

BULLETIN

February
2010

Automotive research and strategic advice

www.icdp.net

WELCOME TO 2010

ICDPA welcomes new and existing Members to its 2010 research programme.

In each of the past few years, ICDPA's research programme has offered on average more than 20 in-depth presentations and reports covering the Australian automotive industry and providing Members with local and global insights to help their strategic planning and decision making processes.

This year, ICDPA will do the following:

- consider the impact of vehicle congestion minimisation schemes and their impacts on urban development and consumer purchasing and vehicle servicing;
- review the macroeconomic environment and its impact on both business and consumer purchasing behaviours;
- highlight legal developments affecting the automotive industry;
- review retail sustainability in automotive retailing;
- conclude our groundbreaking work on the new marketing methodology called service dominant logic;
- research the used vehicle market with a particular comparison of Australia and Germany;
- look at the significance of social networking to craft relationships with customers;
- update our previous work on the strategic and tactical appraisal of dealer groups;
- update our previous research on certified used vehicle programmes and similar; and
- continue our ranking studies on vehicle manufacturer and NSC websites, franchised vehicle dealer websites, and motorcycle manufacturer and NSC websites.

Additionally, ICDPA will also prepare research and reports addressing issues that emerge throughout the year. For further information on the topics listed above, or any other research conducted in 2009 or earlier years, please contact ICDPA.

Next ICDPA Session

Friday 19th March, 2010

***RBA Economic Outlook &
Social Networking –
Implications for the
Automotive Industry***

**Kooyong Tennis Club
489 Glenferrie Road,
Kooyong, Victoria**

**8:30am for a 9am start
Concludes at 12.00pm**

SESSION 19th MARCH 2010

ICDPA will feature two presentations at our first session for 2010:

The Reserve Bank of Australia – The Macroeconomic Environment

ICDPA is pleased to have an officer of the Reserve Bank of Australia's (RBA) business liaison and economics unit provide Members with an up-to-date assessment of the present Australian and international economic environment. Among its functions, the RBA operates as Australia's central bank. It also conducts monetary policy and works to maintain a strong financial system and issues relating to the nation's currency.

As part of that work on monetary policy, the RBA sets the official cash rate, which leads to the setting of retail interest rates.

The RBA will provide Members with an assessment of key economic statistics that provide a road map through the present state of the economy, as well as pointers to future economic conditions.

Social Networking for the Automotive Industry

Richard Gruner, of the Department of Management and Marketing at the University of Melbourne, is undertaking research exploring how to effectively connect with and engage present and potential customers in a rapidly changing media landscape. He will present an outline of his research on the digital future and the reshaping of the media, particularly in the automobile industry.

Richard's research explores the relative contribution of different online and offline marketing communications in promoting new products to customers. Specifically, traditional (e.g. TV, radio, print), technology-based (e.g. SMS, banner, pop-ups) and social-network communications (e.g. online brand communities) will be compared in terms of their ability to increase the sales of new cars. The theory suggests there are clear advantages for managers in facilitating social-network communications over more traditional and technology-based communication. These enable firms to connect with customers, thereby increasing new product success.

The presentation will introduce the research and provide guidance as to how to best combine and employ different communication tools. In doing so, online brand communities will be explored by: (a) establishing a typology of different types of communities; and (b) assessing and ranking the different types of online brand communities in terms of their effectiveness in promoting new products.

Richard has extensive professional experience in the advertising industry and is an expert in working with traditional and developing media. Richard is conducting his research in collaboration with ICDPA, Professor Bryan Lukas, of the Department of Management and Marketing at the University of Melbourne, and one of Europe's leading industry experts and marketing scholars, Professor Christian Homburg, of the University of Mannheim, Germany.

OTHER ICDPA ACTIVITIES

Review of the Motor Vehicle Insurance and Repair Industry Code of Conduct

In late 2009, ICDPA was commissioned to undertake the Review of the Motor Vehicle Insurance and Repair Industry Code of Conduct. The Review was conducted in December 2009 and January 2010.

The Review was undertaken to assess the performance of the Code, in particular whether it was operating in accordance with its Preamble and Principles, and whether the parties to the Code were meeting their obligations to it. Details of the review can be found at www.abrcode.com.au

ICDPA is familiar with this sector of the automotive industry, having completed a report titled "Crash or Crash Through: a Comparison of the Australian & European Body Repair Sectors" in 2008. The Report reviewing the Code has been prepared and submitted, and will be publicly available from late February 2010. For a copy of the report, please contact ICDPA.

Automotive Industry Skills Reports

In 2009, ICDPA prepared two reports on behalf of (now defunct) Automotive Training Australia.

The first was the "Australian Automotive Industry Environmental Scan". It was prepared to inform government of the range of strategic and tactical processes that will affect workforce skills practice across the automotive sector and, in particular, skills and specialised trade occupations. The Scan also provides an assessment of the relevant training packages and their satisfaction of present and future industry needs. In particular, the Scan addressed the present and future industry development issues of a range of automotive industry sectors and after-market trade specialisations.

The second report was "The Review of the AUR05 Automotive Industry Retail, Service & Repair Training Package" (Scoping Report). The Report highlighted a number of the emerging and developing skill requirements forecast to be needed across the retail automotive industry sectors and trade specialisations, and which must be considered in light of the AUR05 Automotive Retail, Service and Repair (RS&R) Training Package. The report was developed by accessing a range of public and private industry information and data, including information gathered from interviews/discussions with industry practitioners, training providers and suppliers. For copies of these reports, please contact ICDPA.

CURRENT ATO AUDIT ACTIVITIES



BDO Kendalls

BDO's national Motor Dealer Services team indicates that the recently announced ATO compliance program introduces no new initiatives. However, the ATO has indicated it is concerned that the global economic crisis may lead some taxpayers to adopt aggressive tax practices to reduce their "proper" taxation obligations. In short, this means an increase in the quantum of tax reviews and audits being conducted by the ATO. Based on recent experience, we can attest to the increased level of activity by the ATO, especially in the retail motor industry.

The following general observations can be made in relation to ATO review or audit activity. Taxpayers who exhibit any of the following characteristics can anticipate some level of ATO review:

- (i) Taxpayers who engage in certain types of transactions, including:
 - international transactions with related parties;
 - profit shifting within group entities;
 - taxpayers using tax concessions relating to the sale of a business;
 - taxpayers establishing complex business structures that have minimal commercial purpose;
 - shareholder and related party loans and payments; and
 - tax schemes.
- (ii) Taxpayers who operate in certain industries that the ATO has nominated as high tax risk (the motor industry is in this category).
- (iii) Taxpayers that come with certain income and/or asset parameters:
 - SME's with a gross income of \$100 million to \$250 million; and
 - High-wealth individuals.

With the advent of the digital age, the sources of information available to the ATO have increased dramatically. These sources include property transactions, motor vehicle registrations and international money transfers. This information has allowed the ATO to be very targeted in its taxpayer reviews.

Of particular interest to the ATO are taxpayers who have generated substantial wealth over a period of time. As the ATO has refined its data analysis, this process has allowed it to continue to identify "...a greater population of potentially wealthy individuals". This then allows the ATO to contact these people to confirm their wealth status and structure. The ATO is focused on the tax affairs of individuals with a net wealth of \$5 million to \$30 million. Typically the initial review by the ATO requires the taxpayer to provide information about all entities connected to the individual, international dealings and personal asset position. This information helps the ATO better understand the taxpayer, the level of tax being paid and the potential tax risks associated with the way that individual conducts their business affairs.

In its last compliance program, the ATO announced its intention to review every business taxpayer with a turnover of \$100 million to \$250 million within a four-year period. These reviews commenced last financial year and are ongoing. The review comprises a number of stages:

- Stage 1:* Taxpayer provides detailed financial and taxation information to the ATO;
- Stage 2:* ATO reviews the information and seeks specific information relating to the business;
- Stage 3:* Meeting between the ATO and the taxpayer to further discuss contentious issues.

It is imperative that any information is properly reviewed before it is submitted to the ATO, to identify any risk areas that may require specific explanation or, at worst, a voluntary disclosure. This analysis is best performed by a qualified and skilled person who is experienced in dealing with the ATO. Importantly, the ATO has been very successful in recent years in collecting additional tax as a consequence of the review processes. Taxpayers need to be alert to the factors that generate ATO inquiry and, importantly, need to properly attend to the ATO's reviews when they occur. The clear message should be to ensure taxpayers seek appropriate professional advice to mitigate any negative consequences of an ATO review.

UPDATE ON PROPOSED LAWS AFFECTING THE AUTOMOTIVE INDUSTRY

MinterEllison

LAWYERS

In recent months, there have been a number of developments which especially affect the automotive industry.

'Lemon Laws' off the Agenda, but New Consumer Guarantees Coming

As we reported in early 2009, the Commonwealth Consumer Affairs Advisory Council recently undertook a review of the statutory implied conditions and warranties as part of the broader Australian Consumer Law reform. The council delivered its final report on 30 October 2009, following public consultation.

Of relevance to the automotive industry, the council was asked to report on whether the introduction of "lemon laws" in Australia would provide appropriate protection to consumers who purchased vehicles that did not meet their reasonable performance and quality expectations.

The council found "there is no need for a lemon law in Australia at this time". Further, the council's report stated "there is little empirical evidence to suggest that 'lemons' are a common feature of the market for motor vehicles ... in Australia". However, the council did not rule out consideration of lemon laws in the future.

Also of interest to ICDPA members was the council's recommendation that Australian consumer laws should "include a single set of consistent statutory consumer guarantees that are simple and clear". No draft legislation is yet available, but one of the council's recommended guarantees was that that goods were of an "acceptable quality" (i.e. fit for the purpose of their supply, acceptable in appearance, defect free, safe and durable). The council's report specifically recommended that the proposed consumer guarantees should apply to new and used vehicles, and that they should be enforceable against both the manufacturer/distributor and the retailer.

Changes to Franchising Code of Conduct ('Code')

Late last year, the Federal Government responded to the Federal Inquiry's report on the operation of the Code. The Government announced major changes to the Code, including:

- empowering the ACCC to conduct random audits to ensure Code compliance;
- clarifying the rights of franchisees in respect of end of term arrangements;
- enabling the ACCC to seek orders providing compensation for franchisees affected in a dispute without having to join the franchisee; and
- listing the behaviour expected of parties at a mediation.

In addition, an expert panel has been established to consider further changes to the Code relating to matters including capital expenditure, confidentiality agreements and end-of-term arrangements. The Government has not proposed introducing a good faith requirement into the Code, despite some spirited lobbying on this point. Following the Government's response, South Australian MP Tony Piccolo introduced a Private Member's Bill pushing for good faith laws in franchise agreements in South Australia. The Bill does not limit the proposed good faith law to franchise agreements in South Australia, but seeks to extend it to acts, transactions and agreements done or entered into inside and outside of that state. In our view, the Bill is ambitious. Any changes to the Code are not expected until later this year.

ICDPA: GREEN DEALER

In 2007, ICDPA launched Lean Dealer™. The initiative provided ICDPA Members with a cultural change programme designed to help dealership principals and staff understand and implement a comprehensive range of lean principles. Lean Dealer™ provides dealers with improved profit opportunities, customer satisfaction and staff involvement.

Recently, ICDPA developed a second programme for dealers wanting to be at the forefront of sustainable retailing. This change programme is known as Green Dealer. Dealers undertaking the Green Dealer programme will be given the opportunity to build a sustainable competitive advantage over their competitors. The programme will:

- develop a “green” culture within the dealership;
- provide dealership staff with a range of ideas, concepts and initiatives that will allow them to operate in a green and sustainable manner;
- enable dealers to promote their green and sustainable credentials; and
- deliver dealers quantifiable ROI and cost savings.

Funding subsidies for dealers adopting this programme in Victoria can be secured via Carbon Down (from VECCI and Sustainability Victoria). Please contact ICDPA for further details.

YEAR 2010 - THE OPPORTUNITIES

ICDPA provides specialist automotive research and strategic advice in retailing and after-sales. ICDPA delivers thought leadership to help Australian automotive executives develop and deliver their strategies.

The focus spans manufacturers’ factory gate to customer to end-of-vehicle’s life (this includes new, used, after-sales, F & I, facilities, different retail models, customer experience, sustainability, multi-channel marketing etc). This is provided by collaborative research in:

- Benchmarking and guidance to redesign supply chains and dealer processes;
- Critical data and parameters for network management, on margins, standards and dealer groups;
- Analytical tools and frameworks, such as supply chain simulation and network scenarios;
- Evaluation and assistance in navigating the ever changing legal environment.

ICDPA provides best-practice advice from automotive industries in other markets and other industries.

Output is via reports, seminars and member in-house meetings.

ICDPA can also provide specialist independent advice and reviews in all automotive industry areas and, where required, expert witness reports.

ACKNOWLEDGMENTS

The following organizations have contributed to ICDPA's research programme over 2007 – 2009

- ADP Dealer Services
- ADP Employment Services
- A P Eagers
- AutoNexus
- Automotive Training Aust.
- BDO Kendalls
- Dealer Solutions
- DJ Motors
- EnvisionIT
- Esanda
- Harley-Davidson
- Holden
- Honda
- Hornsby Auto Group
- Inchcape
- Mazda
- MinterEllison
- Mitsubishi
- Motorama Group
- Nissan
- Northern China German Auto
- Peugeot
- Pickering Group
- Polaris
- Porsche
- PrixCar
- Renault
- Saab
- Swann Insurance
- Toyota
- Urban Science
- Unipart
- Yamaha

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Automotive research and strategic advice

The ICDPA is a collaborative programme researching all aspects of car distribution, including the supply and retailing of new and used cars, after sales, network structures and operations. It is funded by participants from car makers, dealers, car industry suppliers, representative bodies and governments. ICDPA does not represent any of its Members or their individual policy views.