

2013 Deloitte China Auto Dealership Performance Study (Summary)



Structure of the Report

About "Deloitte China Auto Dealership Performance Study"

The 2013 China Auto Dealership Performance Study examines China's auto dealership industry from micro and macro perspectives, providing a glimpse into the industry trend and the macro economic climate in which the auto market operates. The study also identifies major risks faced by dealers in their routine operations, and provides auto OEMs, dealer groups and independent dealers with recommendations on better performance in key areas.

Study Subjects and Data Collection

This study mainly covers China's auto dealership industry, focusing on dealers, dealer groups and OEMs of various brands, including from luxurious, volume, and homegrown brands. We conducted nearly 100 in-depth interviews with dealers' general managers, auto groups' executives and carmakers' regional managers, and distributed a separate questionnaire. This study touches upon various aspects of auto dealers' operations, including profitability, business models, cost management, and finances, and provides an interpretation of the corresponding risks.

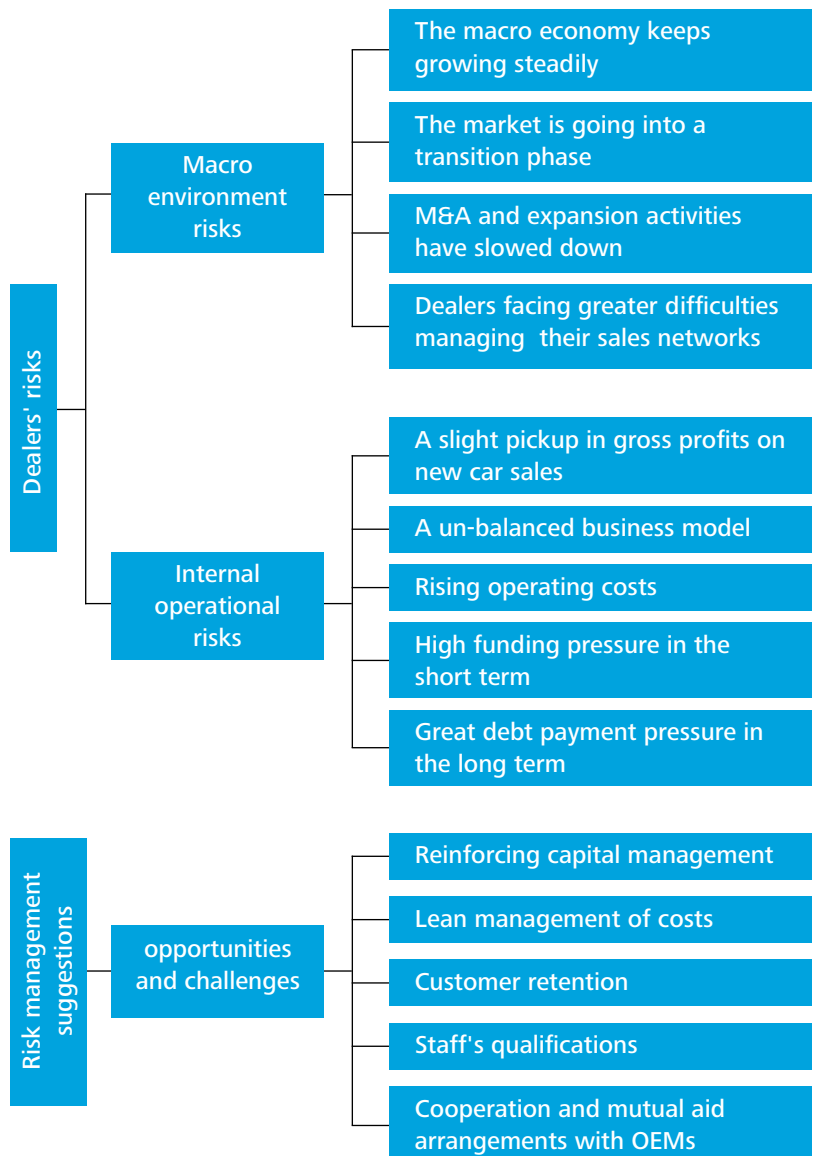
Data Processing

Building on a highly specialized database on automobile dealerships, The Deloitte China Auto Dealership Team has formulated expert insights on a number of aspects of China's auto dealership industry, including the "industry trend", "status quo and problems" and "major areas for improvement" through a systematic compilation and analysis of the data collected through the abovementioned methodology and information obtained.

Structure of the Report

The 2013 China Auto Dealership Performance Study provides an insight into the challenges that China's auto dealership industry faces. Taking into consideration the present macroeconomic climate and market conditions and the resulting risks encountered by this country's auto dealers in their routine business operations. This will serve as a basis for automakers, dealer groups, and independent dealers to implement effective risk management measures in future operations and management.

Structure of the report:



Major Findings

After years of fluctuating development, the Chinese auto market has seen its growth slowing down since 2011. In the wake of the global economic recovery, China's auto market has experienced a slow but steady rebound over the last three years. As the industry transitions from growth to maturity, the country's auto dealership industry ushers in a stable growth era after years of high-gear expansion.

In terms of the macro environment, the auto dealership sector presents a more optimistic outlook than it did two years ago. However, new challenges abound emerge:

- The macro economy keeps growing steadily, providing an impetus for sustained growth of auto sales
- The market is going into a transition phase with slower growth.
- The industry moves toward further concentration, but M&A and expansion activities have abated
- New opportunities are emerging in lower-tier cities, making it harder for auto dealers to manage their sales networks.

Although China's auto market has rebounded

moderately, the overall growth is slowing down and competition is getting fiercer. The country's after-sales market is far from mature. Profits on new car sales are stretched thinner and thinner by brutal price wars, making it harder for dealers to achieve a decent profitability. High inventory levels in 2013 have put a strain on dealers' and dealership groups' cash flow. And they may lead to a string of potential risks:

Dealers' profitability gives little reason for celebration, with net margins at low levels.

China's auto market has picked up slightly since 2013. Thanks to policy adjustments by OEMs, profits on new vehicle sales improved, but the "generous profit era" has become history, replaced by a modest profit one. In addition, as a result of under-exploited after-sales business potentials, rising operating, labor and financial costs, and an unbalanced profit structure in which most of the profits are derived from new vehicle sales, dealers' profit margins are further squeezed, allowing for little optimism regarding the overall profitability.

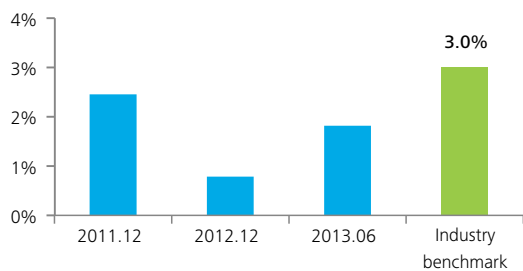
The inventory levels and liquidity risks



remain high. In the first half of 2013, carmakers' drastically expanded productions against a stable growth market backdrop led to higher levels of inventory than regarded safe on the part of dealers. By the end of June 2013, some commercial banks and financial institutions had restraint in lending and reduced their loans to auto dealers, whose routine operations are largely dependent on external financing, adding greater funding pressures on them. A large upfront investment in dealership infrastructure and limited returns are contributing factors to high liquidity risks and the risk of insolvency, the extreme form of liquidity risk.

Considering the steady recovery of China's auto market as well as the emerging challenges in 2013, we suggest that automakers, dealer groups and independent dealers reinforce cooperation between themselves, enhance control over capital, expenses and staff management, and improve customer retention, to realize a smooth transition of business models and operations for rapid, sustainable and steady business growth.

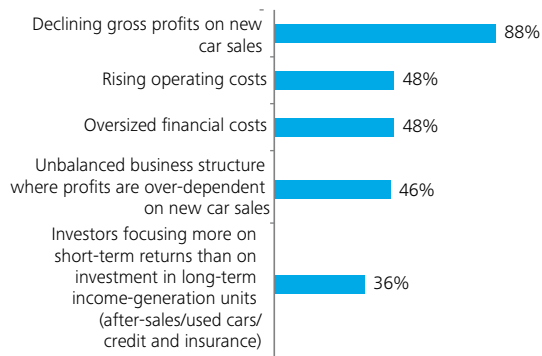
Figure 1. Return on Sales*



Source: Deloitte China 2013 Auto Dealership Risk Survey
Financial information released by listed auto dealers

*Note: Return on sales = net profit/sales revenue

Figure 2. Five Major Profit-Affecting Factors



Source: Deloitte China 2013 Auto Dealership Risk Survey

Figure 3. Factors impacting on liquidity



Source: Deloitte China 2013 Auto Dealership Risk Survey



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About Deloitte China Auto Dealership Excellence

The Deloitte China Auto Dealership Excellence ("we/us") is a professional consulting team focusing on serving the auto dealership market. We are committed to enhancing the competitiveness, improving the profits and maintaining the healthy development of auto manufacturers and dealers. Through our years of service, we have accumulated extensive knowledge on dealership management, and continuously updated our dealership management database. Our service scope covers Vehicle Sales (new and used vehicles), After Sales (accessories and services), Finance and Insurance, Market and Customer Retention Management, and Dealership Network Development. Our service offerings include: Dealership Excellence Reporting System, Dealership Risk Management, Human Resources Development Excellence, Dealership Performance and Improvement, and Dealership Audit.

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