

Submission to ACCC –
New car retailing industry market study

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by

GLOBAL AUTO PARTS
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- NEW GENUINE PARTS TO SUIT -

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Buy it, Fit it, Love it, We're "Genuine" about your parts.

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Post-sale service arrangements

Post-sale arrangements and the collision repair sector is a claims system which continues to be disjointed, involves many vested interests and where trust is a major issue.

The post-sale and collision repairs market addresses an 18.4m vehicle national fleet with vehicles averaging 9.6years. 94% of the industry is made up of small businesses with 10,188 motor repair licenses in NSW.

The new parts wholesaling sector of the market in Australia is valued at \$11,642m. There are 2562 businesses in Australia and the sector employs 18,533. The average wage is \$61,587 and the average employment per business is 4.6 employees.

My business Global Auto Parts located in Prospect has a turnover of \$8m and employs 25 people. We specialise in authentic new parts and are the reliable parts partner for many of the mechanics and collision repairers.

Our business has been built on the importing of genuine parts. Same parts number, same item, same manufacturing source as parts supplied by the dealers, just sourced from an authorised chain in another country. In Australia, new parts are charged at a premium by dealers. Global's genuine, new parts are purchased in bulk internationally with a reduced margin. Our business brings competition to the market place. If it weren't for businesses such as ours, dealers could charge whatever they like for parts.

Our business uses many platforms to supply our parts including phone, fax and email. We also use 3rd party applications to submit part prices for the repairer's consideration. Generally, these 3rd party applications are great. But there are some that are designed to share the independent part supplier's prices and other information with the national dealership networks. This is a significant disadvantage to the hundreds of independent businesses like mine as this gives inside information about our pricing strategies and our stock levels.

This makes all independent suppliers using these 3rd party systems unwilling and in most cases, unknowing participants of a cartel in which the only beneficiaries are the dealership networks.

The dealership networks uses the sensitive information of these independent suppliers to match or undercut them (at a loss) for items that the independents stock. They then increase the sell price of the items that there is no competition on by as much as 1000%. This is done in real time as the dealers can see what the independents are quoting live.

It is when this price matching occurs that the uses of our parts are discouraged.

Insurance companies describe Global's parts as "parallel parts". They encourage the use of parallel parts. The insurance companies pay much less for parallel parts. Even though we are more competitive in our pricing, this discourages the use of parallel parts by repairers as the heavily discounted rate that the insurance company pays for them outweighs the savings that we can offer the repairers.

So unless we are 50% cheaper than the dealer supplied parts, the repairer would not have any financial benefit from using our services. This 50% difference is almost impossible as the sensitive information that has been shared by the 3rd party applications is used so that the margin is always small enough so that the repairer will not benefit from purchasing our genuine parts.

Parts Definition

Genuine – sourced from dealers/manufactures in Australia.

OEM – Third party manufacture on behalf of the vehicle company. Use in-house branding eg. spark plugs, air-filters – Toyota branded, but 3rd party sourced.

Parallel import – what our business does. The term “parallel parts” devalues the fact that the parts are genuine, purchased from the authorised chain –in another territory. The part is genuine, with manufacturer’s stamp, logo and verification that it is recognised as a part number that was designed and manufactured for the Australian market.

Aftermarket parts – new parts, designed to be a cheaper alternative part to the original. Copy of the original part. Not genuine. In most cases the quality is not nearly as good as the original.

Used parts, sold via collision repairers and online. Once a part is used. Hard to determine if it is a genuine or after-market part. Hard to identify. Paint guage is useful to determine parts status.

When and why are these parts used?

- Genuine used for under 3 year old cars. Insurance companies increasingly pushing to use parallel parts.

When and why are second-hand parts used in repairing or servicing new cars?

- 2nd hand parts save money. Tendency for insurance companies to encourage use of 2nd hand parts. After market – one of the major insurers is currently importing parallel and 2nd hand and after-market parts. They are currently receiving “independent” certification of those parts. The Australian certifier for those parts is a former advisor of the insurance company. It is in the certifier’s interest to certify the insurer’s parts. They are enforcing this certification for vehicles covered under their policies eligible for after or parallel parts.

Consumer issues

Our business works closely with the post-sale service markets and there are a number of factors we believe may adversely affect consumers. These are:

1. 90% of collision works is supplied by Insurers with 60% of the market controlled by 2 of the largest insurance companies. Approvals by mobile assessors are a crucial element within the market and impact the entire supply chain with the ultimate aim of securing consistent quality and, of course, containing costs. Through this process insurance companies dictate the hourly rate and where the parts are to be sourced from. Their policy is increasingly that new parts can only be utilised on vehicles under 3 years. This is the case even for premium vehicles. Not dissimilar to the banks conflicts when selling financial, insurance products and advisory services - insurance companies have a powerful influence in the market – controlling all stages of the purchase cycle.
2. Insurance companies are setting up their own collision repair shops – Suncorp has established 34 nationally. A Suncorp-operated facility has opened up near our premises. It would be interesting to assess the level of qualifications of the workers, the 457 visa holder numbers that are operating out of this multi-hectare facility, along with the level of rectification work required following repairs at this facility.
3. The average wage for a motor dismantler is \$41,857 with 2.4 average employees per business. 1/3 of all auto repair businesses closed from 2012 due to margins being reduced. The lack of viability means that young people are not being attracted to the industry. Their training does not incorporate new technologies - VET training needs to be contemporised to build in sensor technology, electronics, computers, electric vehicles which would make the

industry more attractive to young people. Management is increasing complex and the training sector should seize the opportunity to build best practise training in auto management, business & administration.

4. Repair waiting times will increase as licensed collision repairers close up shop. This will impact regional areas significantly. Vehicles will be moved across country to access specialist repairers aligned with specific manufacturers. Consumers will be significantly impacted.
5. Safety is a growing issue within the industry. Cut margins means safety is compromised. Insurance companies may put profit ahead of safety, pressuring repairers to repair to a price and not a standard.
6. An active practise within the Dealer networks is to keep the new car log books within the dealership. They stamp the log-book after a service, then store the log-book at the dealership. This restricts owners' choice to seek an independent service provider.
7. New car warrantees can be impacted by use of after-market or used car parts. Insurers are insisting that no new parts can be used after 3 years – this can impact the vehicles' warrantee.

Future

Global is pursuing technological innovation to assist the industry achieve productivity gains. It is partnering with a range of industry players to implement real time parts lookup to assist mechanics and collision repairers. Note, the industry is hampered by the manufacturers' policy of non-release of parts information to the market.

Recommendations:

1. Develop a Jobs for Australia Automotive strategy & incentives program to boost training & industry youth participation – particularly in regional NSW addresses updating of VET training to build in sensor technology, electronics, computers, electric vehicles
2. Bring the industry together to look at whole of industry business. There are sectors which need to change (through education, technology, partnerships). There are sectors that are emerging and need employment/training strategies. Build out the business model. There is great opportunity for Australia in the Asian region if we get this right.
3. Do not pass legislation on changes until the changes have been trialled for twelve months
4. Improve regulatory & economic reform to address social impacts arising from industry restructure. Interventions to include:
 - a. Insurance assessors' regulation, based on level of training, independence and adherence to an Industry Code of Practice.
 - b. Make the Motor Vehicle Insurance and Repair Industry Code of Conduct enforceable.
 - c. Establish an Independent Pricing and Regulatory Tribunal (IPART) to oversee Industry Code, ensure safety and repair standards are adhered to and dispute resolution process established recognising the inequity between large insurance companies & small business operators.
 - d. Establish safety and repair standards and ensure both collision repairers and insurance companies adhere to these standards. Make breaches subject to tribunal negotiation.
 - e. Legislative recommendation for Manufacturers to disclose technical and parts information

5. Establish as part of the industry code a framework to ensure the parts tender process remains genuinely competitive and confidential, ensuring the larger players are not able to undercut independents or operate with cartel-type behaviour.
6. If a part is genuine, with manufacturer's stamp, logo and verification that it be recognised as a part number that was designed and manufactured for the Australian market. These parts should be recognised as genuine, not parallel and be priced accordingly.
7. Establish a truly independent, non-aligned with insurance company, certification regime for after-market parts.
8. Used parts should be managed using technical parameters such as paint thickness-guage testing (to ensure used parts haven't been previously repaired). This is a low cost piece of equipment to ascertain if the part has previously been repaired.

Interview

If the ACCC have any queries regarding industry operations in relation to the parts' market, from an independent, non-aligned perspective, I am happy to be available for interview.