

# Australian Automotive Aftermarket Association

## Summary:

### **Economic Structure and Performance of the Australian Retail Industry**

#### Productivity Commission Issues Paper

The inquiry will provide an insight into the challenges faced by Australian retailers in an increasingly globalised shopping world. The media statement highlighted the importance of online retailing for the future of the industry. It noted that online retailing is here to stay and that the Commission will consider the role it plays in providing consumers with greater choice, access and convenience. The Commission is to report its findings in early November 2011.

#### **Trends in retail trade and drivers of structural change**

The Commission is examining the trends in retail trade to determine factors affecting growth (-0.2% growth for our sector, 0% price movement for our goods). Statistics also show increasing profitability of retail trade. They are seeking evidence to show the extent that competition from overseas and Australian online retailers is affecting revenue growth.

#### **Online trading: opportunities and challenges**

The Commission is examining the factors that affect our sector's take-up of online trading. The Commission recognises that there are challenges to maintain competitiveness, as well as opportunities to expand existing customer bases. The commission is also examining the causes and effects of price differences between overseas online providers and the prices domestic retailers have to pay when sourcing identical or very similar products from domestic wholesalers and importers. The Commission understands that there may be risks to consumers in relation to online trading.

#### **Appropriateness of current indirect tax arrangements**

The Commission will examine the sustainability and appropriateness of the current indirect tax arrangements, with particular reference to indirect taxes and duty on imported goods. The current threshold level for low value imports below which the Government will not seek to collect import duty and GST is \$1000. The commission is also examining the effect of planning and zoning

systems, retail trading restrictions, retail tenancy reforms, market structure and labour market issues that would support more competitive outcomes in Australia's retail markets.

The Commission has released the issues paper to assist individuals and organisations to prepare submissions to the inquiry. It contains and outlines:

- the scope of the inquiry
- the Commission's procedures
- matters about which the Commission is seeking comment and information, and
- how to make a submission.

Participants should not feel that they are restricted to comment only on matters raised in the issues paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the inquiry's terms of reference.

### **Key inquiry dates**

Receipt of terms of reference:	3 February 2011
<b>Due date for submissions:</b>	<b>20 May 2011</b>
Release of draft report:	early August 2011
Draft report public hearings:	early September 2011
Final report to Government:	early November 2011

### **Submissions can be made**

By email:	retail@pc.gov.au	By fax:	02 6240 3311
By post:	Retail Inquiry Productivity Commission GPO Box 1428 Canberra City ACT 2601		

### **Contacts**

Administrative matters:	Maggie Eibisch	Ph: 02 6240 3206
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# Australian Automotive Aftermarket Association

## Response: Economic Structure and Performance of the Australian Retail Industry Productivity Commission Issues Paper

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### The Industry

*The Australian Automotive Aftermarket Association plays an important role in the recognition, development and support of the automotive aftermarket industry. AAAA represents over 1,300 member companies in the Australian aftermarket including manufacturers, re-manufacturers, wholesalers, distributors, importers, resellers and retailers of automotive parts, accessories, tools and equipment as well as companies and consultants who service the automotive aftermarket industry.*

The term 'Independent Aftermarket' refers to replacement/enhancement parts as opposed to Original Equipment (OE) used by motor vehicle manufacturers. End users in the independent aftermarket are specialist retailers, mechanics and households, who use those parts for repair, replacement and performance enhancement purposes.

Parts manufacturers and distributors supply the domestic and global market with components for use in new vehicles as well as for replacement and vehicle enhancement/customisation purposes. The independent aftermarket is predominately Australian owned and operated, with companies operating in specialist markets i.e. performance improvement, emissions control, stability, safety, replacement parts, and collision repair and 4WD component parts. The industry providing specialist replacement and enhancement products (the independent aftermarket) is expanding, particularly in the four wheel drive, sport utility and light commercial vehicle segments.

In Australia, 35 Tier 1 companies supply 75% of manufactured components to the car makers. In the independent aftermarket industry there are over 300 component producers & distributors and over 5,000 parts dealers.

48% of all aftermarket component products are sold by Parts & Accessories retailers. The car manufacturers equate to 20% of this market. The independent aftermarket parts dealers sell directly to the public or to mechanics. There are over 5,000 parts dealers in Australia. There are over 20,000 mechanical workshops, car electrical services companies and car maintenance companies in Australia. Australian Motor Vehicles will have an average age of service of 10.7 years in 2015, up from 10.0 years currently. 46% of aftermarket retail dollar is spent on Passenger Motor Vehicle specific products. The remainder is spent on 4 wheel drive vehicles, sports utility vehicles and light commercial

vehicles. It is estimated over a 10 year period that the money spent on replacement parts and maintaining a vehicle will be one and a half times the original purchase price.

Companies in this industry wholesale new motor vehicle parts and accessories. These include parts such as batteries, accessories such as car radios, as well as motor vehicle tyres. Parts and accessories are mainly sold to motor vehicle manufacturers, parts retailers and mechanics.

Motor vehicles tend to be held longer during periods of slow growth and second-hand parts are sought after. Economic slowdowns lower demand from both the original equipment and the independent aftermarket sectors. However, as more people look to keep their existing vehicles instead of trading them in for new ones, demand for car parts increases, as increased maintenance requirements are being pursued. As the retailing consumer holds a greater proportion of market share than the manufacturing segment, this is creating an overall positive growth environment. Over the next five years industry revenue will rise by an estimated 0.3% annually to \$11.53 billion. Over the five year period, the demand for new parts will also be supported by a growing stock of motor vehicles on Australian roads.

### **Globalisation and Increasing Online Trading**

Sixty per cent of sales in the independent aftermarket sector in the United States are now undertaken online. With online traders able to offer cut price deals due to better economies of scale rates and cheap freight deals, Australian retailers are feeling the impact, which has only been magnified by the strength of the Australian dollar. Mass email campaigns from online traders coupled with the low cost alternative product are seeing local traders struggling to compete after spending great amounts on marketing and promotions. Profit margins for local traders are on the sharp decline as they try to remain price competitive with the online market and consequently; retail jobs are in jeopardy.

Competitiveness is extremely difficult, with opportunities limited to when a manufacturer will only supply via a distributor agreement which has a strict no internet selling policy. They are then subject to competition via parallel imports from overseas based distributors taking advantage of the high Australian dollar. Manufacturers of diagnostic equipment are trying to address this issue by programming software that will only run in the local Oceania region. Not unlike some DVD players, this means the localised software will only run after recognising a specific serial number. Other options being pursued by local retailers to remain competitive are embedding Australian only data into products and offering bonus extra time periods. However, this is all undermined by the fact local retailers have significantly higher expenses including accommodation, transport and paying full time engineers.

### **Taxes and Fees**

Private importers are not subject to the same taxes and fees and local retailers, creating an uneven playing field in which the domestic businesses struggle to exist. Import fees which online retailers are exempt from include; quarantine inspection fees, customs inspection fees and security fees. The current GST threshold of \$1000 sees online traders able to avoid paying GST and offer their goods at a minimum costs, meanwhile local retailers are forced to pass on costs of up to 15% in charges, tax and duties onto the consumer. Already, retailers are noticing a drop in sales of products valued at under \$1000 due to the online tax exemption. In order to level the playing field, and enable Australian retailers to remain competitive with online traders, a lowering of the GST threshold to \$100 is needed.

## Safety

A key issue of concern to the Industry is safety; both physical and economic. The increase in online retailing limits the ability to monitor the quality of products being brought into the Australian market. Australian manufacturers pride themselves on being world leaders in product quality and safety, with Australian standards being some of the most stringent in the world.

While local traders are subject to these strict product safety standards, imported online goods are not bound by the same regulations, and thus we are left with a distorted market containing a mix of both safe and unsafe products. When considered alongside the fact that unlike local traders, online importers do not carry liability insurance; consumers are left at great risk of buying defective and sometimes dangerous product without any warranty protection.

The great influx of unregulated, overseas products leads to a DIY culture where consumers are placed at risk from poor quality, non-conforming products, some of which are critical safety components. Motor Vehicle components can be and are dangerous when not installed correctly. While traditionally, qualified, expert technicians fit controlled, quality assured aftermarket parts, the online boom has created an environment where untested, cheap imports are being installed in backyard jobs by consumers with no expertise or training.

The Federal government's *Australian Consumer Law*, recently introduced to supplement and solidify the *Trade Practices Act* has imposed a new, extensive set of consumer guarantees on the sale of goods; guarantees which are not necessarily afforded to buyers of cheap online imports. The consumer guarantees include that in all transactions goods are of acceptable quality, be fit for purpose, match their description and be rendered with due care and skill. Consumers purchasing goods through back-door online retailers will not be protected by the *Australian Consumer Law* and therefore be placed at risk. The law was introduced in order to ensure that only the highest quality of goods are sold in Australia, and whilst local distributors comply, the online boom will all but leave the law impotent.

Simply put, the current situation places lives in jeopardy. Lives which local manufacturers have spent exponential amounts of money and time in research and development to ensure are never put at risk. It is important to note that not all online traders operate in this reckless manner. There are numerous genuine online operators with registered businesses who are subject to tax, and trade according to Australian rules and regulations. Nevertheless, there is also a rapidly increasing culture of unreliable, dishonest sellers operating without proper authorisation and not adhering to vital Australian safety standards. It is these fly-by-night traders who need to be regulated. The recent ATO crackdown on this type of operation is a step in the right direction, however this needs to be further enforced, specifically in the automotive aftermarket, with reckless traders held to account for their dubious dealings.

## Concluding Remarks:

In an increasingly technological world, AAAA understands and embraces the increased role of online trading. However, as has been done with every advance in trading throughout history, this is a step that must be made with proper caution. Allowing free reign on a

market where products are unsafe, unregulated and untrustworthy is simply not a path our country can afford to take, especially when it is at the expense of local traders, means a loss of jobs at home, and may jeopardize the safety of road users. The realm of online trading is a positive but dangerous one, and one that though it might be inevitable, should be diligently addressed and properly regulated; for the good of both Australian retailers and consumers.

AAAA would welcome the opportunity to meet with members of the Productivity Commission to discuss the matter further or to provide more information about the impact of internet selling on the automotive aftermarket retail sector.

I can be contacted on (03)9545 3333 or by email: [execdir@aaaa.com.au](mailto:execdir@aaaa.com.au)

**Kind regards**

**Stuart Charity**  
**Executive Director**  
**20 May 2011**