



# An Evaluation of the Size, Nature and Sustainability of the Irish Car Dealer Network

RESEARCH PAPER ~ 14

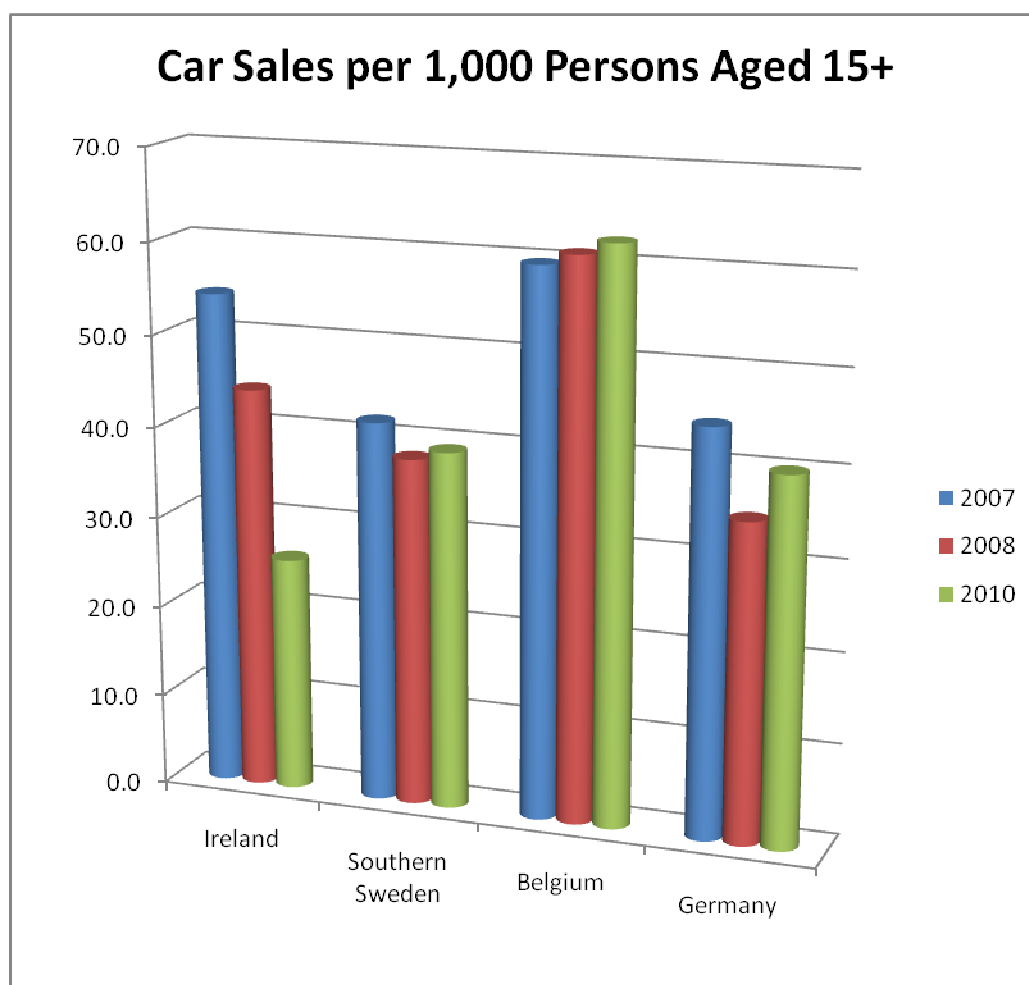
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## Introduction

In recent years, prior to 2008, the Irish population has had a voracious appetite for new cars. If we compare sales made per head of adult<sup>1</sup> population to other sample European markets, we can see that in 2007, we had a higher sales rate per head than Germany recording a rate of 54 sales per 1,000 persons compared to 44 in Germany. By end of December 2010 in contrast to the other sample markets, this rate has dropped considerably to less than half of the 2007 rate, reflecting the severe slowdown in sales since 2008 as shown in Figure 1.1.

FIGURE 1.1 NEW CAR SALES PER 1,000 PERSONS AGED 15+ IN SELECTED EUROPEAN MARKETS



*\*Sales figures were only available up to end November 2010, so December and full year figures were estimated.*

So, with this marked slowdown in new car sales, what does it mean for the dealer network operating in this country. Is it now too large to be viable? Is it evenly distributed and how has it reacted to the downturn in sales ?

<sup>1</sup> Adult taken as Persons Aged 15+ for this purpose as data is readily available EU wide for this cohort

The purpose of this report is to investigate the nature and size of the Irish car dealer network in 2010. Most significantly, the paper will seek to examine the relative size of the network compared to the domestic market and to compare this with selected other European markets. It will also seek to speculate on the impact of network reductions on market share and contemplate the optimum network size for Ireland.

In order to examine the number of dealers in Ireland when compared to other European countries, we must first estimate the number of dealers operating in the market. This is not a simple task of totalling the dealer network listings on the distributor websites, as many Irish dealers are multi-franchises, where more than one marque is represented. As this is not common in other European markets, we need to enumerate the number of distinct dealerships in order to derive a relevant comparison.

In selecting markets to compare our dealer and car sales statistics to, we have selected Germany, Belgium and Southern Sweden<sup>2</sup> as appropriate examples where sufficient car sales and dealer network statistics are available. Southern Sweden is chosen as a comparison market area where population density approximates that observed in Ireland.

This paper uses data derived through Gamma's own market research and data kindly provided by The Society of the Irish Motor Industry (Ireland), Motorbranschens Riksförbund (Sweden) Kraftfahrt-Bundesamt, (Germany), Deutsches Kraftfahrzeuggewerbe (Germany) and La Confédération du Commerce et de la Réparation automobiles et des Secteurs connexes (Belgium).

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<sup>2</sup> Sweden excluding the sparsely populated Norrland area is used as a pseudo-market, as it is similar in population density to Ireland.. It contains about 88% of the Swedish population.

## Numbers of Dealers Present Compared to Market Size

In June 2008, there were 611 dealers<sup>3</sup> in Ireland. By July, 2010, this network had shrunk by 13% to 534, reducing the number of dealers per 100,000 adults<sup>4</sup> from 18 to 16. When compared with our sample European countries, this is relatively low as Table 1.0 reflects:

TABLE 1.0 – DEALER NUMBERS VS MARKET SIZE 2010

|  | Ireland | Southern Sweden | Belgium <sup>5</sup> | Germany |
|--|---------|-----------------|----------------------|---------|
| <b>Dealers per 100,000 Persons Aged 15+ Years 2010<sup>6</sup></b> | 16      | 28              | 40                   | 22      |

As a result of the relatively low ratio of dealers to adult population, the average number of vehicles sold per dealer in Ireland have been relatively high, as Table 1.1 shows. Although average sales have dropped significantly since 2008, average sales per dealer for 2010 are still above Belgian and Swedish levels and only slightly below those recorded in Germany.

TABLE 1.1 AVERAGE CAR SALES PER DEALER

|                                   |             | Ireland | Southern Sweden | Belgium | Germany |
|-----------------------------------|-------------|---------|-----------------|---------|---------|
| <b>Average # Sales per Dealer</b> | <b>2008</b> | 248     | 116             | 154     | 158     |
|                                   | <b>2010</b> | 166     | 142             | 158     | 194     |

In terms of passenger vehicles on the road (the car parc) per head of adult population, there is a very consistent statistic across our sample markets, with Ireland only marginally lower. This would suggest that ownership levels in Ireland are not largely different from the other markets analysed.

TABLE 1.2 CAR PARC 2008 vs ADULT<sup>7</sup> POPULATION IN SELECTED COUNTRIES

|                         | Ireland   | Germany    | Belgium   | Southern Sweden |
|-------------------------|-----------|------------|-----------|-----------------|
| <b>Adult Population</b> | 3,432,771 | 70,955,449 | 8,795,748 | 6,656,322       |
| <b>Ownership Rate</b>   | 56%       | 58%        | 58%       | 58%             |

So, the statistics in this case would suggest that Irish car ownership levels are on par with our neighbours, yet we have fewer dealers per capita serving the market, with a historically higher average number of new car sales per dealer resulting.

<sup>3</sup> Standalone dealers selling new passenger cars – where multi-franchises are counted as a single dealership. Collected from distributor websites by Gamma in June 2008 and deduplicated

<sup>4</sup> For adult population persons aged 15+ years is used as it is a widely available statistic that removes most of the child population, which is not relevant in this case.

<sup>5</sup> In Belgium, sales agents (Agent Agrée) are counted as dealers as they are not largely different to the smallest Irish dealers, although this business model has not yet been tested in Ireland.

<sup>6</sup> Based on June 2010 dealer survey

<sup>7</sup> Persons Aged 15+ 2007

This higher than average sales rate for Irish dealers does not, of course, imply that Irish dealers are more viable than their European counterparts as a result. Viability is a much more complex issue that must consider the revenue coming from servicing and used car sales as well as the market conditions present in each country. This will be researched in a future study.

## Is Market Share Affected by Number of Marque Franchisees in Network ?

The next question to examine is whether the size of a marque’s network directly affects its market share. This is a crucial decision facing many distributors who are considering a shrinking of their networks. It is a highly complex issue and will not be explored to the statistical extent required<sup>8</sup> in this study due to a lack of relevant data but may be a subject for future research by Gamma. With the data that is available, we can however compare market share to network size in 2008 and 2010. What is evident in Table 1.3, is that the largest networks have historically had the largest market share, with five of the top six largest networks, in the top six market share positions in 2008 and 2010.

This would make it appear that the size of network correlates closely with market share. However, many exceptions are evident in other examples, which reinforce the view that this issue is multi-dimensional and dependent on many external factors. For example, Renault, due largely to a successful marketing campaign allied to a strong scrappage offer, has more than doubled its market share from 2008 to 2010 despite reducing its dealer network by eight. Ford has reduced its network by six dealers since 2008 but has increased its market share to 13.8%. Peugeot has reduced its network by twelve dealers since 2008 but retained its market share at around 3.8%, so it appears that a change in dealer numbers does not necessarily have a direct and immediate impact on market share. These observations, however, are only based on very recent network changes and market share may drop over time according to network size. It will be interesting to look at this data in two years time to establish whether the relationship between dealer numbers and market share is re-established in most cases.

TABLE 1.3 MARKET SHARE vs MARQUE NETWORK SIZE 2008-10

| <b>2008</b>             |                   |                     |                 |
|-------------------------|-------------------|---------------------|-----------------|
| <b>Rank<sup>9</sup></b> | <b>Marque</b>     | <b>Dealer Count</b> | <b>MS Sales</b> |
| 2                       | <b>TOYOTA</b>     | 57                  | 14.1            |
| 1                       | <b>FORD</b>       | 64                  | 12.6            |
| 6                       | <b>VOLKSWAGEN</b> | 43                  | 10.5            |
| 4                       | <b>OPEL</b>       | 47                  | 8.3             |
| 3                       | <b>NISSAN</b>     | 51                  | 7.4             |
| 12                      | <b>RENAULT</b>    | 32                  | 4.0             |
|                         |                   |                     | <b>56.8</b>     |

<sup>8</sup> With appropriate data available, we could carry out a multivariate regression analysis to compare market share to dealer network size over a long period after significant changes had been made to the Irish network and considering external factors such as scrappage scheme offers.

<sup>9</sup> Rank in terms of dealer network size

## 2010

| Rank | Marque            | Dealer Count | MS Sales <sup>10</sup> |
|------|-------------------|--------------|------------------------|
| 1    | <b>FORD</b>       | 58           | 13.8                   |
| 5    | <b>VOLKSWAGEN</b> | 40           | 12.0                   |
| 2    | <b>TOYOTA</b>     | 55           | 11.9                   |
| 14   | <b>RENAULT</b>    | 24           | 9.7                    |
| 4    | <b>OPEL</b>       | 41           | 7.7                    |
| 3    | <b>NISSAN</b>     | 47           | 6.7                    |
|      |                   |              | <b>61.8</b>            |

In determining the degree of impact that will occur due to network changes, a number of considerations should be made;

1. The current network size – will a reduction leave a network that is still very accessible by the market or will it leave a network that customers are expected to travel long distances to reach ?
2. Where are the majority of my current customers? Are 75% of my customers, for example, resident in South Dublin?
3. Is my new offering exceptional and unique that will attract customers to travel further?
4. Are my new dealer locations larger in scale than previously and will they draw from a bigger catchment?
5. What have my direct competitors done with their network?
6. What is the minimum required number of sales per dealer for viability? How does this compare with my projected sales in X years time?
7. Whether the current market conditions are likely to persist or improve in the short to medium term.
8. Will my dealers have difficulty selling trade-in cars with registrations from other counties?
9. How important is market presence and local networking to my market share in each area?

The answer to these questions will determine the shape and magnitude of the network that is required.

If network reductions, on the macro scale, have not shown any significant changes to national market share in many cases, can we observe effects at the micro level through county sales figures?

Two examples offer us this opportunity. Ford's network in the west of Ireland has been reduced through the closure of four dealers since 2008. This resulted in their representation in Mayo, Roscommon and Leitrim dropping from five dealers in 2008 to one dealer in 2010. How has this affected their market share in this area ? It has reduced it from 13.3% in 2008, which was above their national market share (12.6%), down to 8.4% for the first half of 2010, which is well below their national share of 13.8%. So, in this extreme case where local presence is radically reduced, market share is apparently reduced also. This may be due to the scale of the reduction and the presence left in the area. A second example, however, shows that even large scale reduction may not result in loss of market share at the local level. In Dublin, Renault have reduced their dealer presence in Dublin from six in 2008, to two in 2010. However, they have managed to increase their market share in

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<sup>10</sup> Market Share based on Passenger Car Sales for first half of 2010 only

Dublin from 4.3% in 2008 to 7% for the first half of 2010. Granted this is done in the context of a particularly successful scrappage campaign and the 7% rate was below their national market share for the period, but it still shows the possibility of keeping share through non-network related strategies.

## Minimum Size of National Network for each Marque

If the marque wants an effective national network of locations, it must be accessible to its market. Assuming that market share permits it<sup>11</sup>, a minimum number of locations required will be determined principally<sup>12</sup> by the distance that the marque’s customers will travel to their nearest dealer. So, if this travel time is reasonably considered to be 45 minutes, an analysis can determine the correct number required to cover a target percentage of the market (usually determined as the adult population). By strategic placements of dealer locations, a large part of the market can be reached by a relatively small number of dealer locations as Table 1.4 below shows;

Table 1.4 Dealers Required based on Travel Time and Market Coverage Assumptions

| <b>Drivetime</b> | <b>Dealers Required</b> | <b>Population</b> | <b>% of Population</b> |
|------------------|-------------------------|-------------------|------------------------|
| 45               | 12                      | 3.58M             | 85%                    |
| 30               | 16                      | 3.18M             | 75%                    |
| 30               | 22                      | 3.6M              | 85%                    |

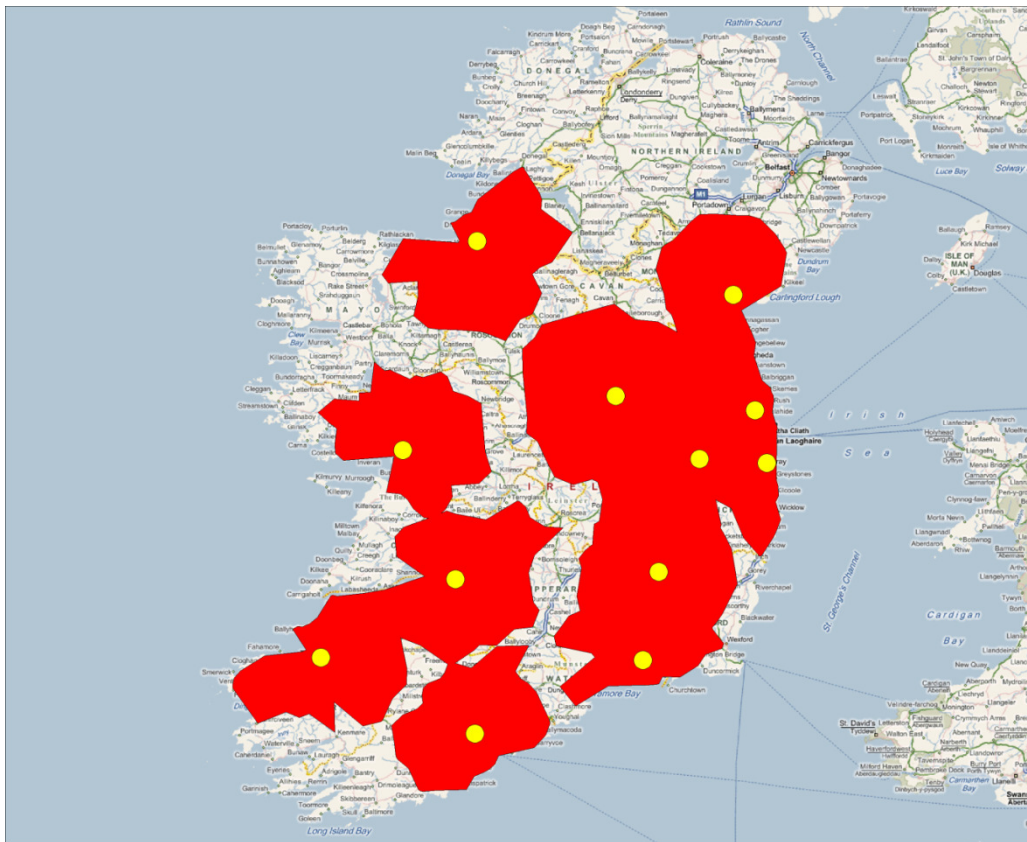
So, if a marque wants a network based on 85% of its customers travelling no more than 45 minutes to one of its dealers, it will require a network of 12 dealers in strategically placed locations. The locations of these dealers in this example are shown in Map 1.5 below. The red zones are 45 minute travel zones from each location.

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<sup>11</sup> If the marque is only selling 500 cars a year with 350 of them being sold in Dublin, its unlikely to require a nationwide network of dealers.

<sup>12</sup> This process of network optimisation has other factors, of course, including such considerations as location of existing dealers, availability of new sites etc.

Map 1.5 – Location of Dealers for National Coverage



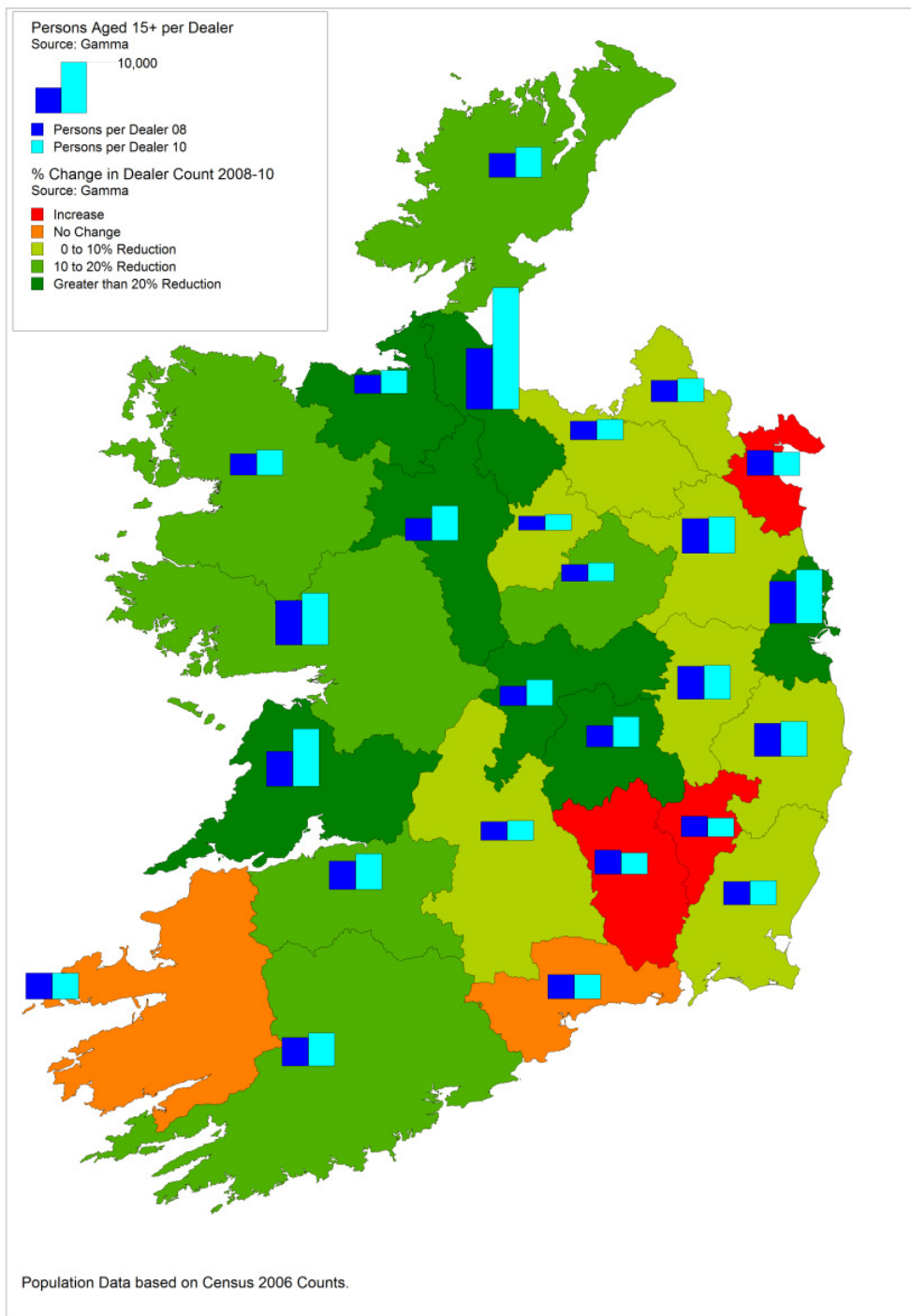
## Dealer Numbers Across Ireland

As the inevitable dealer closures came through 2009 and 2010, it is interesting to look at the geographical spread of the closures to examine how competition levels have changed at county level. Map 1.6 below shows the change from 2008 to June 2010. As we can see there are distinct patterns to the decline. The first obvious trend in the disproportionate relative decline West of the Shannon, where each county has experienced the closure of at least two dealers over the period. Carlow/Kilkenny and Louth are the only counties where dealer numbers have risen slightly since 2008. Dublin and Cork (City and County) have seen a reduction in dealer numbers of 25 and 10 respectively, as consolidation of urban networks has taken hold. The rest of the country has seen only minor changes in numbers.

Map 1.7 shows the relevance of these changes when compared to both the county adult population 2006 and to the base dealer number in 2008. Seven counties have seen a decline of over 20% in their dealer numbers and the customer to dealer ratio has increased significantly in many counties.



Map 1.7 – Dealer Count Compared to Market Size by County 2010



## Conclusions

- The number of dealers in Ireland is low relative to the adult population when compared with other European countries. This is particularly interesting considering our low population density.
- Ireland's dealer numbers have dropped from 611 in 2008 to 534 in 2010, a drop of 13% . If 2010 full year sales are estimated at 88,500, this will represent a 51% drop in new car sales since 2008.
- The average number of new car sales per dealer in 2010 is 166. This compares with a figure of 248 in 2008.
- Based on a 45-minute customer drive time, a network of 12 dealers can cover 85% of the Irish market.
- The choice of network size for each marque will be determined by a multitude of factors and should include an assessment of the importance of dealer presence and local networking.
- Market share can be influenced and affected by a number of factors not just dealer numbers. However, in the long term it is likely that a lack of representation in an area will lead to lower sales there.

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