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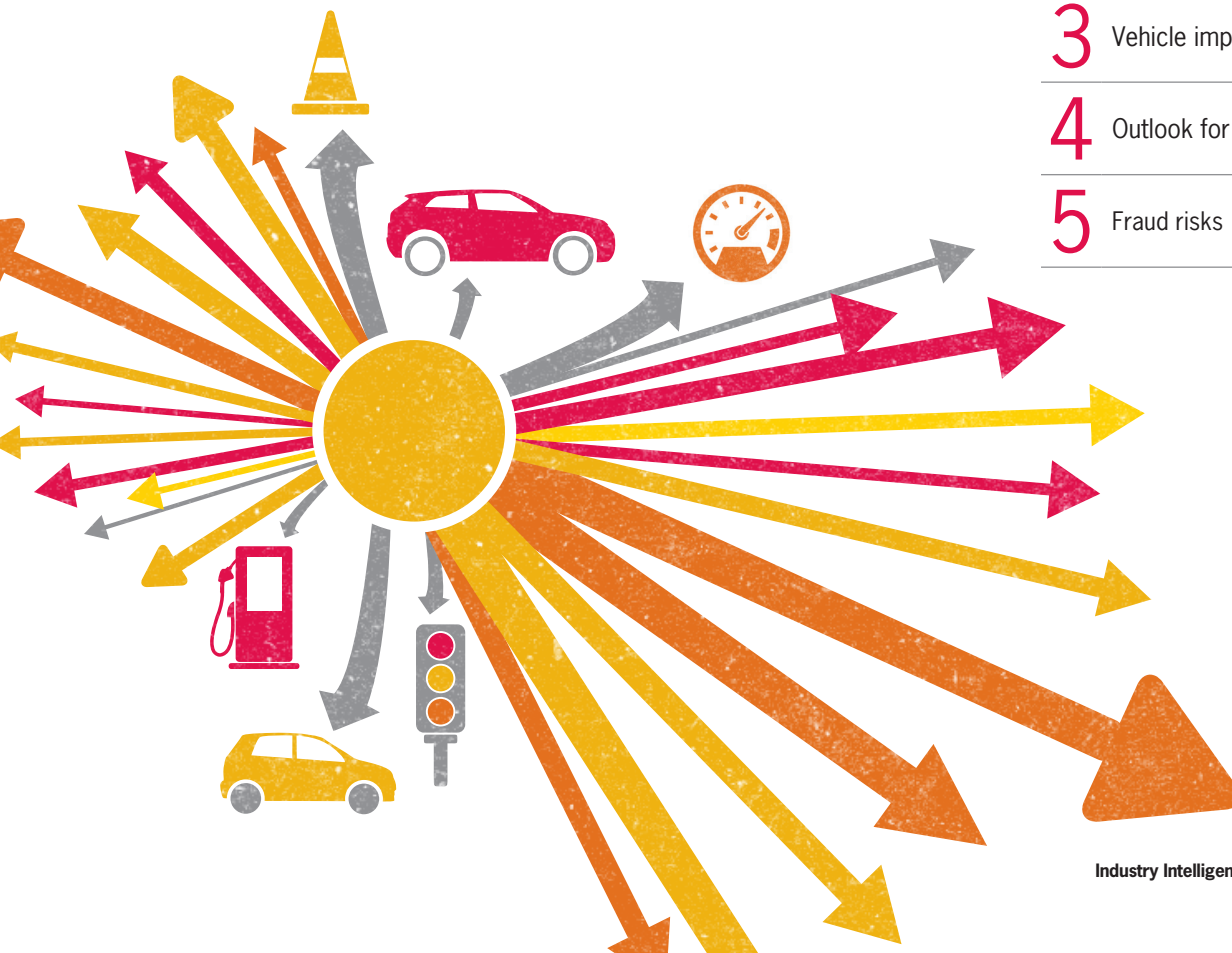
APRIL 2015

Industry Intelligence Unit *Automotive Dealership*

Welcome to the first edition of the Automotive Industry Intelligence Unit (IIU) for 2015. 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 IIU we concentrate on the following key areas of automotive industry:

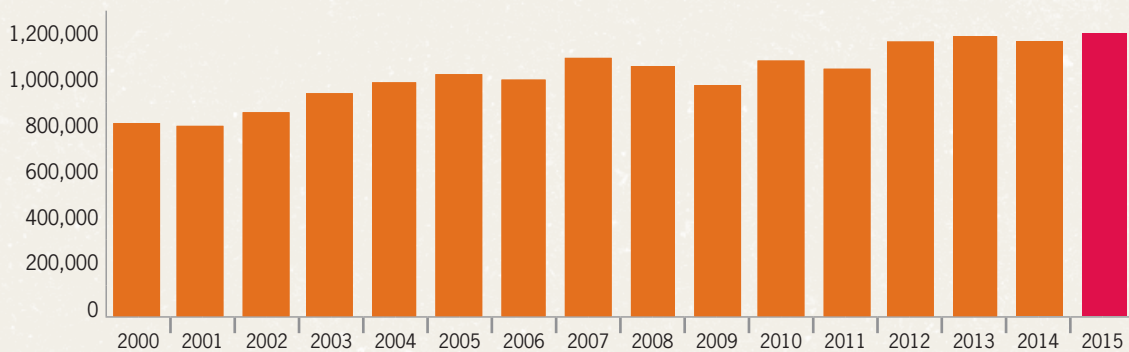
- 1** Overview of Australian Automotive market in 2014
- 2** Historical Analysis – Top 10 plus Mercedes Benz, BMW and Audi
- 3** Vehicle imports
- 4** Outlook for 2015
- 5** Fraud risks



Calendar year 2014 in review

Year on year growth has been strong since 2001 for Automotive dealership vehicle sales in Australia with the exception of 2008 and 2009 where the market fell 10.7% for the combined period as demonstrated in *Figure 1 – Annual vehicle sales from 2001 to 2015*.

Figure 1 – Annual vehicle sales from 2000 to 2015



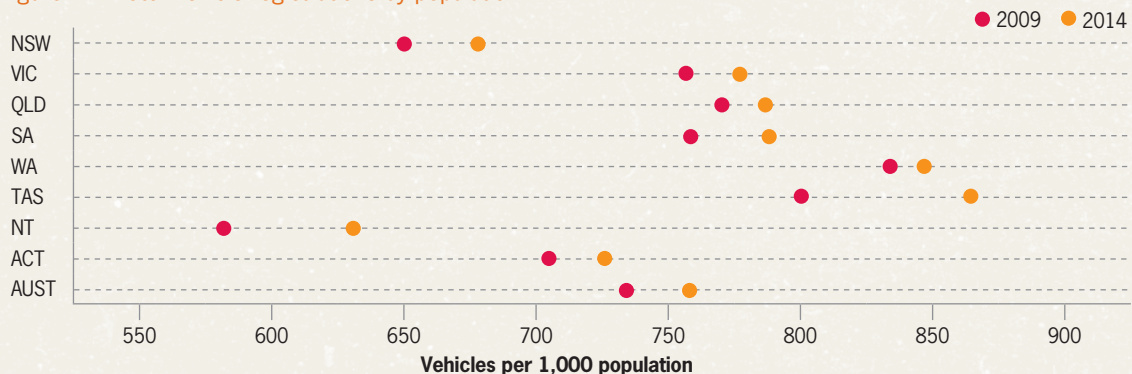
Source: VFACTS

2014 produced a solid result for the industry with annual sales totalling 1,113,234. Sales for 2014 were down 2% against 2013 annual sales.

Interestingly, 2014 was a market of two segments. The major brands (Top 1 to 10) combined sales fell 4.9% vs brands 11 – 20 which increased combined sales by 13.6%. In calendar year 2015, we expect this trend to continue with further increased market share by prestige brands.

According to the 2014 Motor Census, there were almost 17.2 million motor vehicles (including motorcycles) registered in Australia. In 2014 there were 756 vehicles per 1,000 residents in Australia which is an increase of 6 vehicles from the 2013 figure of 750. Tasmania had the highest rate with 861 vehicles per 1,000 residents while the Northern Territory had the lowest rate with 627 vehicles per 1,000 residents. *Figure 2 – Motor vehicle registrations by population* below shows the movement by state between 2009 and 2014.

Figure 2 – Motor vehicle registrations by population

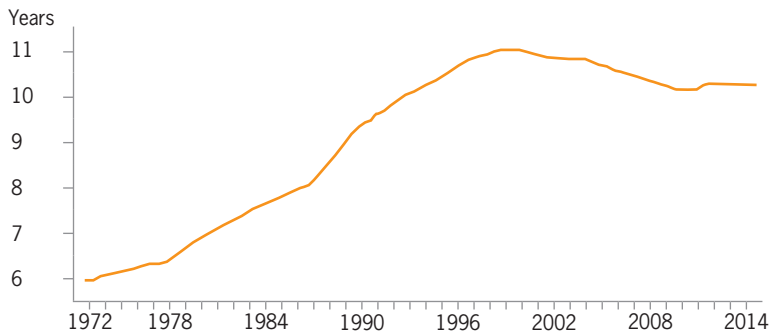


Source: 2014 Motor Vehicle Census

a) Rates for 2014 are calculated using Estimated Resident Population data re-based on the 2011 Census at December 2013 and Motor Vehicle Census data at 31 January 2014 (Australian Demographic Statistics - 3101.0 Dec 2013)
 b) Rates have been revised using the latest Estimated Resident Population data re-based- on 2011 Census at December 2013 (Australian Demographic Statistics - 3101.0 Dec 13).

The average age of all vehicles registered in Australia in 2014 was 10 years which has been consistent for the last five years. *Figure 3 – Average vehicle age of registered vehicles* shows the average age for the period from 1972 to 2014.

Figure 3 – Average vehicle age of registered vehicles



Source: VFacts
 a) For more details on the calculation of average vehicle age refer to the Glossary
 b) See Explanatory Notes for Motor Vehicle Census dates

State Summary

Vehicle sales in Australia are led by New South Wales (32%), Victoria (27.2%) and Queensland (20.1%) as shown in the Table 1 – Vehicle sales by state.

Table 1 – Vehicle sales by state

New South Wales	32.0%	
Victoria	27.2%	
Queensland	20.1%	
Western Australia	10.4%	
South Australia	6.3%	
Tasmania	1.6%	
Australia Capital Territory	1.6%	
Northern Territory	1.0%	

Source: VFacts

The market fell by 2.0% in 2014 on the back of falls in all States with the exception of New South Wales which improved by 1.5%.

Table 2 – Sales figures January 2014 to December 2014 outlines the last twelve months movements compared to the same period prior year together with the YTD movement. Sales have experienced negative growth in ten of the last twelve months with the Western Australian market falling for a minimum of twelve consecutive months.

Table 2 – Sales figures January 2014 to December 2014

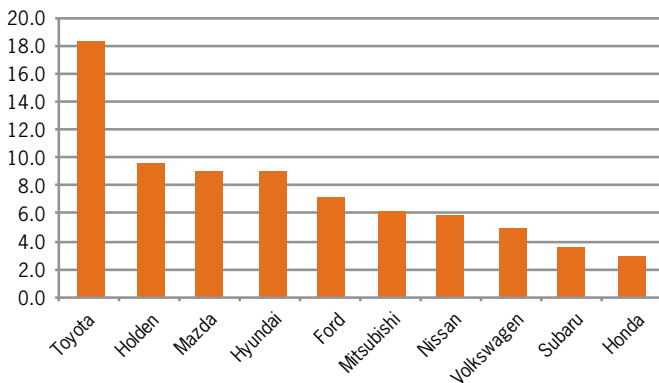
	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Year
New South Wales	3.4	0.8	2.5	-1.4	0.3	1.0	1.0	-2.8	5.9	4.6	-0.3	1.0	1.5
Victoria	-5.7	-4.1	3.8	-8.3	-0.7	2.2	2.2	-4.1	0.9	-1.5	-4.6	1.8	-1.5
Queensland	-1.7	-5.7	-5.7	-3.5	-4.8	-6.1	-6.1	-10.1	2.1	-5.9	-8.5	5.8	-4.1
South Australia	-14.1	-2.4	8.8	-9.0	0.1	7.6	7.6	-2.0	4.3	-1.8	-5.3	-3.5	-1.2
Western Australia	-14.6	-12.0	-9.3	-9.4	-6.5	-2.7	-2.7	-10.2	-2.7	-7.5	-9.6	-11.1	-8.1
National	-3.7	-3.8	-0.1	-5.2	-2.3	-0.4	-0.4	-5.5	2.5	-1.5	-4.8	0.1	-2.0

Source: VFacts

Brand comparison

Toyota continues to lead the market with 18.3% market share followed by Holden on 9.5% and Mazda and Hyundai both at 9% as detailed in *Figure 4 – Brand comparison by market share*.

Figure 4 – Brand comparison by market share



Source: VFacts

Table 3 – Market share 2008-2014 below looks at the market share over the last seven years. The key change has been the slide in market share of the key players – Toyota, Holden and Ford - since 2008. These three manufacturers accounted for 46.8% of the market share in 2008 but only 35% in 2014. Both Ford and Holden have been affected by the declining popularity of the large car segment and the Holden Commodore and Ford Falcon. As a result, Ford has lost significant ground falling from third position (10.3% market share) to fifth position (7.2% market share). The key winners over the last seven years have been Hyundai (increased from 4.5% to 9%), Mazda (increased from 7.9% to 9.0%) and Volkswagen (increased from 3.0% to 4.9%), whose growth has been assisted with new model releases.

Table 3 – Market share 2008-2014

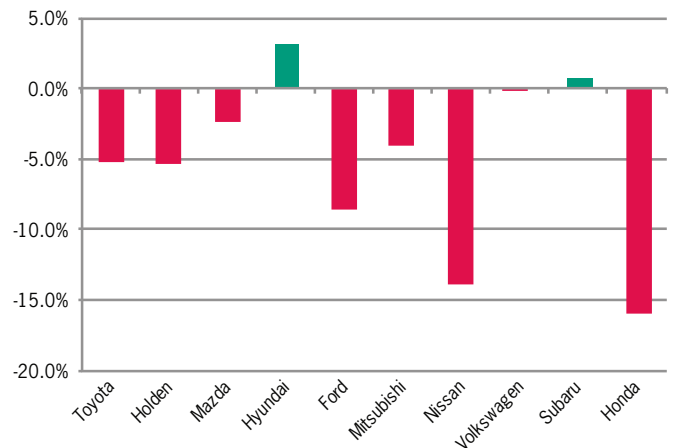
Major Movements	2008	2009	2010	2011	2012	2013	2014
Toyota	23.6	21.4	20.7	18.0	19.6	18.9	18.3
Holden	12.9	12.8	12.8	12.5	10.3	9.9	9.5
Mazda	7.9	8.3	8.2	8.8	9.3	9.1	9.0
Hyundai	4.5	6.7	7.7	8.6	8.2	8.5	9.0
Ford	10.3	10.3	9.2	9.0	8.1	7.7	7.2
Nissan	5.9	5.6	6.1	6.7	7.2	6.8	5.9
Mitsubishi	6.0	6.1	6.0	6.1	5.3	6.3	6.2
Volkswagen	3.0	3.2	3.7	4.4	4.9	4.8	4.9
Subaru	3.8	3.2	3.9	3.4	3.6	3.5	3.6
Honda	5.2	4.4	3.9	3.0	3.2	3.5	3.0

Source: VFacts

Whilst the market in 2014 was down 2%, it is important to look at the individual performance of each manufacturer. A number of manufacturers sales are increasing while others continue to lose market share as shown *Figure 5 - Movement in vehicles sales by brand: top 10* and *Figure 6 Movement in vehicle sales: top 11-20* that detail the market share of the top 20 vehicles manufacturers.

Interestingly, six of the top seven brands experienced negative growth greater than the national average decline in the market. This is not surprising however given the continued increase in new models being imported into the Australian marketplace.

Figure 5 – 2014 Movement in vehicle sales by brand top 10



Source: VFacts

Figure 6 – 2014 Movement in vehicle sales by brand top 11 – 20



Source: VFacts

Brand market share varies by State. *Table 4 - Market share by state* includes a summary which outlines changes in market share by State. As expected, 2014 Holden and Ford sales were still supported by the manufacturing states of Victoria and South Australia.

Table 4 – Market Share by state

	National	QLD	NSW	VIC	ACT	TAS	SA	WA	NT
Toyota	18.3	20.4	18.0	15.7	12.0	16.4	18.9	20.7	38.8
Holden	9.5	9.2	8.2	10.5	8.7	8.8	14.2	9.3	7.8
Mazda	9.0	9.8	9.5	8.7	11.2	7.4	9.2	7.1	6.1
Hyundai	9.0	9.8	9.3	7.4	8.9	9.3	7.4	11.8	6.8
Ford	7.2	6.2	6.3	8.8	5.9	8.7	7.9	7.3	4.5
Mitsubishi	6.2	7.7	5.8	4.7	6.3	10.4	8.3	6.1	8.3
Nissan	5.9	6.2	5.7	6.5	5.9	6.2	4.9	5.2	5.0
Volkswagen	4.9	4.3	5.3	5.3	8.8	5.8	3.9	4.1	3.0
Subaru	3.6	2.8	4.5	3.2	4.0	5.9	4.2	3.2	2.1
Honda	3.0	2.6	2.9	3.4	4.8	2.4	2.9	2.6	1.6

Source: VFacts

- Above national average
- National average
- Below national average

Whilst the *Table 4 - Market share by state* outlines market share, *Table 5 - Sales movement 2014* details the movement in sales during 2014. This data shows consumer buying trends by State.

Table 5 – Sales movement 2014

	National	QLD	NSW	VIC	ACT	TAS	SA	WA	NT
Toyota	-5.2	-4.2	-4.1	-6.9	-14.1	-6.4	-2.6	-7.2	-2.5
Holden	-5.3	-5.4	-6.8	-4.1	-4.8	-10.0	-3.0	-7.2	5.9
Mazda	-2.4	-2.8	-3.0	-0.2	2.3	-14.0	1.0	-5.4	-16.1
Hyundai	3.1	7.1	8.7	2.4	0.5	7.9	1.5	-11.6	-1.7
Ford	-8.6	-12.8	-0.4	-11.4	-1.8	-33.6	-0.8	-11.9	-
Mitsubishi	-4.0	-8.8	3.9	-0.9	-1.8	-4.2	-14.1	-9.8	-6.7
Nissan	-14.0	-23.4	-5.1	-9.7	-1.0	-24.1	-7.3	-29.1	-20.6
Volkswagen	-0.2	0.2	4.4	-4.7	-1.0	6.5	5.2	-6.6	10.7
Subaru	0.8	-5.0	-	7.4	-20.7	-14.9	8.2	4.6	-17.2
Honda	-15.9	-17.1	-14.3	-12.9	-10.0	-23.3	-11.0	-30.0	-14.5

Source: VFacts

- Growth
- Decline

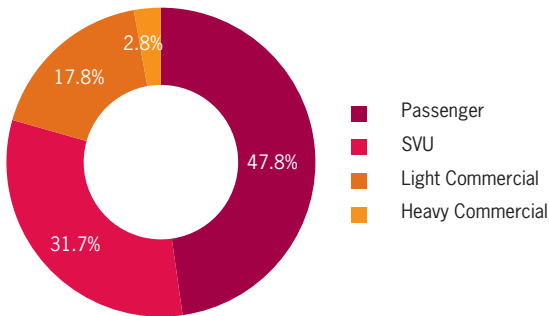
Market Segmentation

The Australian automotive market is broken up into four segments: passenger (47.8%), SUV (31.7%), light commercial (17.8%) and heavy commercial (2.8%) as outlined in *Figure 7 – Market segmentation*.

Each of the segments is broken into further categories. In this IIU we will focus on the passenger segments only.

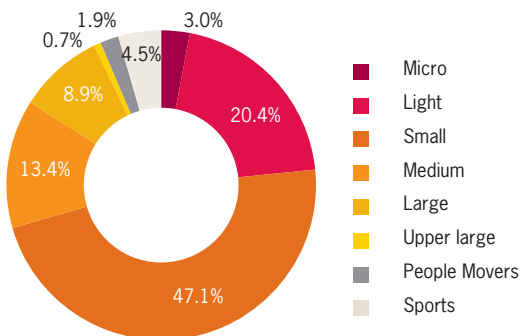
The passenger segment is broken down into a further eight segments as outlined in *Figure 8 – Market sub-segmentation*: light (20.4%), small (47.1%), medium (13.4%) and large (8.9%). The movement within these segments is extremely important as dealerships receive a higher starting gross profit to the retail customer per vehicle for larger vehicles than for the smaller vehicles. The return on investment, depending on stock turns, can be greater in the small car segment depending on the brand. The large car segment which in 2002 held a 35% market share has now reduced to only 9.4% of the segment. This is due to a number of factors including the changing buying patterns of fleet buyers.

Figure 7 – Market segmentation



Source: VFacts

Figure 8 – Market sub segmentation

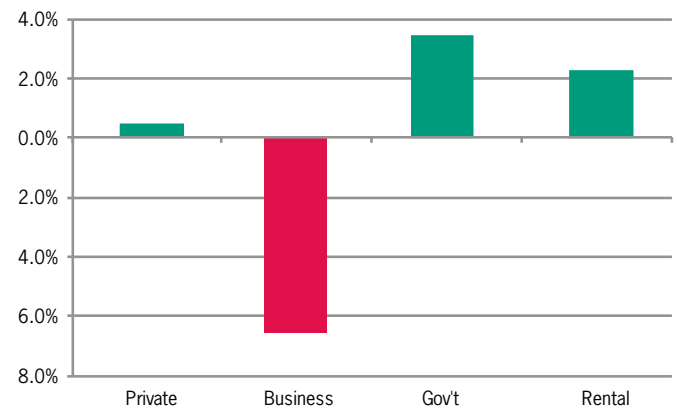


Source: VFacts

Buyer profile

The key buyer profile areas are private, business, government and rental as detailed in graph *Figure 9 – Buyer profile areas*. The private buyer is the most profitable buyer whilst government and rental buyers leave dealers with minimal gross profit. The 2% fall in vehicles sales in 2014 was due to a 6.6% fall in business buyers (down 28,157 vehicles)

Figure 9 – Buyer profile areas



Source: VFacts

Historical analysis

Outlined below is a high level review of the performance of the top 10 brands together with Mercedes-Benz, BMW and Audi for the period 2008 to 2014 covering annual vehicles sales and market share.

Figure 10 – Toyota performance for the period 2008 – 2014

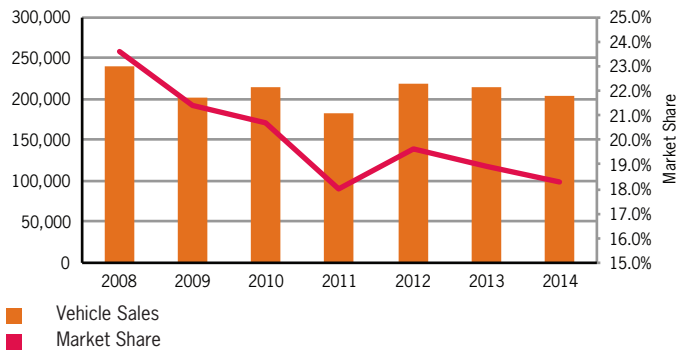


Figure 13 – Hyundai performance for the period 2008 – 2014

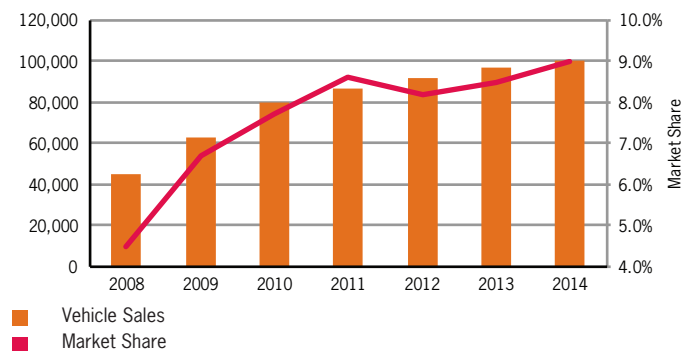


Figure 11 – Holden performance for the period 2008 – 2014

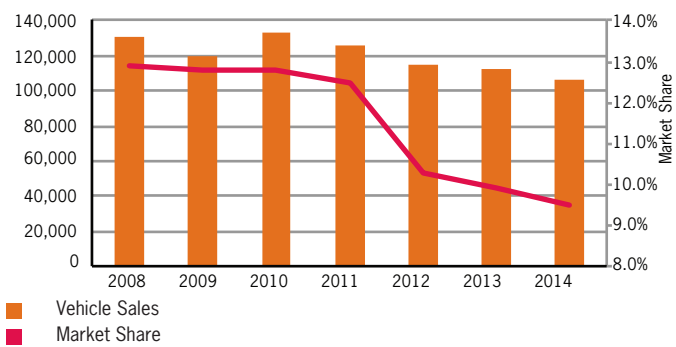


Figure 14 – Ford performance for the period 2008 – 2014

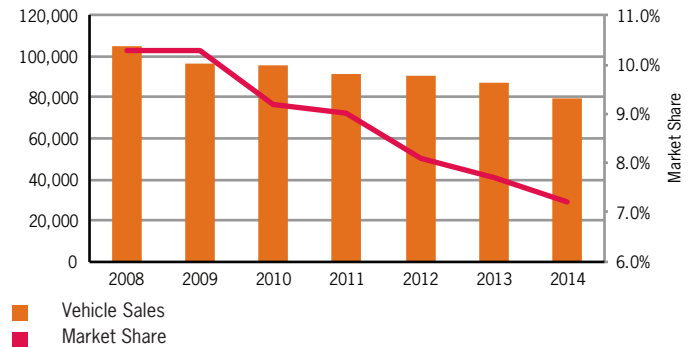


Figure 12 – Mazda performance for the period 2008 – 2014

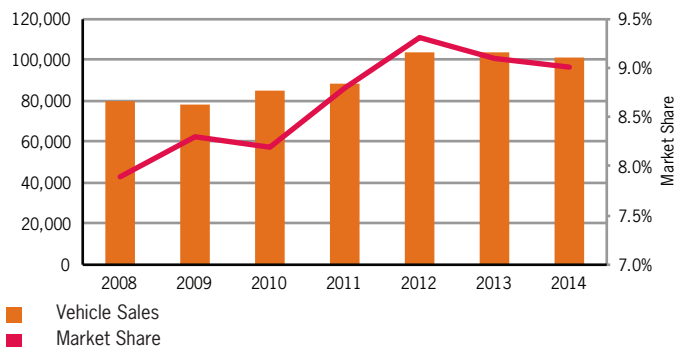


Figure 15 – Mitsubishi performance for the period 2008 – 2014

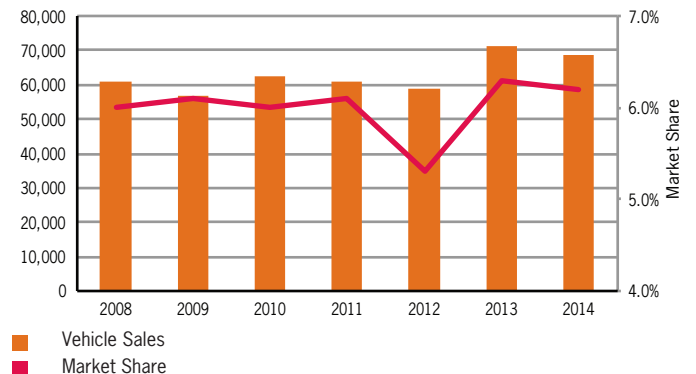


Figure 16 – Nissan performance for the period 2008 – 2014

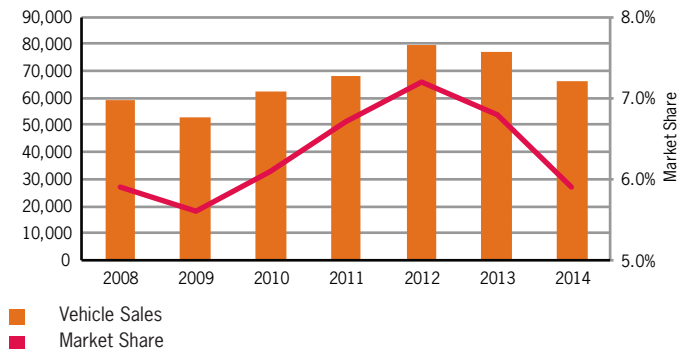


Figure 20 – Mercedes-Benz performance for the period 2008 – 2014

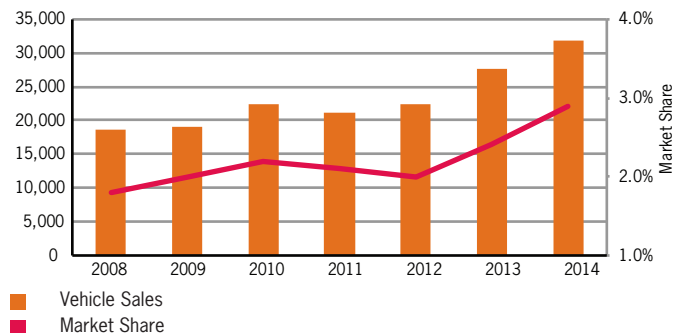


Figure 17 – Volkswagen performance for the period 2008 – 2014

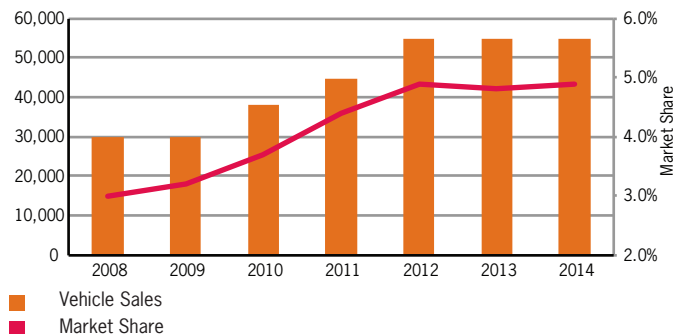


Figure 21 – BMW performance for the period 2008 – 2014

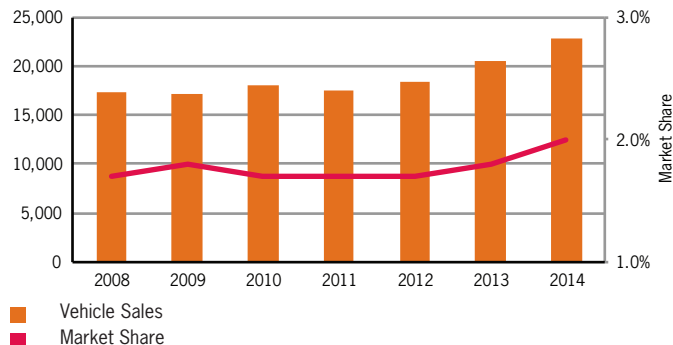


Figure 18 – Subaru performance for the period 2008 – 2014

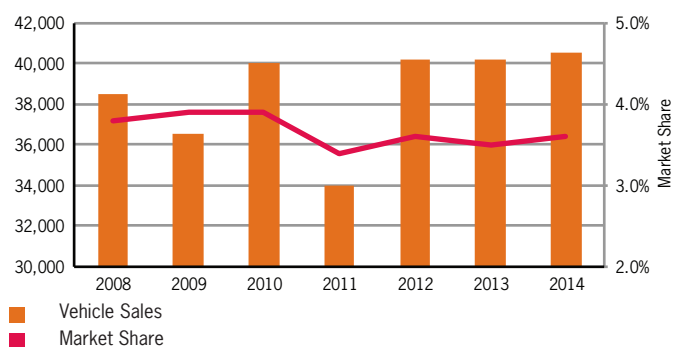


Figure 22 – Audi performance for the period 2008 – 2014

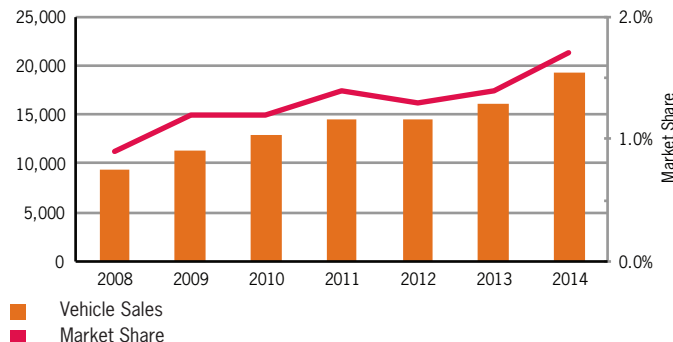
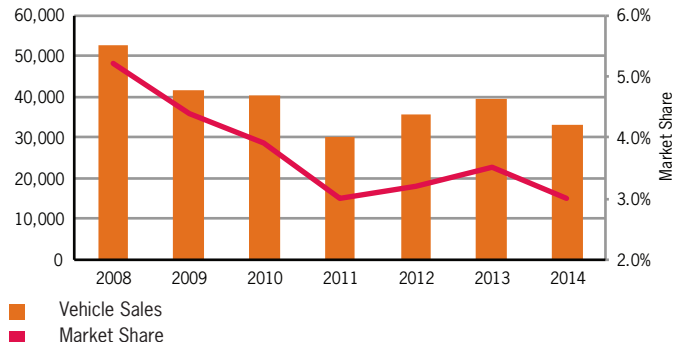


Figure 19 – Honda performance for the period 2008 – 2014



Vehicle imports

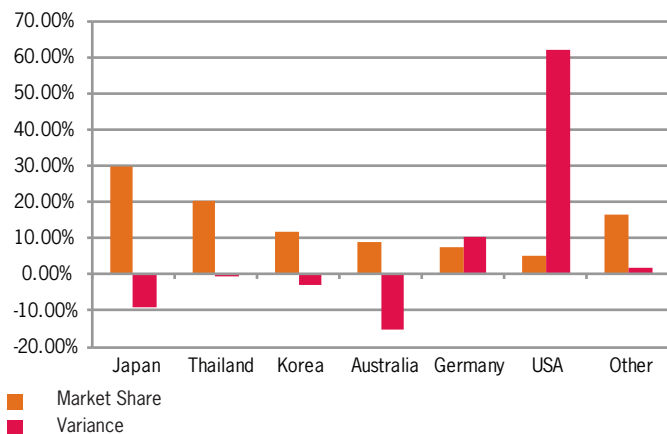
With the decisions of Toyota, Ford and Holden to cease manufacturing cars in Australia over the next few years, 100% of vehicles sold in Australia will be imported in future years. In 2014, Australian made vehicles sold in Australia fell a further 15.2% and now only account for 9% of the market.

Table 6 – Australian sold vehicle sources includes a summary of where Australian sold vehicles are sourced. 69.2% of vehicles are sourced from Japan, Thailand, Korea and Germany.

Table 6 – Australian sold vehicle sources

	2014	2013	Variance	Share
Japan	329,009	362,058	-9.1%	29.6%
Thailand	226,936	228,479	-0.7%	20.4%
Korea	130,777	134,953	-3.1%	11.7%
Australia	100,468	118,510	-15.2%	9.0%
Germany	83,811	75,883	10.4%	7.5%
USA	58,143	35,916	61.9%	5.2%
Other	184,080	180,428	2.0%	16.5%
	1,113,224	1,136,227		

Figure 23 – Australian sold vehicle sources



Outlined below is a series of graphs showing the movement in Exchange rates over the last eight years compared to the average exchange rate over the corresponding period for the major vehicle importing countries. The trend of the movements will have impacts late in CY15 and early 2016. Firstly, growth in the sales of US vehicles having come from a low base could potentially slow with the unfavourable dollar. Interestingly, Ford have committed to the Mustang from the US and pricing already. Secondly, growth (and competitive pricing) on the sale of German made vehicles is likely to continue with Australian dollar continued strength against the Euro. Thirdly, the relative movement has been positive for Japanese vehicle importers as the Yen has remained flat against AUD in the last 12 months compared to the appreciation of the Thai Baht and South Korean Won of 16.8% and 12.8% as shown in figure 24 below.

Figure 24 – Appreciation against AUD since March 2014

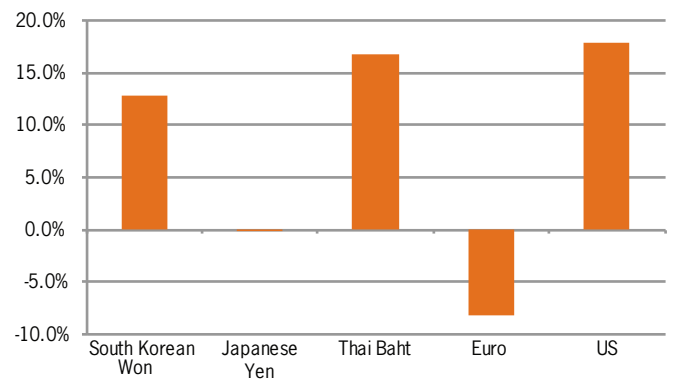


Figure 25 – South Korean Won

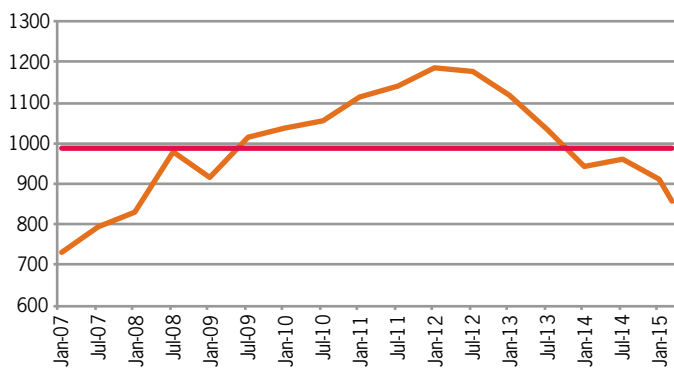


Figure 28 – Euro

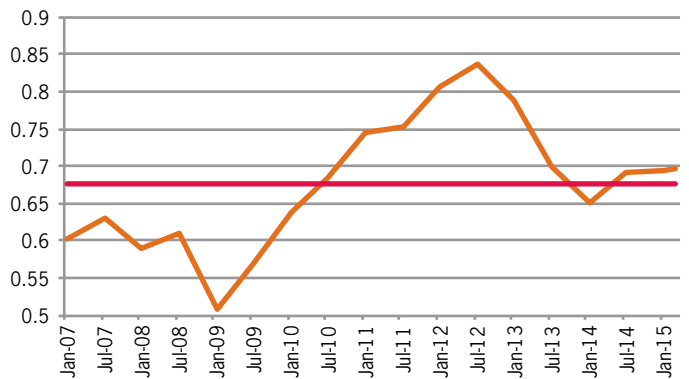


Figure 26 – Japanese Yen

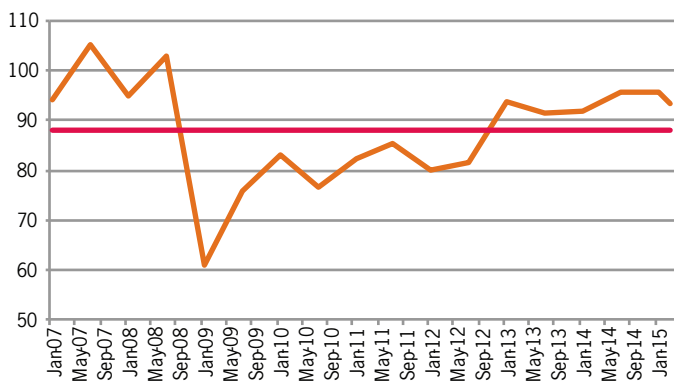


Figure 29 – US

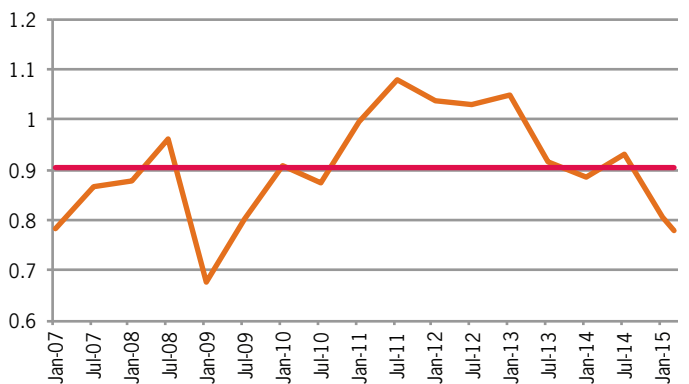
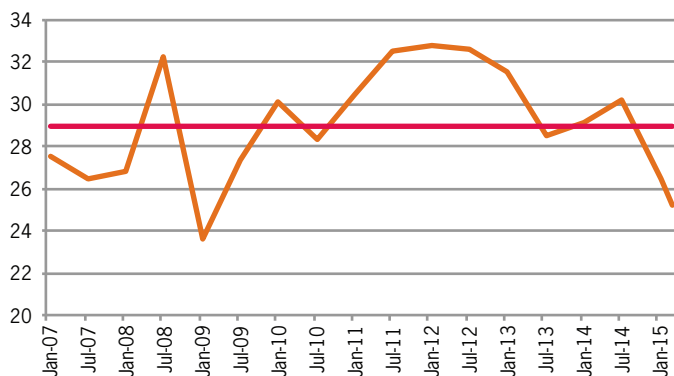


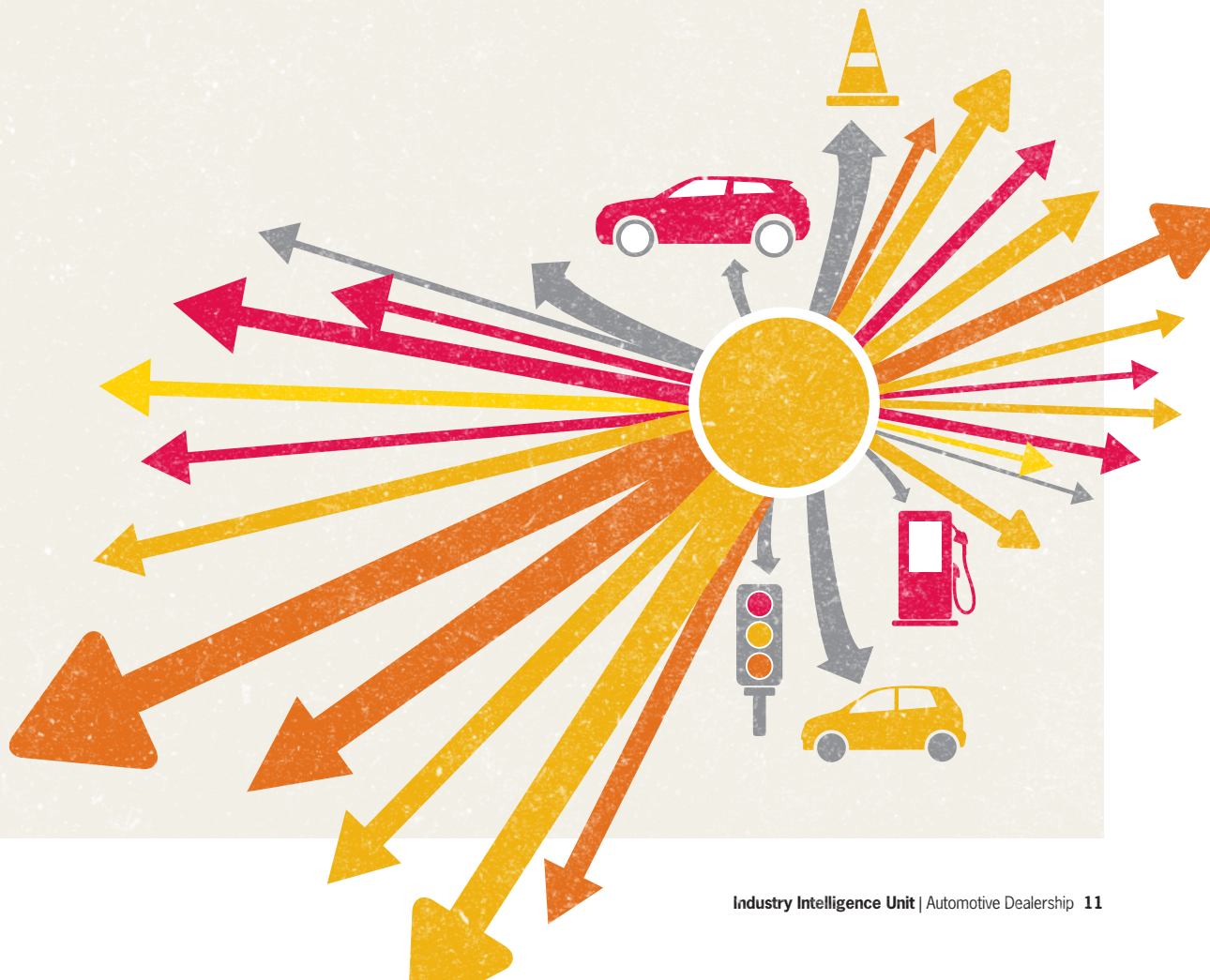
Figure 27 – Thai Baht



Outlook for 2015

The big question for 2015 is what will happen to vehicle sales?

As outlined earlier, the market fell 2.0% during 2014 due to the fall in business sales. Whilst the market is already slightly up this calendar year as at 31 March 2015, with a significant increase in new models / facelift models, run out models, lower interest rates, increased fuel efficiency resulting in the higher LCT threshold, we forecast annual sales to increase in 2015 resulting in an all time record of between 1,140,000 to 1,160,000 units.



Do you know your fraud risks?

The risks of fraud to motor vehicle dealers are no less significant than other commercial operations. In fact it could be argued that the structure of the administration of many dealers increase the risks.

Low margins on high value items do not allow most dealers the luxury of having robust back office structures. Therefore, a lack of segregation of duties within key processes is common amongst dealers.

In this environment the need for specific measures to manage your fraud risks are paramount as are the means to identifying when those processes are not being followed.

We find that while most dealers believe they have appropriate processes in place, ensuring that the processes are not being circumvented is the key to fraud risk management.

Every dealer that has had a significant fraud logically trusts that they have the right processes in place. They must otherwise they would have changed them.

However, in most instances, it is the human factor that finds a way around the processes or is able to convince others not to follow the right process.

Too much responsibility to one person and lack of control and accountability are the common causes of many frauds in the automotive dealer world.

As an example, a few years ago we conducted an assessment on a dealership in a large regional town.

One of the major findings was that the Office Manager had too much control over financial processes including petty cash, debtor management and banking. (One red flag)

This wasn't how the processes were originally established but through her over-bearing personality she gradually took on these functions outside her standard duties. (Two red flags)

We highlighted this in our assessment report however the dealership chose not to act, even though they knew that she regularly spent time at a local pokies venue and "may have had a bit of a gambling problem". (Three red flags).

Twelve months after the assessment we received a phone call from the dealership advising that the Office Manager had committed fraud.

It was a simple fraudulent process given the control that she had over the finances of the dealership.

A cheque received from a debtor would not be accounted for on the day it was banked.

She removed cash to the value of the cheque from the banking and substituted the cheque.

The banking for the day balanced with what was accounted for on that day from the various areas of the dealership including debtors.

She accounted for the debtor payment with funds received from debtors in following days and weeks, but like most fraudsters she didn't stop at one. She stole more and more funds until the debtors were out of control.

The fraud was discovered when the business owner, tired of not being paid on time, rang a debtor directly, only to be told that all the "outstanding invoices" had been paid months earlier.

An investigation discovered the extent of the fraud to be around \$120,000. However the cost to the dealership in time spent by employees, external accountants, investigators and solicitors in determining the extent of the fraud and the recovery of the money was much more.

But by simply adhering to policies, making staff aware of the potential of fraud to occur and recognising the red flags, the fraud could have been avoided or at least identified in the early stages.

Ensuring that you can get the right information from your dealer management system is the key to determining if your processes are appropriate and being followed.



When was the last time you had your systems and processes for handling money and other assets independently assessed?

Grant Thornton can provide independent assistance to help you identify your risks of fraud, the controls in place to manage those risks and whether those controls are being followed. We can also provide training for your staff to ensure they are aware of the fraud risks within your business and how to deal with matters which come to their attention.



About Grant Thornton

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions.

Grant Thornton Australia has more than 1,100 people working in offices in Adelaide, Brisbane, Cairns, Melbourne, Perth and Sydney. We combine service breadth, depth of expertise and industry insight with an approachable "client first" mindset and a broad commercial perspective.

More than 40,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work. Through this membership, we access global resources and methodologies that enable us to deliver consistently high quality outcomes for owners and key executives in our clients.

What is the Industry Intelligence Unit?

The IIU is unique in its objective of providing stakeholders with information, understanding and analysis of the issues faced within specific industries and subindustries. 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:

- Automotive Dealerships
- Energy & Resources
- Financial Services
- Food & Beverage
- Health & Aged Care
- Life Sciences
- Major Projects & Infrastructure
- Manufacturing
- Not for Profit
- Professional Services
- Public Sector
- Real Estate & Construction
- Retail
- Technology & Media

*If you want to know more,
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