

Industries  
Automotive

# Survey on car dealers market\*

Poland/Central & Eastern Europe  
2<sup>nd</sup> edition 2008/2009

\*connectedthinking

PRICEWATERHOUSECOOPERS 



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# Introduction

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This study is the second edition of an independent survey of the car dealer market in Poland, conducted by the PricewaterhouseCoopers.

## Aims

As in the first edition, the aim of the survey, was to attempt to describe the situation in the car dealer segment – both with regard to its present condition, expected trends in its development, as well as opportunities and threats. This year, in response to your suggestions, in addition to Poland our survey also covered selected countries in Central Europe. We hope that the possibility of comparing the situation in Poland with that on other markets in the region will prove useful in your work. The conclusions drawn during this edition of the survey are also much broader because this time we were able to refer to the previous year's findings and try to outline trends in the car sales sector.

## Methodology

The findings of this survey were made on the basis of answers given by representatives of 220 car showrooms all over Poland in the period from June to July 2008. Therefore, compared with the first edition we received nearly 30% more answers. We are very happy about this, and it only proves that the previous year's report received good scores from the dealers. The questionnaire was mainly filled out by showroom owners or managers. In the report, we present the most interesting relationships which came to our attention during the analysis of the data. We do not refer to the position or opinions of individual dealers, nor do we analyze any specific makes since we wanted to perform a comprehensive analysis of the sector and to focus on issues which concern all dealers and not just single showrooms or makes.

The full reports on the markets surveyed (Poland, Hungary, the Czech Republic, Slovakia) will be available on our website [www.pwc.com/pl/automotive](http://www.pwc.com/pl/automotive) from January 2009.

# CEE Report Summary



## CEE Regional Outlook

### Global financial crisis

2008 has been without doubt the most difficult year for the global automotive industry since World War 2. The economic crisis which started with the United States sub prime mortgage market has now swept through the financial sector. This has led to a sudden reduction in consumer confidence which has had a devastating impact on the new cars market and the automotive sector in general. Clearly, the American market has been the hardest hit with a reduction of 40% of sales in light vehicles in 2008 and as at the date of writing this report the long term financial future of the Detroit 3 looks to be in some doubt unless there is intervention by the United States Government. The crisis is also evident in Europe, particularly Western Europe. There, the demand for new passenger cars fell by 15.5% on average in October – a decrease of 6% in year-to-year comparison. The recorded drops in sales ranged from 7-8% in France and Germany to 40% in Spain. In view of these numbers it is clear that the crisis has spread to Europe.

### Impact on Central and Eastern Europe

The deteriorating economic situation is now also affecting Central and Eastern European countries, which are the focus of this year's edition of our report however the overall impact on 2008 may not be significant given that the first three quarters of the year were relatively good in terms of new vehicle sales with 18% growth compared to 2007 according to ACEA. In the largest markets in Eastern Europe (Russia, Poland, the Czech Republic, Slovakia, Hungary and Romania) the full impact of the financial crisis is not therefore likely to be felt until 2009

So far, Hungary (-6%) and Romania (-2%) have experienced the biggest declines in sales, yet these are still much lower than those observed in Western Europe. The passenger car market in Hungary has been declining for a couple of years now, witnessing a 5.8% drop of new passenger car sales in 2007. The outlook for 2008 was already rather pessimistic and further forecasts will be additionally impacted by the current global financial and economic crisis. In fact, the numbers of passenger car registrations for the third quarter of 2008 were the lowest of any quarter since the turn of the century.

For the last 2 years, Romania has been experiencing the fastest growth in sales of new vehicles among the European Union Member States. A total of 312,532 new vehicles were sold in 2007, an increase by 26.3% as compared to 2006. The growth has been attributed to Romania's first year of EU membership and to an increased consumption. However, changes took place on the automotive market during the last year, triggered by the increase of used car import and by the recent credit restrictions. These new conditions have led to stagnation and even a decrease in new car sales. In order to counter that tendency Romania's Government approved the suspension of the pollution tax for new Euro 4 cars with less than 2,000 cmc engines, until December 31, 2009. Automotive industry representatives believe that the effect of the financial crisis had on loans was the main factor negatively impacting the car sales, since, for instance, approximately 60% of Dacia cars are being bought on credit or leased.

It is estimated that the Romanian automotive market will face further decreases in sales during the next two years.

In Russia, Poland, the Czech Republic and Slovakia, an increase in new car sales during the last nine months was reported, stemming primarily from robust GDP growth. The sales trend started to change mid-year, as the markets started to show signs of being affected by the global economic slowdown. Currency fluctuations and problems with access to credit facilities were the main factors influencing the market. Customers have been finding it harder to obtain a car loan – the number of loan applications rejected by banks is increasing sharply, while those who can get a credit are forced to contribute a bigger down payment and to pay higher interest rates.

In Russia, constituting the biggest market in Eastern Europe, foreign passenger car sales increased by just 9% in October – the slowest rate of growth since January 2007. At the end of June 2008, the sales of foreign makes were still up by over 40% in unit terms as compared to the previous year. However, since then the rapid growth rate has been slowing down sharply, and for the first time in recent months, some foreign OEMs have recorded drops in year-on-year sales. In addition, the sales of Russia's largest car manufacturer AvtoVAZ also decreased during the same period, falling by 19% in October – a drop by 1.6% as compared to January. Moreover, the rouble has fallen from approx. 23.5 to 27.5 in relation to the USD, and Russians are being more cautious when it comes to taking buying decisions. And finally, there is also a perception that prices could come down – particularly for locally manufactured foreign brands priced in roubles – and Russians are postponing purchasing decisions in the hope of obtaining the bargain. All the above factors the Russian market will experience significantly lower growth in the final quarter of 2008 and in 2009.

Our survey results reflects these trends and in each of the surveyed countries (Poland, the Czech Republic, Hungary, Slovakia), the majority of dealers believe that there is little prospect for increasing sales in 2009. Banks are introducing stricter lending criteria and consumers are being very cautious. In Poland, it is anticipated that there will be a significant reduction in bank lending. The great unknown here remain the currency rates as the majority of Eastern European countries still operate outside the Euro Zone, with their volatility rendering forecasts as unreliable. The situation will also depend to a large extent on whether consumer confidence can be restored. Despite the current events on the CEE markets new car sales should in the longer term maintain their upward trend, owing to the larger numbers of first-time car buyers and a still higher economic growth than in Western Europe.

### How does it translate into everyday dealers' operations?

As our regional research demonstrates, dealers are becoming more aware of both the risks and opportunities on the market, and are able to ever more quickly and effectively translate them into specific actions for their businesses. Thus, changes in the dealers' behaviour in individual countries of the region are becoming more visible, and – in the face of an economic slowdown and approaching crisis – it is likely that many dealers have already started taking steps to protect their businesses from the market downturn.

In their activities, dealers used mostly short-term rolling loans for financing of inventory. Due to the present economic situation, that particular finance source has become restricted and more expensive, leaving many dealers in a very difficult position in terms of cash flow. Where credit lines are still available financing companies are demanding ever more stringent conditions for financing. Moreover, sales volumes decline, profit margins shrink, interest rates are higher and the incidence of bad debt is going up. This is quite a handful for any business to manage. The dealers who have highest chances of survival will be those who have diversified product portfolios eg servicing centres, repair shops, and after sales products.

Although the dealers participating in the study (except for Hungary) perceived their financial situation as reasonably good, the dramatic slowdown in sales was not predicted or was on their radar screen. Those dealers who do not address who do not address the revenue gap from new car sales will decrease their chances for survival.

## CEE Report Summary

### Consolidation

Overall though, there is a sense that next year is going to be very difficult and that there will probably be more consolidation in the industry – in our view this will not be via acquisition of smaller dealers by larger ones, but through dealers waiting for the collapse of their competitors to pick up their assets and brands at bargain basement prices. This could be a very painful process for many players on the market. It is reasonable to believe that dealer groups, emerging after consolidations, will play a more significant role on the international stage. We believe that the new players in the CEE, including Russia, could rapidly outgrow their Western European counterparts by taking advantage of acquiring businesses at the bottom of the market.

### Diversification

In their attempt to be proactive and avoid going out of business, many car dealers have decided to expand their scope of activities and invest in new areas. Bearing in mind the changes affecting the global market, this attitude has been recognised as a proof of dealers' understanding that continuous growth is necessary for survival. 16% of the Czech, 32% of Hungarian, 34% of Slovakian and 27% of Polish dealers plan to convert their showrooms into multi-make ones. This alone is evidence of how the dealers' attitude to changes has evolved in the last few years and what the future directions in this industry are. We predict that the traditional distribution model will be more and more often challenged by multi channelling, stemming from the evolving consumers' preferences and the hard product push driven by the supply not meeting the market demand. Thus, small, independent dealers are expected to gradually go out of business due to multichannelling and low economic viability – or they may be bought out by bigger players interested in their land assets.

Dealers have started to explore new business ideas, such as buy-back schemes and hourly rent-a-car services. These activities still require refinement but are good examples of creative thinking to adapt to the market situation. The current leading European dealers, who already achieved a cross-border presence, will continue to expand, adding new business streams (such as real estate, rental and leasing options, financial services) to their offer, enlarging their geographic scope, and accepting new members in their partnerships.

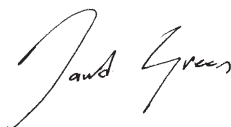
### Summary

In summary Central and Eastern European dealers are likely to face some stiff challenges over the coming year with respect to a very difficult market situation. As in all crises there are likely to be winners as well as losers. The winners will be those dealers who adapt both structure of their businesses eg placing less reliance on new car sales and more on services as well as reviewing the financial situation in their business eg by taking out non value added costs, renegotiating agreements with suppliers and keeping a very close watch on the cash flow situation. We predict the sector will emerge from the economic crisis with fewer but potentially stronger dealer networks offering more varied and providing greater levels of quality and professionalism.

#### **David Green**

Partner

CEE Automotive Retail Leader



# Report Summary Poland



## Market during the time of recession

Our second annual report on dealers is being released at one of the most difficult times ever in the history of the Automotive sector. The Detroit 3 are going through a period of rapid change which has had a significant impact on their financial resources and the slowdown on vehicle sales that started last year in North America has extended to Europe and the rest of the world over the last 6 months.

The credit crisis has therefore come at the worst possible time for an industry which had already started to see a significant slowdown. The turmoil in October on the credit markets will be felt for some time to come, however the early signs are that this will result in significant decreases in world wide sales until consumers are able again to obtain credit from financial institutions and until corporate customers regain the confidence that their business are over the worst of the crisis. As the automotive industry is global the issues affecting markets in North America and Western Europe will surely have an impact on the market in Central Europe and in Poland.

We have already observed that dealers' optimism concerning the growth of car sales during this year has not only diminished significantly but even turned into pessimism. Nearly two thirds of the respondents to our survey believe that the chances of increasing their sales are small. Only every fifth one hopes to increase their sales.

The current financial crisis, whose consequences are being felt by the consumers and sellers right now, leaves no doubts that the anticipated sales growth is practically no longer viable. Even though the ACEA data shows that during nine months of this year 8.8% more vehicles were registered than last year, we must face the fact that the pace of sales growth will decelerate at the end of the year. The financial crisis wave is reaching Poland with a certain delay. We can already observe that banks are introducing stricter lending criteria. It is being anticipated that the number of bank loans may decrease by as much as 20%. The creditworthiness of many people has decreased by as much as one third. Those who would like to take out a loan to buy a car without their own down payment must hurry since such offers may soon become non-existent altogether. Promotional loans will not disappear for people who are able to contribute 30-50% of the car's value – yet there are definitely fewer such customers. The dealers, in reaction to the current market situation, trying to avoid declines in sales, are already outdoing one another in offering promotional and discounted prices.

In the light of recent events it is hard to foretell the result of car sales in the nearest future. The largest unknown is the zloty level, whose fluctuations render it impossible to make exact forecasts. The situation will also depend to a large extent on consumer moods and on whether it will be feasible to appease frequently panic and irrational behaviours of consumers in these difficult times.

## Report Summary Poland

### How does it translate into every day dealers' operations?

The Polish Automotive industry has gone through repeated phases of boom or bust in the last decade, however the last 2 years have seen a gradual increase in new car sales. The recent recession though will no longer support this trend and it is very likely that until the crisis in the financial markets settles down there is going to be significant uncertainty on the Automotive market as well.

A number of dealers have invested over the last few years in new facilities or in expanding the scope of their activities. Dealers are becoming more aware of the threats and opportunities observed on the market and are able to ever more quickly and effectively translate them to specific actions for their businesses.

The next year will be crucial for those who use external financing to ensure that they meet the terms of their bank borrowings. It is quite possible that a number of dealers will go out of business but at the same time there will be many good deals on the market for those still willing to invest. It is key that the lessons learnt from the past are applied in the current market situation and that dealers focus on providing outstanding levels of service whilst focusing on their finances, managing cash flow, developing more profitable business lines and taking a prudent approach to costs.

All these changes would not have taken place had the market, consequently increasing competition, unavoidable and ever faster consolidation, and the perspective of a recession causing the dealers to change their business model, not necessitated them. Last year's events had a decisive impact on the acceleration of the changes, and the events that have been observed in recent weeks only made them stronger. A period of much bigger number of takeovers and consolidations is surely approaching. It can be assumed then that dealers and buying groups which are gaining in strength will take advantage of that moment to strengthen their market positions. The quantitative expansion that has been observed for some time now also proves that dealers have already matured enough to understand that one must constantly develop to compete on such a difficult market as the Polish one. Another proof of such attitude are multi-make showrooms, which the dealers are starting to appreciate, observing increasing customers' interest.

A change in the dealership business model was and is unavoidable and will be beneficial to everyone in the long run. It will lead to an improvement in the quality of services, lowering of costs of dealers' operations and thus to decreasing the prices for cars and services offered. Unfortunately, under current market circumstances, this is not an easy way to go for the Polish Automotive market and dealers operating on this market in particular.

Poland



# General description of the dealers taking part in the survey



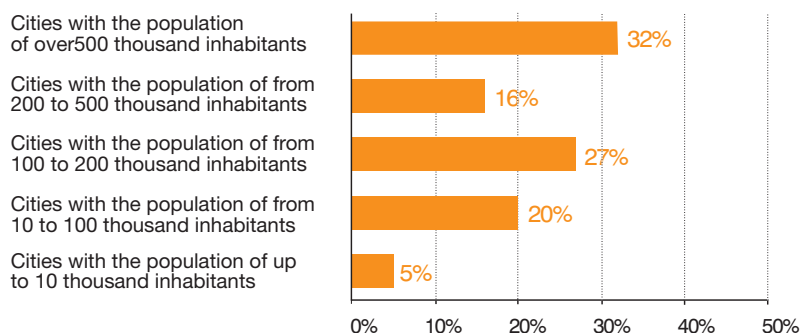
## Location

The largest groups of dealers taking part in the survey have showrooms located in very large cities – more than 500,000 inhabitants (32%) – and medium-sized cities – from 100,000 to 200,000 inhabitants (27%). Slightly fewer of the dealers questioned (20%) operate in small urban centres of between 10,000 and 100,000 inhabitants, and even fewer (16%) in large cities of between 200,000 and 500,000 inhabitants. Only 5% of those surveyed conduct activities in the smallest towns of fewer than 10,000 inhabitants.

## Method of managing the showroom

In larger cities, the model of using qualified managerial staff, employed from the market, dominates

Graph 1. Please specify the size of the town in which your showroom operates



Dealers using qualified managerial staff, employed from the market, think about expanding the business far more frequently

The model of management using managerial staff, employed from the market, proved far more popular (63% of responses) in the case of respondents from the largest cities (over 500,000 inhabitants). The model of the family business dominated in showrooms located in smaller towns (63%).

Among dealers managing a family business, owners of a single showroom dominated (53%), while only 14% had over two showrooms. These proportions were different among the group of dealers managing showrooms with managerial staff (the proportion of these who manage one showroom is just 39%, with a 35% share managing more than two showrooms).

Dealers operating as a family business think significantly more frequently about leaving the automotive industry

The method of managing the showroom also affects plans regarding the direction of business development. Dealers planning to expand the sales formula to multibrand use managerial staff far more frequently. The form of management of the showroom also affects the expansion plans of the activities conducted. Of the group of dealers using managerial staff, the percentage declaring the will to increase the number of showrooms was 44%, whereas the percentage of dealers managing a family business intending to increase the number of points of sale was just 23%.

## General description of the dealers taking part in the survey

The method of management also affects possible plans to leave the automotive industry. The results from this edition are identical to those obtained from last year's report: only 2% of those using managerial staff, employed from the market, is thinking of leaving the industry, whereas the percentage of dealers managing the companies described as family businesses with this intention was once again 12%.

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### COMMENT

The analysis of the relationships between the form of management of showrooms and their development perspectives suggests a significantly worse assessment of the development of the business by people managing a family business. They have fewer showrooms, they plan multibrand sales and the opening of new points of sale less frequently, and they anticipate the need to withdraw from the industry more often. Such results could be evidence of greater prudence and concerns of owners of family showrooms. Even so, the distribution of responses obtained could also be explained by the increased optimism of the managerial staff managing the showrooms.

#### **Piotr Wyszogrodzki**

Director, Assurance and Advisory Services  
PricewaterhouseCoopers

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## Period of activity

### Decided network expansion by "young dealers" in the past year

One of the conclusions of the analysis of the responses to this question in the previous edition was the concentration of the activities of dealers with "short experience" on the management of just one showroom. However, the latest results completely disqualify this argument, showing evidence of decided expansion of networks by "young dealers" over the past year.

In previous years, dealers with little experience were usually concentrated on operating just one showroom. The latest results indicate rapid expansion of the networks they manage over the past year. Although, a year ago, 85% of dealers who had been operating on the market for less than five years only had one showroom (the remainder no more than two), it appears from this survey that this group is now just under half (48%). In turn, 15% of dealers conducting activities for less than five years have more than two showrooms.

The rule that dominated earlier is becoming less significant, together with the strong changes observed over the past year, namely that the number of the dealer's showrooms gradually increases as the period of his operation on the market lengthens. The results of this edition of the survey indicate a certain difference in the model of conducting business among the youngest dealers, who appear to be both more open to experimenting with new forms of activity (e.g. multibrand showrooms), as well as more dynamic in quantitative expansion.

However, those who offer one brand of vehicle still dominate among the dealers with little experience. It is also noticeable that the number of employees in younger showrooms is lower on average than in the case of dealers who have been in the market for longer.

### Most dealers active on the market for five to nine years have more than one showroom

The model of operating a single showroom has ceased to dominate among dealers operating on the market for longer than five, but less than ten years, just as in the case of their younger competitors. Only 35% of them operate a single showroom, whereas this percentage is as high as 50% among the remainder.

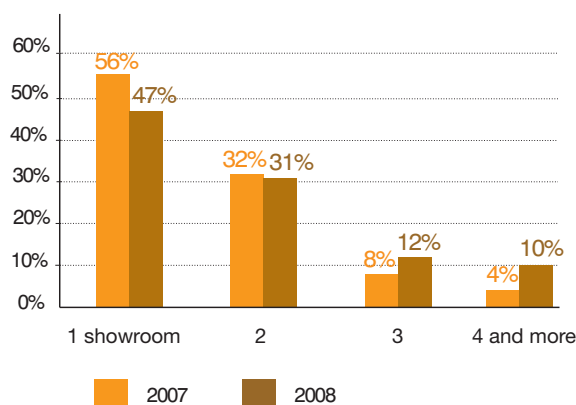
Dealers managing only one sales showroom dominated in this year's survey (48%). 31% of respondents have two sales showrooms and almost twice last year's percentage (now 22% of respondents) operate more than two.

General description of the dealers taking part in the survey

### Number of showrooms operated

The number of dealers managing more than two showrooms increased over the past year

Graph 2. Summary of results 2007/2008:  
How many sales showrooms do you have/operate?



The above chart presents the expansion of the number of showrooms – a decline in the share of dealers with just one showroom, with a simultaneous growth in the share having over two points of sale, is easily observed. This dependence confirms the responses of the dealers from last year’s survey, when they demonstrated the inclination to increase the number of showrooms managed to a significantly greater extent than currently. The fact that dealers with one showroom were not then inclined to increase this number is slightly surprising (only 15% indicated such a willingness, whereas the proportion of dealers with at least two showrooms was almost three times more last year – 43%). In the case of dealers with only one showroom, as many as 63% of them operate as family businesses and only 20% of them have multibrand showrooms. As evidenced by further parts of the study, the short-term perspective is perceived by dealers as temporary and does not determine their decisions concerning the development of the sales network.

Compared with last year, the number of showrooms per surveyed dealer increased significantly – from 1.8 (according to last year’s survey) to 2.1. Increasingly frequently, dealers have more than four showrooms. Last year, almost 60% of dealers had one showroom, and currently this proportion is less than 50%. The ratio of dealers with no more than two showrooms also declined; last year, it was almost 90% of the surveyed group, whereas it is currently 80%. The number of dealers having at least three showrooms increased to the greatest extent, which significantly increased their average per owner.

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#### COMMENT

Last year’s analysis showed that the tendency among existing dealers to open new showrooms has been maintained. This approach seems to suggest that most dealers should have at least two showrooms in the near future. This can already be observed if we look at this year’s results: the percentage of dealers having more than one showroom is significantly higher. It is difficult to predict whether this tendency will continue in the future. As in the previous year, dealers having one showroom constitute the majority of those planning to maintain their existing number of showrooms (59%), whereas among those planning further expansion, the percentage of dealers currently with only one showroom is significantly lower (33%). Consequently, we can expect two dominant types of dealer to appear: the type that has one showroom and is not planning expansion, and the other that has several showrooms and that is more open to further expansion.

#### Piotr Michalczyk

Senior Manager, Assurance and Advisory Services  
PricewaterhouseCoopers

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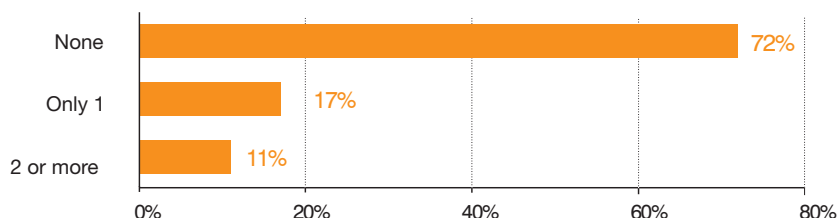
## General description of the dealers taking part in the survey

### Multibrand showrooms

#### Rising number of dealers with more than one multibrand showroom

In response to the question of the number of multibrand showrooms operated by the respondents, most dealers stated that they do not have these (72%). One multibrand showroom is operated by 17% of respondents, while the remaining 11% responded that they have at least two such points.

Graph 3. How many showrooms are multibrand?



Compared with last year, the number of multibrand showrooms increased particularly strongly among dealers operating several points of sale. This observation corresponds with last year's results of the analysis of the number of showrooms and the inclination to reformat those that exist into multibrand showrooms. This could be evidence of the fact that the owners of several showrooms have greater possibilities of achieving better conditions for themselves from the national distributor.

The inclination to reformat existing showrooms applies to both those who do not have multibrand showrooms and dealers having at least one such point already. In the latter case, the group of people declaring a willingness to reformulate the showroom (40% of all respondents), namely dealers with several monobrand showrooms, are planning to transform them into multibrand showrooms. For comparison, it is worth emphasising that the dealers who do not have any multibrand point of sale (72%) dominate among those not planning to transform existing showrooms into multibrand showrooms.

## Economic description of the dealer



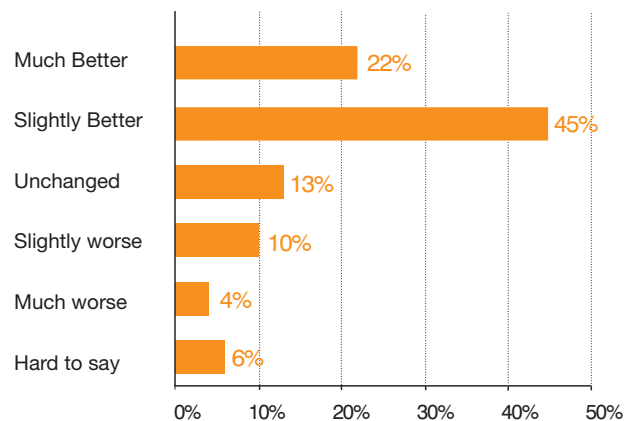
### Financial situation of the dealers

#### Further improvement of the financial situation of the surveyed dealers

In comparing the responses obtained in 2007 with 2008, we observed that in the case of 45% of dealers, the financial situation improved slightly in this period, whereas it improved significantly for 22%; meanwhile, only 4% experienced a significant worsening of their financial situation and 10% a slightly worse situation.

The current survey results confirm the continuation of the positive trends in the sector over the past years. This is because the situation of dealers decidedly improved, just as last year. It is worth mentioning that the scale of the improvement this year was even greater, because as many as 67% of respondents (compared with 54% in 2007) stated that their financial situation was better, whereas only 4% of dealers considered it to be worse (compared with 27% last year). However for the last weeks we've observed that this situation may turn into worse.

Graph 4. What is your showroom's/dealer network's financial situation compared with last year?



Therefore, it cannot be predicted whether dealers will be satisfied with their financial situation. Should the value of the euro increase further against the Polish zloty, the present price decreases could be the last chance this year to buy a car for a good price. Should, however, the euro go down, further sales increase would be possible.

## Economic description of the dealer

This year's results did not confirm the observations from last year, when there was a clearly positive dependence between the number of showrooms operated by the dealer and his financial situation. The previous analysis demonstrated that the more showrooms the dealer operated, the better he assessed his finances. The results currently indicate a reversal of the phenomenon: dealers with one or two showrooms more frequently declared a significant improvement in the financial situation than dealers with more than two showrooms.

The analysis of the impact of the location of the showroom on the financial condition indicates that showrooms in the largest cities (more than 500,000 inhabitants) are prospering best; in these cities, the percentage assessing the financial situation as significantly better amounted to 27%.

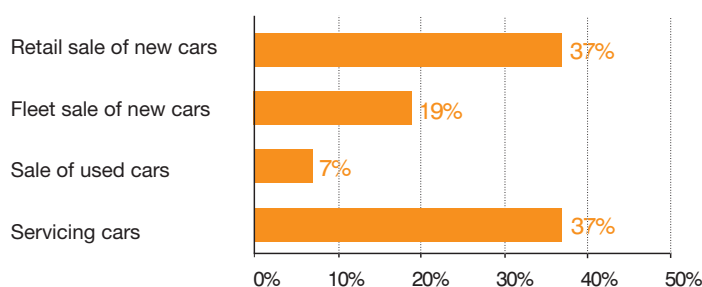
The improvement in the financial situation also appears to depend on the method of managing the showroom. In this case, showrooms managed by managerial staff recorded a greater improvement in prosperity – the proportion assessing the financial situation as “significantly better” was as high as 31%. In turn, in the case of showrooms managed as a family business, this percentage was almost halved – just 16%.

The results presented in the chart below present the average percentage shares of revenues of certain areas of activity of showrooms for all respondents in individual years.

## Structure of revenues

Fleet sales and vehicle servicing are increasing their share of dealer revenues

Graph 5. What percentage share in individual years do the following activities account for in your revenues?



The proportion of responses compared with last year suggest a further increase in revenues from fleet sales, which is a confirmation of the situation we have been observing on the market for several years.

Another trend observed is the relative increase in revenues from vehicle servicing, which can be explained, inter alia, by the gradual increase in affluence of society, the willingness to retain the guarantee and, perhaps, the quality of the services offered. In effect, the interest of customers in servicing their cars in ASO is increasing.

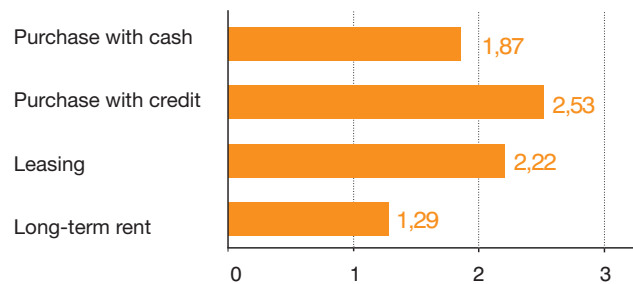
In this context, it is worth remembering that, in the years 2005-2007, the largest average percentage share of revenues from the activities of automotive showrooms was, to the same extent, sales of new cars and vehicle servicing and later fleet sales and retail sales of used cars.

## Economic description of the dealer

### Most popular forms of financing

Long-term rental is increasing in popularity

Graph 6. Which forms of financing were most popular in your showroom/network of showrooms in the individual years?



3 – Most popular form, 2 – Moderately popular form, 1 – Form used occasionally

When analysing the weighted average assessments of popularity of the methods of financing vehicles purchased, we can observe that, in all the years of the survey period, the popularity of loan purchase was assessed highest, followed by cash purchases. The declining trend of cash purchases was clearly maintained in the current year's survey in favour of the expansion of leasing. It is worth emphasising that purchasing in the form of leasing was relatively the least popular form in recent years.

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#### COMMENT

For some time now, dynamic development of full-service leasing has been observed on the Polish market. It is in some respects similar to operating lease. However, in the case of full-service lease, the financing entity (usually a car fleet management (CFM) company) not only provides the client with cash, but also a number of additional services, including: technical support for cars, motor loss adjustment, replacement cars, management reports and many other services, which are specified in detail in the lease contract. To date, 13 thousand Polish entities have leased more than 112 thousand cars on the basis of CFM contracts. This means great profits for the whole leasing sector. The structure of the service portfolio shows that clients are interested primarily in long-term outsourcing of passenger cars (contracts for a few years). So, the direction in which the Polish CFM market is heading is clear. About 91 thousand cars are used on the basis of full-service leases. The CFM market seems to have good growth perspectives. Assuming that there are about 2.5 million company cars in Poland, only 5% of them are used under CFM contracts. In the West, this percentage amounts to approx. 35-40%.

#### Jakub Lech

Manager, Assurance and Advisory Services  
PricewaterhouseCoopers

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## Economic description of the dealer

### Used cars in dealer product ranges

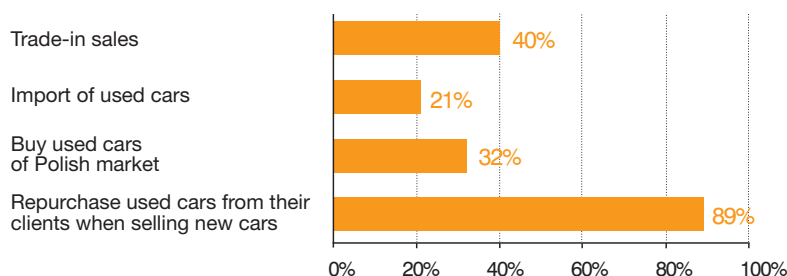
The percentage of revenues of used car sales has not changed, but increasingly more dealers are importing vehicles on their own

As many as 95% of respondents admitted that they also sell used cars. The structure of responses is similar to the results obtained in last year's survey; however the greater interest of dealers in selling used cars than last year is doubtless noteworthy.

The largest percentage of dealers, 89%, buys used cars from customers when selling new cars, whereas slightly less than half intermediate in the sale of cars placed into consignment sales points (so-called trade-in) which are owned by dealers operating a sales showroom (40% of responses). The share of dealers purchasing used cars in the trade-in form, which is less than last year, is somewhat perplexing. Together with the expansion of the automotive market, these forms of obtaining cars on the secondary market should become more significant.

Among the remaining forms of obtaining used vehicles, purchasing on the Polish market (32%) and imported from abroad (21%) dominated. Both of these gained greater popularity than last year.

Graph 7. If you sell used cars in your showroom/network of showrooms, please specify the source from which they originate.



#### COMMENT

Following the trends in the Polish economy, where most purchases of passenger cars are used cars, dealers cannot ignore this market segment. Having an appropriate sales infrastructure, they have an easy task, while buying used cars from their customers when selling new cars could be an excellent incentive supporting sales of new passenger cars.

The share of imported cars in dealer sales is equally significant. Due to the fact that the Polish zloty has been gaining value until recently, import of cars, both from the EU and from the USA, became even more profitable. This year, the share of cars that are not older than four years in total import increased. This category included quite a lot of new or nearly new cars, which resulted in lower sales in dealers' showrooms.

#### Marcin Dziamski

Consultant, Assurance and Advisory Services  
PricewaterhouseCoopers

The latest statistics show that the import of used cars is still growing (by approx. 21% in the first six months of 2008)<sup>1</sup>. Therefore, it seems that this line of dealers' business will continue to grow fast and, in addition to the sales of new cars, generate more and more revenues for car showrooms.

On the other hand, import is less and less profitable due to the growing exchange rate of the euro. The Polish zloty has gone down considerably since August, when EUR 1 was approx. PLN 3.2, and USD 1 was just above PLN 2. The import of used cars may slow down a little should this tendency continue.

<sup>1</sup> Special Automotive Report, p. 21

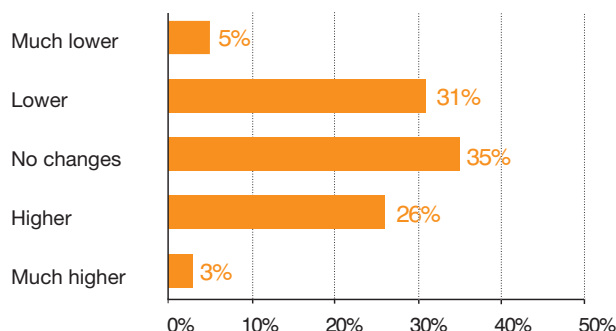
## Economic description of the dealer

### Margins in the passenger car segment

Increasingly fewer dealers are satisfied with their margins

Neutral responses of “no change” dominated the responses from the respondents when asked about the level of margins they applied in the years 2004–2007 in the case of passenger car sales compared with the previous year, with a simultaneously symmetrical distribution of responses between reducing and increasing margins.

Graph 8. How did your margins look in the segment of passenger cars (compared with the previous year)?



In previous years, the trend to leave margins unchanged gradually declined, together with the greater inclination of dealers to increase margins. Although there was still a relatively large group (49% of respondents) of dealers in 2004 maintaining margins at an unchanged level, in 2005, it amounted to 34%, while in 2006 it was just 21%. At the same time, the percentage of dealers satisfied with their margins was gradually increasing: a total of 20% in 2004, 21% in 2005 and 35% in last year's survey. The results of the current survey can indicate a change in the trend in this area: the proportion of those dissatisfied with the margins is significantly higher than it was in previous years, with a clearly higher proportion of dealers keeping margins unchanged and simultaneously with a lower proportion of dealers disclosing an improvement in margins.

Over the successive years for which these results were gathered, we observed a clear relationship between the above question and the dealer's financial situation. Usually, if the respondent specified the level of the margins in the given year as being far better or slightly better than in the previous year, he specified his financial situation in a similar manner. A similar relationship can be observed in the case of the respondents for whom the margins in the given year appeared slightly worse or much worse. This relationship is still present in the current survey: of the dealers specifying their situation as much better, everyone considered their margins as far higher (100%) and, of those who assessed the situation as slightly better, 42% considered the margins as significantly higher. Similarly, only 6% of dealers assessing their financial situation as slightly worse assessed their margins as better, while 20% of those assessing the financial situation as significantly worse considered their current margins as better (compared with last year).

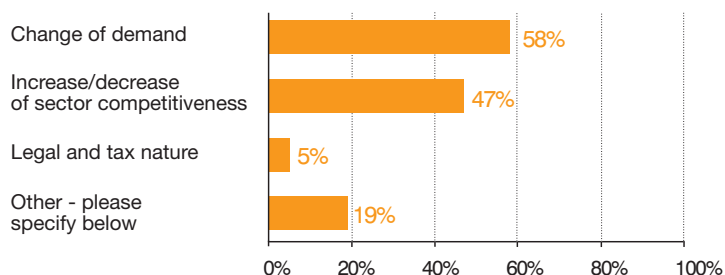
### Reasons for changing margins

Similarly, just as last year, the climate dictates the margins, but with a significant influence of competition

In analysing the percentage structure of responses to the question regarding the most frequent reasons for changes in the margins applied, it can be noticed that the most frequently specified reason was the climate on the market: such an answer was given by as many as 58% of the respondents. The second response, slightly less frequently specified, was a change in the sector's competitiveness (47%). Only 5% of respondents believe that the most frequent reason for the changes in the margins applied are tax law conditions. Stabilisation of the market's supply conditions, together with rapid changes on the demand side, determines the level of the margins.

## Economic description of the dealer

Graph 9. What is the most frequent reason for changes in the margins applied?



The respondents also mentioned a number of other factors affecting a change in margins. We chose the responses which were repeated most frequently from among those received:

- strong competition within the brand caused by tight sales plans and the bonus system used, leading to competition with the importer's showroom and other dealers
- competition between brands
- the margin policy implemented by the importer, including the lack of regulations on this in the dealership agreement and pressure to achieve the sales targets, and the importer's or manufacturer's pricing policy.

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### COMMENT

Last year, a certain trend appeared to keep the margins unchanged or even to reduce them, while only a small proportion of dealers decided to increase them.

The appreciation of the zloty doubtless affected the decision to hold margins, which resulted in the dealers profiting. On the other hand, the restrictions on increases arose from the strong competition on the automotive market both within the brands and between them. Similarly, the requirements of the tight sales plans meant that dealers rather maintained the current level of margins.

However, it can be expected that, in the near future, the need to compensate the rising costs of maintenance of automotive showrooms arising from, inter alia, the increase in salaries of the workers employed, will mean that the margins applied will once again need to be increased.

### **Marcin Dziamski**

Consultant, Assurance and Advisory Services

PricewaterhouseCoopers

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## Employment in the showroom

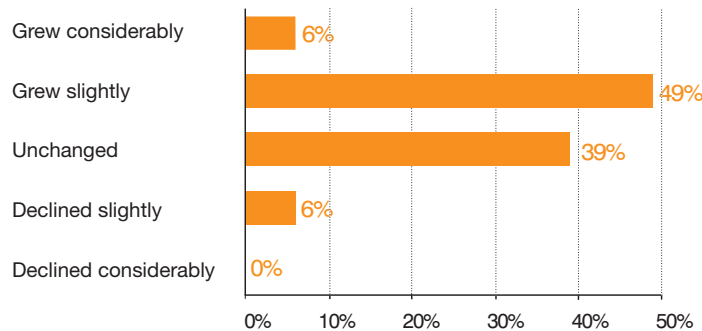
### Increase in employment in the showrooms

In analysing the changes in employment in earlier years, the number of people employed did not change in the vast majority of showrooms. However, a clear decline in such responses has been noticeable since last year: in this year's survey, only 39% of showrooms indicated a lack of change of employment with a decided increase in the share of showrooms in which employment was higher than in the previous year. It is also worth noting that, in each of the periods studied, a larger number of showrooms are observed in which employment increased than those in which it declined.

## Economic description of the dealer

Servicing employs the most people in all departments of dealer activities

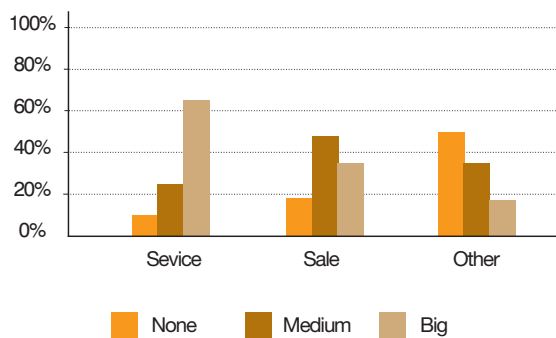
Graph 10. How did employment look in your showroom compared with last year?



Just as in the case of the questions about the change in margins in the years 2004-2006, the shape of employment in this year's survey also reflects the showroom's financial situation. The respondents who marked responses specifying a significant or slight increase in employment in the given year described their financial situation in a similar manner. This state of affairs is similar in the case of dealers who recorded a decline in employment in the given year.

Just like last year, the most labour intensive department is still servicing, which, on average, employs three times more people than the sales department. The number of workers employed in sales is similar to the level recorded in the other departments.

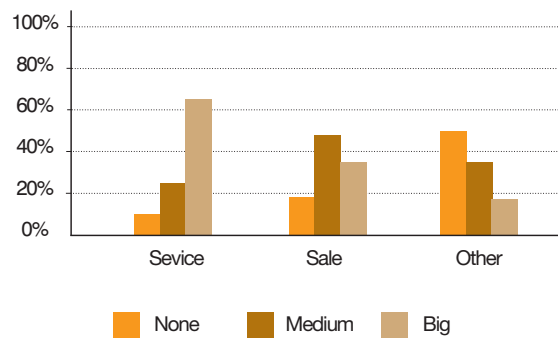
Graph 11. Employment



Employment in the sales departments remained significantly lower than in servicing. Most dealers employ up to seven people in this department (40% of responses). The good climate in the sector is particularly noticeable precisely in the resources of the sales departments. Just a year ago, only 11% of respondents employed more than 14 people in servicing whereas the percentage of these showrooms is currently almost 30%, while a further 31% employ between 7 and 14 employees (last year 25%).

Employment in the remaining departments is slightly lower than in the sales department. Almost half the dealers employ no more than seven employees.

Graph 12. Problems with recruiting employees



The problems with recruiting employees to the servicing department were reasonably similar among the dealers recruiting in towns of various sizes. However, in the case of recruitment to the sales department, this applied particularly to medium-sized towns.

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#### COMMENT

The results of the survey show that employment increased in most showrooms. This trend is hardly surprising in the face of the improving climate and rising sales. However, on the other hand, the dealers taking part in the survey mentioned problems appearing in the recruitment of new workers.

These problems particularly apply to the servicing departments, where the largest number of people employed is generally mentioned. There are several reasons for this, but the most important include the large wave of emigration which affected Poland recently and – related to this – rising salary expectations.

Dealers offering servicing in their showrooms need to expect not only rising salary costs, but also additional outlay on training to introduce new employees and, increasingly, the costs of agencies searching for new employees.

Unfortunately, it cannot be expected that major turnarounds will take place in the short term; however, difficulties with employment are not only peculiar to automotive showrooms.

#### Jakub Lech

Manager, Assurance and Advisory Services  
PricewaterhouseCoopers

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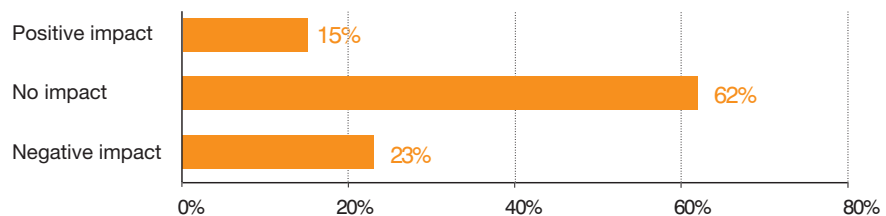
## Market environment



### Impact of the gvo regulations on the functioning of dealers

According to most of the dealers, GVO have no impact on their activities

Graph 13. How do you assess the impact of GVO on your business?



The majority of dealers surveyed (62% of responses) stated that the GVO regulations have no impact on their activities. Interestingly, supportive opinions appeared more frequently (positive impact of GVO on operations) than negative opinions. This is surprising because, during implementation, the regulations encountered a great deal of unwillingness from the market – perhaps the principle of being afraid of the new and the unknown applied at that time.

#### COMMENT

The European GVO regulations, which, among other things, regulate the relations between car manufacturers and dealers, will expire at the end of May 2010. It is up to a report being currently prepared by the European Commission whether and in what form GVO will remain in force. One of the arguments against these regulations remaining in force is the lack of significant effect on the automotive market (which shall be assessed in the report prepared by the European Commission). In a way, our survey confirms such a conclusion (62% of dealers surveyed say that these regulations do not affect their business). At the same time, it also seems that Brussels will yield to the pressure from big automotive companies, which do not benefit from GVO in any way.

#### David Green

Partner, Automotive Group Leader, Assurance and Advisory Services  
PricewaterhouseCoopers

According to the expectations of the Polish Office of Competition and Consumer Protection (UOKiK), the cancellation of the GVO will have highly negative consequences on the automotive market, since it is threatening the dismissal of many thousands of employees of unauthorised repair stations and a significant increase in the costs incurred by vehicle owners. Therefore, the UOKiK applied to the European Commission to extend the validity of the GVO Regulation.

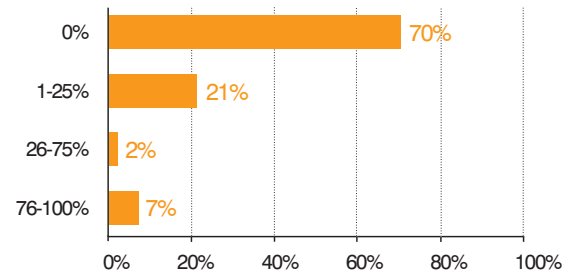
## Market environment

## Popularity of substitutes of original parts

## Increase in interest in original parts

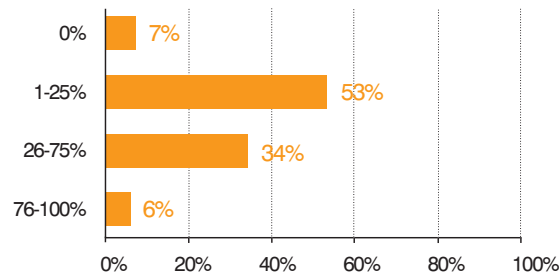
However, it is difficult to ignore the fact that what is a threat to independent garages is simultaneously an opportunity for further development of servicing by passenger car dealers (ASO). The difficult access to the technical data of vehicles means that only authorised service stations are appropriately equipped and prepared with the necessary knowledge. The question only remains as to whether the normal user of four wheels will benefit from the reduction in competition.

Graph 14. How frequently do customers use substitutes of original parts in guarantee servicing?



The analysis of the structure of responses to this question indicates that customers of the vast majority of showrooms do not use substitutes in the case of guarantee repairs. The significance of original spare parts clearly increased over the past year. The customers of 54% of showrooms used only original spare parts in 2006, whereas this proportion has increased to 70% at present.

Graph 15. How frequently do customers use substitutes of original parts in post-guarantee servicing?



## In larger cities, customers use original parts more frequently, both in guarantee and post-guarantee repairs

The structure of responses on the frequency of using substitutes of original parts in post-guarantee repairs differs significantly from that regarding guarantee repairs. Although 7% of service facilities do not use substitutes, which could be caused by a lack of them, more than half of showrooms (53%) indicate that occasional customers (1–25% of customers) do use substitutes.

A unique qualitative breakthrough took place here. Even last year, the largest group of showrooms was those in which between 25% and 75% of customers used substitutes of original spares in post-guarantee repairs, while 9% of dealers surveyed indicated that more than three quarters of drivers use substitutes. Doubtless, customer awareness has increased and subsequently the inclination to use original parts has also increased, even in post-guarantee repairs.

In analysing the results of the responses to the above question, it can be noticed that, in larger cities, customers use original parts more frequently, both in guarantee and post-guarantee repairs.

## Market environment

### COMMENT

Nobody should be surprised by the increase in interest in original spare parts, both in guarantee and post-guarantee servicing, all the more so that it is most visible in large cities, where increasingly affluent customers buying increasingly expensive, better equipped cars can afford to use original spare parts – they do not want to take risks by using substitutes. Another element which influences the increase in interest in original spare parts is the increasing number of vehicle fleets. In their case, the majority of servicing is conducted with the use of original parts. The appreciating zloty and hence the decline in prices of parts also contributed to this state of affairs. It can be presumed that the trend being observed will become greater together with the increasing affluence of Poles and the further expansion of car fleets.

### Piotr Michalczyk

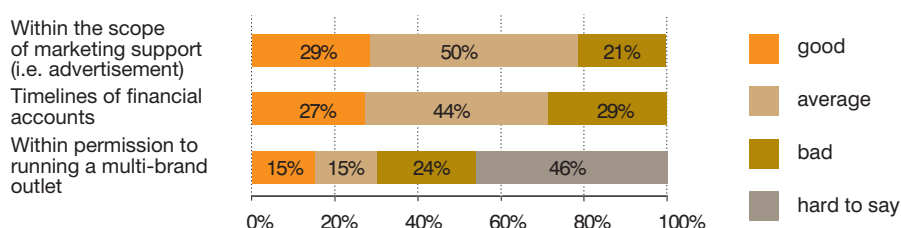
Senior Manager, Assurance and Advisory Services  
PricewaterhouseCoopers

## Cooperation with the national distributor

Of the areas of cooperation with the distributor assessed, the worst results are for punctuality of settlements

The respondents assessed the cooperation with the national distributor in three areas: marketing support, punctuality of settlements and multibrand sales.

Graph 16. How do you assess the cooperation with the national distributor?



## Marketing support

Just like last year, the dealers assess the support in this area as average

## Punctuality of financial settlements

A decided increase in dissatisfaction of dealers with punctuality of financial settlements

## Multibrand sales

The largest group constituted dealers who assessed the cooperation with the national distributor in the area of marketing support as being average (50%). This group was however dominated by the respondents satisfied with the cooperation. It should be noted that, compared with last year, the share of positive assessments declined, just like the percentage of negative opinions.

A serious problem recorded in this year's survey is the matter of punctuality of settlements of distributors with the dealers. Last year, the share of positive assessments of the punctuality of financial settlements with the national distributor was 38%, with a level of negative opinions of 17%. Therefore, although the cooperation regarding punctuality of financial settlements was then best assessed among the aspects analysed, this year, the results give rise to certain concerns. The proportion of positive assessments decidedly dropped with a strong increase in negative opinions and an almost unchanged share of neutral assessments.

The matter of cooperation with the national distributor was analysed for the first time this year in the context of multibrand sales. However, the results indicate the relative insignificance of this subject to dealers. Almost half of the respondents (46%) chose the response "difficult to say" which, in the context of the aspect of cooperation analysed, can largely mean the non existence of cooperation with the distributor in this area.

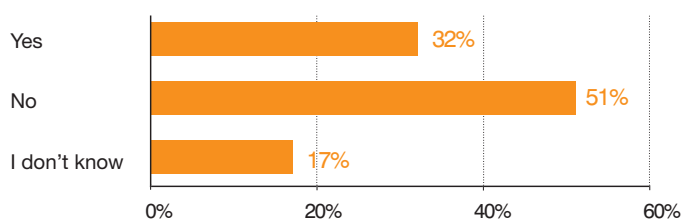


## The future

### Plans for quantitative expansion

Dealers employing Managerial staff, employed from the market, are more inclined to increase the number of showrooms

Graph 17. Are you planning to increase the number of showrooms managed over the coming year?



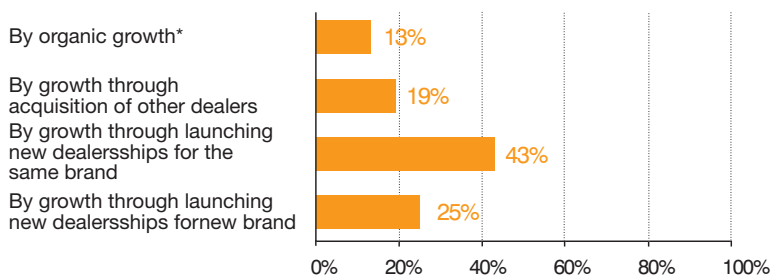
The inclination of dealers to increase the number of showrooms managed over the coming year (2009) only increased slightly over the past year. Although, on the one hand, the proportion of dealers declaring plans to expand the sales network increased to 32% (last year it was 27%), on the other hand, uncertainty, measured as the proportion of undecided people, also increased.

As mentioned earlier, a relationship is noticeable between the method of managing the showrooms and the willingness to increase their quantity next year. Of the dealers not planning to operate new showrooms, decidedly more operate a family business, while those managing through a managerial staff dominate those who want to increase their number.

The short-term perspective is seen by the dealers to be temporary and is not a determining factor in their decision-making on the expansion of the sales network. Similarly, dealers who are not planning to increase the number of showrooms are more frequently sceptical with regard to sales growth in the future.

If dealers are considering expanding activities, this is mainly in connection with the same brand

Graph 18. In the case of expansion plans, how do you intend to expand?

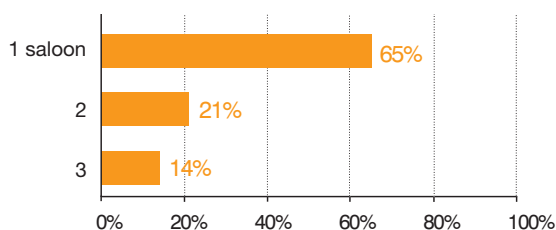


## The future

The majority of people declaring a willingness to increase the number of showrooms operated are planning to expand through quantitative growth – opening showrooms of the same brand (43%). Lower down the list, some respondents are planning expansion within new brands and the acquisition of showrooms of other dealers. Organic growth, namely, with the use of internal funding, which gained greatest popularity last year because the question was formulated differently, is currently the least frequently specified form of expansion.

## Plans for quantitative expansion/number of showrooms

Graph 19. I am planning to increase the number of showrooms



Among the responses of the respondents planning quantitative expansion – compared with last year's survey – there is a greater inclination to open a single showroom than two of them. Of the dealers wanting to expand activities, 14% are planning to increase their sales network by as many as three showrooms.

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### COMMENT

In analysing the development paths specified, the opening of new sites for the same brand dominates. This direction is reasonably safe because of the knowledge of the specific nature of the brand and the developed terms of cooperation with the national distributor. However, approximately one quarter of dealers indicated that they are considering new locations, but for other brands. This may partially arise from the willingness to try to work with another distributor and, in a way, diversify activities regarding the brands marketed. On the other hand, new brands entering the Polish market, such as Mazda, Bentley and Infiniti or the reasonably exotic brands from China, are encouraging to dealers. In a way, one method of combining plans to expand activities with the same brand or a new brand for a given dealer is the opening of new multibrand showrooms. This is an increasingly popular method of conducting dealership activities and its further expansion can be expected, as already confirmed in the results of our survey.

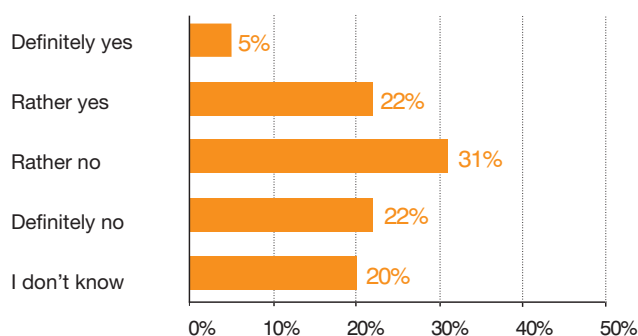
### Piotr Wyszogrodzki

Director, Assurance and Advisory Services  
PricewaterhouseCoopers

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## Plans for qualitative expansion / multibranding

Graph 20. I am currently planning to reformat my showrooms into multibrand showrooms



## The future

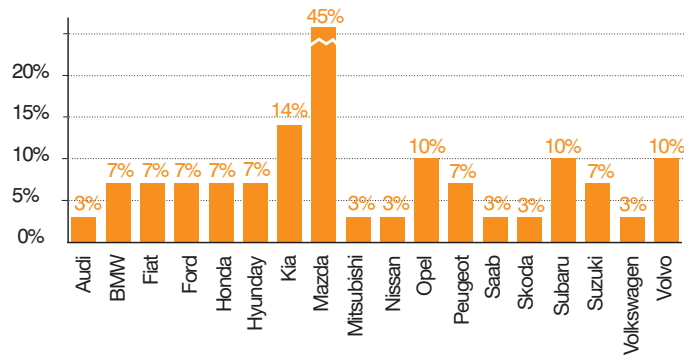
Just as in the case of last year's survey, around one fourth plans to reformat their showrooms into multibrand. Despite the group of those not planning this is still big, we can expect dealer's attitude to this will be changing.

Dealers behaviour could be explained in two ways. On the one hand, it could suggest a polarisation of attitudes arising from increasingly greater market segmentation. On the other hand, the drop in inclination to transform current showrooms into multibrand showrooms suggests the willingness to retain the status quo, almost certainly as a result of the growing uncertainty regarding perspectives of the climate on the market. A total of 27% have decided to change or at least admit such a possibility. Despite these shifts in the structure of responses (more conservative attitudes), the results are similar to last year's, which indicates a lack of significant change in preferences of the respondents participating in the surveys.

Mazda and Kia are most frequently considered by dealers planning to reformat their showrooms into multibrand showrooms

In this year's survey, the respondents planning to reformat their showrooms into multibrand showrooms were additionally asked about the brands they are considering. It should be remembered that the responses obtained only applied to 27% of all respondents because of the limitation of the question to only those respondents who gave a positive answer to the question about their willingness to transform their showrooms into multibrand showrooms.

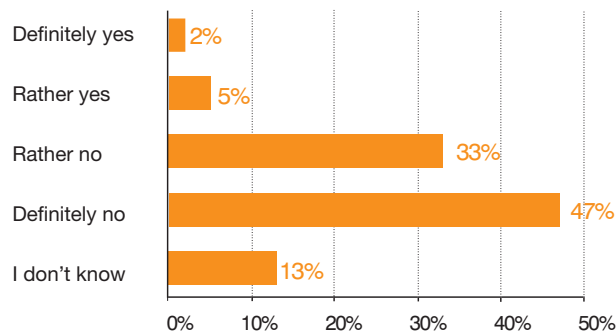
Graph 21. Which brands are you considering in the reformatting of the existing showrooms into multibrand showrooms?



## Plans to exit from the market

Majority of dealers don't think about leaving the business

Graph 22. Are you considering exiting the automotive industry over the coming year?

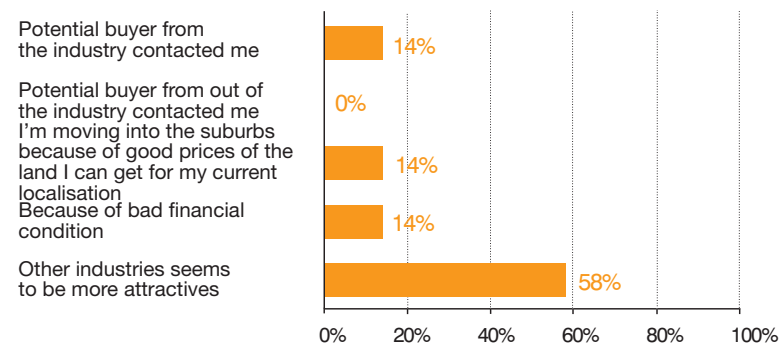


## The future

As many as 80% of respondents are not considering or probably not considering exiting from the automotive industry over the coming year. Only 7% are considering such a solution, but to a different degree of determination. However, 13% of respondents have no opinion on this matter. The structure of results is almost identical to those obtained a year ago. The only difference fundamentally boils down to the stronger conviction of dealers about the willingness to remain on the market: the decline in the number of respondents doubting their willingness to exit from the market and undecided people translated into a decided increase in the number of dealers convinced that they want to remain in the industry.

The dealers who have been conducting activities for more than nine years are the main respondents who are considering the possibility of exiting from the automotive industry in the coming year. Similarly, their showrooms are more frequently managed in the form of a family business. Just as last year, the reasons for the willingness to exit from the industry include fundamental factors of conducting business: a poor financial situation in recent years, as well as poor cooperation with the national distributor. A reversal of these relationships can be observed in the case of the assessments of respondents who do not intend to leave the automotive industry: they have a good financial situation and greater optimism with regard to an increase in sales in the future. Likewise, these respondents tend to have better relationships with the national distributors.

Graph 23. If you are considering exiting the industry, then how?



The automotive dealers who are planning to change the profile of their activities mention the relatively greater attractiveness of other sectors as the major potential source of their decision.

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### COMMENT

In analysing the results of the construction industry in recent months, we observed the slow down to a certain extent, although the need for attractive sites which passenger car dealers often have, will continue to be in great demand and hence generate tempting land prices. Therefore, it can be expected that this trend will continue and, in line with the Western European model, the dealership network will expand in city suburbs. The low percentage of dealers intending to more or less decidedly withdraw from operating showrooms is a good omen for the future of the automotive industry. The slow pace of consolidation on the market, which is restricted by the entrance of new players, should not threaten the activities of the mechanisms of competition, while those most interested, namely the customers, will certainly not lose out.

### David Green

Partner, Automotive Group Leader, Assurance and Advisory Services  
PricewaterhouseCoopers

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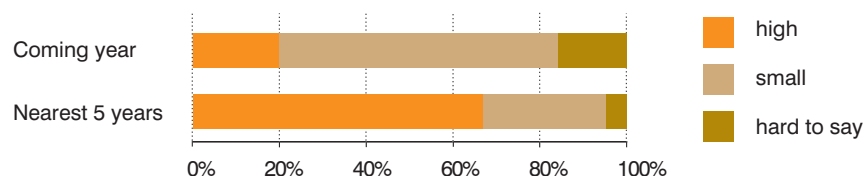
## The future

### Opportunities for sales growth

There is still lack of optimism with regard to opportunities for sales growth in the coming year

The respondents expressed their opinions about the opportunities for growth in sales of passenger cars over the coming year and the coming five years.

Graph 24. How do you assess the opportunities for sales growth over:



Dealer expectations express clear pessimism with regard to the outlook for the coming year. Almost two thirds of respondents assess the opportunities for sales growth as small. Only one in five respondents is expecting a further increase in sales.

Over the medium term (five years), dealers are already declaring greater optimism. 60% of them suggest significant opportunities for sales growth over this time horizon. Only one in three respondents views this matter pessimistically.

Comparing this year's results with those obtained last year, a decidedly greater similarity is noticeable in the profiles of the responses regarding the medium term (five years) than in the responses regarding the outlook for the coming year. In the short term, the respondents assess the opportunities for market growth more pessimistically than last year.

The respondents who do not believe in sales growth next year usually only have one showroom in a rather difficult financial situation and employ a relatively small number of employees. In turn, those who consider the opportunities for sales growth to be high, recorded better financial situation and better assess their relationships with distributors.

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#### COMMENT

The optimism of dealers recorded last year regarding growth in sales of vehicles in the short term clearly declined this year. This is no wonder, because last year contained many events that could not affect the short-term views in any other way. The hope of a reduction in imports of used cars proved unjustified; in fact, the number of imported vehicles is breaking further records. It also cannot be expected that this matter will change in the short term. The problem of the possibility to offset the whole of the VAT, which is what entrepreneurs and dealers are impatiently awaiting, has still not been resolved. And despite changes in plans being publicised increasingly frequently, nobody now appears to believe this. The other equally important factors affecting such a view of the future include an increase in maintenance costs, including dramatically rising fuel prices, turbulence on the loans market arising from an increase in interest, as well as a drop in the income of investment funds.

#### Piotr Wyszogrodzki

Director, Assurance and Advisory Services  
PricewaterhouseCoopers

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# Opinions

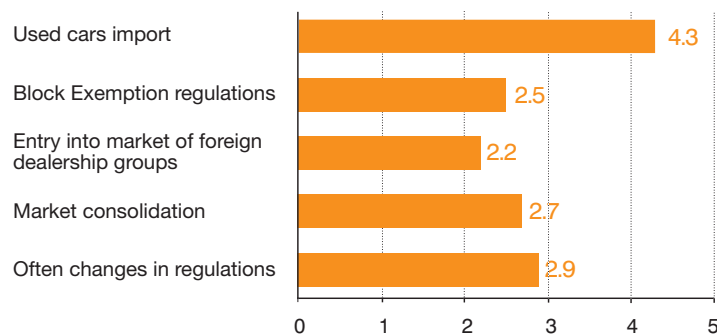


## Areas of the greatest impact on the business of dealers

Rising imports of used cars is still mostly affecting the activities of passenger car showrooms

According to an analysis of the perceived impact of the factors mentioned in the survey on car dealers' business in Poland, the inflow of used cars remains the biggest problem. The second most important issue is the lack of legal and tax regulations creating good conditions for the sector's development, for which the whole industry has been lobbying for many months. The other factors, i.e. market consolidation, entry of foreign dealer groups into the Polish market, and European regulations concerning block exemptions, have (according to our respondents) a medium effect on their condition.

Graph 25. In your opinion, which of the areas mentioned below have the greatest impact on the dealer's business in Poland (average of the assessments)



## Dealer consolidation

In viewing the percentage structure of responses to the question regarding the possible impact of dealer consolidation on the situation of the automotive industry, it can be noticed that the response of "elimination of the weakest players" was most popular. The second most frequent response given was that consolidation could result in a reduction of the competitiveness of individual dealers. Less than 10% of respondents believe that the weakest showrooms will have a chance of surviving as a result of consolidation.

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COMMENT

VAT

The VAT regulations have a significant impact on the number of new cars sold in Poland. Although, as a rule, the tax should be neutral for entrepreneurs, the rule is often not complied with in respect of vehicles purchased by Polish taxpayers.

Two basic issues can be distinguished in this respect, i.e.:

- as a rule, it is impossible to deduct the full amount of VAT paid on the purchase of cars with an admissible total weight of up to 3.5 tons (in such case, entrepreneurs can only deduct 60% of the tax paid, but not more than PLN 6,000), and
- they cannot deduct VAT paid on the purchase of fuel (petrol, Diesel oil or LPG) used in such vehicles.

Initiatives undertaken on behalf of taxpayers, aimed at amending the existing VAT Act which would remove the said limitations for deducting the VAT paid, have not been accepted and understood by the Ministry of Finance. Consequently, the amendments to the VAT Act which were proposed by the Government and are now subject to Parliamentary work, do not foresee any such changes.

Nevertheless, for car dealers who look for opportunities to increase the sale of passenger cars, as well as for entrepreneurs that use such cars in their business activities, the position of the European Court of Justice (ECJ) in Luxembourg on the compliance of the said limitations with the Community regulations, may be important.

The ECJ is expected to issue a judgment determining this issue within the coming months.

If the ECJ rules that as from Poland's accession to the European Union, the Polish legislator did not have the right to impose such limitations, this could result in the unfavourable regulation being changed.

**Excise duty and environmental fees**

**Excise duty**

The implementation of the new regulations of the Excise Duty Act is planned for 1 January 2009. The regulations assume that the procedure relating to the taxation of passenger cars will be simplified, i.e. the multi-stage process for collecting the tax (applicable when a car has been subject to several transactions before its first registration in Poland) will be abandoned.

The new regulations stipulate that the excise duty will only be collected once, at the moment of:

- intra-Community acquisition or importation of a car in Poland – if the car has been brought in from abroad;
- the first sale within the territory of Poland (before the first registration of the car) – if the car has been manufactured in Poland.

This change should result in reducing the administrative burden on the part of the dealers who only handle the sale of passenger cars which were imported to Poland or manufactured in Poland by third parties. Such dealers will no longer be obliged to register for excise duty purposes and will not be obliged to file monthly declarations in this respect. They will no longer be obliged to pay excise duty on the cars sold, either.

## Opinions

Nevertheless, these duties will still apply if a given dealer is an entity performing intra-Community acquisition or importing cars to Poland.

According to the latest news, there are also plans of increasing the existing excise duty rate for passenger cars over 2 litres engines from present 13,6% to 18,6%. The excise duty rate for cars below 2 litres engines is to stay at the same level as before.

### Environmental fees

In addition to the excise duty, another factor which has an impact on the costs related to the purchase of a passenger car (and therefore the sale price thereof) is the recycling fee which must be settled before the first registration of such cars.

A recycling fee of PLN 500 must be paid before the first registration of a car in Poland by entities which:

- import a passenger cars;
- perform the intra-Community acquisition of cars, and
- manufacture cars,

that do not ensure having a so-called vehicle collection network.

However, collection of the recycling fee gives rise to certain doubts from the perspective of the Community regulations.

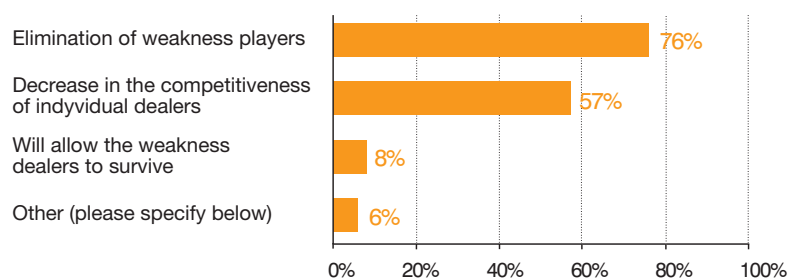
Notwithstanding the above, it is worth mentioning that the European Commission is working on the preparation of new regulations related to the implementation of an environmental tax on passenger cars in the Member States. The amount of the tax would depend on the amount of carbon dioxide released.

### Tomasz Kassel

Director, Tax Department  
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Graph 26. How can dealer consolidation affect the situation in the automotive industry?



However, an overall comparison provides certain observations: primarily, the conviction that consolidation could eliminate the weakest players from the market is currently stronger. The expected worsening of the climate increases concerns about the condition of the business in the near future and similarly – in the context of the expected changes in the level of concentration of the industry – the chances of survival on the market.

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