

**January 2018**

THE MOTOR DEALER REPORT FROM AUSWILD & CO  
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## 2018: THE YEAR AHEAD

In another exceptional outcome for the automotive industry, official VFACTS data released by the Federal Chamber of Automotive Industries (FCAI) show that Australia has posted its fourth new car sales record in five years with 1,189,116 new passenger cars, SUVs and commercial vehicles sold in 2017, albeit, a modest increase of just under 1% on 2016.

Releasing the 2017 full-year sales results, FCAI Chief Executive *Tony Weber* said that 2017 marks the first full year in which Sports Utility Vehicles (SUVs) have outstripped those of passenger cars.

"Australians bought 465,646 SUVs during 2017 for a 39.2% share of the total market, compared with 450,012 passenger cars with a 37.8% share," Mr Weber said.

"The shift in industry dynamic we observed last year has now become entrenched in our market. It is a growth pattern that we expect will continue."

Mr Weber said that while the stability of the Australian economy and low interest rates were influential factors in the overall market growth, it was the fierce competition within the market place between brands which provided the momentum.

"Clearly Australian consumers recognise the value for money that is on offer in the new vehicle market, and responded accordingly," Mr Weber said. "To have eight record months out of 12 in 2017 speaks volumes for how brands successfully placed new products and incentives into the market which kept attracting buyers into the showrooms right throughout the year."

The month of December 2017 itself achieved total vehicle sales of 102,820 units – an increase of 4.1% on December 2016 sales. This made it the best December month on record.

Yet at grass-roots level, many dealers are questioning where these record number of vehicle sales are. Are these "official" record sales numbers distorted by the inclusion of "cyber vehicles" or pre-reported vehicles? Cyber vehicles are vehicles that have been reported as retail sales by dealers, generally to achieve factory targets and bonuses, but have not actually been sold and delivered to a retail customer.

Some industry estimates put this pre-reported vehicle volume as up to 20% of the volume reported. On the 2017 sales number achieved, that means that potentially up to 238,000 vehicles reported as sold are actually NOT sold!

These pre-reported units not only greatly distort the actual "real" retail sales volume number and the strength of the automotive industry in Australia (and the Australian economy), they also affect manufacturer target setting and have a huge negative impact on dealer profitability. It results in dealers having to ultimately discount these vehicles heavily and also results in the dealer having to carry too much new vehicle stock. In some instances, these vehicles have been in dealer stock for six months or more.

According to **AutoTeam Australia Consulting's Tony Lemmo**, "New vehicle department profitability is still a major issue in 2017, with the majority of automotive dealers nationally incurring a loss in this department fully accounted. In addition, many dealers are carrying a larger number of pre-recorded vehicles in stock, vehicles they reported as retail sales in previous months in order for manufacturers to achieve sales volume targets. The sooner this practice of pre-recording vehicles stops, the better for the industry."

So how did your franchise fare in 2017? Toyota again was the nation's top selling brand with 18.2% of the market, up from 2016 (17.8%)— and, why not? It again had 3 of the top ten selling models during the year in Hilux, Corolla and Camry. Mazda with 9.8% market share came in second whilst Hyundai (8.2%) again relegated Holden (7.6%) to fourth spot. The remaining top ten positions were filled by Mitsubishi (6.8%) swapping places with Ford (6.6%), VW (4.9%) pipping Nissan (4.8%), and Kia (4.6%) leap-frogging over Subaru (4.4%).

So, where to for 2018? The **FCAI's Tony Weber** said that he did not expect dramatic growth in the new vehicle market, but still predicted another year of record sales in 2018 on the back of the strong economy. For the record, **Tony Lemmo** from **AutoTeam Australia Consulting** echoes this prediction by forecasting that the market will achieve a modest growth to 1,200,000 units for 2018.

For 2018, we again urge dealers to take responsibility for and control of their businesses. We urge you not to "take your eyes off the ball" and commit to spending more time at your businesses (make that your new year's resolution for 2018) – to focus on your core business, to support your managers and team, and to drive your team forward towards achieving your goals. If hard decisions have to be made, be there to make them!

Take a microscopic view of your businesses. Understand the factors that made your dealerships profitable in 2017. Look at what you did well and what you didn't do well. Be honest with yourself. What areas of your dealerships require your immediate attention? What can you do to increase your sales and gross profits this year? Consider what actions you need to take to maintain your profitability levels during 2018.

If you were buying your dealership today, what would you do differently? What would you improve? What would you change cosmetically? What training do you need to have in place for your team? What personnel changes do you need to make? What expense structure would you set up? What would your budget look like?

One major concern in 2017 was the return to high levels of new vehicle stock driven by manufacturers' programs. Many dealers were also carrying used vehicle inventory over and above acceptable levels and aging. Excessive and aging inventory impacts dealer profitability. Dealers need to minimise new and used vehicle inventory to reduce holding and financing costs. They also need to be aware of used vehicle prices to ensure that corrections in used car values do not result in massive losses.

Finally, we reiterate what we write this time every year. Understand that you cannot control the market you are in, interest rates or the economy in general. There is no point losing sleep over things you cannot control. However you can focus on the areas or departments in your dealerships you can control like the processes, people, inventory levels, used vehicles, finance and insurance, aftermarket and fixed operations. Your ability to prosper in 2018 is entirely in your hands and that of your managers. "Cyber vehicles" notwithstanding, there will still be plenty of opportunities for you to make lots of money. Australians will continue to buy a record number of new vehicles in 2018 – just make sure that when they do, they buy it from you!

For additional information, please contact your  
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