AUSTRALIAN AUTOMOBILE REPAIRERS ASSOCIATION

Australian Automotive Repairers Association (AARA) Draft Strategic Plan January 2018

Fostering and promoting a professional, sustainable and profitable Australian automotive repair industry

MOTOR TRADES ASSOCIATION OF AUSTRALIA

AARA is a National Industry Sector Committee of the Motor Trades Association of Australia

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Key considerations

ARE WE READY TO DISRUPT THE CHANGING MARKET ENVIRONMENT?
WHAT DOES THIS MARKET LOOK LIKE NOW AND IN 1, 2 AND 5 YEARS TIME?
WHAT VALUE ADDING SERVICES SHOULD WE PROVIDE AND WHY SHOULD WE PROVIDE THEM?
HOW WILL WE PROVIDE THEM?

Industry Issues and MTAA Action Items

Industry Issues	***MTAA Action Items***
• **Access to repair information on fair terms:** Need for independent auto repairers to access repair information to remain viable. ○ Business Members (and most MTAA Member Industry consultants) are sometimes unaware of MTAA member advocacy for access to repair information and the ACCC New Car Retailing Study which examined access to repair information for independent repairers (amongst other key issues such as franchising). Nor are members aware of ACCC support for a mandated scheme.	• **Advocate for access to repair information:** ○ Provide members with information on the ACCC New Car Retailing Study including the ACCC recommended introduction of a scheme that mandates manufacturers to provide repair information to independent auto repairers. ○ Develop and implement strategies that involve members in the process of developing the scheme. ○ Identify and report on restrictions and access of information associated with hybrid and electric vehicles for independent repairers.

Industry Issues	***MTAA Action Items***
○ Restricted access to electric and hybrid vehicle information. ○ Business Members are unsure on how a mandated repair information scheme will be introduced and managed and by whom. • **National licensing, registration and inspection scheme:** Inconsistency between States and Territories licensing requirements and the variation in costs imposed on. • **Business responsibilities under Australian Consumer Law (ACL):** The ACL is focused on consumer rather than business rights. Issues include: ○ Automotive parts bought online and the risks of fitment for both consumers and businesses. ○ Actions / processes to resolve Business to Business disputes (including warranties due to faulty parts). ○ The uselessness on extended warrantees. ○ Lack of clear information available to Business Members outlining their rights to claim for parts and labour resulting from the impact of faulty parts.	• **Examine extended warranties:** Identify and report on extended warranties available in the marketplace, and develop strategies to educate businesses on their rights and responsibilities. • **Advocate for changes to Australian Consumer Law:** Identify priorities of reform and develop, communicate, deliver and report on strategies to influence change; including educating members on opportunities for claims against parts suppliers. *(Note: that MTAA is concerned that extensive pervious activities over the last 2 years by MTAA in addressing these issues resulted in the passing of the Effects Test (section 45, 46 of the ACL) which may be lost on some Business Members)* • **Develop materials to protect the business rights of members during disputes:** Develop MTAA and MTAA Member endorsed materials that can be used by automotive businesses to promote their rights to receive payment for adequate compensation for labour and in addition to payments for faulty parts. Develop a strategy on how these materials will be distributed and by whom (e.g. Members, Capricorn etc).

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<tr><th>Industry Issues</th><th>MTAA Action Items</th></tr>
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Lack of focus on auto repairers as compared to other industry sectors: Business Members across are annoyed and resentful with MTAA Members' preoccupation with the automotive body repair sector and the neglect of issues impacting Automotive repairers.
Environmental requirements including the oil levy: The lack of transparency regarding the flow of funds from the mandated oil levy.
Industry evolution: The ongoing viability of the independent auto repairers' business model and how repairers can transition and evolve with future vehicle requirements.
Skills shortages: Skills shortages and the lack of quality and motivated apprentices. For example, apprentices are transferring to the mining and construction industries due to better wages and higher prestige.

Certification of workers is not required in all states i.e. SA and NT.
All members wanted more Government support for training and mentoring of apprentices.
Many Business Members pay above award wages for skilled labour.

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Examine Australian State and Territory licensing and accreditation: Develop a report examining the different State and Territory licensing and accreditation regimes for automotive repairers.
Develop a national business licensing scheme: and If endorsed by members, develop a national licensing and accreditation strategy using information regarding State and Territory licensing and accreditation regimes. Determine a strategy to advocate for implementation.
Develop a national vehicle registration scheme: If endorsed by MTAA Members, (the MTAA Board has endorsed in principle), develop a national registration strategy that allows for management of ALL relevant registration and vehicle information and allows for the repair of modern vehicle systems. It must also identify problematic inspection procedures used in yearly vehicle inspections, i.e. brake testing procedures (Highlighted as an issue in NSW).
Address skills shortages:

Develop national support for strategies that increase the quality of automotive skills training and create uniform standards and licensing across states, including education requirements

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Industry Issues	***MTAA Action Items***
• **Legislation limiting repairers' ability to undertake auto repair work:** Business Members cannot legally undertake Takata Air bag recall work or work on specific modern automotive air conditioning systems.	for electric vehicles. ○ Advocate for funding for apprentice mentoring. *(Note: the MTAA has already delivered on this but acknowledges that advocacy activities are ongoing)* • **Examine the management of the oil levy:** Research and report on funds received from the imposed oil levy which was to be spent on industry incentives in the collection and recycling of used oil. • **Analyse industry evolution:** Inform on current industry disruptions and provide training / education for Business Members to change and develop their business model to remain viable. • **Identify automotive industry trends:** Work with MTAA Members to stay relevant to Business Members. For example, identify: Where the industry is now? / What is changing now and in the future? / How businesses (including MTAA Members) can remain relevant? • **Ensure Richard's attendance at meetings:** Organise Richard's presence at meetings at least once a year. • **Advocate for raising award wage rates:** Determine MTAA Member views on advocating for a higher award wage rate to make the profession more attractive for school leavers, noting that skilled

Industry Issues	***MTAA Action Items***
	mechanics are mostly paid above the award rate. • **Advocate involvement of independent repairers in air bag recall work:** Seek agreement from MTAA Members to advocate for independent repairers to undertake air bag recall work. *(Note: MTAA considers this objective unlikely to be achievable)* • **Examine automotive air-conditioning gas requirements:** Identify national and State and Territory regulations associated with the introduction and maintenance of new auto air conditioning systems and provide a report to members.

Financial considerations

The costs associated with the implementation of most actions and activities contained in this Strategic Plan can largely be accommodated within the existing MTAA budget.

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Appendices

AARA's Mission

Proactively, effectively and efficiently represent and protect the interests of professional automotive repair members of Motor Trades Associations and Automobile Chambers of Commerce and through them the Australian Automotive Repair Association (AARA).

AARA in context

The Australian automotive repair industry is an important part of the Australian automotive sector, the nation's largest small business sector and is responsible for the professional repair of vehicles to manufacturer's specifications and in accordance with required laws and regulations. Thousands of Australian's are employed in largely small to medium sized automotive repair businesses; however there are also larger chains of automotive repairers.

Key Stakeholders

Business owners and members (manufacturer aligned workshops / independent, small and family owned businesses and members of larger repairer networks), automotive manufacturers, automotive dealerships, State and Federal Governments (i.e. ACCC, Small business and family enterprise ombudsman etc), supply chain providers (i.e. equipment, parts and provisions), and consumers (motorists / claimants) (The above is always under review. Please feel free to add your thoughts concerning the above)

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Strategic priorities

1. Industry driven solutions • **Self-Regulation:** Identify, develop, gain endorsement, and implement industry national standards to respond to change and to contribute to sustainability. • **Industry policy responses to key issues:** Identify, develop, gain endorsement, and implement national policy responses on issues impacting industry. • **Strengthened industry-wide collaboration and unity:** Identify, develop, gain endorsement and implement processes and actions to unite and strengthen industry collaboration and commitment. • **Develop and implement specific tools, processes, actions and initiatives to assist industry adapt to change:** Provision of specific tools to support members changing business requirements.	**2. Government partnership** • **Training and skills development:** Advocate for government support of national uniform skills and training requirements and specialist business proficiency programs. • **Industry Adjustment / Restructure:** Development of industry specific adjustment / restructure packages that provide advice and assistance to industry. • **Ongoing Representation:** MTAA / AARA will continue to provide advocacy and representation on issues as they arise.
3. Awareness and advocacy • **Industry awareness campaign**: Rebrand the industry image to promote a more social, environmental, business and consumer friendly industry. • **Political and bureaucracy awareness program:** Target positive messaging to key government officials to create political action and ensure affiliated members are key representatives to government on industry issues.	**4. Networking and promotion** • **Collaboration and networking activities:** Sponsor events that raise the profile of members and increase their sense of worth, collaboration and fulfillment. • **Membership campaign:** Undertake a membership campaign that highlights the value of membership for industry.

Disruption and competition

The following industry analysis shows that the automotive repair industry is rapidly evolving as manufacturers and dealership networks continue efforts to vertically and horizontally control the market whilst simultaneously using their buying power to reduce repairers' profits. Larger and consolidated repairer networks are benefiting from economies of scales and have a competitive advantage over smaller independent operators.

How AARA reacts to market change is *key* to developing business strategy. AARA must accept market disruption so it can develop a strategy to ensure it is relevant to members and industry going forward. Acceptance is required as market conditions are reducing AARA's current membership base. New and innovative ways of approaching the market and potential members requires consideration.

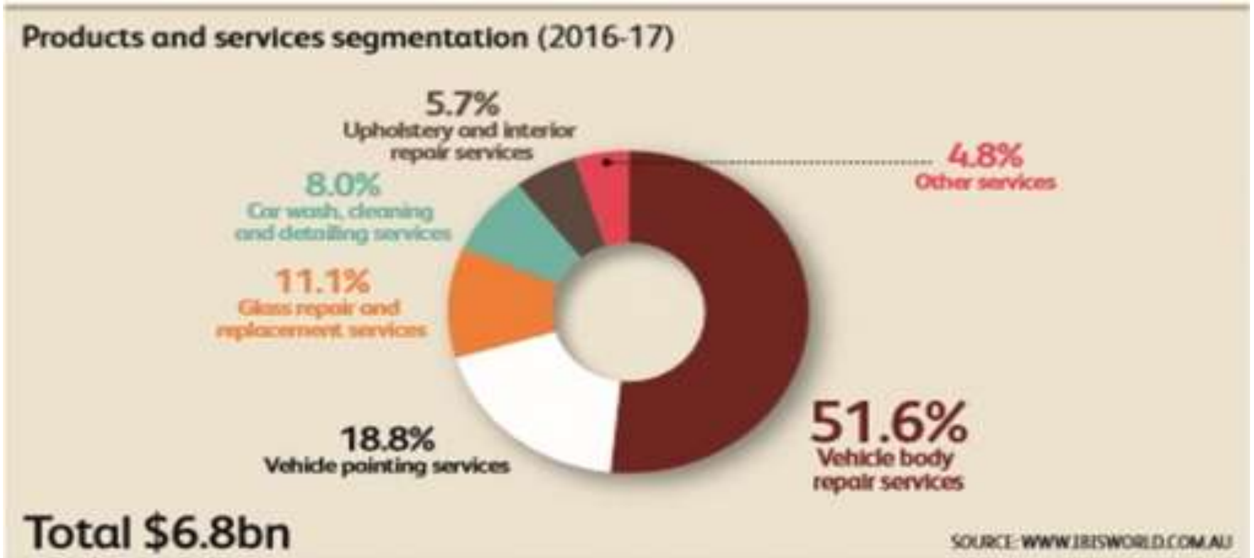
Industry snapshot:

The IBIS information below is based on the following definition of the Australian automotive repair and maintenance industry: Industry operators primarily repair motor vehicle engines and parts, and perform regular motor vehicle maintenance and servicing. Smash repairs and electrical repairs are not included in this industry summary. (Source: Johnson, S. IBISworld, Mar 2017)

Please note: IBIS figures do not always align other industry research (i.e. the Direction's report). As a result, the information may not be an accurate representation of the automotive repair industry or particular industry businesses. Additionally, information used by IBIS world to base conclusions is unknown and may be contradicted by other sources. Consequently, the information presented may have limited accuracy and presents only one version of truth. However, the information presented is useful to show industry trends.

Revenue: $16.1bn	**Annual growth 2012-17**: 2.8%	**Predicted annual growth 2017-22**: 1.3%
Profit: $903.1m	**Wages**: $2.8bn	**Businesses**: 22,589

(Source: Johnson, S. IBISworld, Mar 2017)



(Source: Johnson, S. IBISworld, Mar 2017)

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Market Share

There are no major players in this industry

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Key External Drivers

- Number of motor vehicles
- Consumer sentiment index
- Average age of vehicle fleet
- Real household disposable income

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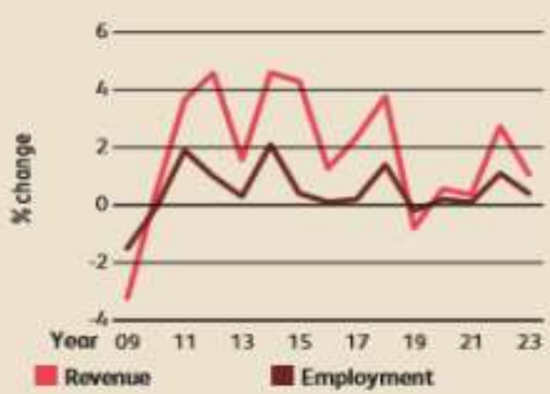
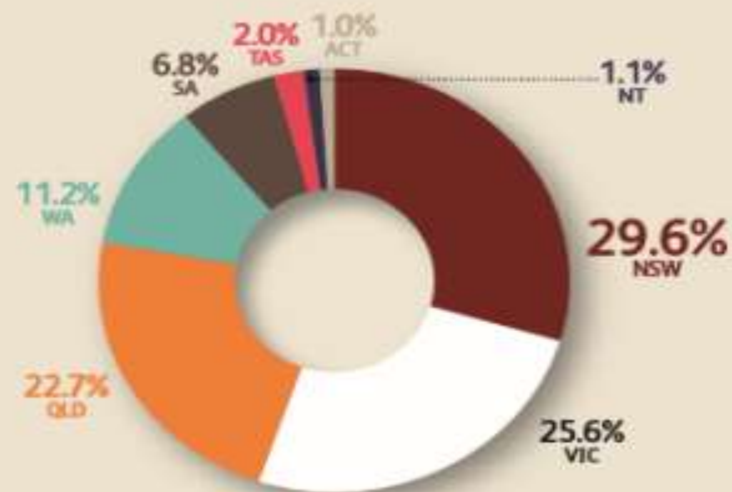
Revenue vs. employment growth



Number of motor vehicles

SOURCE: WWW.IBISWORLD.COM.AU

Enterprises



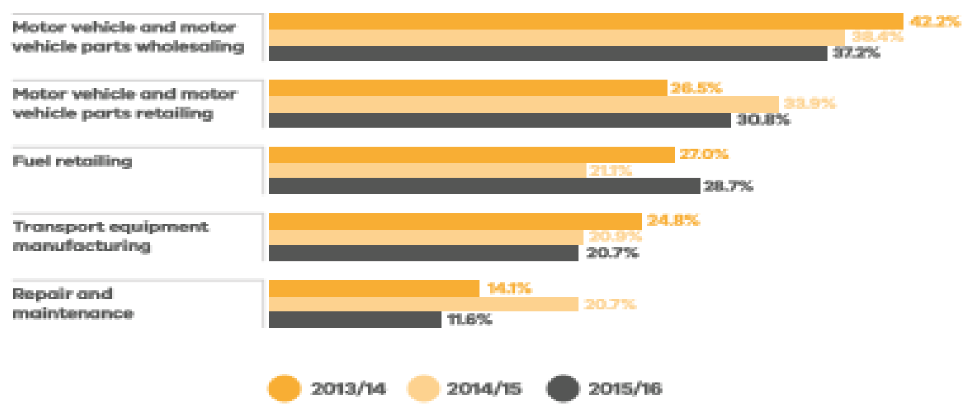
SOURCE: WWW.IBISWORLD.COM.AU

Table 1: Australian Automotive Industry Profile, post October 2017

Automotive sector	Major activities	Per cent of industry business population
Automotive Repair and Maintenance	Light and heavy vehicle mechanical service and repair; vehicle body, paint and interior repair; automotive electrical services; mining machinery service and repair; mobile plant and equipment service and repairs.	54.0%
Motor Vehicle Retailing	New and used car, motorcycle, truck, trailer and other motor vehicle retail sales.	8.3%
Motor Vehicle and Parts Wholesaling	Car, commercial vehicle, trailer and other motor vehicle wholesale sales; motor vehicle dismantling, recycling and used part wholesaling.	7.6%
Motor Vehicle Parts and Tyre Retailing	Original equipment and aftermarket retail sales of vehicle parts and tyres.	6.2%
Fuel Retailing	Retailing of petrol, LPG & CNG, oils and service station operation.	6.0%
Motor Vehicle and Parts Manufacturing	Specialist vehicles; bus and truck manufacturing; vehicle body and trailer manufacturing; automotive electrical components and other vehicle parts manufacturing.	4.4%

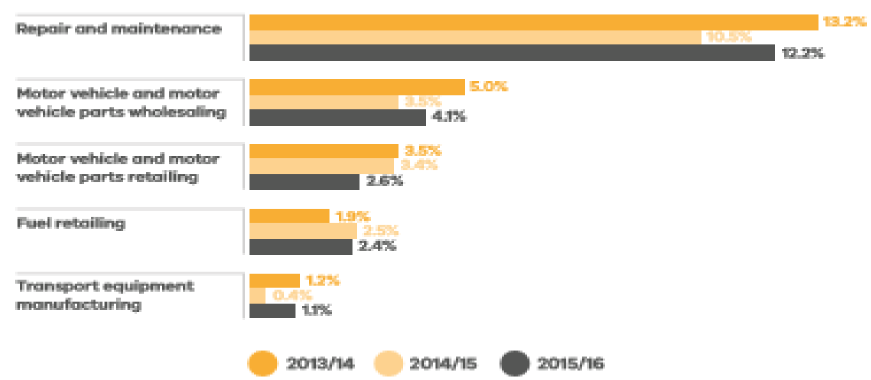
Source: Directions in Australia's automotive industry: An industry report 2017

Chart 3: Percentage of Automotive Businesses that made a Loss, by Sector and Year



Source: ABS data

Chart 4: Profit Margins by Automotive Sector and Year



Source: ABS data

(Source: Directions in Australia's automotive industry: An industry report 2017)

Industry Summary

- Continuing growth in the automotive repair industry is largely due to consistent growth in the number of motor vehicles and increases in real household disposable income. The average age of the Australia's registered car fleet remains stable (10 years) which reduces fluctuation in demand for industry services.
- The growth of the automotive repair and maintenance industry is negatively impacted by the services provided by new car dealers (i.e. capped price servicing). This situation will continue as dealers strive for market share and new technology is introduced.
- Longer periods between services and increased durability of modern motor vehicles also constrain growth.
- Industry revenue grew at an annualised 2.8% over the five years through 2016-17, to an estimated $16.1 billion.
- Structural change and business transformation is required and is occurring within the industry as new automotive technology is introduced into vehicles by manufacturers. Many industry members have invested heavily in tooling and equipment and employee training.
- Manufacturer aligned workshops may have a competitive advantage in comparison to non-aligned repairers due to better access to diagnostic and repair information and equipment and specialist training.
- This situation will continue as more non-traditional automotive vehicles with alternative propulsion and driving systems are introduced (i.e. electrical and driverless vehicles).
- Many smaller independent industry members with limited resources will likely leave the industry as profits diminish and increased consolidation within the industry occurs.
- Industry revenue is forecast to grow at an annualised 1.3% over the five years through 2021-22, to reach $17.2 billion.

Source: Johnson, S (Mar 2017). IBISWorld industry report S9419: Motor vehicle engine and parts repair and maintenance in Australia.

Strategic analysis of the automotive repair industry: market forces

Market disruption, increased competition and increased pressure from manufacturers highlight that previous business methods (i.e. repairers operating independently and providing traditional repair services) may be insufficient in the future market.

Threat of new entrants and the competitive environment

- The industry is characterised by low market concentration and there is minimal barriers for market entry and exit.
- Competition in the industry is largely based on quality of repairs, customer service, reputation, business location and price; and sometimes an ability to conduct warranty repairs.
- Proximity to large markets, provision of after sales service, access to the latest available and most efficient technology and repair techniques and access to skilled workers gives repairers competitive advantage.
- For new entrants, capital investment impacts their chosen business strategy or may discourage market entry.
- Competitive businesses are those that minimise costs i.e. labour, overheads and mechanical inputs.
- Providing services to particular automotive models and brands minimises investment costs; in particular tooling and expertise and can create a business niche / model that may discourage competition or new market entrants.
- External threats are in the form of service stations and tyre retailers who sometimes provide automotive repair services.

- Licensing requirements is a barrier to entry with some states having different licensing requirements.
- Specialist knowledge / repair requirements may discourage new entrants from entering the market, e.g. repair requirements for premium brands and the cost of accessing repair tooling and information.
- Consolidated repairer chains with economies of scale and increased purchasing power are gaining traction within the market.
- Manufacturer aligned repairers with access to safety and security technologies have a competitive advantage. This discourages new non manufacturer aligned market entrants.

Bargaining power of buyers

- Key buyers of auto repair services are consumers (households that own vehicles) and to a much lesser extent road freight transports, motor vehicle body, paint and the interior repair industry. There are also other buyers such as governments and large companies.
- Consumers can easily switch repairers but will often remain loyal to one who provides a quality service at a reasonable price and in a location convenient for them.
- Some insurance companies providing work have more bargaining power and are developing their own repairer networks for example NRMA and RACQ.
- Road freight transporters have more buying power and can negotiate with repairers on business arrangements.

Bargaining power of suppliers

- Insurance companies are using their market power to guarantee work for their preferred repairer networks, for example NRMA and RACQ.
- Parts suppliers sell parts to repairers and repairers have limited ability to negotiate on price.

Threat of substitute products and services

- Changing automotive technology is decreasing the demand for some traditional repair skills but also provides opportunities for the development of others.

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AARA review: Strengths, weaknesses, opportunities and threats

Strengths: • Peak national motor vehicle repair industry body (exception is QLD) with potentially consistent views and positions to take to government on particular issues. • Motor vehicle repair industry knowledge and experience of key members. • Key member political connections. • Members representing a multitude of automotive repair businesses with various business objectives. • Passion for the motor repair industry. • Knowledge and links to other industry sectors through MTAA and affiliated member associations. • Strength and standing within the industry of individual state affiliated members.	**Weaknesses** • No QLD representatives prevent a complete unified national view and united effort on motor body repair issues. • Limited resources. • Chasing unattainable objectives that are not linked to strategic priorities. • Different members addressing issues in a non-coherent fashion resulting in too much noise to policy makers and thus, diminishing the impact of communication. • Diversity of priorities in relation to state and federal Government policy. Failure to achieve critical performance milestones. • Failure to seize political and social capital. • Failure to seize opportunities to engage with industry, government and internal association stakeholders. • Failure to use opportunities for improved B2B and industry to industry relationships as a means of addressing common issues. • Resistance from government, departments and bureaucrats to working in partnership to address impacts and industry adjustment. • Lack of awareness, understanding, willingness and support for actions designed to enable businesses to adapt to changing market conditions. • Lack of willingness or ability for identified insurance companies to engage in more meaningful relationships.
Opportunities • Ability to use collective power for political initiatives and commercial activities, e.g. skills development, technology adoption	**Threats** • Emergence of other industry associations that offer services and representation perceived as more valuable and more responsive to

franchising agreements and access to repair information. • Be the single national authority of the automotive repair industry. • Harness Australia's automotive interest. • Improving awareness and knowledge of stakeholder and member base on broader issues, change and its impacts. • Increase Government awareness of the automotive repair industry and relevance to individual states and electorates. • Develop linked initiatives with other automotive sectors. • Sponsor particular events and increase networking and research opportunities. • Provide targeted information and promotional campaigns e.g. provide advice on responses to behaviour of manufacturers and dealers and provide advice on franchising agreements and business conditions and parts and information accessibility. • Support industry skills development e.g. mentoring programs. • Redefine relationships and facilitate communications with parts manufacturers, dealers and insurers e.g. industry dispute resolution (IDR) functions, more general cooperative arrangements and access to repair information. • Research industry needs and target corresponding services. • Include repairers of new electric vehicles and those using emerging automotive repair methods. Identify and work with repairers who innovate.	market changes and member's needs. • Larger automotive repair networks and manufacturer and insurer/dealer/manufacturer aligned automotive repair groups with high market power not perceiving value in AARA activities and not joining. • Diminishing membership. • Taking on unattainable issues. • New forms of mobility taking a large proportion of market share. • Government policy mandating the replacement of exist automotive technology.

(The above is always under review. Please feel free to amend)