Appraise the used car purchase and part-ex processes

Historically, after other downturns used car sales build quickly. Therefore another critical area is to ensure that used vehicle purchase prices are as low as possible. How much effort is placed by senior management on the purchase of used vehicles? Certainly our clients that are dedicated to used cars (and make significant profits) obsess over this area. In contrast, franchise dealers will often delegate this task to sales managers who are often, understandably, more focussed on achieving the new car target. The result can be poor buying decisions from convenient sources, resulting in over paying for poorly specified and undesirable vehicles. Equally the quality of the part exchange process is often questionable – how often do management sample check the physical stock to the appraisal document to ensure the appraisal has been carried out diligently?

### 4 Minimise used and demonstrator writedowns

Used cars are a depreciating asset and yet daily focus on the drivers of stock turn is not always present. Focusing on the basics in this area can have a positive impact on stock turn. Are there reports in place to review cars awaiting preparation and sold awaiting delivery? Are physical checks carried out to ensure these reports are accurate? On conclusion of the sale, how robust are the discussions with the customer to ensure the vehicle is turned into cash quickly? Within the larger used car supermarkets we see very strong processes, such as the vehicle returning back on sale if not collected by the customer within three working days. Whilst this may seem extreme, there may be similar policies that could be implemented that work with the particular dealer's business ethos and customer base.

### 5 Review employee vehicle car costs

One of the areas we would typically look at when carrying out an operational review is the comparison between self registered vehicles and the required demonstrator and courtesy mix. The incremental vehicle count can be significant and often symptomatic of difficulties in hitting the new car target. Regardless, the resulting writedown costs or reduced margins have a significant drag on profitability. Many of these vehicles are driven by employees on costly company car or alternative arrangements in addition to inefficient 'static' demonstrators. We would recommend a clean sheet approach to defining the demonstrator and courtesy plan and frequently measuring the level of deviation from these plans. For vehicles that are required, it is worth considering whether an Employee Car Ownership Scheme (ECOS) could work for the business.

## Alternatives to self registrations

Self registered vehicles can be very costly in terms of their upkeep. In the present market, meeting manufacturer volume targets can be extremely challenging, necessitating the requirement to find alternative sales channels rather than relying on self registrations. The natural starting point would be to closely examine the existing enquiry management process to ensure the retail and corporate opportunity is being maximised. In addition, exercises to clear excess units via low (or even negative) margin channels such as brokerage can be explored and a cost benefit analysis carried out and compared to excess self registrations.

# 6

## Technician efficiency – are they providing true value for money?

The major cost in the service department is the technicians. Most dealers have systems in place to monitor the efficiency of their technicians, but the accuracy and quality of data collated is often poor, making it difficult to carry out a true assessment of their performance. Time spent focusing on the controls over the collation of this data, and then working with it, can assist in driving additional hours, or reducing costs, in this critical area.

# 8

## Make the most of buying clubs and other purchasing organisations

Last but not least, there remain numerous traditional areas of cost control that should be reviewed as a matter of course to ensure value for money is obtained. Many dealer groups rely on buying clubs to increase their purchasing power and often these clubs will carry out cost reviews on a 'no win no fee' basis, ensuring that any investment in this area is self funding. Typical areas of focus include oil, F&I commission and utilities as well as smaller ticket items such as stationery and telephony costs.

# 10

## Avoid VAT/PAYE assessment costs via compliant processes

VAT and PAYE compliance appears to be a continual focus area for HMRC on the sector. Current focus areas, such as the assessments into inadvertent provision of private fuel and discrepancies between DMS and finance company self-billing invoices, have seen many dealers become embroiled in uncomfortable and damaging VAT disputes. Due to the high turnover of the businesses and the ability to go back many years, the results of some assessments can be eye watering, often running into six figures even for relatively small businesses. Focusing on compliance, including regular health checks over common problem areas, can assist in reducing this risk.

# 7

## Work with brands to optimise network strategy from a cost point of view

A significant amount of change has started to take place over the manufacturer's network strategy. A number now acknowledge that a reduction in the number of dealers represented (or a 'hub and spoke' model) is required. Challenging the status quo and looking to take advantage of this change of view (eg. by negotiating the change in status of a business from full dealer to satellite) can have a material impact on the cost base in the medium term.

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## How we can help

Surviving Covid-19 will involve teamwork and support. If you require assistance reviewing your cashflow forecasts or general guidance on how to protect your business through this period, please get in touch your local UHY automotive specialist or contact us centrally at [enquiries@uhy-uk.com](mailto:enquiries@uhy-uk.com).

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