

Management Case Study Examination

November 2023 – February 2024

Pre-seen Material



Context Statement

We are aware that there has been, and remains, a significant amount of change globally. To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact.

Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.

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Introduction

Cuppcar is a quoted company that operates 214 car dealerships that are spread across its home country of Welland. Each dealership sells new and used cars and related products and services.

Welland’s currency is the W\$. Wellandian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

You are a financial manager at Cuppcar’s Head Office. Your primary responsibilities are associated with management accounting, and you report to Pavarit Chotisin, the Senior Financial Manager, who reports directly to the Finance Director.

Car dealerships


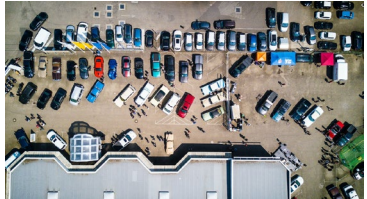
Car dealers sell cars and related products and services to consumers. Dealers can operate as single-location businesses, or they can have multiple sites. Individual sites are referred to as “dealerships”. Generally, each dealership operates with a significant amount of discretion.




New car dealerships are franchised by car manufacturers. Franchises give dealerships the right to sell cars made under their manufacturers’ brands. For example, Barto Motors is a popular car manufacturer that makes several models of cars that are sold under the Barto Motors brand name. Franchised dealerships cannot sell new cars unless they were made by their designated car manufacturer. That restriction does not apply to used cars. New car dealerships can sell used cars from any manufacturer.

Used car dealerships sell only used cars, which can be of any brand.

Dealerships usually have the following facilities:

Showroom 	<p>The showroom is an indoor space that can be used to display cars and promotional materials.</p> <p>Sales staff usually work at desks in the showroom or in offices immediately beside it.</p>
Car lot 	<p>Showrooms are rarely large enough to display all cars held by dealerships. Most dealerships have an outside space that can be used to display the cars that cannot be accommodated in the showroom.</p> <p>The car lot can also have space set aside for customer parking.</p>

<p>Workshop</p> 	<p>Car dealerships are equipped to maintain and repair cars.</p> <ul style="list-style-type: none"> • New and used cars must be checked and adjusted before they can be released to customers. Customers may also require their cars to be fitted with extras at the time of purchase. • It may be necessary to repair defects in cars that were not detected at the time of sale. • Customers may wish to pay the dealership to carry out repairs if their cars break down or suffer accidental damage. • Cars must be serviced at regular intervals to ensure that they are safe to drive and also to extend their lives. Car manufacturers also require regular servicing or their warranties will be void.
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New car sales

Car manufacturers sell their cars to franchised car dealerships, who then resell those cars to customers. Car manufacturers benefit from this arrangement because they can focus on the design and manufacture of their cars. For that reason, they are often referred to as “original equipment manufacturers” (“OEMs”) in the car trade.



Franchises are granted to dealerships that can meet the strict criteria set out by car manufacturers, which include:

- suitable premises for displaying cars
- experienced and competent sales staff
- properly equipped and staffed workshops

Car manufacturers monitor the performance of established franchised dealerships. Customers are asked to complete questionnaires or participate in a telephone poll about their experience of buying a car or, as time passes, of having their car serviced or repaired by their dealership. Poor performance can be costly. Dealerships receive

bonuses, often referred to as “sales incentives”, for achieving targets for sales and customer satisfaction. Failure to meet those targets can result in a reduced bonus. If performance is consistently poor, then dealerships can be stripped of their franchises.

Franchises grant a degree of exclusivity for both dealerships and manufacturers. Car manufacturers restrict the number of franchises within any given geographical area so that each dealership has its own sales territory for its designated brand. In return, franchised dealerships restrict sales of new cars to that brand. A car sales business can have multiple new car dealerships selling different brands in the same area, possibly even adjacent to one another. They cannot sell multiple brands of new cars from the same dealership.

Car manufacturers decide on the quantities and models of new cars that will be delivered to each dealership. Deliveries effectively constitute sales made on normal trade credit terms. Car manufacturers do not necessarily permit dealers to specify larger allocations of more popular models or fewer of less popular cars. Car manufacturers are keen to ensure that customers can see their entire range of models whenever they visit their local dealerships.

The selling price of new cars may be based on the car manufacturer’s recommended retail price for each model (“MRRP”); although this is indicative rather than mandatory, and dealerships are free to adjust that price if they wish. There is an element of profit for the

dealership built into the MRRP, although that can be as little as 2-3% of the price invoiced to the dealership for economy brands, increasing to 10% for luxury brands. The margins charged on the sale of new cars are insufficient to cover dealership overheads. Fortunately, the sale of each new car creates further opportunities for profit:

- Car manufacturers pay bonuses that reflect the ability to meet or exceed sales targets (monthly, quarterly or annual) in terms of the number of new cars sold. Those bonuses can significantly augment the profit from the sale of new cars, provided the targets can be met.
- Most customers trade in their old cars and dealerships can usually resell those at a profit.
- There may be commissions on the sale of extended warranties and other products.
- Hopefully, customers will bring their new cars back to the dealership for servicing and repair.

The average selling price of a new car in Welland is W\$20,000. The average gross profit per unit is W\$2,400, including sales incentives paid by car manufacturers after the period end. New cars vary in price from W\$14,000 to W\$40,000 for popular models, although there are much more expensive cars that sell in smaller numbers.

Welland has 5,200 franchised new car dealerships. These dealerships employ a total of 620,000 people.

There are 30 popular brands of new cars on sale in Welland, each of which has a network of dealerships across the country. The five largest brands (car manufacturers), in terms of dealerships, are:

	Number of dealers in Welland
Barto Motors	370
Mancars Auto	410
Kopower	394
Rodteres	387
Wendwache	382

Fleet leasing

Some large car dealers offer a fleet leasing service to corporate customers. The customers specify the models and numbers of cars that they require. The dealer then has its dealerships supply those cars, servicing and repairing them as necessary for the duration of the lease.

Dealerships can count cars supplied as fleet cars as sales, which helps them to meet car manufacturers' sales targets.

Leased cars are usually supplied under an operating lease arrangement. At the conclusion of the lease, the cars are returned to the lessor and are usually sold through the company's dealerships as used cars.

Used car sales

Used cars have previously been owned and driven by one or more previous owners. Some car dealerships sell only used cars, but new car dealerships also sell used cars as an additional source of revenue and profit.

Car dealerships accept customers' existing cars in part-payment for new or used cars. Customers then pay the difference between the price of the car that they are purchasing and the value of the car that they are trading in. The value of part-exchange cars is a matter for negotiation between customers and dealership sales executives.

The value of a used car is determined by several factors, including the popularity of the model, its age, wear and tear (measured by the distance travelled) and the car's mechanical condition and the condition of its bodywork. The average selling price of a used car in Welland is W\$16,000, for used cars that are up to four years old, although there is a significant variation between the prices of older economy models in poor condition and better-quality cars that have had only one previous owner.

Dealerships can acquire used cars in a number of ways:

NEW CAR DEALERSHIPS SOURCE OF USED CAR INVENTORY



Car dealerships often purchase used cars from other dealerships ("trade purchases") or from individuals ("retail purchases"). These are chosen on the basis of their suitability for the dealerships' markets and so can usually be sold at a profit.

Trade purchases are made from other dealerships who wish to dispose of cars that are not suited to their customers. For example, a new car dealership might have taken a poor-quality trade-in that would look out of place on the dealership's car lot. A used car dealership might buy such cars at wholesale prices. Similarly, new car dealerships might be keen to buy good-quality used cars from used car dealerships that do not usually trade in expensive models.

Retail purchases are made from car owners who wish to sell their cars, perhaps because of financial difficulties. New car dealerships will often purchase good quality used cars, especially if they are from the same brand as the new cars that they sell.

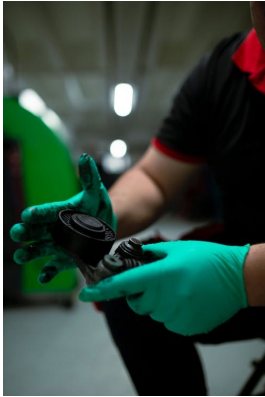
New car dealerships evaluate used cars that they acquire as trade-ins and decide whether to sell them as used cars from their car lots. Cars that do not meet a dealership's standards are usually sold at wholesale prices to used car dealerships.

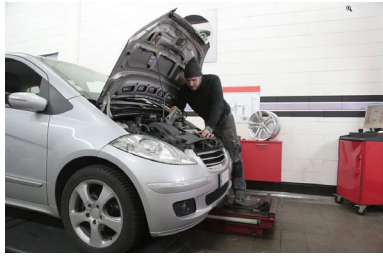


The profit on used car sales varies, but it can exceed the profit on new cars of the same model because each car is unique, and so dealers are free to charge as much as customers

are prepared to pay. The average gross profit from the sale of a used car that is up to four years old is W\$2,600.

Parts and service

New car dealerships earn much of their profit from sales of parts, servicing and repairs:

<p>Part sales</p> 	<p>Parts can range from accessories that owners buy to personalise their cars to replacements for components that have worn out or are broken.</p> <p>Car manufacturers set strict conditions for the quality of parts used in the maintenance and repair of cars that are still under warranty. Dealerships must use parts made by the car manufacturers themselves or by the car manufacturers' approved makers. For example, Barto Motors makes and sells body panels as replacement parts for the repair of collision damage. Barto Motors also lists approved manufacturers for replacement parts and consumables, ranging from brake pads to engine oil. Most of those manufacturers supply the parts that are used in the car's construction.</p> <p>Dealerships often sell parts to local garages who require parts quickly in order to complete a service or a repair.</p> <p>Accessories are often sold along with the car itself. Some dealerships accessorise their cars with floor mats and boot liners in order to make them more attractive to buyers and then incorporate the price into the car's total selling price.</p> <p>Parts can also include merchandise such as hats, t-shirts and bags that carry the car manufacturer's branding.</p>
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<p>Servicing</p> 	<p>Cars require regular maintenance in order to prevent breakdowns and to minimise wear. Most cars require an annual service, during which various checks and adjustments are carried out and lubricants and hydraulic fluids are replaced. Car manufacturers also specify the maximum distance that can be driven between services, so a car may have to be serviced, for example, every 15,000 kilometres or every 12 months, whichever comes sooner.</p> <p>New car dealerships attempt to sell servicing to customers who have bought cars from them. Customers are often attracted by the fact that the dealerships use good quality parts as recommended by the manufacturer and workshop staff have specific training in the maintenance and repair of the cars that the dealership sells.</p>
<p>Mechanical repairs</p> 	<p>Repairs may be required because of damage caused by an accident or the failure of a component. These are generally non-routine in nature and so customers may prefer to have their cars repaired at new car dealerships, whose workshop staff are experts in their models of car.</p> <p>The cost of repairs is often covered by a car manufacturer's warranty, which means that the dealership invoices the car manufacturer instead of the customer.</p> <p>Occasionally, a car manufacturer announces a recall of a model that may be subject to a known defect. In that case, customers are required to return their cars to one of the car manufacturer's new car dealerships for evaluation and/or correction. Work done in response to such recalls is charged to the car manufacturer.</p>
<p>Bodywork repairs</p> 	<p>Car bodies can be scratched or dented because of accidents. Car manufacturers require their dealerships to have the necessary equipment and skilled bodywork staff to repair any such damage.</p>

Finance and insurance

Car dealerships can earn commissions for introducing car buyers to lenders and providers of other services such as extended warranties. These are referred to as "finance and insurance".

Customers often require personal leases or loans to finance their acquisition of a new or used car. Car dealerships generally have a relationship with a bank or a leasing company that enables them to assist customers to complete an application for a loan or a lease. Banks pay commissions to dealerships whenever such applications are accepted.

Dealerships also recommend service plans and extended warranties to customers. A service plan involves customers paying in advance for the car's routine servicing and maintenance. That might involve a lump-sum advance payment that will cover servicing costs for, say, 3 years (or the first three major services, if that comes sooner). Alternatively, the scheme might involve a monthly payment over the period covered by the plan.

Service plans are usually offered by car manufacturers who pay dealerships a commission when they persuade customers to buy a service plan that covers their new car.

Extended warranties supplement the standard guarantee offered on a new or used car. Car manufacturers give standard warranties to repair manufacturing defects, typically for 3 years from the date of sale. Those warranties are transferrable when cars are sold, so a customer buying a 2-year-old car would benefit from the remaining year of its original 3-year warranty. Customers can, if they wish, pay to extend their warranty at the time of purchase.

Extended warranties can be offered by warranty providers who pay dealerships a commission when a customer buys one of their warranties. Some dealerships offer their own extended warranties. The sale of extended warranties can be profitable if no claims are made against the policy. The warranty provider is, however, liable for any costs associated with rectifying a fault covered by the warranty.

Staff roles

The responsibilities associated with the operation of a car dealership are shared by a number of individuals. These staff roles are common throughout the industry:

Dealership principal	<p>The dealership principal is effectively the general manager in overall charge of the dealership. Dealership principals are usually employees, although the owner of a small independent dealership might undertake that role.</p> <p>The dealership principal's responsibilities include:</p> <ul style="list-style-type: none"> • Supervision of departmental heads • Oversight of inventories of cars and parts • Implementation of marketing and promotional activities, in compliance with corporate strategy • Maintaining customer satisfaction, including addressing complaints • Oversight of finances • Compliance with regulations, including terms set out by car manufacturers <p>Dealership principals are usually rewarded on the basis of salaries supplemented by performance-related bonuses.</p>
Sales managers and sales executives	<p>Sales executives are responsible for negotiating sales with customers. This requires sound product knowledge and the ability to match customers' needs with cars that are in inventory or that can be obtained.</p> <p>It may also be necessary to negotiate prices with customers who are seeking a discount or an increased valuation for their existing car if that is being offered in part-exchange.</p> <p>Sales managers have oversight of the car sales team. They monitor the performance of the sales executives. They also authorise any</p>

	<p>inducements that sales executives wish to offer in order to complete a sale, such as discounts or generous part-exchange prices on customers' existing cars.</p> <p>Sales staff generally receive a moderate salary that is supplemented by performance-based bonus payments.</p>
Business managers	<p>Sales executives handle the "front end" of a car sale, which ends once the customer has agreed to buy the car. Business managers handle the "back end", which involves negotiating the sale of additional products and services, including financing, service plans and extended warranties.</p> <p>Business managers are usually rewarded in a similar manner to sales staff.</p>
Service advisers and workshop staff	<p>Car dealerships rely heavily on the revenue generated by their workshops. Most aim to capitalise on the relationship that has been established when customers bought their cars.</p> <p>Service advisers act as a point of contact between customers requiring servicing or repairs and the dealership itself. They book appointments and keep customers informed of the progress of the work and also of any issues that arise. For example, the workshop staff could discover worn or damaged components. Service advisers must be able to inform customers of the implications of any such discoveries for their safety or the reliability of their cars.</p> <p>Service advisers can upsell workshop services to customers in order to generate additional revenue. They might advise them of potentially beneficial preventive maintenance that could reduce the risk of breakdowns, or they might inform them of special offers, such as discounts on new tyres, that are being offered by the dealership.</p> <p>Workshop staff are responsible for the work undertaken on customers' cars. Routine servicing work is charged at a standard price per job that is often set by the manufacturer and applies to all franchised dealerships for a particular brand. For example, there will be a standard charge for replacing oil that will include the cost of parts, labour and overheads and a mark up to generate profit.</p> <p>Non-routine servicing and repairs are priced individually for each job. Workshop staff may detect faults during a routine service that require additional work in addition to the service itself.</p> <p>Service advisers and workshop staff receive salaries.</p>

Cuppcar

Cuppcar was founded in 1964 when members of the Cupp family used their savings to launch a used car dealership. The company grew rapidly, opening further dealerships and moving into new areas.

By the mid-1970s, Cuppcar had established itself as a major car dealer, with more than 40 dealerships. It had started to sell several leading brands of new cars and had a strong reputation for the sale of good-quality used cars and for excellent customer service.

Cuppcar was quoted on the Wellandian stock exchange in 1998. By then, the Cupp family had sold their interest in the company.

There are now 214 Cuppcar new car dealerships, spread across Welland and employing 25,000 staff. Cuppcar has at least two dealerships for each of the popular car manufacturers whose cars are sold in the country.

Cuppcar is one of the largest new car dealers in Welland, both in terms of dealerships and revenue. The company invests heavily in product training and in sales training for all customer-facing staff.

Each of the company's dealerships is designed to create a positive impression. Each dealership's signage shows both the Cuppcar logo and the logo of the car manufacturers whose cars it sells. The dealerships are large and are designed to attract customers. They are located alongside main roads, often close to motorway junctions, making them convenient for customers.

Most of Cuppcar's customers research the purchase of a new or used car online and then visit their local dealership. It is, however, becoming increasingly common for customers to choose and purchase cars online for home delivery.

The dealership principal in charge of each dealership is granted a significant amount of discretion over operational matters, including pricing of new and used cars, recognising that each brand of car may require a different sales approach and that regional differences can affect the approach taken to sales.

Cuppcar's new car sales

Cuppcar has varying numbers of dealerships for each popular brand. For example, it has 17 dealerships selling the Barto Motors brand and two that sell Limmolux. Barto Motors is one of Welland's most popular brands, and Cuppcar is keen to have as many dealerships selling its cars as possible. Limmolux is an exclusive brand of luxury cars, with a limited market. Two dealerships are sufficient for Cuppcar to cover the whole of Welland.

Cuppcar is in competition with other dealers for new car sales. Barto Motors has 370 franchised dealerships in Welland. These are distributed across the country and are at least 5 miles apart, but they still compete with one another because customers are generally willing to drive to a more distant dealership that can offer their choice of car at a good price. For example, there are six Barto Motors dealerships in Central City, two of which belong to Cuppcar and the other four to competing chains of dealers. Cuppcar's dealership principals pay close attention to the activities of rival dealerships (and the activities of other Cuppcar's dealerships in their general vicinity).

Cuppcar earned an average gross profit of W\$2,913 per new car sold including manufacturers' bonuses during the year ended 31 December 2022.

Cuppcar aims to maximise sales in a number of ways:

Presentation	<p>Every dealership has a receptionist who greets potential customers and directs them to available sales executives.</p> <p>All incoming emails and telephone voicemails must receive a response on the day of receipt.</p> <p>Sales executives must be smartly dressed during working hours. They are required to be experts in their car brand. They must also be aware of any promotions being offered by Cuppcar or by the car manufacturers.</p>
Customer care	<p>Cuppcar aims to develop a strong relationship with each of its customers, primarily through the aftersales service provided by its workshops. Customers are more likely to buy a new car from a dealership that has been reliable and has offered good value for</p>

	<p>money. Cuppcar aims to exceed expectations in dealing with workshop customers. Cars are washed and polished after each service, at no additional charge to the customer. Any complaints are addressed immediately by the workshop manager, who will attempt to meet the customer's wishes.</p> <p>Service advisers are authorised to offer discounts when customers face large and unforeseen repair bills. This often encourages customers to agree to have the fault rectified immediately, creating revenue for the workshop and generating customer goodwill.</p> <p>Sales executives are expected to generate sales leads by telephoning previous customers to ask whether they are happy with their car and whether they might be interested in changing. If the customer has no immediate plans to replace that car, then the sales executive will schedule a follow-up call after an appropriate interval.</p>
Pricing	<p>It may be necessary to offer a customer a discount against a car's MRRP in order to prevent the loss of a sale to a rival dealership. The margins on new car sales are generally small, so discounts can result in cars being sold at a loss, but that may still make good business sense if the alternative would be the loss of the financial incentive paid by a manufacturer for achieving the target for sales volume.</p> <p>Dealerships can also offer upgrades in order to persuade customers to sign a sales contract. Those could be minor items, such as offering free floor mats or a free tank of petrol, or they could involve replacing a standard item, such as a satnav system, with a more advanced model.</p> <p>Each sale must be approved by a new car sales manager before it is finalised. Approval includes authorising any discounts and agreeing the trade-in value of the customer's old car.</p>
Inventory availability	<p>Cuppcar maintains a current list of new and used cars that are held across the company. That list can be accessed by all sales executives. If a customer is interested in buying a particular model of new car that is not held by the dealership, then the sales executive can check whether another Cuppcar dealership for that brand has the car. Cuppcar's policy is to transfer cars between dealerships if that is necessary to make a sale.</p> <p>Cuppcar can order specific models from manufacturers, although there can be a significant lead time before orders are fulfilled, which can irritate customers. Many car factories are located overseas and so building a car to order and importing it to Welland can take several weeks and possibly even months.</p>
Data analytics	<p>One of Cuppcar's directors has specific responsibility for the management of information technology. The company has a business intelligence system that enables the collection and analysis of data from internal and external sources without having to specify queries in advance or impose a structure on data.</p> <p>Cuppcar's management team frequently uses data mining techniques to identify useful patterns and relationships that can be used to improve revenues and profitability.</p>
Fleet leasing	<p>Cuppcar has a Fleet Leasing Department at Head Office that manages fleet leasing for businesses that require five cars or more.</p>

	<p>These cars are then supplied on an operating lease, usually for 2 years.</p> <p>These cars are returned to Cuppcar at the end of the lease. They are usually in good condition and can be taken into used car inventory.</p> <p>The Fleet Leasing Department purchases cars from Cuppcar dealerships. Dealerships can count sales made to Fleet Leasing towards their volume targets, which can be helpful in ensuring that they meet the thresholds for manufacturers' sales incentives.</p>
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Cuppcar's used car sales

Most car buyers expect car dealerships to take their existing cars in part-exchange when they buy new or used cars. The car sales industry shares



information about the market values of used cars, taking account of the model, condition and other relevant factors. Cuppcar's sales executives are encouraged to offer generous valuations for customers' part-exchange cars in order to complete sales.

The "sticker" selling price of each used car is displayed on its windscreen and is stated on Cuppcar's website. Each used car's selling price is set by the Head of Used Car Sales within each dealership. Used car sales executives have some discretion to offer discounts against those prices, subject to authorisation from used car sales managers.

Cuppcar often earns more profit from the sale of used cars than from new. Cuppcar earned an average gross profit of W\$3,146 per used car sold during the year ended 31 December 2022. That was higher than the industry average, which can be attributed to the high quality of the used cars that Cuppcar sells. The company works hard to maintain that profitability:

Presentation	<p>Every dealership has a designated area set aside for the display and sale of used cars. That area is well signposted and is furnished to the same high standard as the adjacent section for new car sales.</p> <p>Used car sales executives are subject to the same dress code as new car executives. They are expected to be familiar with the current inventory in order to assist and advise customers. They are required to test drive any models in inventory that they are unfamiliar with so that they can accurately describe the car's characteristics.</p>
Quality	<p>Every car taken in part-exchange is examined for quality. Cars that do not meet the company's quality standards are sold on a wholesale basis to other dealers.</p> <p>Cuppcar buys used cars, both from other dealers and from individuals. Any such purchases are restricted to cars that are in excellent condition that can be sold as "nearly new".</p> <p>All used cars are checked thoroughly, both mechanically and for bodywork. Any minor problems are rectified before the car is displayed for sale. Used cars are also thoroughly cleaned both inside and out.</p>
Positioning	<p>Sometimes a car that is accepted in part-exchange does not fit well with a particular dealership's target market. For example, a Limmolux dealership might accept a small hatchback in part-exchange for a</p>

	luxury car. If the hatchback meets Cuppcar's quality criteria, then it will be relocated to a dealership that specialises in mass-market cars rather than displaying it alongside luxury used cars in the lot of a Limmolux dealership.
Aftersales	Used cars may have undetected faults that only become apparent once they have been resold. Cuppcar takes great care to ensure that problems are addressed quickly and in a satisfactory manner. Cuppcar offers a 7-day money back guarantee on all used cars. Customers are given the choice between having any faults that appear during that time rectified and returning the car for a full refund.
Online sales	Cuppcar's website can be searched to show the new and used cars that are available both at individual dealerships and across the company as a whole. Every used car is listed on the website with a detailed description of its condition, supported by 20 high resolution photographs. Customers can select suitable cars that can be seen at their local dealerships. They can also buy any of Cuppcar's cars online, for delivery to their homes. Online purchases must be paid for before delivery. They are backed by the Cuppcar 7-day money back guarantee, so customers need not be too concerned about being unable to inspect their cars before purchase.

Cuppcar's parts and service

Each Cuppcar dealership has a workshop that is staffed and equipped to service and repair all models of new car sold by the dealership. Car manufacturers specify the work that is required during each year's service. Some parts must be replaced, but not necessarily every year.

Cuppcar maintains detailed records of the service histories of the cars that it sells and services. Customers are reminded when a service falls due. Failure to have a car serviced can invalidate the manufacturer's warranty, which could leave the customer responsible for the cost of repairs that would otherwise have been covered.

Repairs are also an issue. Components can wear out or suffer accidental damage, causing problems that may be specific to a particular model of car. Each of Cuppcar's dealerships has the diagnostic equipment and tools recommended by the dealership's brand manufacturer so that cars can be repaired properly after sale. All workshop staff are given specific training in the models of new cars that the dealership sells. That training is ongoing, with updates for new models or changes to the design of existing models.

Dealerships buy the parts that they use in servicing and repair from wholesalers who specialise in supplying the motor trade. Wholesalers buy parts in bulk, importing parts from many different countries. Dealerships must use parts made by car manufacturers' approved makers on cars under warranty, otherwise the warranty could be rendered invalid. Wholesalers can also supply good-quality "generic" parts from makers who are not approved. Their makers often claim that their products match or even exceed the quality of parts from approved makers. For example, several companies make brake pads that fit Barto Motors cars. Only one of those makers is approved by Barto Motors, but independent tests have shown that all are at least as good as the approved brake pads and some are better. Generic parts are usually cheaper than approved parts. Cuppcar sometimes buys



generic parts for use on cars that are no longer under warranty and passes cost savings on to customers.

Dealerships are also equipped to carry out repairs to bodywork. Cars that have been involved in collisions or minor scrapes require specialised equipment to repair them properly.

Each dealership has a modern spray booth that can accommodate a car or any of its body panels. A

technician applies paint and clear coating using a spray gun. This is a skilled task because the paint must be applied carefully and in several thin layers. The booths are ventilated and heated so that paint dries quickly, speeding up the process and enhancing the quality of the finish.

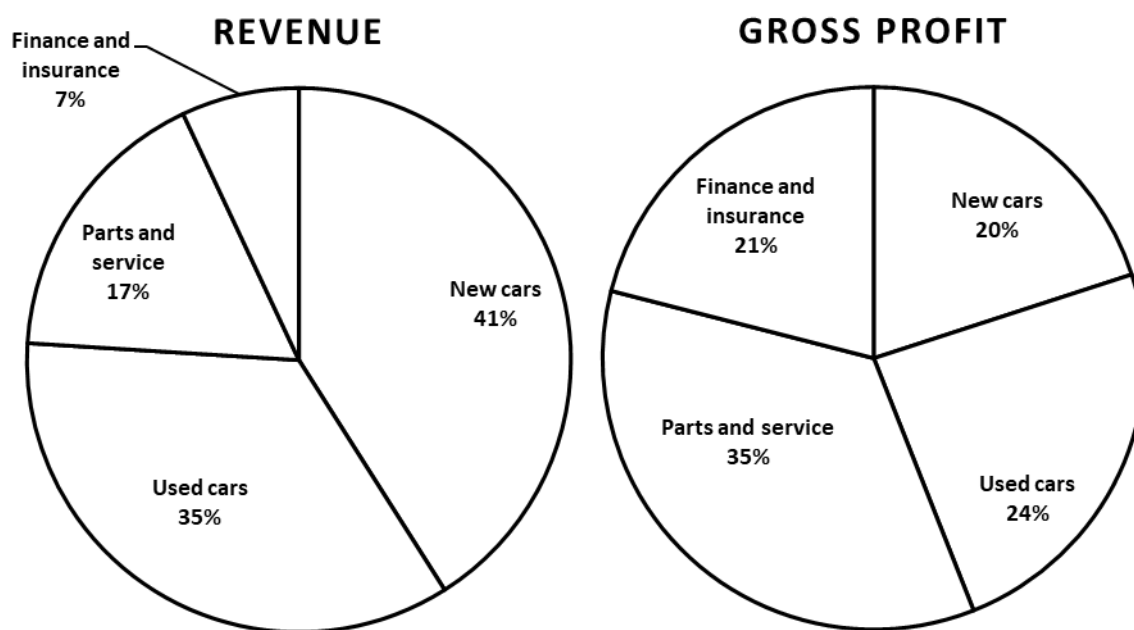
Cuppcar's finance and insurance services

Each of Cuppcar's dealerships has a team of business managers who meet with customers after they have agreed to buy a new or used car. Their role is to offer financing, servicing and warranty packages (referred to as "finance and insurance" in the car trade) that can generate additional profit for the dealership:

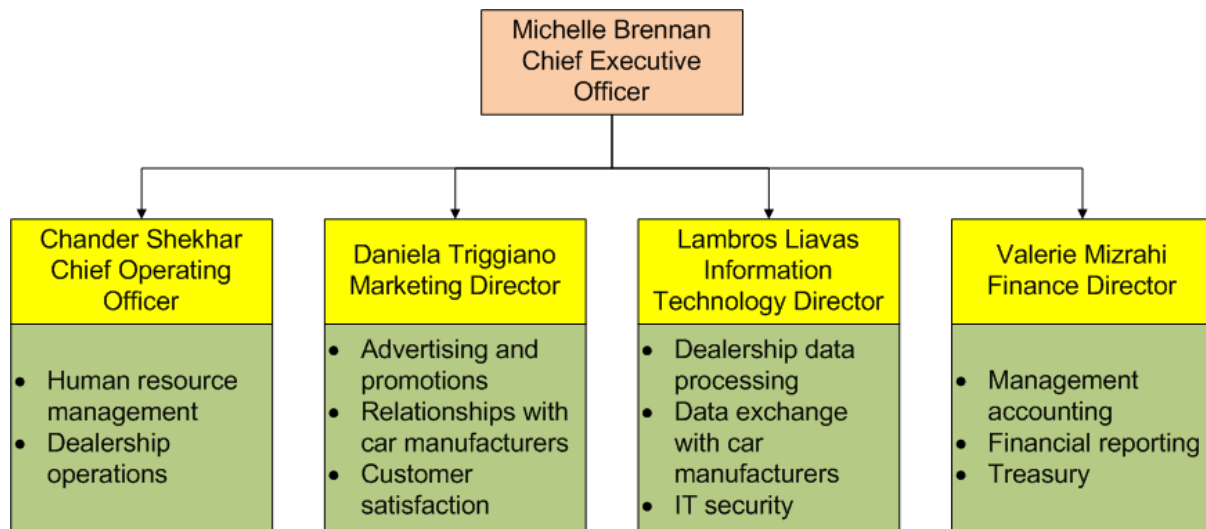
Finance	<p>Finance can take the form of car loans or leases for the acquisition of new or used cars. Cuppcar has a relationship with Bank of Welland, which is a reputable bank. Business managers can explain how the Bank's loans and leases work, and they can assist customers in the completion of loan or lease applications. Cuppcar receives a commission for every successful application submitted to Bank of Welland.</p> <p>Customers are free to arrange finance with other providers, or they can purchase cars with cash from their savings. Cuppcar does not receive any commission from finance packages made independently by customers.</p>
Service plans – new cars	<p>Customers can buy service plans that enable them to prepay for annual servicing for up to 3 years. The prepayment takes the form of either a single lump sum when the car is purchased or a series of monthly payments for the duration of the plan.</p> <p>Car manufacturers sell service plans on new cars, with dealerships receiving a commission when a customer buys a plan. Cuppcar's business managers advise customers that the total cost of buying individual services will be more expensive than the cost of the service plan.</p> <p>Car manufacturers' service plans require the servicing to be carried out by a franchised dealership, but not necessarily the dealership that sold the car. Customers who have service plans book their annual service with a dealership. The dealership then invoices the car manufacturer for undertaking the service.</p>
Extended warranty – new cars	<p>New cars come with a warranty against manufacturing defects for a designated period. Most warranties expire after 3 years, but they can be for as long as 7 years.</p> <p>Many car manufacturers offer to sell customers extended warranties, which increase the length of the warranty by 2 to 4 years, depending on the manufacturer.</p>

	<p>Car manufacturers offer their dealerships commissions for the sale of extended warranties. Cuppcar's business managers advise customers to take advantage of those for the reassurance that their cars will be guaranteed against manufacturing defects for longer.</p> <p>Customers can return their cars to any of their brands' franchised dealerships if a defect arises. The dealership repairs any defects and invoices the car manufacturer.</p>
Extended warranty – used cars	<p>Cuppcar sells used cars with a 7-day money back guarantee and a 90-day warranty against any mechanical defects that were present at the time of sale. Customers can buy extended warranties from third parties that cover the cost of the failure of any components. Cuppcar recommends a particular extended warranty from a third-party company in return for a commission from this provider.</p>

Cuppcar's revenues and gross profits for the years ended 31 December 2022 can be broken down as follows:



Cuppcar's Board structure

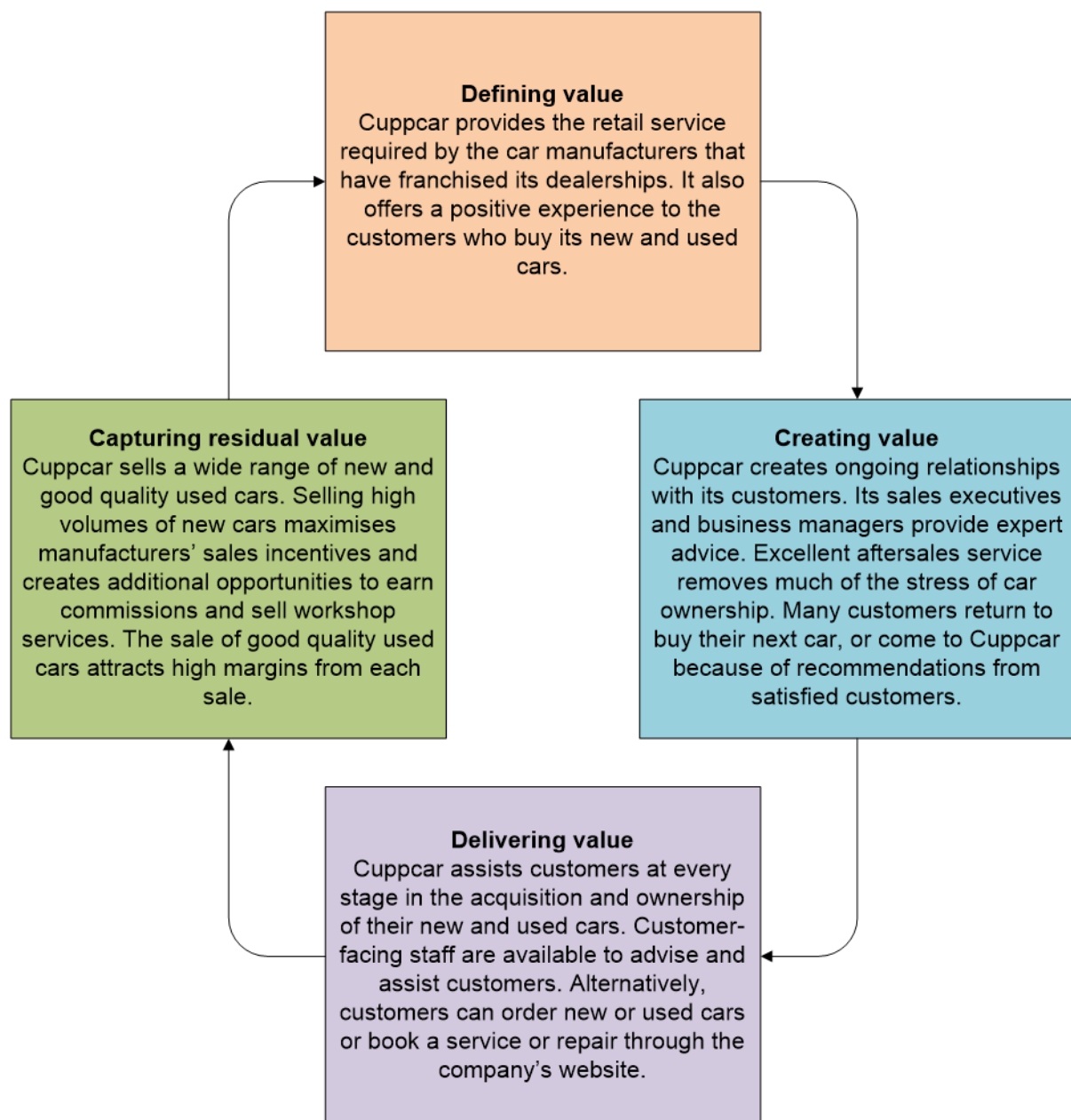


Cuppcar's Board also includes the following non-executive directors:

- Seyhun Doğan – non-executive chair
- Safaa Ghoneim
- Anas Al-Atrash
- Ekanem Ekure
- Pär Ottoson

Cuppcar's business model

Cuppcar aims to maintain a high volume of sales of new and used cars, which enables the company to maximise profit from car sales and from the associated opportunities to provide servicing on customers' cars. Maintaining high sales volumes in new cars also ensures that Cuppcar makes the most of the opportunity to earn sales incentives from car manufacturers, potentially granting a cost advantage over rivals.



Extracts from Cuppcar's annual report

Cuppcar Group

Consolidated statement of profit or loss

For the year ended 31 December

	2022	2021
	W\$ million	W\$ million
Revenue	4,682.3	4,448.2
Cost of revenues	(3,371.3)	(3,291.7)
Gross profit	1,311.0	1,156.5
Administrative expenses	(234.1)	(186.8)
Selling and advertising	(327.8)	(266.9)
Operating profit	749.1	702.8
Finance costs	(52.0)	(52.0)
Profit before tax	697.1	650.8
Tax	(104.6)	(91.1)
Profit for year	592.5	559.7

Cuppcar Group

Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital and premium	Retained earnings	Total
	W\$ million	W\$ million	W\$ million
Balance at 31 December 2021	200.0	2,019.0	2,219.0
Profit for the year		592.5	592.5
Dividends		(573.0)	(573.0)
Balance at 31 December 2022	200.0	2,038.5	2,238.5

Cuppcar Group
Consolidated statement of financial position
As at 31 December

	2022	2021
	W\$ million	W\$ million
Non-current assets		
Intangible assets	580.4	580.4
Property, plant and equipment	2,473.6	2,428.7
	<u>3,054.0</u>	<u>3,009.1</u>
Current assets		
Inventory	539.4	559.6
Trade receivables	163.9	173.5
Bank	42.2	38.7
	<u>745.5</u>	<u>771.8</u>
Total assets	<u><u>3,799.5</u></u>	<u><u>3,780.9</u></u>
Equity		
Share capital and share premium	200.0	200.0
Retained earnings	2,038.5	2,019.0
	<u>2,238.5</u>	<u>2,219.0</u>
Non-current liabilities		
Loans	650.0	650.0
Current liabilities		
Trade payables	809.1	822.9
Tax	101.9	89.0
	<u>911.0</u>	<u>911.9</u>
Total equity and liabilities	<u><u>3,799.5</u></u>	<u><u>3,780.9</u></u>

Extract from Milltro Motors' annual report

Milltro Motors is one of Cuppcar's direct competitors. It sells new and used cars from 197 dealerships spread across Welland. It represents a spread of the same popular brands of new cars as sold by Cuppcar and has a strong reputation for quality in the sale of used cars.

Milltro Motors Group

Consolidated statement of profit or loss

For the year ended 31 December

	2022	2021
	W\$ million	W\$ million
Revenue	4,401.4	3,888.6
Cost of revenues	(3,345.1)	(2,994.2)
Gross profit	1,056.3	894.4
Administrative expenses	(264.1)	(210.0)
Selling and advertising	(330.1)	(264.4)
Operating profit	462.1	420.0
Finance costs	(36.0)	(36.0)
Profit before tax	426.1	384.0
Tax	(63.9)	(53.8)
Profit for year	362.2	330.2

Milltro Motors Group

Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital and premium	Retained earnings	Total
	W\$ million	W\$ million	W\$ million
Balance at 31 December 2021	250.0	1,860.6	2,110.6
Profit for the year		362.2	362.2
Dividends		(305.3)	(305.3)
Balance at 31 December 2022	250.0	1,917.5	2,167.5

Milltro Motors Group

Consolidated statement of financial position

As at 31 December

	2022	2021
	W\$ million	W\$ million
Non-current assets		
Intangible assets	450.0	450.0
Property, plant and equipment	2,275.7	2,210.1
	<u>2,725.7</u>	<u>2,660.1</u>
Current assets		
Inventory	602.1	553.9
Trade receivables	184.9	175.0
Bank	36.2	32.1
	<u>823.2</u>	<u>761.0</u>
Total assets	<u><u>3,548.9</u></u>	<u><u>3,421.1</u></u>
Equity		
Share capital and share premium	250.0	250.0
Retained earnings	1,917.5	1,860.6
	<u>2,167.5</u>	<u>2,110.6</u>
Non-current liabilities		
Loans	450.0	450.0
Current liabilities		
Trade payables	869.7	808.4
Tax	61.7	52.1
	<u>931.4</u>	<u>860.5</u>
Total equity and liabilities	<u><u>3,548.9</u></u>	<u><u>3,421.1</u></u>

News reports

Welland Business Daily

Electric cars sales remain low in Welland



Sales of electric cars remain depressed in Welland, with most motorists continuing to buy cars powered by internal combustion engines (“ICE”). These use petrol or diesel fuel.

Electric cars have become increasingly popular in many other countries because they can be powered by electricity that is generated using renewable sources. These cars are generally powered by batteries that can be recharged at charging points built into car owners’ homes or at public charging points.

Consumer surveys indicate that Wellandian motorists are reluctant to buy electric cars because of the limited availability of charging points in their country. The range of some electric cars is as little as 170 kilometres, depending on the model, after which its batteries must be recharged. Many motorists are concerned about the possibility of becoming stranded if their cars run out of charge before they can find a vacant charging station.

Welland Daily News

Motoring column – Don't overpay for vehicle checks



Cars are becoming increasingly complicated, which often makes it difficult for motorists to identify faults in the event of a breakdown. It used to be almost as difficult for mechanics to identify problems, meaning that visits to the garage often involved lengthy diagnostic inspections, charged for at the mechanic's hourly rate.

Nowadays, even the most basic cars have electronic systems that can be read and interpreted by devices that plug into a port under the dashboard. These devices are basically portable computers that run software that can interrogate the systems in the car and can identify all sorts of problems, both electrical and mechanical. Sensors built into the cars' components can identify problems that would otherwise have required parts to be dismantled for diagnostic purposes.

Always check repair bills and query any significant charges for diagnostic work, although garages may claim that they are passing on the cost of software that is expensive and requires regular updating when new models of car are introduced.

One word of caution. These devices can detect many possible faults, but there is a limit to their capabilities. There are many serious problems that they could overlook, leaving the risk of a breakdown or accident due to a malfunction. Mechanics still need to inspect parts and carry out close inspections.

Welland Daily News

Motoring column – Watch the total cost when you specify your new car



Buying a new car means more than just deciding on the make and model. Most car manufacturers offer several different trim levels for each model, where the trim level identifies a car's level of equipment. Higher trim levels offer additional equipment and comfort, but they also cost more.

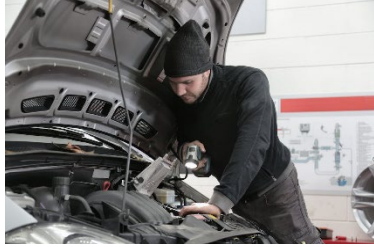
Take care when choosing between trim levels because the best-equipped model at the “top of the range” can cost almost twice as much as the “base model” at the bottom of the range with the lowest level of equipment.

Some higher trim levels include modifications that improve performance. Those differences can include more powerful engines and improved brakes and suspension. Other trim levels are just about the car's appearance and the comfort of its occupants. A bottom of the range car might have steel wheels that look less attractive than the alloy wheels on a higher trim, but which do exactly the same job. A higher specification car might have its seats covered in leather, while a cheaper version of the same model may have fabric seats.

Even paint colour can affect the price. Your favourite colour might cost hundreds of dollars more than the same car in white, and colours with pearlescent finishes can add a thousand dollars to the cost of a new car.

Welland Daily News

Motoring column – Don't forget to have your car serviced regularly



New cars come with a warranty that guarantees against defects for the first 3 years, sometimes more. Those warranties can protect car owners against repair costs, but only if the cars are serviced in accordance with the planned maintenance schedule set by the car manufacturer.

Most cars require an annual service, with the work undertaken at each service varying according to the age of the car. The first year's service may require little more than an oil change and an inspection of some key components. The second year's service may require rather more work because the car is older and at greater risk of wear and tear. The third year may require slightly less work than the second, depending on how the car has been driven, but there will be a different set of checks and replacements.

Car manufacturers publish lists of the items that are to be checked or replaced during each of the annual services and the amount of labour required for each check or replacement. The cost of a service may vary from year to year because of this, but all franchised dealerships should charge the same for, for example, servicing a two-year-old Barto Motors Hatch.

If you wish to avoid fluctuating service costs, then you can buy a service plan at the time of the car's purchase. That simplifies the cost of servicing by requiring either a single lump sum payment or 36 equal monthly instalments.

Welland Daily News

Motoring column – Don't be afraid to buy ex-demonstrators



Car dealerships often own large numbers of cars. They buy cars to use as demonstrators. Those are cars that can be taken on test drives by potential customers, under supervision by sales staff. Dealerships also own courtesy cars that can be loaned to customers whose cars are in the workshop for a repair or a service.

Car buyers are often reluctant to buy former demonstrators or courtesy cars because they are worried that they could have been driven carelessly and that they may have suffered excessive wear and tear, but that is rarely the case.

Car dealerships inspect their demonstrators and courtesy cars frequently and have any problems rectified. After all, it is unlikely to impress a customer if they are stranded because a car loaned by the dealership has broken down.

Dealerships also tend to sell these cars as used cars before too long. Car manufacturers pay dealerships sales incentives if they hit volume targets. Dealerships are permitted to count cars that they buy for themselves towards these targets.

Extracts from Joe the Car Seller's Blog

Don't believe everything you read!



I dread the end of the month. Lots of customers have read online articles telling them that they can negotiate a huge discount on a new car because dealerships must hit their car manufacturers' monthly sales targets and so we will accept any price to make a sale. Sadly, the margin on new cars is so small that it is rarely possible to offer more than a free set of mats or (maybe) a nicer set of alloy wheels.

If we have had a good month, then we might even delay sales until the start of the following month to make it easier to hit that month's target. My favourite trick is to tell a customer that we are expecting a fresh delivery of new cars and that he or she will have a better choice in a week's time.

Never forget that car sales executives are evaluated on sales volumes and on average gross profit per unit. It affects our bonuses if we sell cars at a loss, so we rarely do.

COMMENTS

The thing that annoys me most is when a sales executive pretends to go to the sales manager's office to seek permission to reduce a car's selling price. That permission is never granted and it feels as if the manager was never even consulted.

Puzzled Driver

I got a W\$500 discount when I negotiated hard for a deal on a new car. Discounts are possible, although they may be hard to get.

Tricky Hagglers

I wish I sold used cars



I sell new cars, but I wish I could sell used cars instead. It is easier to negotiate sales on used cars because no two used cars are the same. With used cars, sales executives have scope to adjust selling prices and the prices that they will offer on customers' old cars that will be taken as a trade-in. For example, a sales executive can happily offer a customer a W\$1,000 discount on the selling price of a used car because the trade-in value of the customer's existing car can be

reduced by W\$1,000. Another trick of the trade is to offer used cars at high selling prices, which means that we can offer every potential customer a really high trade-in for their existing cars.

The motor trade shares data on the selling prices of used cars, taking account of make, model, mileage and condition. That data is available online, but valuing a used car requires a lot of experience. For example, classifying a car's bodywork as "good", "average" and "poor" can be difficult.

Selling new cars is complicated by the fact that every car of a particular model is mass produced and identical. Car manufacturers set recommended selling prices, which are published online. Dealerships

rarely offer discounts on new cars (although there may be rare occasions when we sell new cars cheaply to get rid of a backlog of inventory or because we are really struggling to hit car manufacturers' sales targets). We can't inflate the selling price of a new car to compensate if we pay more for a customer's trade-in than the car is actually worth. If we overpay for a trade-in against the price of a new car, then we will probably have to sell the trade-in at a loss.

Still, everybody loves to buy a shiny new car, and I am very good at making people fall in love with the cars in my showroom.

COMMENTS

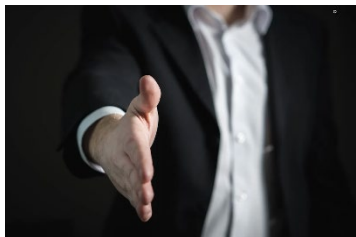
I feel sorry for you Joe.

Tyre Tracks

I love it when you guys are forced to sell cars at a loss. I got a great deal on a Kopower Speedster when they launched the Speedster Mark 2. Kopower dealerships were almost giving the old Mark 1 away!

Speed King

Friends and rivals



I hope it isn't obvious, but there is a lot of rivalry within car dealerships. Each department has to make a profit, and most of the staff who deal directly with customers are evaluated and rewarded on the basis of sales and gross profits. This often leads to staff focussing on their own interests rather than that of the dealership as a whole. For example, I sell only new cars and so I would never advise a potential customer to buy a used car instead, even if the dealership

principal had told us that we are carrying too many used cars in inventory and selling them should be the priority for a while.

We have similar problems in dealings between car sales and workshop. Car sales executives often argue that the workshop should charge only for the cost of parts when cars are prepared for sale, while the workshop argues that parts and labour should be charged at full commercial rates.

Every car dealership that I have ever worked for has had a monthly meeting of department heads. Those meetings almost always result in arguments.

COMMENTS

I bought a used car once, having been promised that it would be checked and serviced by the dealership workshop before I took delivery. The car broke down before I had even reached my home. I complained to the sales executive and was told that the workshop always gives priority to paid servicing and repairs rather than preparing cars for sale.

Unhappy Customer