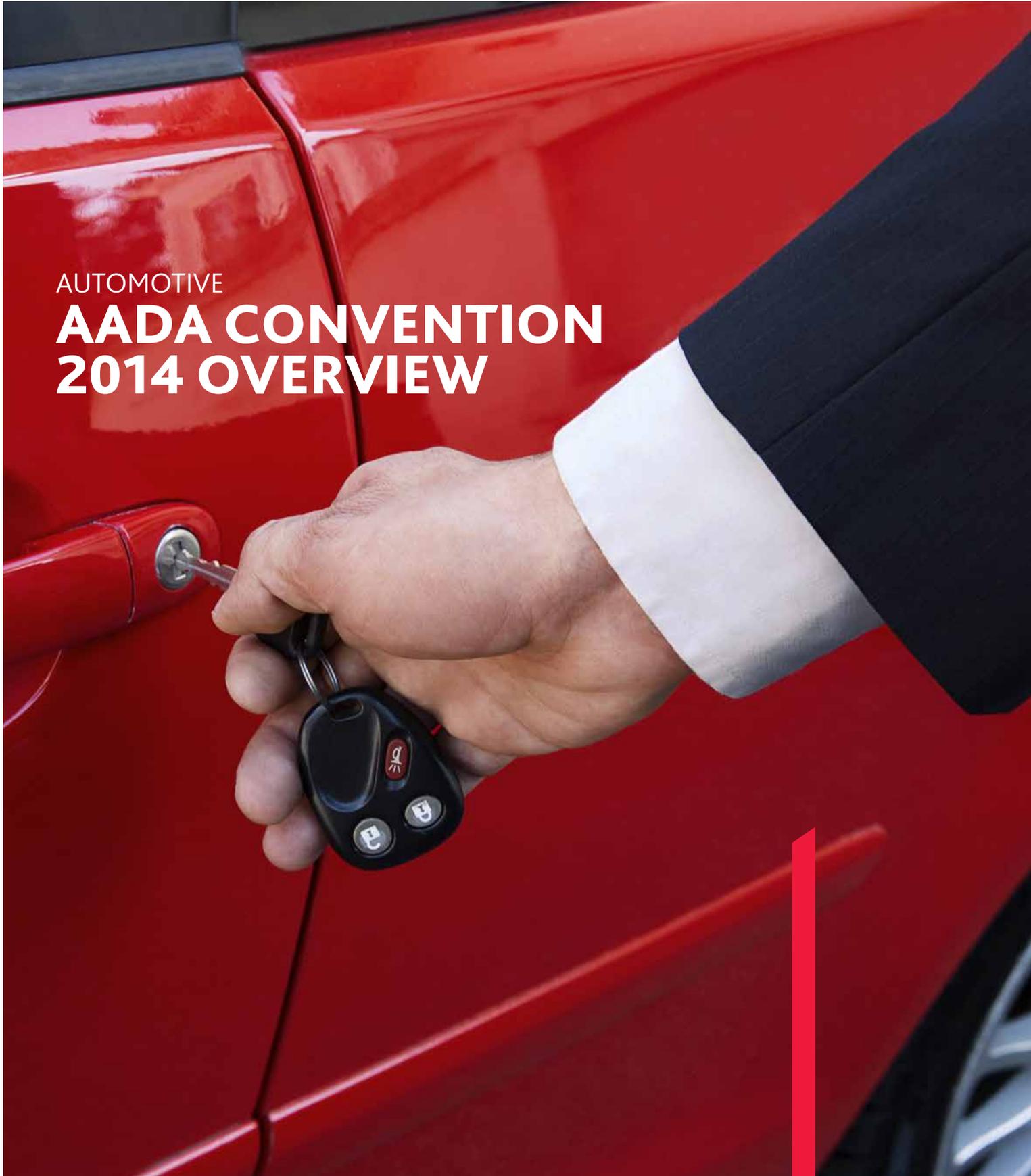


AUTOMOTIVE
**AADA CONVENTION
2014 OVERVIEW**



WELCOME TO AADA CONVENTION OVERVIEW

The 2014 Australian Automotive Dealer Association (AADA) national convention was hosted from 10 to 12 July 2014 on the Gold Coast.

This year's convention was significant in that it represented the first under the direction of the new and reinvigorated AADA – an industry body represented and funded by dealers. The convention theme '*FORWARD THINKING; A NEW DIRECTION*' reflected the new leadership.

A full three day program was punctuated with outstanding keynote addresses with Veronica Johns the President and CEO of the Fiat Chrysler Group Australia opening and John Howard our former Prime Minister closing. The convention also brought together a host of guest speakers which included industry participants, advisers, comedians, mind readers and motivators, for both education and entertainment.....some a bit of both.

Most importantly the 2014 convention was attended by a record number of dealers themselves.

The convention was extremely educational and entertaining. Of particular interest was the AADA panel discussion which was held on the first morning and hosted by Ian Leslie. The discussion covered a range of industry issues which included:

- The right to repair debate whereby legislation will potentially allow independent repairers access to the same tools and manuals currently only available to franchised dealers
- ASIC's ongoing review of finance commission arrangements
- Governments ongoing consideration to relaxation of policy relating to the import of used vehicles.

The discussion was significant for a number of reasons:

- The AADA panel was in the majority represented by the AADA Board – who today are motor dealers themselves who clearly understand the risks to their businesses and those of their colleagues
- On each issue the AADA panel briefed us on the tangible lobbying that they have undertaken to date – few would realise the time and effort that AADA have invested to prepare and present the numerous credible position statements on behalf of the industry.

BDO's own observation of the industry is that declining profitability is at odds with increasing investment – return on investment is decreasing. An acceptable return for a motor dealership business will reference the risk associated with operating that business. Further deterioration of the return relative to risk will erode the value of motor dealership businesses.

AADA have made significant progress in a short period of time to not only assemble a credible group of dealers but most importantly to identify and proactively address current industry issues.

However further progress will necessitate both the initial and ongoing financial support of the dealer network. We encourage dealers to take a proactive interest in the work being done by AADA and sign up to the financial support that they will require in order to continue the representation of dealers with a credible voice.

The following pages are summaries of various presentations from the 2014 AADA Convention.



MARK WARD
National Leader, Automotive

TURN YOUR FIXED OPERATIONS INTO A GOLD MINE

Alan Bergman presented the workshop titled 'Turn Your Fixed Operations into a Gold Mine' challenged dealership staff in attendance to 'take the blinkers off' and take a fresh new look at the opportunities that are present in fixed operations.

The workshop was designed to provide dealers with the information to

- Increase service customer retention
- Identify service and parts opportunities within the dealers area of responsibility
- Benchmark dealership performance against internal and external reference points
- Quantify existing facility and staffing utilisation then the potential
- Target areas of service and parts business that deliver a high probability for sales and gross margin.

Fixed operations, commonly referred as the back-end of the dealership, has always been a significant contributor to dealership profitability, however with the ever increasing pressure on new car margins the performance of the fixed operation departments becomes critical. With many manufacturers now supporting fixed/capped price servicing arrangements in an effort to retain customers in the dealer network we believe there are still further opportunities to increase retention and fixed operations profitability.

Dealerships should be proactive in promoting the benefits of franchised dealership businesses who generally provide superior:

- Facilities and equipment
- Trained technicians and staff
- Warranty on parts and labour
- Value for money.

These are all important factors in the value proposition, which are often not promoted well enough by franchised dealers. The value your fixed operations departments offer to the consumer should be underestimated, and neither should the increase in dealership profitability that can be achieved by increasing customer retention.

The value your fixed operations departments offer the consumer cannot be underestimated





ONLINE MARKETING – THE OTHER FRONT DOOR

Chris Polities from Carsales spoke about the changing face of the auto industry with regards to the ever increasing impact the internet is having on consumer purchasing habits.

The emotional journey of buying a car is rapidly moving from the dealer's front door to the dealer's online presence. Chris is convinced that this is the future and below are some of his key points.

1. Assess the market trends for online use and statistics on consumer buying behaviour – the continued and rapid development of online marketing and sales needs to be understood and harnessed;
2. Develop your online strategy – if you don't have one yet, make this the number one priority. Assess your website, social media touch points, media content and campaigns to ensure they are focused on your customers needs;
3. Challenge your website and social media pages – periodically ask yourself the following:
 - (a) Is the website/social media easy to use, navigate and is it interactive?
 - (b) Is the website/social media informative (uses less sales jargon) and does it get your message across?
 - (c) Is the website/social media content more fact based and include objective statements?
 - (d) Is your website visually strong?
 - (e) Is your website/social media part of the buying process, can it assist in helping the consumer make a decision to buy?
4. Measure the impact of your digital footprint – if you've invested in the items above, you need to use the information to drive your business. Do you track user traffic per medium e.g. mobile/tablet/computer, session times, user multiple visits, the content accessed at the same time as assessing lead generation?
5. Include all of the dealership offerings – the statistics indicate that Finance and Insurance is a last minute decision, ensure your online strategy includes the introduction of all of the dealership offerings as part of the experience;
6. Assess all of the information – the data available in the tracking process is very useful to enable you to target all markets. Ask your IT department or IT provider what you can capture and measure so that all opportunities can be explored;
7. Finally, your greatest opportunities come from failures – continue to use the information gathered for further opportunities within the dealership. Whether it's data relating to the lack of interest in an online campaign or the CRM information gathered on an unsuccessful lead conversions, ensure that you are evaluating what you have obtained to see if another opportunity can be generated either now or in the future.

“Your greatest opportunities come from failures.”



PAUL CUMMINGS

Paul is a regular speaker at NADA and attracted a large audience for the second day of the AADA convention.

The learning component of the second day of the convention was facilitated entirely by Paul who's presentation was divided into four high energy topics:

- Living as a Leader
- Premium customer care
- Player development
- Level 10 experience.

Some of the themes from the presentations follow.

Living as a leader

BDO's own observation is that in business, when all other things are equal, it is leadership that differentiates profitability. There is a positive correlation between leadership and financial returns. Paul's presentation style, which included practical examples, was beneficial to highlight:

- Time is your greatest resource – 86,400 seconds every day
- The way we act, project and manage ourselves has a direct impact on the performance of our businesses
- Positive leadership traits will include analysis, conceptual vision, decision making, judgement, pragmatism, risk taking and teaching

Premium customer care

Paul's 'one liners' regarding premium customer care seemed to resonate with the audience:

- Drive service past price
- You know and feel service when it's right
- Out serve the competition and you will out sell the competition
- Service is a multiplier of perceived value
- People lose their financial common sense in a 'wow' experience

Player development

Throughout this presentation Paul emphasised that when it comes to employees, world class organisations 'hire slow, train often and fire fast'. Arguably this cannot be said of the HR approach of most dealership businesses. Paul outlined the following as a suitable checklist upon which to evaluate a potential employee:

1. Fit – does the person fit your needs and the role you have in your organisation?
2. Talent – does the person have the ability to do what you need that person to do in your organisation?
3. Culture – does the person fit in to the culture of your organisation?
4. Chemistry – does the person have the right attributes that fit with your existing staff members and can you see yourself working collaboratively with this person?

Once employed, Paul provided a quick and easy method of assessing your staff members (KASH):

1. Knowledge – assess the level of knowledge a staff member uses in undertaking their daily activities
2. Attitude – assess the consistent attitude a staff member has portrayed during the entire assessment period
3. Skills – assess the skills displayed in applying their knowledge to the daily situations a staff member faces
4. Habits – assess the actions of the individual and how they conduct themselves while undertaking their daily activities during the entire assessment period.

Level 10 experience

The last topic of Paul's lively presentations was 'level 10 experience' - you have a choice in the actions you take, so why not choose to do everything in life to the best of your ability, including your efforts to create a 'level 10 experience' for customers. The presentation included many analogies and practical examples which the audience were able to connect with. For example, Paul highlighted a number of businesses which have a stand out attribute which they have clearly chosen to be known for, including Apple for design, Starbucks for experience and McDonald's for consistency. Helen Keller has been quoted as saying "Life has volume" – Paul encouraged us to turn the volume meter to the maximum – level 10!

REDEFINING THE ART OF CLOSING

Frank Romano is an internationally acclaimed award winning sales educator and customer contact strategist who says today's customer is better informed and more intelligent, therefore a shift in thinking is required to achieve outstanding sales results now and into the future.

Frank discussed in detail his value added model for selling, which states today's salesperson should be able to demonstrate:

1. Emotional integrity
2. Establish and maintain rapport with the customer
3. Elicit and detect (look for and listen for the answer)
4. Facilitate
5. Ask (not closing) for a commitment (if you have achieved the above steps the customer is naturally moving this way).

The consumer of today has more information at their fingertips than ever before and in most cases is already in the buying process by the time they step foot in the dealership. The balance of power has shifted and therefore a shift in thinking is required.

“make the customer the centre of your universe...”

Frank says a salesperson's thinking has to change:

FROM	→	TO
Selling		Advocacy
Short-term		Customer life cycle
Price		Accumulated value
Seeing customer as an individual		Seeing customer as an entire network
Being a dealer		Being a resource to the customer
Seeing the customer as an adversary		Potential strategic resource
Make a sale mentality		Help the customer purchase

The key messages from the presentation were 'make the customer the centre of your universe' and take a strategic / long term approach to interacting with your customers. The world has changed and customers are armed with more product knowledge than ever before, therefore, consider how your dealership will stand out from the pack in order to compete and prosper into the future.



AUSTRALIAN TAXATION OFFICE (ATO) COMPLIANCE

Mark Ward gave a presentation titled 'Efficient Compliance with the ATO.'

The presentation covered the following:

- The ATO's compliance program
- Why have the ATO picked me or my entity?
- BDO's observations of ATO focus areas for dealership businesses
- What to do when the ATO come knocking.

The ATO's Compliance Program

Each year the ATO publish their compliance program which outlines by taxpayer group their areas of focus, reviews and audits conducted and revenue generated. The following table provides a summary of the ATO's compliance program in respect to the June 2013 financial year:

	WEALTHY INDIVIDUALS	HIGHLY WEALTHY INDIVIDUALS	SMALL BUSINESS	MEDIUM BUSINESS	LARGE AND INTERNATIONAL BUSINESS	SUPER FUNDS (SMSF)
Metrics	Net Wealth \$5m to \$30m	Net Wealth > \$30m	Turnover < \$2m	Turnover \$2m to \$250m	Turnover > \$250m	n/a
FY2013 Reviews/Audits (Income Tax)	386	291		931	519	> 9,000 making 132 non compliant
FY2013 Revenue (Income Tax)	\$281m	\$1.1b		\$696m	\$2.2b	\$16.4m
FY2013 Revenue (GST)				\$587m	\$310m	
FY2014 Proposed Reviews/Audits	1,000	500		1,000	320	1,100 tax regulatory 15,100 approved auditors

Consistent with the table above which outlines the ATO's compliance program we are observing a significant focus on taxpayers the ATO categorise as 'high wealth individuals'. Further it seems that the ATO will review this taxpayer group at regular intervals.



Why have the ATO picked me or my entity

Sometimes there is no clear reason as to why the ATO have chosen you, your entity, or your group for review or audit, however the following will normally give rise to ATO compliance activity:

- High wealth individuals – appear to be on a three to five year review cycle
- Data matching anomalies – 640 million transactions, last year raised \$947 million in revenue from 445,000 reviews and audits
- Benchmarking anomalies
- Tip off
- Compliance matter of focus
- Industry focus.

BDO's observations of ATO matters of focus dealership businesses

The following is a general summary of our observation regarding dealership matters of ATO focus, which are not inconsistent with matters of focus for business in general:

- Income Tax
 - Related party loans and unpaid present entitlements (division 7A)
 - Commercial arrangements, all income disclosed, deductibility of expenses
 - Entitlement to capital gains tax (CGT) concessions, and calculation of the taxable gain
- GST
 - Entitlement to GST claimed – creditable purpose, correct documentation
 - Recording of all sales on which GST is paid
 - Lodgement of returns – on time
- FBT
 - Little activityfor now
- LCT
 - Trading stock exemption.

What to do when the ATO come knocking

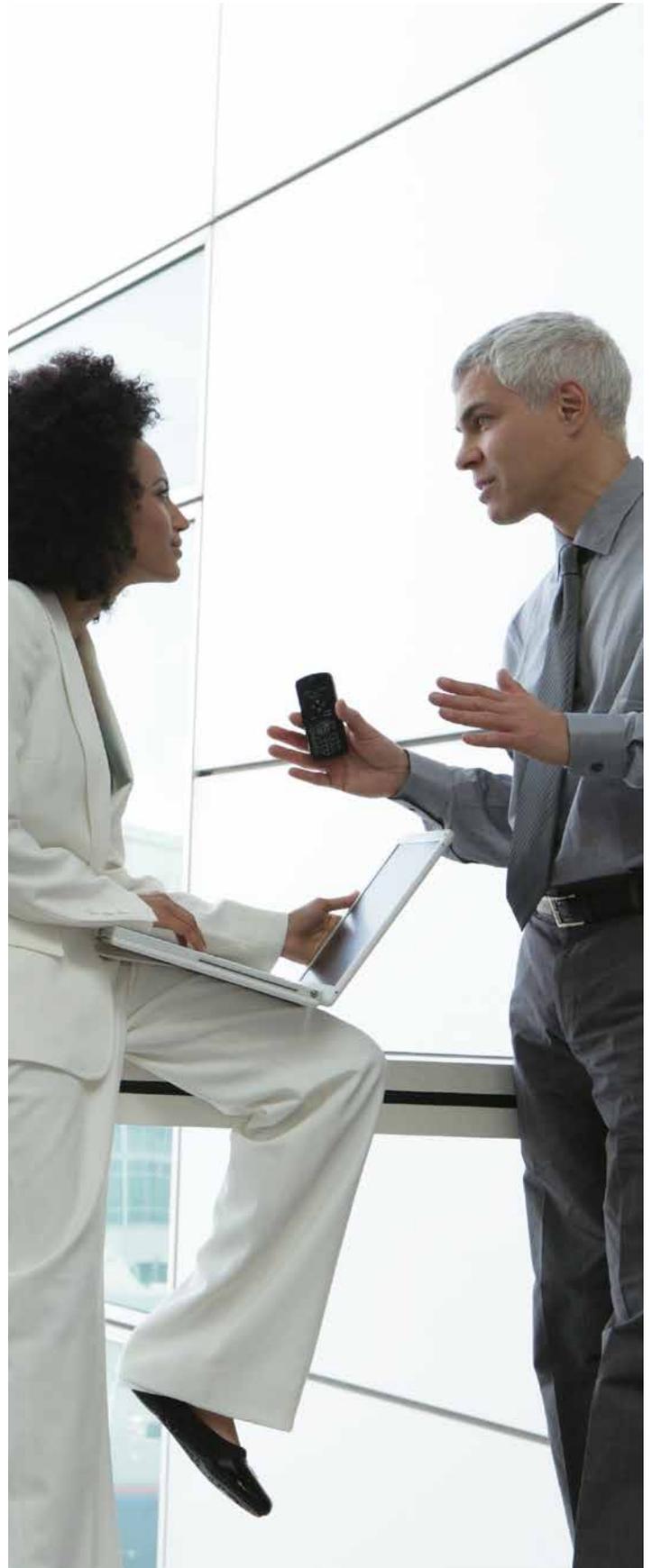
We cannot over emphasise the importance of attending to ATO enquiries in a professional and timely manner which may include:

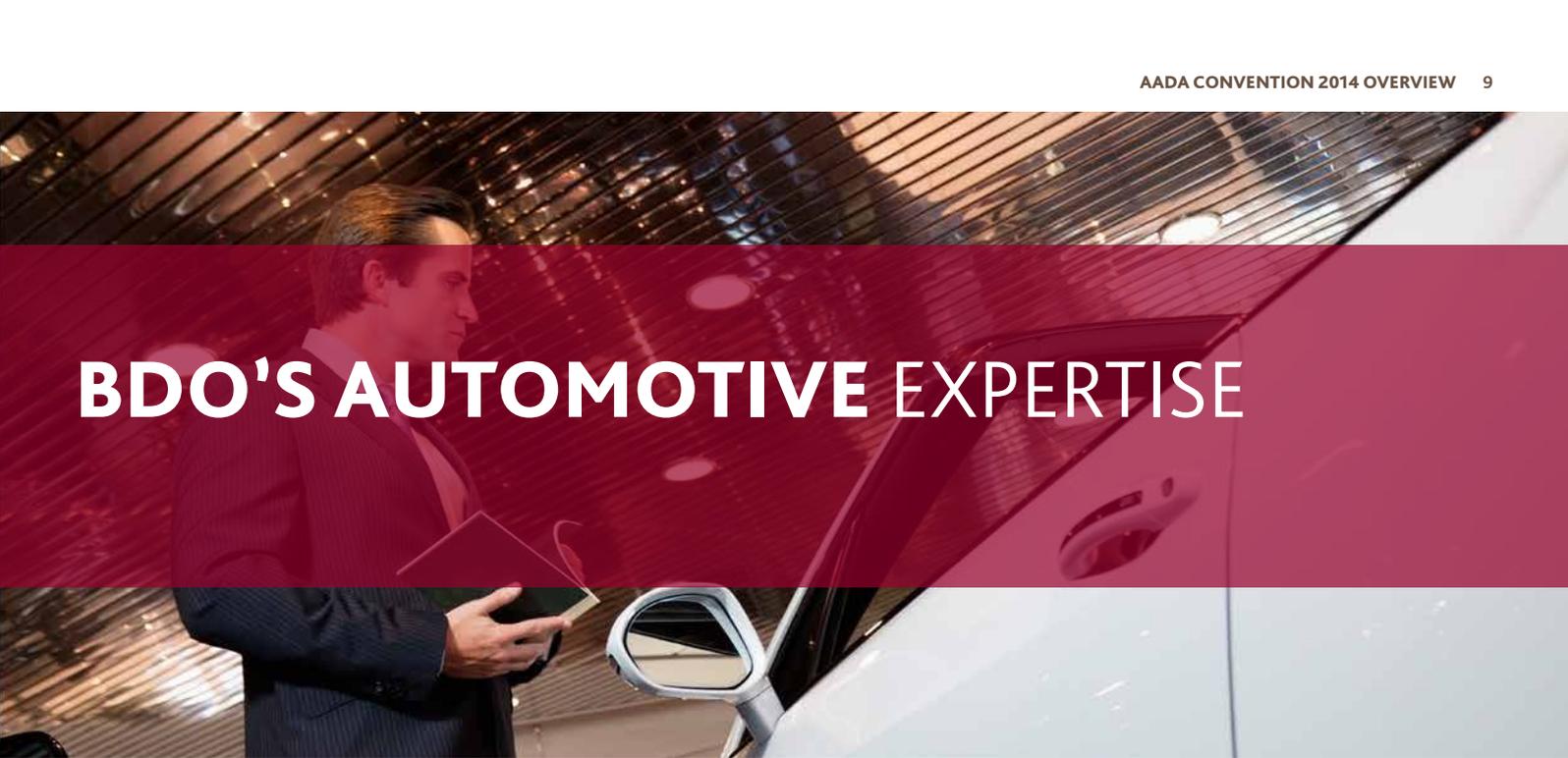
- Communicating early and often
- Seeking professional advice
- Arranging an initial meeting with ATO
- Agreeing timelines and ensure they are met
- Avoiding protracted discussions - particularly those involving the law
- Providing documents and work papers that are logical and 'neat' – keep copies
- Understanding the process - review or audit, there is a big difference.

BDO have assisted many clients, faced with ATO review or audit, achieve excellent outcomes. Those outcomes have been achieved through not only the compliance to the tax matters in the first instance but as important as professional approach upon ATO enquiry.

If you would like to know more about the ATO's compliance program or have specific tax concerns please contact any of our specialist Automotive Partners listed on the back page, or your usual BDO adviser.

“... the key is proactive communication”





BDO'S AUTOMOTIVE EXPERTISE

BDO's Automotive specialists provide a wide range of financial and consulting services to the automotive sector throughout Australia.

With extensive hands-on experience in dealerships, BDO have developed specialised programs, systems and methods of analysis that are unique and relevant to dealers. We act for numerous motor vehicle, agricultural, caravan, marine, equipment, truck and motorcycle dealerships throughout Australia.

Automotive Services

Our automotive services provide sensible options and alternatives for continuing the growth of your business. The following is a summary of our specialist Automotive services.

- Tax advice and compliance services
- Audit and assurance services
- Strategic planning
- Family business and succession planning
- Business valuations and due diligence
- Buy/sells
- Profitability enhancement and benchmarking
- Superannuation planning
- Salary reviews and recruitment services
- Operational reviews
- Training
- Budgets and cashflows
- Feasibility assessment.

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