

motor dealer alert

Grant Thornton 

Trading through tough times

Issues facing the Australian motor market and the impact on retail dealers are echoed throughout the world. The Grant Thornton UK member firm, which has 34 offices and 3000 people, has a large motor dealership division, with in excess of 400 dealer clients. Recently, Nigel Ruddock - head of Motor Retail services in the UK, released an article that considered the 'effect of tough trading on cash flow'. Nigel has kindly allowed us to share this article with you...

"It is very apparent from the work we carry out with clients that the winter of 2005 will make or break many motor retailers. This is being driven by the structural changes that manufacturers are facing, be it financial ratings in the US or cost control in Europe.

A recurring theme of this year's audit cycle has been the drop in new vehicle sale margins. Local factors have also played a part by driving volumes down by up to 20% in certain areas.

However, volume has generally been maintained, as manufacturers keep up the pressure to register vehicles either to retail customers or by the enforced change of demonstrator and rental fleets. The UK market is now awash with deals and retail customers are far better informed, using the internet to negotiate hard with retailers, who need to achieve and maintain standards in order to generate income in the form of volume bonuses. As a business model this clearly cannot be sustained for much longer.

In the past most motor retailers have coped with a downturn in new car profitability by having strong after-sales and used car operations. However, service intervals are now longer and this has had a noticeable effect on the ability to make money from after-sales. This has had the knock-on impact of a drop in parts sales.

Given that it is easier to negotiate deals on new vehicles... [continued overpage]

A reminder that the State Revenue Office (SRO) is focusing on how dealers apply stamp duty exemptions.

Below is an outline of a recent ruling by the SRO in respect of vehicle stamp duty exemptions.

Retailers

Trading stock - A retail motor dealer is exempt from paying Duty on the registration or transfer of a motor vehicle, if the motor vehicle is used solely or primarily as trading stock.

The SRO considers that a motor vehicle is used solely and primarily as trading stock if:

- The motor vehicle is present and available for sale during normal trading hours at business premises;
- The vehicle is incidentally in a pool of vehicles used by staff after hours and as a result the vehicle is shown in the entity's Fringe Benefits Tax Return;
- The vehicle is used for the purpose of charging its battery, transport to and from a workshop of some other use incidental to its presentation for sale.

Demonstrator vehicles - An exemption is provided to a retail motor dealer where a vehicle is used solely or primarily as a demonstrator vehicle. A "demonstrator vehicle" is defined as a motor vehicle used exclusively for the purpose of sale of another vehicle of the same class.

The SRO considers that a motor vehicle is not used solely or primarily as a demonstrator vehicle where:

- The motor vehicle has travelled a distance of more than 7,500 km since its acquisition and initial registration in name of the LMCT; or
- The motor vehicle has been held for longer than 12 months after... [continued overpage]





...the profitability and volume of the used car market has also been hit. It is abundantly clear that many retailers who are already under pressure only have two good sales months, March and September. The small cut in interest rates last August will have limited impact on September sales, which means that from October to February retailers will have to fight hard to generate and retain every scrap of profit.

In the short term, the maxim that cash is king has never been more important. Businesses with plentiful cash are able to take advantage of "pack deals" and similar arrangements whereby they buy vehicles in bulk and sell them at very competitive prices. This is retailing at its best, but is only possible if there is enough cash in the system. Most retailers are highly geared, carry substantial amounts of repayable debt and therefore do not have the flexibility to take advantage of such deals.

Our advice to retailers is to reappraise completely the way they do business. This includes looking not only at process and controls, but also their impact on profitability. Furthermore, it is important to have a clear plan for improving working capital management together with a longer term strategy for the business.

Retailers may feel that they have enough to occupy their minds in the short term, but they must also think ahead and put in place a plan that sees them through the challenging times to come."

Whilst not comforting, the issues faced by our overseas counterparts reveal important and timely reminders that we need to plan our cash requirements and define areas where our cash is being tied up or lost!

It is our opinion that used car inventory management is one of the most critical issues facing dealerships today. Inventory management philosophies and stringent policies can safeguard against exposure to losses and realise cash presently tied up in this asset class.

We urge you to review your systems and policies in respect to vehicle inventory management. If you would like to discuss either short-term measures or the formulation of longer term strategy in this regard, please contact one of our Motor Dealer Services team:

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...it has been initially registered in the name of the LMCT as a demonstrator vehicle.

What is NOT considered a demonstrator vehicle?

- Courtesy vehicle
- Parts delivery vehicle
- Promotional vehicle
- Loan vehicle
- Private use vehicle
- Other business use vehicle

Note: Onus of proof lies with dealers to demonstrate to the SRO if they believe the motor vehicle is not liable for duty.

Wholesalers

A wholesaler who carries on a business of wholesale dealing in motor vehicles is exempt from paying Duty on registration or transfer of a motor vehicle, if the motor vehicle is used solely as trading stock.

The SRO considers that a motor vehicle is used solely as trading stock if:

- The motor vehicle is used exclusively as trading stock and for no other purposes;
- The motor vehicle is used in the carrying on of the business of the LMCT and solely for the purpose of the sale of that motor vehicle.

Our discussions with dealers and representatives in the industry reveal that there are circumstances the ruling does not contemplate or understand in holding demonstration stock eg factory requirements and timing. However, this ruling now clearly reflects the SRO's stance and as such we strongly recommend that dealers manage their stamp duty obligations in line with the above guidelines.

Note: If you consider a particular motor vehicle should be exempt, but it is incompatible with the ruling, the onus is on the dealer to demonstrate compliance.