Dealership Business in Turbulent Times

Moving from crisis to sustainable value creation
Dealership business in turbulent times

Keeping your business model flexible...

Rough Seas Ahead
The Russian automotive market is currently facing turbulent times with significant short- and medium-term effects on dealership structure and traditional business models.

Weak business development, Ruble devaluation and dropping sales numbers put pressure on all players in the automotive industry, especially the dealers.

Mid-term consolidation and short-term optimization activities will be necessary in the ‘Survival of the Smartest’ challenge.

Existing Business Models Outdated
Cash and liquidity need to be tightly managed and active working capital management is in demand to overcome these challenges in a short-term perspective.

Dealership business models which come out of this crisis strongest will be the ones who challenge their traditional focus towards more diversified product and service portfolios.

Remaining successful means adjusting business towards new realities
Rapid analysis to understand the most urgent topics is key in a distressful situation. Nevertheless, results will only be sustainable by challenging mid- and long-term perspectives and aligning the operational business model towards a new reality. Despite the current situation, potential in the Russian market will remain significant, providing solid growth opportunities for fast movers. However, revenue will not only be generated from simply new car sales. The used car market, currently more than 90% of which exists on a private-to-private basis holds significant business potential. Financing offerings for clients and stronger focus on effective customer relationship management will be additional fields to conquer. From an operating model perspective, consolidation, leaner setups, more transparent processes and more efficient use of IT systems will help to build a flexible business model. Therefore dealers in Russia need to consider adjustments to their strategy, customer relationships and operational structures besides securing financing and a healthy liquidity structure.

The success in driving such operational turnarounds and transformations is underpinned by looking at the whole dealership business using a strategic framework that helps to assess the various value levers and the interrelationships between them, which we call the «9 levers of value».
...demands to keep control on your main revenue and cost drivers
Key issues facing the company’s core business processes can affect multiple areas of the value chain. It is crucial to identify significant blockages in value and implement solutions across primary and support activities. In a distressful situation, cash is always the foundation of a turnaround.

Cash forecasting, monitoring and cash flow improvement is a sequential, ongoing process that must be tightly integrated. The final outcome of all business actions should translate into cash flow.

For a quick win, an early action plan that clearly explains what needs to happen and when needs to be developed. The plan should support a change in governance, demonstrate a robust approach to problem solving, and help assure stakeholders that the company is being proactive, not reactive, in dealing with a distressful situation.

Our success in turnaround and transformation situations is underpinned by our strategic framework ‘9-Levers of Value’. This framework helps us rapidly assess the various value levers available in a business and the interrelationships between them.
— Is our liquidity position strong enough and financing is available?

— Pricing position has changed and requires urgent reassessment?

— What is the competition doing? How do we compare?

— How sustainable is a new service pricing model and will customers have the same demand?

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Assistance in financial restructuring

In turbulent times companies and banks may experience difficulties in trying to understand each other and finding mutually advantageous ways of debt restructuring. Especially if the loan portfolio of a company comprises of loans from various – public and private, foreign and Russian – banks and various, often complex, loan products.

In general, throughout its history, a company goes through no more than 1 to 2 restructurings. KPMG regularly takes part in such projects, so we understand:

1. what terms of restructuring can actually be achieved in negotiations;
2. how to develop the optimal strategy for company’s restructuring taking into account its business standing, the composition of creditors, long-term plans of business owners, and how to present this strategy to banks;
3. which restructuring scheme should be followed in different scenarios; banks tend to act according to standard procedures, individual approaches require deep analysis and multi-level coordination;
4. how the decision-making process functions in different banks and how to simplify the flow of the process;
5. which documents are required by banks to make a decision, and how to draft them;
6. what must be done to keep the restructuring process under control and avoid undesirable legal proceedings;
7. what measures should be taken to protect the business from hostile actions by creditors.
Change in market conditions: margins have decreased, the terms of settlements with buyers and suppliers changed, the previously optimal loan portfolio has become too large

Hidden losses covered from borrowings

Projects financed by loans are not implemented or implemented in violation of the plan

Selling a project

Needed in any case:

Assessing the current state of business
Developing an action plan and a new forecast model
Developing a new loan portfolio structure in accordance with the business needs
Negotiating the restructuring terms with creditors
Subsequent monitoring and reporting

Amending the business model according to the new reality

Identifying and eliminating sources of loss

Revising the business plan and proceeding with a project

Suspending a project

Closing a project

Selling a project

– Assessing the current state of business
– Defining points of change
– Developing an action plan for implementing changes
– Amending the business plan and forecast model
– Negotiating a short-term solution with creditors for the period of developing a new strategy
– Negotiating a long-term restructuring strategy with creditors in accordance with the new business strategy

– Assessing the current state of business and project
– Identifying additional financing sources if needed
– Project follow-up

– Assessing the current state of business, including the assessment of the suspension costs
– Negotiating with creditors the repayment of loans using other lines of business
– Determining the conditions for resuming or closing/selling the project

– Assessing the current state of business and project
– Taking a decision whether to proceed with the investment or suspend the project before sale
– Searching for an investor
– Negotiating the loan repayment schedule with creditors for the period of investor search
– Negotiating the loan repayment schedule with creditors after the investor entry

– Assessing the current state of business
– Determining the optimal structure of the portfolio in accordance with the procurement structure
– Determining the optimal structure of the portfolio in accordance with the sales structure
– The break down of the existing loan portfolio based on its actual use: investment financing, working capital financing, etc.
– Determining the optimal structure of loan products in use
– Agreeing with creditors a plan for transition to the new structure of the portfolio

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How We Helped Our Clients?

**Turnaround of Leading Dealership Group**

**Challenge:**
The group (more than 40 outlets) – was in trouble due to operational losses and an unstable financial structure. Financial investors took over the total bank debt.

**Our Answer:**
KPMG developed a restructuring concept that defined the funding requirement and turnaround measures. Together with the group’s management we developed structural (outlet locations, centralization of holding functions) and operational actions to cut costs and generate cash. Furthermore KPMG moderated communication with credit institutions and other financing suppliers.

The banks decided to further support the group. Our funding proposal was accepted and operational restructuring showed early success.

KPMG provided full transparency on the cash positions so that the financial investors had a detailed overview on the liquidity situation of the company at all times.

**Finance Restructuring of Dealership Group**

**Challenge:**
A dealership group acting in 4 countries with a yearly revenue of around 400 Mln EUR slipped into a distressed situation facing the demand for short-term stabilization and a mid-term adjustment of their business model set up.

**Our Answer:**
A joint KPMG team provided crisis and stakeholder management to develop a financial restructuring plan and complete comprehensive balance sheet restructuring via a new law. This resulted in a significant reduction of the group’s indebtedness, a new money injection and a rescheduling of the remaining debt.

In addition, we provided strategic direction and support to prepare a report to the European Commission regarding an ongoing State aid investigation.
Challenge:
Our client, a leading sports car manufacturer aimed to improve customer satisfaction in its dealerships.

Target was to reduce the hurdle between Sales and After Sales and to make them work together as one coherent unit, caring about one common customer base. This should increase customer satisfaction and loyalty and set the basis for further exploration of cross-selling potential.

Our Answer:
As a start we had to involve all organizational units and levels that influenced the customer touch point and consider different sizes of dealerships as well as geographically differing demands.

We nominated a dedicated customer team, changed the team organization and defined new team targets & compensation. Clearly defined Sales and After Sales interaction and joint customer management helped to reduce organizational hurdles between Sales & After Sales. After a pilot phase, the concept was rolled out.
Successfully Tested Global Approaches Applied Locally

Our global Automotive practice with the HQ based in Germany, has been successfully providing Audit, Tax and Advisory services for leading global OEMs and Dealerships for many years.

We are working together with a vast subject matter expert network, globally and in Russia. Regularly we provide Thought Leadership in the Automotive Industry and Dealership Excellence.
IN-DEPTH KNOWLEDGE
Understanding Dealership businesses and OEM challenges

INSIGHTS INTO AUTOMOTIVE INDUSTRY
Business partnerships with majority of leading global and Russian OEMs

MULTI-FUNCTIONAL EXPERTISE
Local and international experts from all functions and practices in scope

GLOBALLY PROVEN METHODOLOGY
Continuously optimized assessment methodology, modular and flexible

RAPID AND SCALEABLE RESULTS
Transparent and benchmark-able results for top management as decision basis

Your benefits

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