

# Regular research papers and articles providing sector specific insights and issues analysis – Automotive sector.

April edition 2009 – Automotive

# Industry Intelligence Unit

Welcome to the fifth edition of the automotive IIU. Internationally Grant Thornton member firms are leaders in the automotive supply chain and dealership advice, with specialist teams across the globe dedicated to this industry.

In this automotive edition we concentrate on the dealership space focusing on the following key areas of the automotive industry:

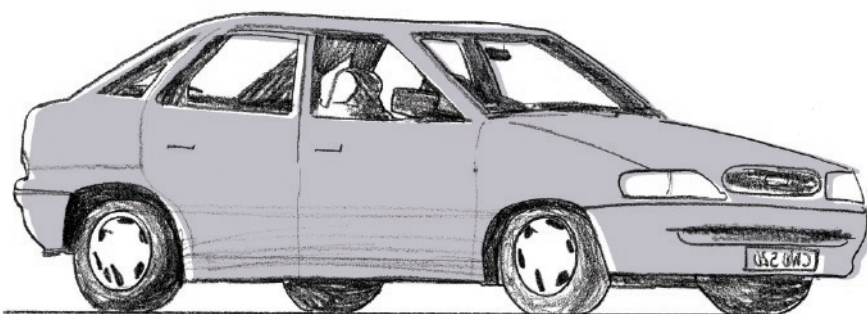
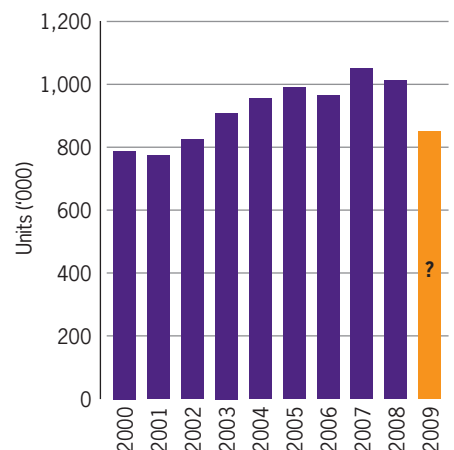
- Brief overview of Australian automotive market for 2008
- General update on vehicle sales for the first three months of 2009
- Outlook for 2009
- Vehicle sales around the globe
- Motorcycle sales for the first three months of 2009

### Calendar year 2008 in review

The automotive dealership market in Australia has been strong since 2001 with the exception of a small decline in 2006. Since 2001, automotive sales have increased by approximately 33%. Vehicles sales in the Australian market place broke through the one million unit barrier for the first time in 2007 with total sales of 1,049,982 being a 9.1% increase for the year.

Fig 1: Annual vehicle sales 2000 to 2009

Source: Vfacts



As predicted by Grant Thornton in April last year, vehicle sales broke through 1 million units again in 2008, but arguably for the wrong reason as manufacturers pushed stock into the market.

Australian automotive vehicle sales fell by 3.6% in 2008 to 1,012,164. However, the level of sales was still the second highest on record behind the 2007 high.

As shown by Figure 2, automotive sales for the six months to June 2008 were 3.5% above the same period to June 2007. As noted in the August 2007 IIU, we believed these figures were inflated due to the following:

- Dealers having registered cars in stock that have not been sold in order to meet manufacturer targets and to achieve bonuses
- A number of sales were brought forward to avoid the increase in the luxury car tax

The second half of 2008 saw sales fall below the corresponding period for all six months with November experiencing a decline of 22.2% compared to the prior year.

It is likely the final figure for 2008 was still inflated due to the continued registration of unsold cars in stock, in order to meet manufacturer's targets. This is proven by the unwind of sales that occurred in the first quarter of 2009 as detailed later in this IIU.

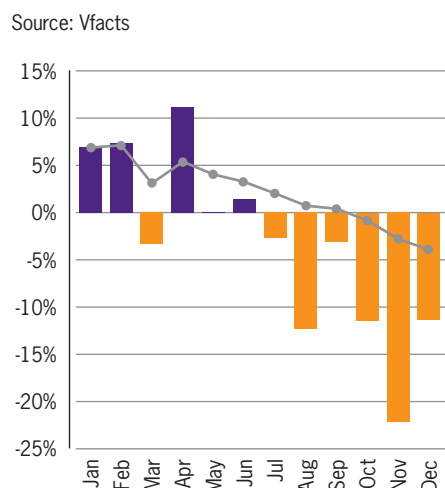
### State summary 2008

Vehicle sales in Australia are dominated by New South Wales (30.1%), Victoria (26.3%) and Queensland (21.2%) as shown in the table below.

State	Share
New South Wales	30.1%
Victoria	26.3%
Queensland	21.2%
Western Australia	11.5%
South Australia	6.4%
Tasmania	1.9%
Australian Capital Territory	1.5%
Northern Territory	1.1%

As outlined in Figure 3, two of the three key states, New South Wales and Queensland, fell by 4.7% and 8.4% respectively. Victoria sales remained flat with a growth of only 0.2%.

**Fig 2: 2008 vehicle sales movement compared to 2007**



### Brand summary 2008

Despite the market falling 3.6%, 40% of the top 10 manufacturers experienced growth, including Toyota (up 1.0%), Mazda (up 2.7%), Subaru (up 0.1%) and Volkswagen (up 9.0%). Holden, Mitsubishi, Honda and Hyundai had significant falls of 11.1%, 7.2%, 13.1% and 9.2% respectively.

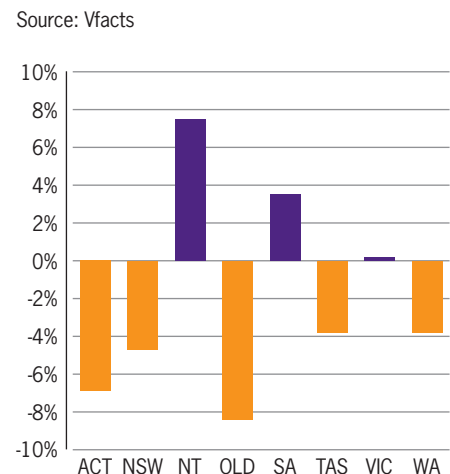
Figure 4 shows the continued importance of new models, with Mazda's performance being underpinned by the growth in Mazda 2 (up 70.7%) and Mazda CX-9 (up 4,320 units). Toyota's performance was also underpinned by two new model upgrades, being the Landcruiser (up 24.2%) and Kluger (up 70.2%).

Holden sales were mainly impacted by falls in Commodore sales (down 10.8%) and the Astra (down 17%). These two models represent over half of Holden's vehicle portfolio by volume. Hyundai sales fell due to a drop in sales for 10 out of 13 vehicles sold in Australia. Hyundai sales would have fallen by more than 9.2% had the new models of the i30, iLoad and iMax not been introduced.

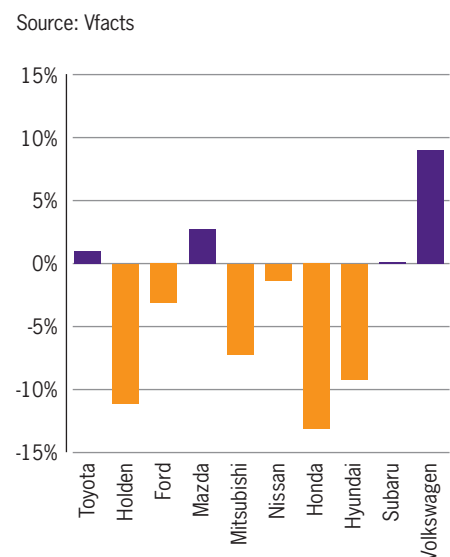
It is important to note that Mitsubishi's fall is solely due to the removal of the 380 from the market. Excluding the 380, Mitsubishi's sales increased by around 5.4%.

Market share by manufacturer is shown in Figure 5. The important changes to note are that Toyota now has 23.6% of the market share whilst Mazda continues to close the gap on Ford and Holden.

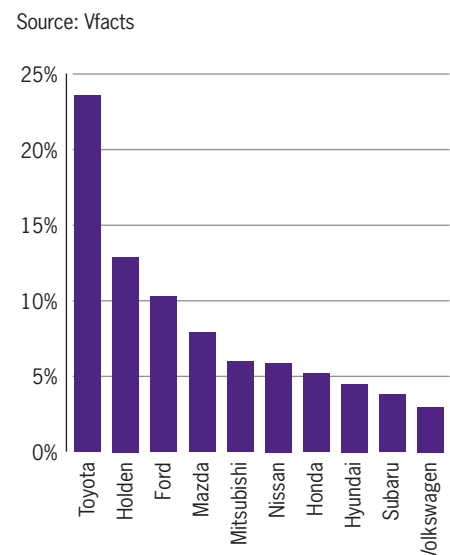
**Fig 3: State based movement December 2008**



**Fig 4: Movements in sales 2008**



**Fig 5: Market share 2008**



### Three months to 31 March 2009 update

In January 2009, the Federal Chamber of Automotive Industries forecast 880,000 sales for 2009, representing a fall of approximately 13%. The first quarter of 2009 is down 19.2%.

While the market was down 19.2% for the first quarter it is important to look at the market by state, brand and segmentation.

### State update

As outlined in Figure 6, all states have experienced falls greater than 10% with the three major states – being New South Wales, Victoria and Queensland – down 18.5%, 18.7% and 21.2% respectively.

### Brand update

As shown in Figure 7, despite the market being down 19.2%, Hyundai is up 12.2%, mainly due to the success of the Hyundai i30. As a result of Ford sales being down 20.2%, Mazda is now only 1% behind Ford in market share as detailed in Figure 8.

### Market segmentation

The Australian Automotive market is broken up into four major segments being Passenger (59.8%), SUV (19.8%), Light Commercial (17.8%) and Heavy Commercial (2.6%).

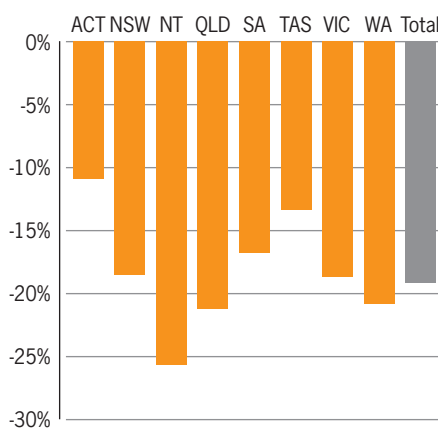
Each of the segments are broken into further categories. In this issue and subsequent issues we will focus on the passenger and SUV segments only.

The passenger segment is broken down into a further seven segments with light (23.4%), small (40.7%), medium (13.8%) and large (16.8%) being the key segments. The movement within these segments is extremely important as the dealership receives a greater gross profit per vehicle for the larger vehicles than for the smaller vehicles. The first quarter of 2009 continued the trend of a movement away from the large segment to the small and light vehicles as shown in Figure 10.

Movement within the passenger segment over the last seven years is shown in Figure 11 as Australian consumers move away from the large car market to the light and small vehicles. Large cars have fallen from 34.9% in 2002 to just 16.8% YTD 2009.

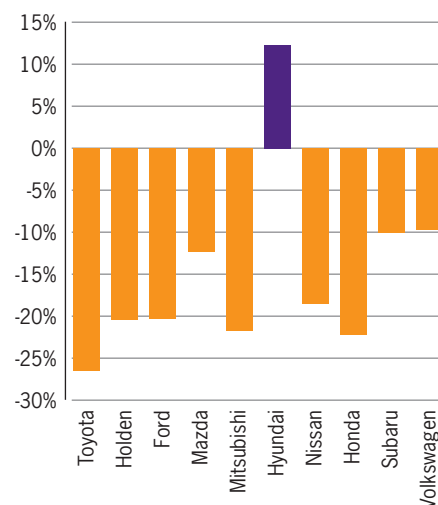
**Fig 6: State based movement March 2009 YTD**

Source: Vfacts



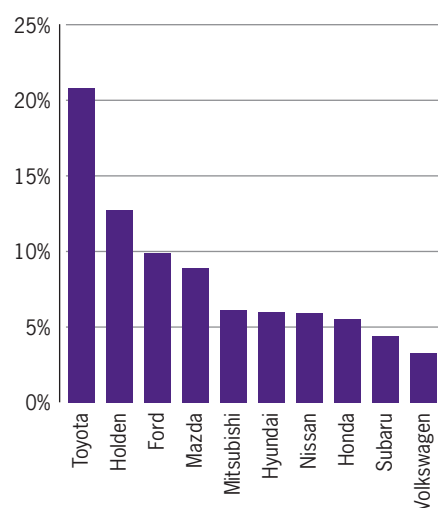
**Fig 7: Movements in sales YTD March 2009 to YTD March 2008**

Source: Vfacts



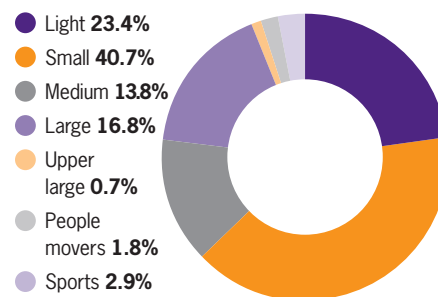
**Fig 8: Market share YTD March**

Source: Vfacts



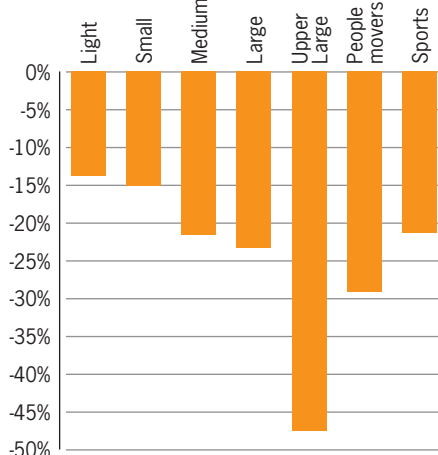
**Fig 9: Breakdown of passenger segment**

Source: Vfacts



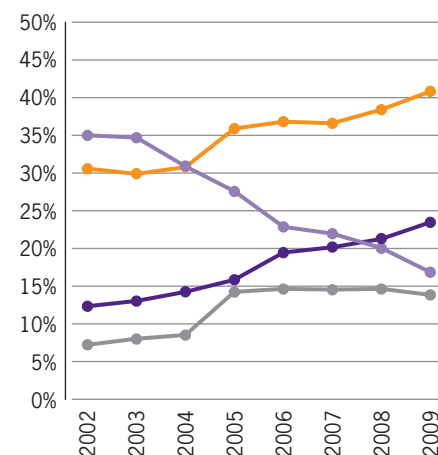
**Fig 10: Movement in passenger segment YTD**

Source: Vfacts



**Fig 11: Passenger segment 2002 to 2009**

Source: Vfacts



# Outlook for 2009

The big question for 2009 is “what will happen to vehicle sales?”

While vehicle sales are down 19.2% for the first quarter, it is likely that the fall for the year will be between 10% and 15% as the government looks at ways to stimulate vehicle sales.

Let us consider in detail two of the key drivers behind vehicle sales numbers:

- Consumer and business confidence
- Asset values

## Consumer and business confidence

A number of surveys point to low levels of consumer and business confidence.

Recent surveys include:

- The Westpac-Melbourne Institute of Consumer Sentiment increased 8.3% in April from 85.6% in March to 92.7% in April. The last quarter has remained low compared to earlier years.
- The NAB business confidence survey rose 9 points to -13 points. This level is still significantly below 2008 levels.
- Consumer confidence is also impacted by unemployment numbers. Unemployment continued to rise and is forecast to continue rising until mid-2010.

## Asset values

Two areas where households have increased their wealth over the last 5 to 10 years has been through the sharemarket and property. Individuals have used equity in their homes and gains from the sharemarket to purchase new vehicles. The recent global credit crisis has impacted against this significantly.

As a result of lower consumer and business confidence, a flat/declining property market, margin calls and significant sharemarket losses, the number of sales to private and business buyers is likely to fall in 2009. In addition, the government has indicated that it is cutting expenditure which may lead to lower government purchasing.

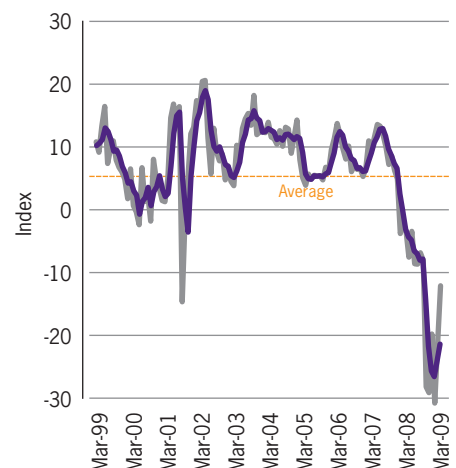
Offsetting the potential fall in new vehicle sales due to the change in the above drivers will be the requirement to sell the stock which has been produced for the Australian marketplace by manufacturers. This will add pressure to new vehicle margins as dealers try to meet manufacturer targets, holding costs and the number of demos that some dealers may carry.

Dealers must react quickly to the changing market otherwise many may fail. Outlined below are ten tips to assist dealers:

1. Align employee incentive plans to dealership profitability
2. Focus on good managers and hold them accountable
3. Track performance daily
4. Review your customer contact strategy
5. Tighten stock management
6. Align stock mix to sales
7. Review each department in detail
8. Adjust expense base for falling sales
9. Do not over-advertise
10. Make the hard decisions.

It is important to note that good operators, who adjust to changing times, will continue to make good money.

**Fig 12: Business confidence** ● Monthly  
● Trend (SA)  
 Source: NAB, seasonally adjusted



# Global review of major markets

## Europe

Total Passenger sales for Europe (EU + EFTA) has fallen by 17.2% to 31 March 2009 compared with the same quarter last year.

The European sales would have been significantly worse had the German market not increased by 18% due to a Government scheme to subsidise consumers who trade in their old cars for a new model. Similar incentives have also been implemented in France and Italy. Vehicle sales in the United Kingdom are down 29.7% (202,991 units) and Spain has also had a significant fall by 43.1% (149,743 units).

Interestingly, the British Government announced on 23 April 2009 that they would offer consumers a £2,000 incentive for 10 year old cars that are traded in for new cars.

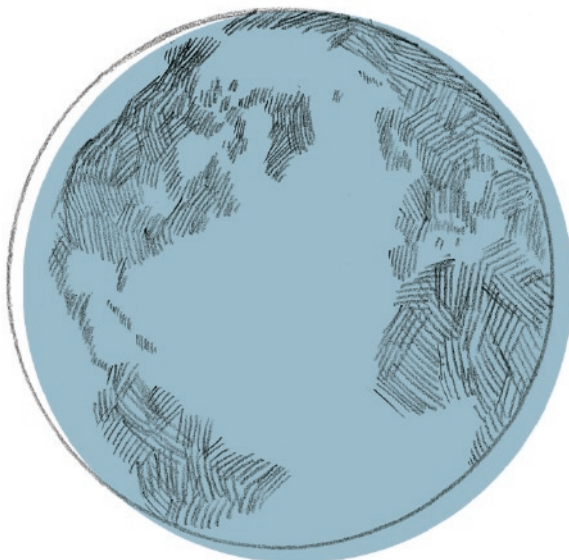
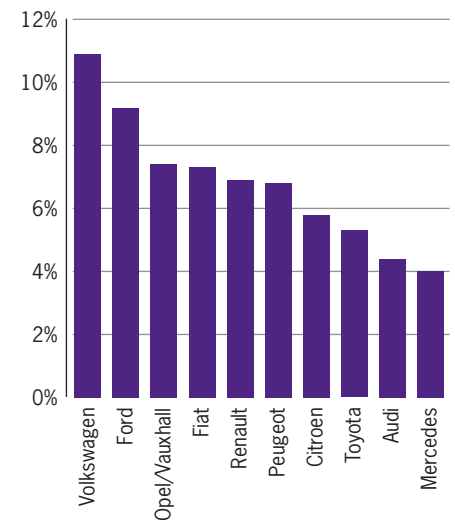
Outlined in the table below is the movement in vehicle sales for the larger countries together with manufacturer market share.

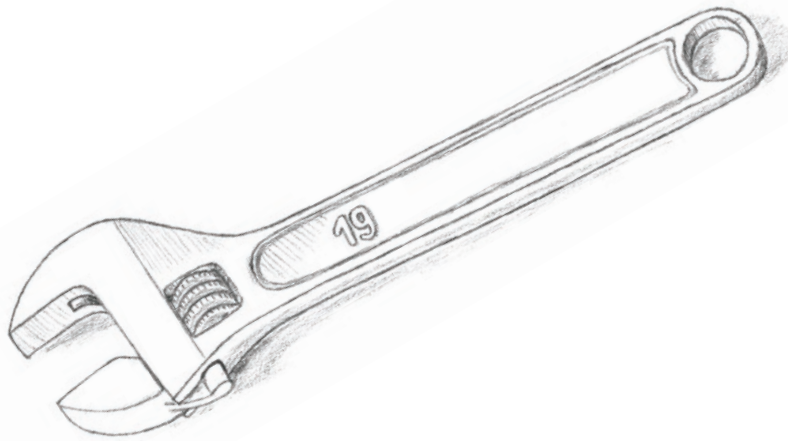
	YTD March 2009	% Chg (09/08)
Germany	868,090	+18.0
Italy	538,720	-19.1
France	505,456	-3.9
UK	480,358	-29.7
Spain	197,995	-43.1
Belgium	143,852	-15.3
Netherlands	125,215	-23.6
Poland	87,939	+1.3
Switzerland	58,814	-12.3
Greece	49,212	-37.9
Sweden	43,937	-28.9
Portugal	31,780	-42.5
Romania	29,089	-60.7

The top 10 features the same manufacturers as the same period last year, with the exception of BMW, which has fallen from number 10 to number 11 due to a drop in sales of 25.1%.

Fig 13: Market share (EU + EFTA) – YTD MAR 09

Source: Vfacts





### United States

The United States light vehicle sales have fallen by 38.4% (1,370,089 units) for the first quarter of 2009. In April 2009, J.D. Power and Associates forecast 8.5 million retail units for the 2009 calendar year and 10.4 million units for total retail and fleet industry sales. These figures are significantly below 2007 sales of 16.1 million units and 2008 sales of 13.2 million units.

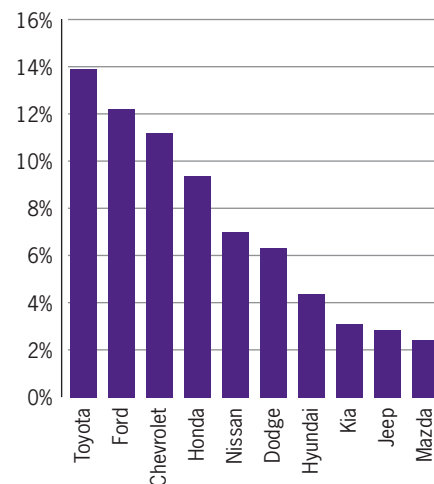
The United States has a proposed congressional bill that would provide new vehicle purchasers with \$4,500 to buy a more fuel-efficient vehicle in exchange for a used vehicle older than 9 years.

Outlined in Figure 14 is a snapshot of the first quarter in US auto sales. The top 10 brands represent approximately 73% of total vehicle sales with Toyota, Ford and Chevrolet all experiencing market shares greater than 11%.

US automotive sales are down 38.4% YTD. As shown in Figure 15, a number of brands have experienced falls of greater than 40%. On a group basis, the GM Group has experienced a 48.8% fall. Hyundai is the only group with positive growth of 0.7% as shown in Figure 16.

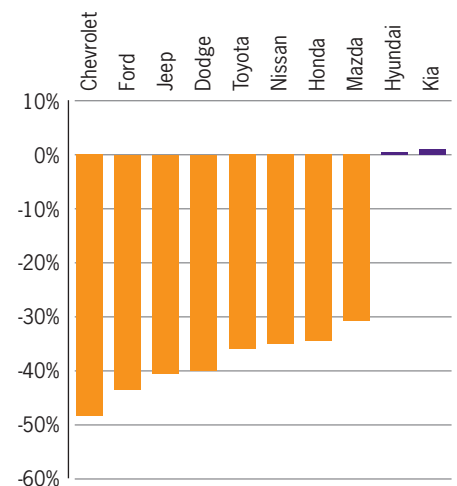
**Fig 14: United States market share by brand YTD March 2009**

Source: J D Power and Associates



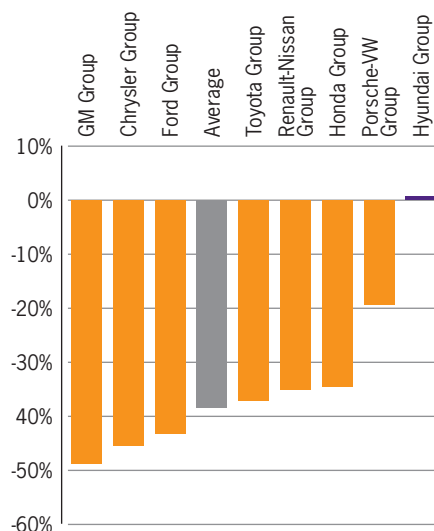
**Fig 15: Movement in Sales YTD March 2009**

Source: J D Power and Associates



**Fig 16: Movement in sales YTD**

Source: J D Power and Associates



# Motorcycle sales – 1st quarter

Motorcycle sales for the first quarter to March 2009 compared to March 2008 fell 15.5% from 31,064 to 26,241.

The motorcycle market is made up of four segments being ATV, Off Road, Road and Scooter. The market share of each segment is detailed in Figure 18. As shown in Figure 17, Road Bikes and Off Road Bikes make up 74% of motorcycle sales.

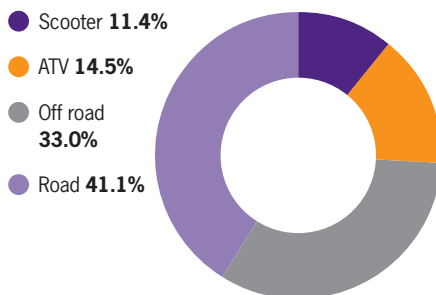
As shown in Figure 18, all segments have experienced falling volume with Scooter and Off Road sales being most effected down 31.1% and 19.6% respectively.

Market share by manufacturer is shown in Figure 19. Yamaha and Suzuki are the market leaders with 19.8% and 18.7% market share respectively.

The movement for the Top 10 compared to the first quarter of 2008 is detailed in Figure 20. Honda sales have fallen 28.1% in the first quarter compared to Yamaha sales which have only fallen by 23.5% The 28.1% fall by Honda has lead to their market share position shifting from position 1 to position 2.

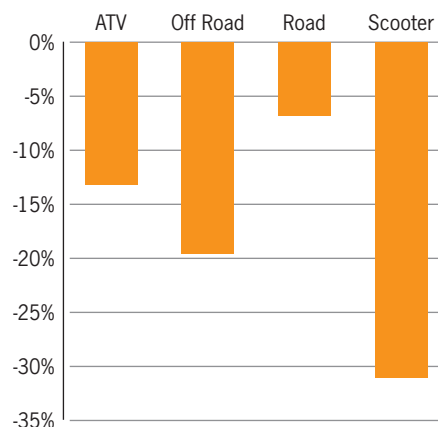
**Fig 17: Share of the motorcycle market**

Source: Vfacts



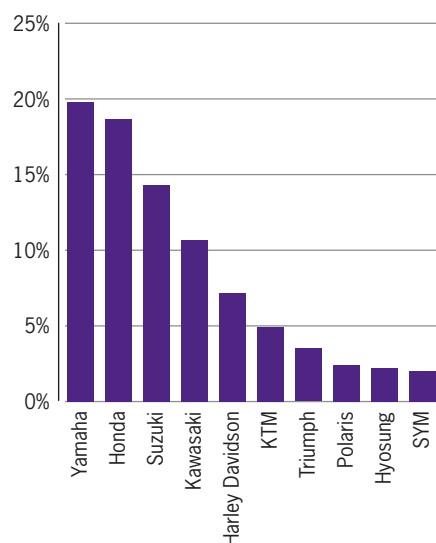
**Fig 18: Movement**

Source: Vfacts



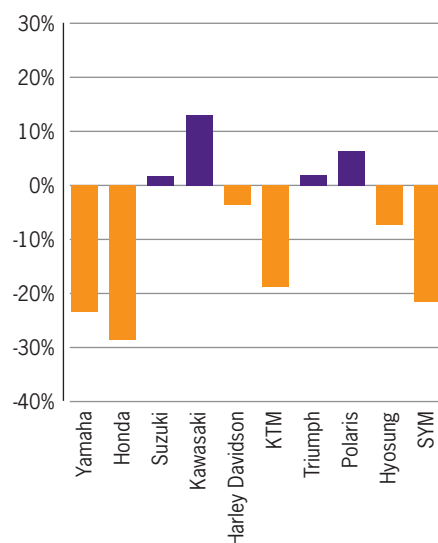
**Fig 19: Market share**

Source: Vfacts



**Fig 20: Growth**

Source: Vfacts



# Industry Intelligence Unit

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The IIU is unique in its objective of providing stakeholders in the SME and business owner markets with information, understanding and analysis of the issues faced within specific industries and sub-industries. The IIU also seeks to provide pragmatic, commercial, practical measures and initiatives to improve stakeholder value.

## Industry focus

The IIU utilises the industry experience and expertise of Grant Thornton partners and staff across Australia. The IIU is predominantly focused on the following industries and their related sub industries:

- Property
- Retail
- Aged Care
- Automotive
- Hospitality
- Financial Services.

## SMEs and business owners

SMEs and owner managed businesses form the backbone of the Australian economy. They have unique characteristics and face challenges which larger public companies and multinationals rarely encounter.

Grant Thornton's experienced partners have developed an intimate understanding of the needs of SMEs and business owners in the above industries and others. This IIU seeks to apply examples of this experience in the sectors on which it reports.

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