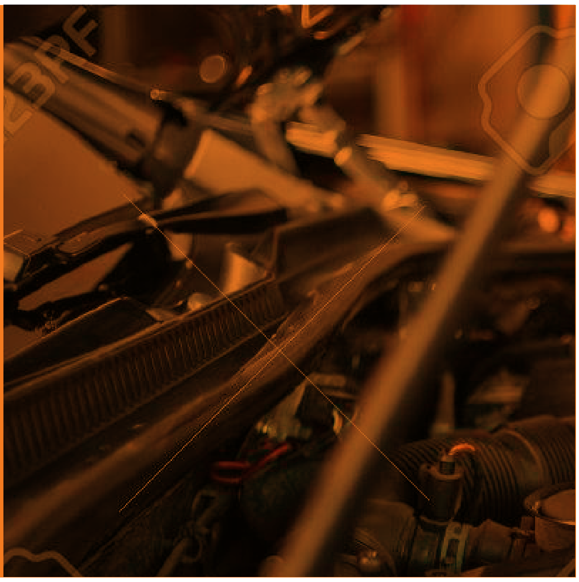
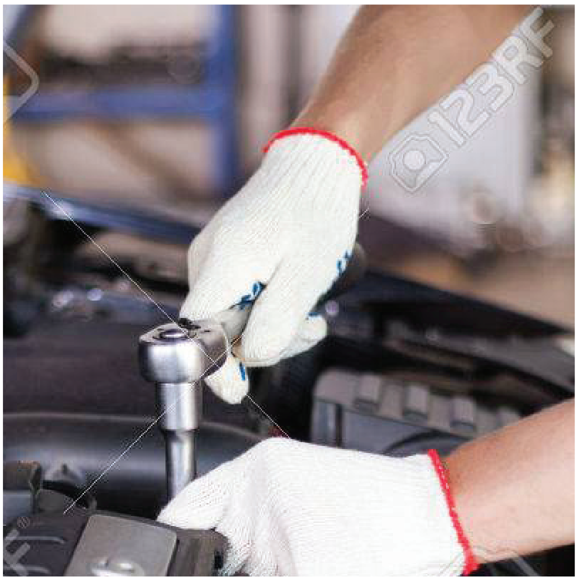
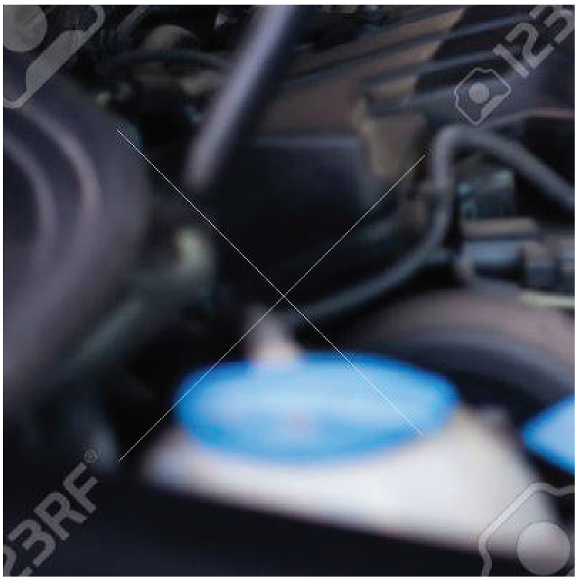
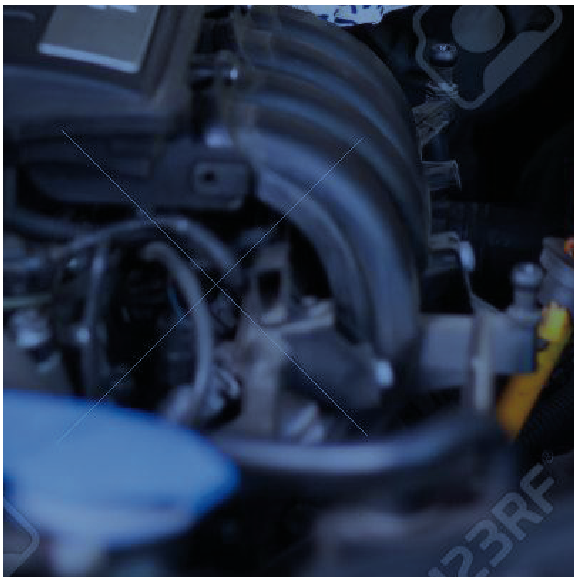
Automobile Repairers Division Executive Committee strategy meeting report

Saturday, 18 May 2019

VACC
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Saturday, 18 May 2019 at 2.45pm

1. Welcome

Mr Khoury opened the meeting at 2.45pm and welcomed all in attendance.
Mr Khoury provided an overview and the objectives of the strategy planning session and introduced the facilitator Mr Colin Bockman of ICAN Consultants Pty Ltd.

2. Attendance and apologies

Frank Grocl	*Chair & IPC*
Joe Brogno	*Vice Chair*
Mark Awramenko	*IPC, VACC Vice President*
Fury Bortolotto	*VACC President*
John Grey	
Paul Petsinis	
John Panlook	
Michael Bradbury	
Luke Cefai	
Velibor Trifkovic	*Observer*
Joe Shneider	*Observer*
Tony Blake	*Observer*
John Khoury	*VACC Industry Policy Advisor (IPA)*
Paul El Deir	*VACC Chief Commercial Officer*

Apologies

Mike McCrudden

Strategy Session Facilitator

Colin Bockman *ICAN Consultants Pty Ltd*

3. Survey Results

In preparation, each committee member was asked to submit their 5 key issues likely to affect the industry over the next 5 years. The table below indicates a reflection of feedback received descending from high priority (top) to low.

Issue	
Access to Repair Info	8
Emerging Technologies (growth of electric and duel fuel vehicles, connected vehicles blocking out aftermarket i.e. telematics)	6
Industry Training	5
Skills Shortages	5
Business Training	2
Changes to the dealership model as they seek new revenue streams	2
Cost of running a business	2
Customer relations	2
Keeping staff in industry (what incentives are required)	2
Securing parts supply at commercially acceptable rates	2
Aging of current business owners	1
Future of the automotive workshop	1
Keeping OEM's and aftermarket on level playing field	1
Licensed Industry	1
More trade support from suppliers	1
Perception of the industry	1
Capped Price Servicing Schemes - Anti Competitive?	1
Qualifications/Accreditation for Divisional Membership	1
Review of the VCAT system	1
Service Warranty	1

4. Key Strategic Outcomes

To accomplish its goals, the automobile repairer's division executive committee has developed strategies around each of the highlighted issues impacting the automotive service and repair sector. The committee is committed to the implantation of each of the following strategies.

4.1. Mandated Code – Access to Vehicle Manufacturer Repair Information

Objective: For the aftermarket service and repair sector to have access to all vehicle manufacturer service and repair information made available to the dealership network.

Vehicle manufacturers continue to withhold service and repair information from the aftermarket particularly pass-thru programming and software updates. This is threatening to disrupt the whole aftermarket service and repair businesses model. Some repairers are having to make alternative arrangements to get information from overseas while others completely miss out and must turn reject work or send their clients back to an authorised franchised dealer. The current situation is unsustainable for industry long-term and must be resolved as soon as possible.

In December 2017 following an 18-month market study into the new car retailing industry the ACCC released its final report. Included in the report was a key recommendation a new mandatory scheme be introduced setting out the rules for car manufacturers to share technical information with independent repairers.

This should:

- cover all car manufacturers who sell their cars in Australia
- include real time access for independent repairers to the same technical information car manufacturers make available to dealers
- provide a process for independent repairers to access environmental, safety and security-related
- technical information, including the vetting of those seeking to access such information and tracing its use
- be available on commercially fair and reasonable terms

The VACC along with MTAA have invested considerable time, money and resources in trying to resolve this issue and have gone as far as drafting a mandated access to vehicle repair information code for government consideration. Countless submissions along with a targeted campaign aimed at the various ministers and government departments, industry round tables, and consultation papers resulted in both major political parties committing to implement the ACCC recommendation if reelected at the May 2019 Federal Election.

ARD Key Strategic Outcomes:

- Request that VACC ramp up its advocacy and lobbying efforts once new government and cabinet is formed so that a mandated code on access to repair information is implemented.
- Committee members to request meetings with local State and Federal Ministers and educate them on the issue – invite them to workshops to see the impacts
- Committee to ramp up its efforts in talking to members of the ARD so that they:
    - are better educated and aware of the problem;
    - realise the consequences if industry cannot resolve access to repair information issue.
    - continue to supply evidence of information gaps to the ARD IPA
- Work collaboratively with AAAA and other likeminded organisations
- Support industry training and the development of an industry standard that specifies minimum requirements for technicians accessing OEM repair information
- Workshops and business owners should be being qualified, authorised certified, appropriately trained, and have the capability of correctly following OEM repair information as intended.
- IPA to consider any further activities from the committee likely to have a positive impact towards resolution.
- Technician certification similar to Automotive Service Excellence ASE
- Ensure any access to repair information code released by government fits the bill and addresses all of industry's concerns.

4.2. Emerging Technologies, Electric, Hybrid, Telematics, pre-paid servicing (anti-competitive), Level Playing Field

The automotive service and repair sector are experiencing disruption from a host of geographical and technological developments and is expected to disrupt the automotive aftermarket over the next 5 to 10 years. New technologies such as Advanced Driver Assist Systems (ADAS), electric propulsion, telematics and the connected vehicle will require the aftermarket to react now to maintain strong positions in the future.

When it comes to consumer preferences, young generations are less interested in car ownership while stricter regulations on emissions and vehicle safety are giving rise to electric and connected vehicles.

There are many market forces at play which is creating an unfair playing field for aftermarket repairers particularly from the authorised automotive dealership sector. Vehicle manufacturers are heavily subsidising their authorised dealers and enabling them to offer very competitive servicing deals to their customers. These deals are generally out of reach of an independent repairer.

Free or capped price servicing arrangements typically allow new car buyers to have their car serviced at authorised dealer service centers for free or at a pre-agreed price. These agreements aim to provide servicing at a low price and are generally arranged at the time of sale and encourage consumers to return to the dealership network. Often these agreements span 3 to 7 years and in some cases for the life of the vehicle. These agreements which typically cover basic scheduled servicing, allow dealers to earn additional revenue through add-on sales of parts and repairs over the lifetime of the agreement.

The trend of offering these types of servicing agreements is putting downward pressure on prices in the sector and intensifying competition between dealers and independent repairers. When you consider the average age of a vehicle in Australia is 10.1 years, it leaves little opportunity for an independent repairer to compete or remain viable. An ACCC consumer survey1 found that 37% of respondents reported taking their vehicle to a dealership due to free/capped price servicing.

Data is the new gold for the automotive service and repair sector. The ability to utilise data stored within a vehicle will open a new frontier of innovation, collaboration, and unprecedented efficiency gains for workshop owners. Currently, telematics technology is causing aftermarket service providers significant uncertainty as the lack of regulatory intervention has led to unfair business practices and a lack of a level playing field regarding vehicle data access.

Vehicle manufacturers claim they have the exclusive right to the telematics platform and the data generated by vehicle owners. Introduced as the "extended vehicle" or "neutral approach". OEMs are increasingly investing in this type of technology and introducing differentiated service offerings, for example, leveraging vehicle connectivity to keep their customers for longer by automating the decision making related to service and repair. Today's connected vehicle already has about 40 microprocessors and generates 25 GB of data per hour, including telematics and driver behavior data[2].

Some of the major concerns for independent repairers include[3]:

- Breakdown services that call for roadside assistance or recommend service locations are becoming a (legal) standard in many countries.
- Predictive maintenance – This will provide consumers with more safety and less breakdowns.
- New digital services that can be purchased on demand by customers – (aftermarket service providers need to consider investing in this area)
- Upstreaming and remote issue resolution – issues can be resolved using digital tools and over the air data exchange. This means that physical visits to repair shops are no longer needed.
- Planned maintenance – maintenance schedules can be planned in line with the wear or usage of parts or modules of the vehicle.

1 Consumer experiences with buying, servicing and repairing new cars.
2 McKinsey&Company-The Changing Aftermarket
3 McKinsey&Company-The Trillion-dollar Opportunity for Industrials

- Spare parts can be delivered just in time.
- Remote Diagnostics Systems – data gathered in the vehicle is used to diagnose engine problems, improve the maintenance of the vehicle, boost fuel efficiency and reduce costs.
- Investigate the Consumer Data Right legislation currently for the banking sector, ACCC recommendation: The ACCC supports the Australian Government's intention to legislate a Consumer Data Right, sector by sector. If a Consumer Data Right was introduced into the new car retailing industry, it could address some of the concerns that were raised about the impacts of telematics technology on new car purchases. A Consumer Data Right could give consumers the right to access digitally held data about themselves, including the right to direct data custodians to copy that data to a nominated third party[4].

OEM's are developing their own data access models including "extended vehicle" model where in-vehicle data can only be accessed via an external backend server, under their governance. This is designed to control face-to-face customer interaction and to steer vehicle owners back to their network of service workshops. It eliminates aftermarket service providers from a large part of the direct customer interaction and impedes the customer's ability to choose their service provider.

Strong concerns have been raised about this approach over recent years due to the shortcomings from a technical, legal and competition law perspective and it begs the question of who will own the customer contact in future. Regulatory guidelines will need to be developed and it is still to be determined which data is of proprietary use and which can be used by multiple aftermarket services. Solutions to this problem are currently being examined by various industry associations in the US and Europe.

ARD Key Strategic Outcomes:

- VACC to continue to advocate for change on free servicing plans which the committee deem to be anti-competitive.
- Utilise a law firm to investigate whether free servicing plans contravene any laws. The cost of servicing should be disclosed by the dealer at the point of sale. This is not to dissimilar to disclosures by finance advisors on commissions received.
- Continue to monitor, investigate, and engage with global solution providers and likeminded associations on the issue of telematics.
- Telematics service and repair data to be covered by the mandated code for access to repair information.
- Pursue an Electric vehicle accreditation/licensing, investigate any failings and approach Work Safe Victoria at some point in future.
- Investigate the electrical sector regulations specifically voltage licensing requirements.
- Develop electric vehicle service and repair standard.
- Roll out appropriate electric vehicle training, utilise a fear campaign to try and get technicians to attend.
- Electric vehicle apprenticeship.
- Continue to monitor Hydrogen technology versus battery electric vehicles.
- Find out what dealerships are doing with regards to OHS requirements for electric vehicle servicing.

4 ACCC New Car Retailing Market Study

4.3. Skills Shortages and Industry Training

Skills shortage has become one of the leading contributors of contraction for small business. Responses received through the 2016/2017 Automotive Industry National Survey indicated that 45.7 per cent of automotive businesses were experiencing a skill shortage. The 2017 Directions in Automotive Industry Report concludes a shortage of light vehicle mechanics were critically high, with a national shortage of 12,943 in 2016/2017 and rising to 16,656 positions in 2017/2018. In Victoria there is an estimated skills shortage of light vehicle mechanics in the order of 5,342.

There are several factors contributing towards the current skills shortage in Victoria including:

- Not enough people entering automotive trades – opting for further academic education, or other trades,
- Poaching of automotive technicians to other industries and major projects.
- Poor quality of available candidates
- Poor perceptions of the industry amongst students and the broader community
- A lack of businesses willing to take on an apprentice.

Another issue which is having a negative impact on the automotive servicing and repair sector is the lack of technical training to the aftermarket. Currently VACC provide a variety of IR, OHS and business management courses which are being promoted on the VACC skills development center, only two which are of a technical nature.

ARD Key Strategic Outcomes:

- Educate shop owners that their future and the future of the automotive industry is to involve our young people and to appreciate the automotive world.
- Encourage and promote the many pathways and opportunities available in the automotive industry.
- Involve the parents at all levels of education – primary; secondary,
- Promote the industry as being HIGH TECH, we are working on high powered computer-controlled machines.
- Talk to schools, principals, teachers, work with school careers advisors.
- Lobby Government for assistance.
- Volunteer Work
    - Advisory Committees
    - Speaking at career days
    - Attending industry events
    - Get active on social media
- Start holding automotive STEM (Science, Technology, Engineering, Mathematics) classes for secondary school students in your workshop.
- Review and improve the integration process of our young people into the automotive industry.
- Review your own business culture and image – is it appealing to our younger generation?
- Commitment to training, increase pay, employee benefits, tooling etc.
- Focus on aftermarket training programs, ensure VACC members and technicians receive adequate training.
- VACC to partner up with third party training providers and roll out technical training events for VACC members.

4.4. Business Training, Customer Relations, Cost of running a Business

Another form of training vital for small business owners particularly those involved in the automotive service and repair sector. It's not a far stretch to say that most small business owners are technicians who have decided to open their own business without the key skills and knowledge, to manage productivity & performance in the workplace.

The business management skills gap is a significant hurdle to growth for most small automotive businesses in the automotive repair sector. In addition, small business owners are required to comply with relevant State and Federal consumer protections legislation such as the Australian Consumer Law (ACL).

ARD Key Strategic Outcomes:

- Investigate if a business development manager is feasible for VACC to invest in to support members. This should be a fee-for-service offering. Is it VACC's role to provide this service?
- Make it a requirement for VACC members to attend a series of business training sessions throughout the year.
- Develop a series of podcasts on this topic.
- Develop guidance material for VACC members.

4.5. Dealership Servicing Vs Aftermarket Servicing

Shifting market growth, dealership consolidation and increased competition in the automotive service and repair sector has resulted in dealers shifting their focus to the aftermarket. In the past, dealers generally serviced vehicles within their warranty periods however this appears to be changing as dealers realise more revenue opportunities in the aftermarket servicing sector. This is, and in the future, will have a profound effect on independent workshops owners need to realise the implications and take necessary actions to minimise unwarranted disruption.

ARD Key Strategic Outcomes:

- Increase long-term customer retention by maintaining or developing a "unique customer experience" and "excellence in service," e.g., CRM, active service marketing, and promotional offers.
- Create a one-stop-shop offering with comprehensive service packages (including road side assistance packages, service and maintenance coverage, and replacement cars, reducing the opportunity for intermediaries and niche players to enter later.
- Invest in training, equipment and developing a professional image by focusing on customer-facing roles (i.e., retail) and counteracting existing competitors and new players' efforts to win market share.
- Understanding of new (electronic) technologies, software, and vehicle complexity.
- Provide more specialised services targeted to selected customer (niche) segments.
- Negotiate differentiated service packages (e.g., private, corporate, and fleet segment).
- Have a price differentiation by customer and vehicle segment.
- Redesign the customer experience with quick wins such as service principles for employees, and standards for interior design and cleanliness.
- React to increasing complexity by investing in recruiting, training, and equipment:
    - Recruiting: from mechanical to electrical and software engineers
    - Training (business and technical): sales and service/customer mindset

- Equipment: acquire/build tools to diagnose electronic components. Augmented reality equipment, for example, supports employees with real-time technical information.

- Increased social media activities.
- Promote the value and differences of aftermarket servicing as opposed to dealership servicing.
    - Location and flexibility, independent workshops facilities usually are smaller and have less overhead than dealerships. This can mean significantly lower prices for customers.
    - Choice and alternative service options
    - Easier to build a personal relationship with independents, since you speak directly with the mechanics.
    - Diagnostic expertise and experience.
    - Higher customer satisfaction (this is backed by consumer surveys)
    - Independents can be as technically proficient as factory-trained dealership mechanics.
    - Independent garages can get original manufacturer parts for repairs and servicing, but they can also offer less expensive, alternative parts, or even rebuilt parts, that perform the same function.
    - The ability to work on multiple brands.
- Consider joining larger groups such as A Grade to collectively advertise to consumers and to build trust and loyalty.

Chairman	Date

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