

New Car Retailing Industry – a market study by the ACCC

Issues Paper

Response by Mazda Australia Pty Ltd

Mazda submission to the ACCC Study into New Car Retailing

Mazda Australia Pty Limited (**MA**) welcomes the opportunity to make this submission in response to the ACCC Study into New Car Retailing Industry.

Introduction

The first new Mazda cars were imported into Australia in 1959 and from then until 1986, imports were managed by a number of independent distributors and one Mazda Sales office based in Melbourne. Following the floating of the \$A in 1985 by the Keating labour government and the consequent significant devaluation of the \$A against the JPY, in 1986 Mazda Motor Corporation of Japan (MC) took over the distribution of new Mazda vehicles and parts for Australia through a new subsidiary National Sales Company, Mazda Australia Pty Limited (MA).

From mid-1970s to mid 1980's, Mazda sales averaged 35-40,000 cars per annum. This number dropped to 13,000 units in 1986 when MA was formed. Following a rationalisation of the Dealer network, sales were built back to 25-30,000 units by the early 1990s and remained flat through the next 10 years until 2002. Since 2002, MA has built a solid Mazda Brand operation together with a stable Mazda Dealer network to record 114,000 units of sales in 2015. This growth has been built on a consistent high quality product strategy built on distinctive design, exceptional performance and handling and a strong customer focused business ethos throughout its Dealer network.

Such a strong performance would not have been possible without a strong partnership with our retail Dealer network and a single view of our customer to ensure the best possible purchase and ownership experience. This high level of customer experience has been consistently confirmed by industry and independent surveys of customer satisfaction at purchase as well as 1st and 3rd year service milestones.

While MA understands the concerns that the ACCC may have for customers, we believe it is erroneous to extrapolate from a relatively small number of customer complaints to a position that presumes all brands, all OEMS and all Dealers do not have the interest of customer purchase satisfaction, service retention and re-purchase at the heart of their business model.

Based on the complaint level stated on p8 of the ACCC Issues Paper (1800 in 2014-15 and 1300 in 2015-16), and assuming these related to cars sold within only the previous 3 years (3.0 million), that would amount to complaint levels of between .06 of 1% and .04 of 1% of recent sales of new cars. Given the complexity of the modern motor car and the diverse and sometimes hostile environment in which cars operate, this is an exceptionally small complaint level to reach the ACCC. MA considers that such a small complaint rate should provide a context within which this study should be conducted and the results viewed.

Having said that, MA remains ready to work with any genuine industry/regulator initiative which seeks to help improve the ease or transparency for new car buyers with their purchase and ownership experience. In this spirit MA provides the following responses to issues raised in the ACCC's Issues Paper. In doing so MA seeks to supplement the submission made by the Federal Chamber of Automotive Industries (FCAI), of which it is a member and with which submission it agrees.

Structure and Operations of the New Car Retailing Industry

As outlined on p5 of the Issues Paper, the new car retail market in Australia is extremely competitive, with more brands available than most mature markets around the globe, including the largest US market.

In addition, new car prices have been on a deflationary curve for more than 20 years on the back of gradual removal of import tariff protection, relatively stable \$A in world currency markets, increased competition and improved efficiencies achieved by most OE manufacturers. With CPI and wages growth averaging at least 2-3% pa over that time, this has resulted in the increased affordability of new motor vehicles relative to other discretionary purchases for Australian consumers.

In such a competitive environment and despite the improved affordability of new cars, there have been 'winners and losers' amongst the various brands as you would expect in a competitive market. As a consequence that situation will also flow to new car dealer's profitability based on the success or otherwise of their brand. Even within a relative 'winning' brand such as Mazda, there is variation in Dealer profitability based on local economic changes (eg mining industry pull back in some regions) or even quality of individual dealer business management and systems. To attempt to align market competitiveness with Dealer profitability would be a very difficult analysis from which to draw conclusions.

This variability of success with new car sales then will also flow on to post-sale service markets. But we believe it is not valid to then make the generic statement or assumption that the Issues Paper does on p6, "...competition in the new car retailing market leading to lower margins, dealers increasingly depend on post-sale service arrangements such as car servicing and the sale of parts to remain profitable." Most major brands have moved to a position where they openly disclose scheduled maintenance intervals and costs for new cars on their websites and these can be easily compared with the independent repairer network.

Based on this outline, MA believes that the ACCC Issues Paper is premised on an overly simplistic view of the new car retailing and post sale service markets which, when coupled with the small number of customer complaints has the potential to distort the findings into what is an industry which has increasingly evolved into a stronger consumer focused industry in recent years.

In building and supporting a strong retail authorised Mazda Dealer Network, MA sets exceptionally high standards for sales and service operations, personnel and facilities. In return for that

investment by its Dealers, MA provides a clear and consistent business partnership with its dealers based on metrics of sales, customer service, and adequate profit margins. MA and its dealers have invested considerable time, money and effort over 30 years to build a strong customer focused business and we believe that provides the best and most consistent and reliable support base for the hundreds of thousands of Mazda owners in the Australian car parc.

Post-sale service markets

The Issues Paper states (at p6) that “After a new car is purchased, the ongoing cost of servicing and maintenance represents a significant share of total consumer expenditure on motor vehicles. In 2015-16, the motor vehicle engine and parts repair and maintenance sector in Australia recorded \$15.4 billion in revenue, with motor vehicle servicing accounting for 41 per cent of total revenue. Repair and parts costs have also been increasing in recent years: between June 2011 and June 2016, the cost of spare parts for cars has increased by 7 per cent, while repair and maintenance costs increased by 11 per cent over the same period.”

To the extent that an inference is made that there is a relationship between the declining price of new cars (nearly 7 per cent between June 2011 and June 2016), and an increase of 7 per cent in the cost of spare parts for cars, while repair and maintenance costs increased by 11 per cent over the same period, MA notes that any such inference fails to take into account the relative contribution which labour costs make. Whereas with a new car, local labour content represents a relatively small portion of the overall new car price, local labour content contributes approximately 53% to the cost of repairs and maintenance. CPI for the June 2011 and June 2016 period increased direct labour costs by some 12% resulting in a contribution of 6.4% to the 11 per cent increase in repair and maintenance costs referred to in the Issues Paper.

MA also notes the ACCC’s comments (on p6 of the Issues Paper) that “With competition in the new car retailing market leading to lower margins, dealers increasingly depend on post-sale service arrangements such as car servicing and the sale of parts to remain profitable. Similarly, as cars continue to evolve technologically, the cost of increasingly sophisticated equipment required for servicing and repair is leading to lower profit margins, particularly for independent repairers.” and that the ACCC “is interested in exploring the impact of these trends on the degree and nature of competition between authorised and independent repairers and parts suppliers”. MA does require its Dealers to acquire appropriate Mazda specific software (known as a M-MDS unit) for the purposes of conducting servicing of Mazda vehicles, together with a specified Panasonic laptop.

Independent repairers are freely able to purchase an M-MDS unit (including all components) at the same price as a Mazda Dealership, but are not required to purchase the minimum of one Panasonic laptop. They are freely able to use any branded laptop that they choose (including one they may already own). This actually reduces the price of entry for independent repairers compared with an authorised Mazda Dealership.

Consumer Guarantees, Warranties and New Cars

MA provides new car owners with comprehensive manufacturer’s warranties which are in addition to the consumer guarantees under the Australian Consumer Law (**ACL**). Details of the applicable warranty, together with the mandatory wording required to inform consumers of the existence of rights under the ACL are included in the “Service & Warranty Booklet” provided with every new Mazda vehicle, as well as on the Mazda website. Information on scheduled maintenance requirements are also contained in the Owners Handbook supplied with every new vehicle. It is not a requirement that such service be carried out by a Mazda dealer.

MA takes its obligations as a manufacturer under the ACL very seriously and endeavours to ensure that all of its dealers understand and comply with their respective obligations as suppliers of Mazda vehicles. While MA has conducted training for its dealers on the consumer guarantees, it notes that dealers, as suppliers, are obliged under the ACL to provide remedies to consumers which MA, as manufacturer, is not obliged to provide. Accordingly, MA does not specify in its dealer agreements what remedies a dealer can provide and this is left to the dealer to determine in accordance with the law. It is the dealers who have the primary interaction with consumers regarding the consumer's guarantee rights, the manufacturer's warranty and, if offered by the dealer, the dealer's extended warranty. However, where a dealer seeks the assistance of MA with an issue which involves a claim under a consumer guarantee, MA and the dealer will frequently manage the claim jointly. In many instances, such claims are not clear cut and it can be difficult to determine whether a consumer guarantee applies. A common example is where the cause of the defect can be attributable to consumer misuse of the vehicle. In all instances MA approaches such issues with a view to providing the consumer with some assistance (as a matter of customer service and to ensure a good customer experience) and will frequently offer a remedy even though it is not legally bound to do so. In some situations, including where there has been a threat of legal action, a resolution of the issue will involve the entry into an agreement which contains a release of liability for MA and a requirement to keep the settlement confidential. Such agreements are common where there has been a dispute between parties. They are never used to coerce a party into accepting a settlement.

MA submits that the application of the consumer guarantees under the ACL is not always clear cut which, in turn, may lead to confusion. In particular, and by way of example only, that uncertainty arises in determining:

- the duration for which the consumer guarantees apply to a particular vehicle;
- what constitutes a "major failure", particularly in the case of a motor vehicle which contains numerous components; and
- when a replacement vehicle or a refund is required to be provided, particularly in circumstances where a consumer has had use of the vehicle for an extended period.

Fuel consumption, CO2 emissions, noxious emissions and car performance

MA provides information on fuel consumption and noxious emissions to new car consumers in its vehicle brochures and on its website. The information provided on fuel consumption refers to the results of the ADR 81/02 fuel consumption test (litres/100 km) and the test standard, i.e. Euro 5 or Euro 6 (as measured in the ADR 79/04 test standard) for noxious pollutants.

The information provided by MA always contains an explanatory statement which makes it clear that the fuel consumption and CO2 emissions values are comparative and depend on a number of factors and may not, therefore, be the same as experienced by the driver.

Access to Parts and Tools

MA recommends the use of new genuine Mazda parts by its dealer network. The reason for this is simple – MA cannot confirm the quality or performance of non-genuine parts, unlike genuine parts or original equipment manufacturer parts which have undergone testing and certification and for which MA warrants the fit, finish and performance. Car manufacturers and parts manufacturers spend years in research and development confirming the durability and performance of parts both singularly and as part of systems and assemblies.

While MA does not provide information on different types of car parts to consumers, it is concerned about the availability of parallel imported and counterfeit parts being available in the Australian

market. In particular, MA is concerned that independent repairers may not be able to determine the difference between the two. As reported widely in May 2016 Toyota, in conjunction with Customs and Border Protection, identified the presence of counterfeit service and repair parts. Customs officers stated that “the counterfeiters are becoming so sophisticated that even car manufacturers are finding it hard to tell fake parts from real ones.” This identified concern presents a real threat to a consumer’s investment and, more importantly, driver and passenger safety.

MA, through the dealer network makes available all parts and tools. A common platform used by manufacturers (e.g. Volvo S40, Ford Focus and Mazda 3 are built on a common platform, with different features/trim), does not necessarily make access to parts and tools easier.

Logbooks and dealer stamps

The purpose of the logbook is to record scheduled maintenance events (service history). The industry is slowly migrating to online logbooks as it is expected that this will make access easier and prevent instances of loss. MA does not yet offer online logbooks.

Availability of repair and service information and data

Repair and service information and data is produced by Mazda and controlled by MA as the distributor. As a member of the FCAI, and complying with the Voluntary Code of Practice – Access to Service and Repair Information for Motor Vehicles, MA makes available workshop manuals via an online portal to the general public and independent repairers on a pay per view schedule. This is in the same format as it is provided to MA dealers. Availability is restricted to the online portal to prevent information from becoming out of date (as changes/updates are required).

Information pertaining to manufacturer service campaigns and recalls are not shared. This work must be completed by suitably qualified and accredited technicians and according to specific instructions, utilising specific tools where necessary and using genuine parts. MA must warrant this work and in some instances, as in the case with recalls, satisfy the government that all rectification work is being performed. Mazda and MA cannot rely on an unrelated party to perform these repairs as insurance and liability risk remains with the manufacturer. Additionally, these repairs are undertaken at no cost to the consumer and all expenses are borne by the manufacturer.

MA and its dealer network invest millions of dollars in training and certifying technicians to ensure that services or certification for technicians. This leaves the real possibility of unqualified persons conducting work on critical systems, such as safety or emissions.

Current Australian and international regulations:

MA believes that the Heads of Agreement and/or voluntary codes of practice have improved access to repair and service information and data. It also provides manufacturers and industry with mechanisms to resolve concerns.

Conclusion

In conclusion, the car industry deals with intense competition and complexity in laws. MA and other like operators need to perform at exceptionally high levels to be successful in Australia. When viewing complaints, we believe it is critical to bear in mind that such complaints represent a very small proportion of actual sales, particularly given the complexity of motor vehicle products, the diverse operating conditions for these cars, and the complex and often unclear legislation covering consumer rights which often lead to the need for extended discussion, negotiation and sometimes mediation to achieve resolution.

