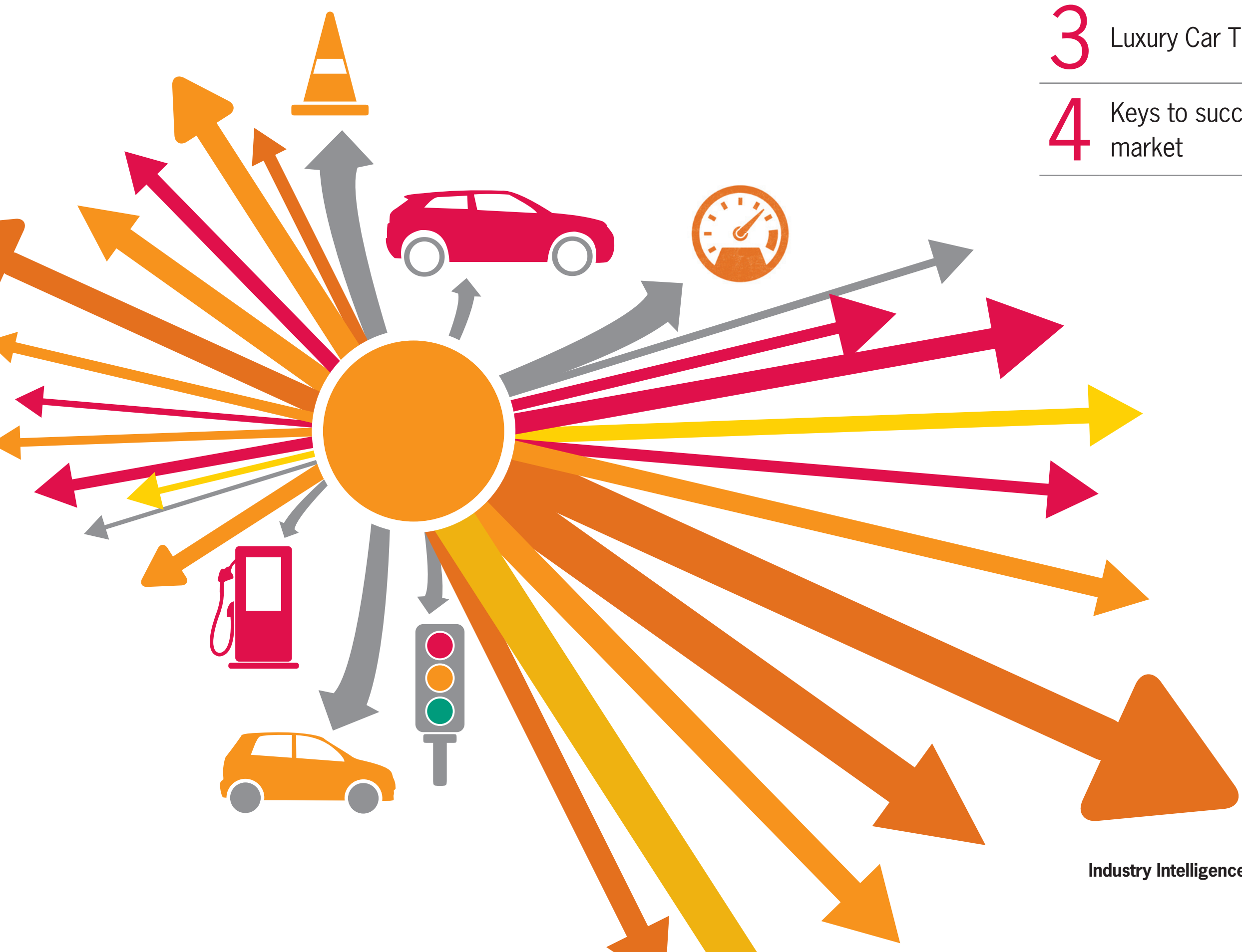
JULY 2014

Industry Intelligence Unit
Automotive Dealership

Welcome to the second edition of the Automotive Industry Intelligence Unit (IIU) for 2014. Internationally, Grant Thornton member firms are leaders in 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 the automotive industry:

1. General update on vehicle sales for first six months of 2014
2. Import vehicles and exchange rates
3. Luxury Car Tax changes
4. Keys to success in a slowing market

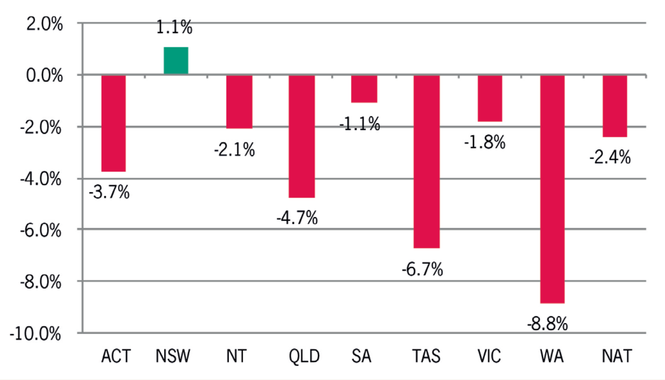


Vehicle sales update: June 2014

The first six months of 2014 have continued the downward trend in vehicle sales which commenced in August 2013. Sales have fallen this year by 2.4% (13,760 units).

As outlined in Figure 1- State growth, all states experienced negative growth in the first six months of 2014 with the exception of New South Wales which is on the back of strong growth in 2013.

Figure 1 – State growth



Source: Vfacts

Table 1 – Sales figures July 2013 – June 2014 outlines the last twelve months' movements. Sales have experienced negative growth in ten of the last twelve months and the Queensland market has fallen for eleven consecutive months.

Table 1 - Sales figures July 2013 - June 2014

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
New South Wales	4.50	1.80	-0.5	-0.9	1.6	4.70	3.40	0.80	2.5	-1.4	0.3	1.0
Victoria	6.90	2.10	0.70	-0.40	7.00	4.30	-5.70	-4.10	3.8	-8.3	-0.7	2.2
Queensland	2.10	-3.50	-5.50	-7.90	-9.80	-2.00	-1.70	-5.70	-5.70	-3.5	-4.8	-6.1
South Australia	3.5	2.7	0.4	-2.0	3.2	-3.6	-14.1	-2.4	8.8	-9.0	0.1	7.6
Western Australia	-1.2	-8.1	-8.2	-8.2	-15.9	-6.6	-14.6	-12.0	-9.3	-9.4	-6.5	-2.7
National	4.10	-0.20	-2.10	-3.10	-1.40	1.40	-3.70	-3.80	-0.1	-5.2	-2.3	-0.4

Source: Vfacts

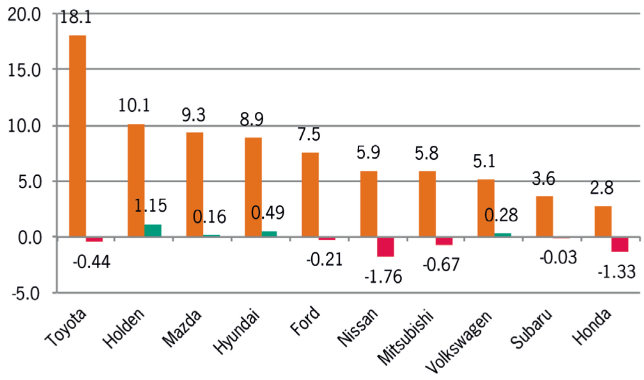
While the market has fallen 2.4% for the first six months of 2014, it is important to look at the market by State (outlined in Table 1 – Sales figures July 2013 – June 2014), brand, and buyer profile.

The fall in the market has been concentrated in the light commercial segment (down 5.3% or 5,674 vehicles) and the passenger segment (down 4.3% or 12,167 vehicles).

Brand comparison

Toyota continues to lead the market with 18.1% market share followed by Holden on 10.1% and Mazda at 9.3% as detailed in Figure 2.

Figure 2 - Brand comparison by market share



Source: Vfacts

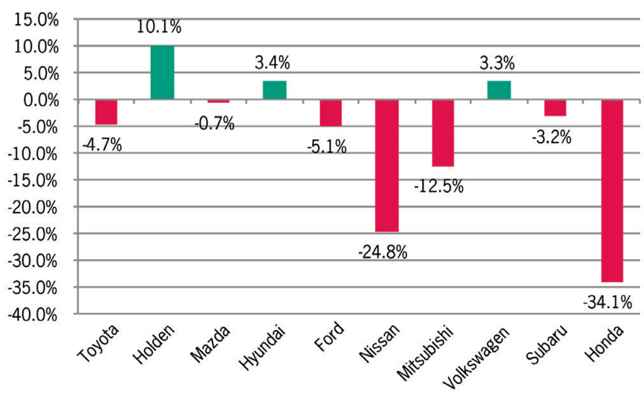
Market Share
Positive Variance YTD 2014 vs 2013
Nagative Variance YTD 2014 vs 2013

The combined vehicles sales for the Top 10 brands has fallen by 5.3% whilst the combined vehicles sales for Top 11 to 20 brands has grown by 13.2%

Figure 3 – Sales growth by brand – Top 10 demonstrates that despite the market being down 2.4%, a number of manufacturers have experienced an increase in sales. Holden, Hyundai and Volkswagen have all gained market share, while Nissan, Mitsubishi and Honda sales have fallen significantly down 24.8%, 12.5% and 34.1% respectively.

Holden's market share for the first six months of 2014 has reached 10.1% The key reason for Holden's growth is the release of the Trax (up 3,200 vehicles on prior year) and the 58.8% increase in Commodore sales.

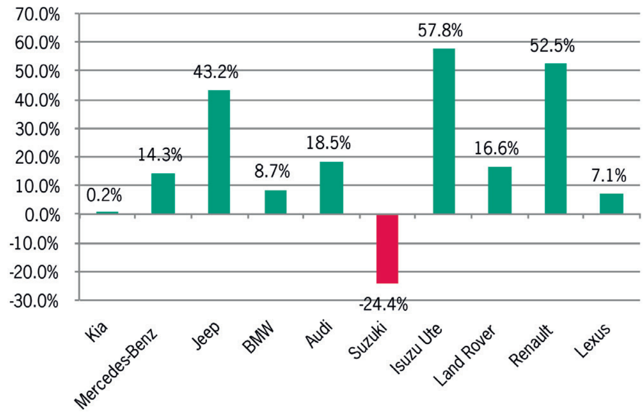
Figure 3 - Sales growth by brand



Source: Vfacts

As noted earlier in the report, the Top 11 to 20 brands continue to experience growth with the exception of Suzuki as shown in Figure 4 – Sales growth by brand – Top 11-20.

Figure 4 – Sales growth by brand – Top 11-20

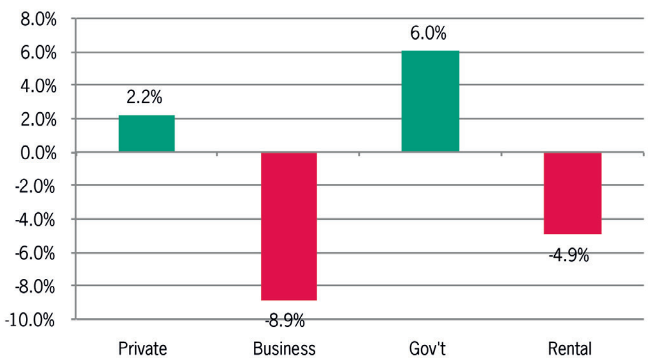


Source: Vfacts

Buyer profile

The key buyer profiles are private, business, government and rental. The private buyer is the most profitable buyer whilst government and rental buyers leave dealers with minimal gross profit as detailed in graph Figure 5 – Buyer profile areas. In the first six months of 2014, there has been a fall in business buyers (down 8.9% or 19,369 vehicles) and rental buyers (down 4.9% or 1,169 vehicles) which account for the fall in the market.

Figure 5 - Buyer profile areas



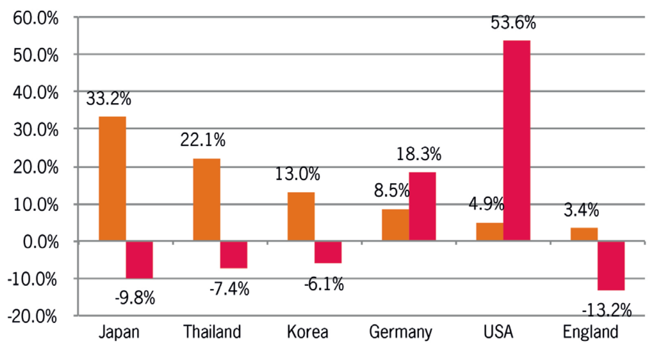
Source: Vfacts

Import vehicles and exchange rates

With the recent decisions of Toyota, Ford and Holden to cease manufacturing cars in Australia, 100% of vehicles sold in Australia will be imported in future years. Australian made cars now account for less than 10% of vehicle sales in Australia.

Figure 6 – Australian sold vehicles sources, outlines the key countries from which Australia sources cars and movement on prior year. As shown below, vehicles sourced from USA and Germany have increased by 53.6% and 18.3% respectively.

Figure 6 - Australian sold vehicle sources



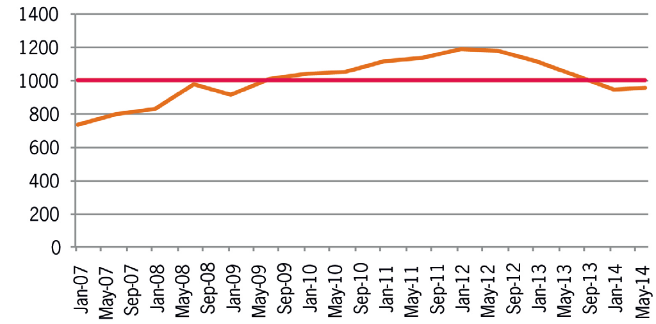
Source: Vfacts

Market Share of Imported Vehicles
YTD Variance 2014 vs 2013

One of the key factors facing the market in late 2014 is the likely fall in the Australian Dollar which will start to impact on vehicle pricing. Whilst, we do not expect to see a significant increase in pricing, we will see changes through reduction in manufacturer bonuses, more targeted low finance deals and potential changes in the level of vehicle specification.

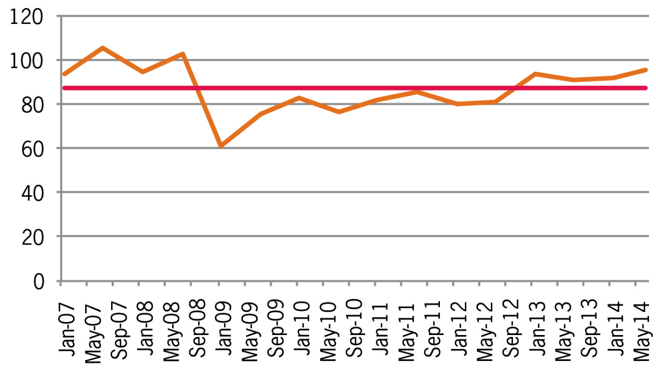
Outlined opposite is a series of graphs showing the movement in Exchange Rates over the last seven years compared to the average exchange rate. With the exception of Japan, we have seen significant movement since the start of 2013 with falls of up to 15%.

Figure 7 - South Korean Won



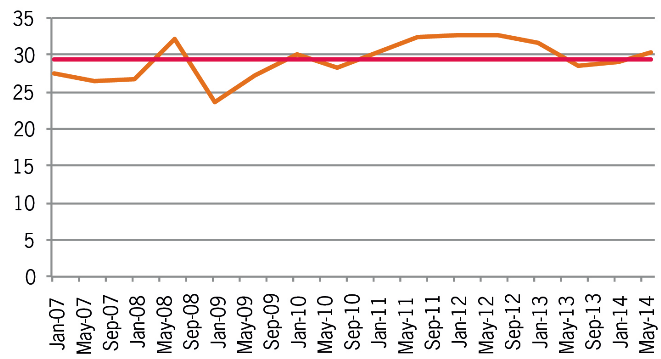
Source: www.x-rates.com

Figure 8 - Japanese Yen



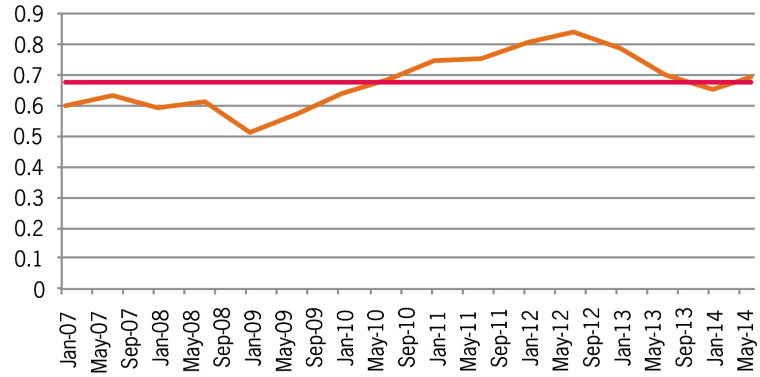
Source: www.x-rates.com

Figure 9 - Thai Baht



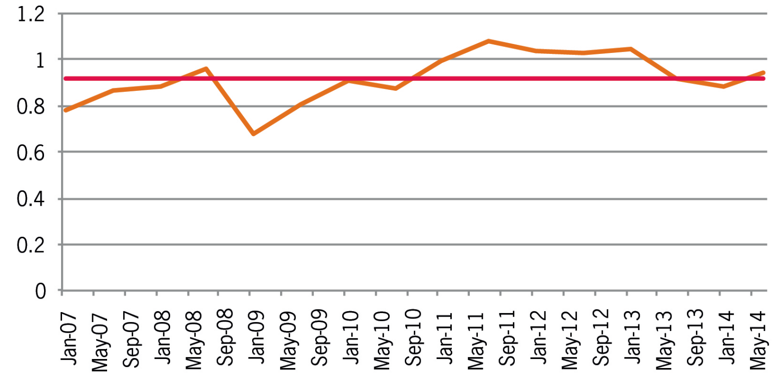
Source: www.x-rates.com

Figure 10 - Euro



Source: www.x-rates.com

Figure 11 - US Dollar

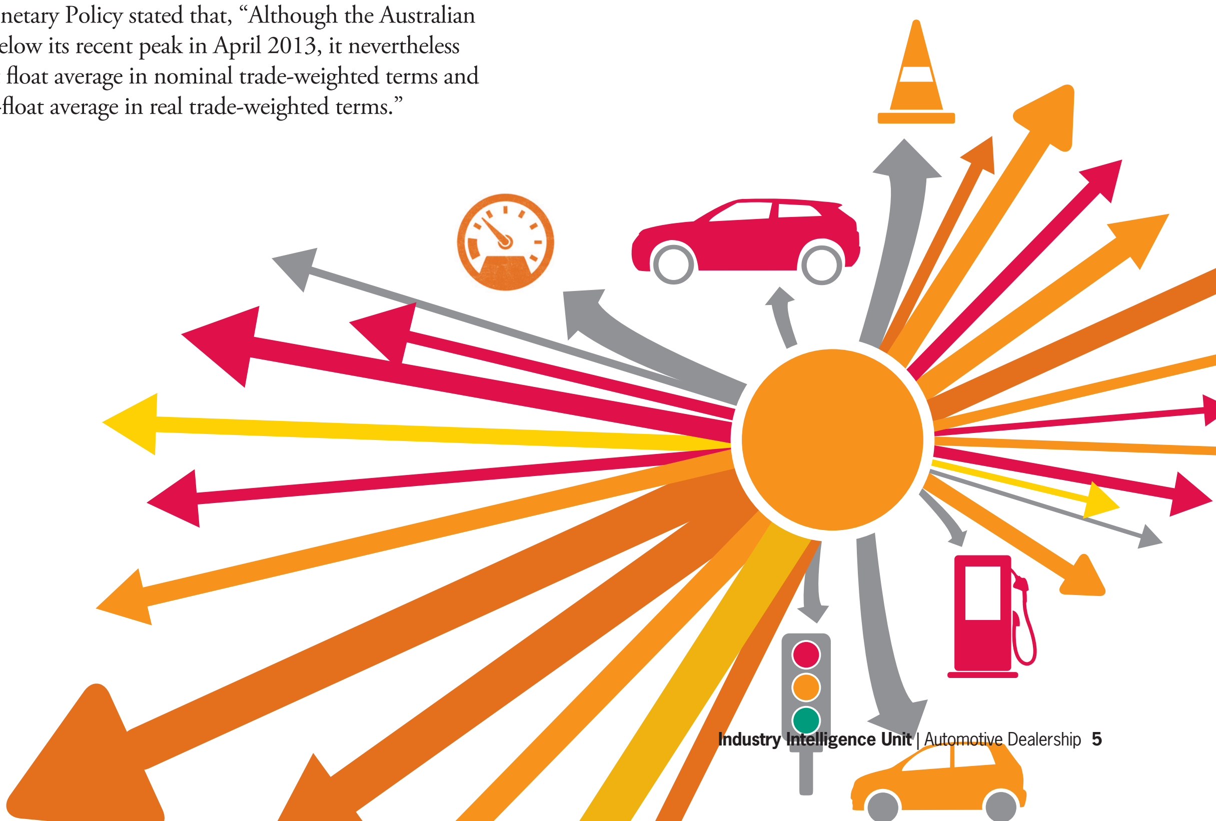


Source: www.x-rates.com

Minutes from the RBA meeting in June 2014

"Members noted that the exchange rate remained high by historical standards, particularly given the further decline in commodity prices over the past month."

The May Statement on Monetary Policy stated that, "Although the Australian dollar is still around 10% below its recent peak in April 2013, it nevertheless remains 16% above its post float average in nominal trade-weighted terms and around 30% above its post-float average in real trade-weighted terms."



Luxury Car Tax changes

In a Decision Impact Statement published in mid-December 2013, the ATO briefly outlined their view about the implications for Luxury Car Tax (LCT) following the decision of the Full Federal Court in the AP Group Limited case.

The Court determined that certain rebates are subject to GST, which means that these (GST-inclusive) payments need to be added to the consideration provided by the customer for the purchase of the motor vehicle for the purposes of calculating the "price" of the supply made by dealers to their customers.

Consequently, dealers who would not have satisfied the LCT threshold prior to the AP decision may now have a LCT liability where the total "price" including the payments exceeds the LCT threshold.

On 1 July 2014, the LCT threshold increased by $1,568 to $61,884. As a result, the 33% tax applies to every dollar over the threshold on vehicles sold that use more than 7.0lL/100km of fuel. This change should result in further price reductions at the top end of the market by around $500.

The next 12 months will see continued debate on the removal of the luxury car tax or significant uplift in the threshold. Manufacturers continue to challenge this tax as it captures vehicles which would not otherwise be classified as "luxury vehicles".

Keys to success in a slowing market

Managing your dealership in a slowing market requires a back to basics approach. Maximising the profit opportunities in every department, reviewing all of your business processes, and analysing costs will be the keys to success. Dealers should consider the following actions in the current market.

one

Remove the focus from sales targets to gross profit

It sounds simple but in the current market we see too many dealers focusing on achieving manufacturer sales targets rather than gross profit targets. All key decisions in a dealership should be made with a knowledge of the minimum gross profit required by the dealership for it to be profitable (based on the size of the facility and its fixed overhead structure). Is it achievable based on realistic sales targets? Are you maximising gross profit across all departments?

This is the start of the new financial year and your business plan should be prepared on the basis of a realistic market share and the maintainable gross profit required by the business for you to achieve the desired return on investment. If they don't achieve the desired return, change the focus of the commission structures in every department to achieving these gross profit targets and talk about gross profit in weekly meetings, not sales.

two

Manage your balance Sheet

Without proper management the value of the assets on your balance sheet can depreciate in value rapidly. We recommend that you maintain a focus on those assets that depreciate the quickest:

- Work in Progress – Any available labour hour not sold is lost forever. Labour hours sold versus labour hours available (performance index) should be tracked continuously, and outstanding work in progress reviewed daily.
- Used Vehicles – Problem vehicles are an issue from day one, not day 90. Constantly price and re-price vehicles to market (at least every 10 days). The internet has made the market transparent to consumers. If customers aren't viewing your car today, they won't tomorrow. Maintain the benchmark 45 day stock turn, have a 90 day drop dead wholesale policy, and stick to it.
- Trade Debtors – Have you considered the cost of carrying receivables? By carrying unnecessary trade debtors, you are financing another party! Reviewing debtors must go beyond chasing accounts that are old. Cultural change is required to enforce credit limits for trade accounts, put outstanding customers on C.O.D., complete genuine credit checks on your potential customers, and remove credit control from the departments.
- New Vehicles – Take personal control of your new vehicle inventory by holding inventory based on the sales you can achieve.

three

Focus on what you can control

Make customer retention, achieving finance penetration, and driving sales in the service and parts department the main goal.

Every connection your customer makes with your dealership needs to be an exceptional experience. Don't be afraid to think differently and employ people from outside the industry with exceptional interpersonal skills or professionalism. People are time poor an exceptional experience doesn't mean they need to be in the dealership for a long time. Meeting their expectations in respect to product knowledge, professionalism and ongoing communication is more important.

Understand where the opportunities are within your dealership to increase profit through:

- Comparing your finance penetration rates to the best in the industry. Are your finance managers getting introduced to all customers? Do they have the incentive to do so?
- How does your finance income per contract compare to best practice?
- Maximising the level of parts sold on service repair orders with proactive (rather than reactive) service advisors.
- Reviewing your sublet. What business are you missing out on and do you have the capability and capacity for complete it internally?
- Marketing to your service customers.

four

Retain your valued employees

It is imperative that your dealership maintains the benchmark employee ratios in every department. However, this should not be achieved through losing your best people.

Communicate with your employees, share your expectations with them, and involve key people in your business planning. Communicate a career plan to your best people including training and the support they will be provided, and change their salary package to protect their income. The nature of the industry puts a large percentage of people's income at risk but you don't want to lose your best people because of it.

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 1,040 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 38,500 Grant Thornton people, across over 120 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

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