BULLETIN
Victorian Automobile Dealers Association

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VACC New Car Dealer Cyber Car Survey: The results are in

Members of the Victorian Automobile Dealer Association (VADA) are provided with the following analysis of the recent VACC New Car Dealer Cyber Survey.

Background

On the instructions of the Victorian Automobile Dealer Association (VADA), the VACC New Car Dealer Cyber Car Survey was designed to capture information concerning the extent of reporting of cyber cars or pre-retail delivery advice (pre-RDA) cars by new car dealers to vehicle manufacturers. The survey was disseminated nationally to new car dealerships in each state/territory, and recorded details of both non-cyber and cyber car trades over the past six months. The survey also captured details on the extent of manufacturer participation in cyber car schemes, along with the reasons for dealer participation in these schemes and the associated impacts at the business level.

Survey Results

There were 166 respondents to the survey. For various reasons some States chose not to participate.

The survey results contain a margin of error of plus or minus 7.4 per cent at a 95 per cent confidence level.

VACC has taken calls from dealers who were in support of the survey, wanted the practice stopped but were not prepared to participate in the survey for fear of reprisal.

The survey results show the following:

- 80.3% of respondents reported participating in cyber car schemes - i.e. reporting new cars as ‘sold’ to the manufacturer, but not actually sold to an end consumer.

- 28.9% of vehicle sales on average were reported as cyber car sales nationally.

Manufacturer encouragement of the cyber car schemes

The survey results show that many of the major brands (manufacturer or factory) in Australia encourage their affiliated dealerships to participate in cyber car schemes or practices. VACC has not provided a publicly available percentage analysis at this stage. VACC is awaiting legal advice on how dissemination of this analysis should take place.

Why dealers participate in cyber car schemes

The survey results indicate two key reasons as to why dealers participate in cyber cars schemes. These include:

- Monetary incentives from the manufacturer (90.1% response); and

- Pressure from the manufacturer (85.2% response).

Respondents describe monetary incentives as bonuses, factory rebates and other monetary offers that are utilised by manufacturers to entice dealers to buy and report cyber cars as sold. Failure to take up these offers can result in dealers becoming uncompetitive relative to competing dealers that do take up these offers and discount the price of such vehicles.

What are the pressures dealers face when participating?

In terms of manufacturer pressure, respondents report that they are often placed under immense pressure by manufacturers and are thus presented with little alternative but to participate in cyber car scheme. Such pressures include:

- Pressures to meet sales targets and KPIs.
- The fear of not meeting sales targets and consequently being performance managed.
- The fear of the dealer franchise agreement not being renewed.

Respondents reported that these pressures are essentially manifested through requirements for Australian-based vehicle manufacturers/importers to meet sales volumes as determined by their respective parent company head offices based overseas.

Impacts on participating businesses

There were several consistent themes reported by survey respondents regarding impacts at the business level associated with dealer participation in cyber car schemes.

Foremost was reduced dealer profitability and long-term business sustainability, and this was manifested through lower gross profits per unit on cyber vehicles, as often the bonus monies received by dealers as factory incentives did not offset the price reductions necessary to sell these vehicles in the market. Compounding these lower gross profits were higher interest, storage and insurance costs associated with holding an excess vehicle stock that was both aging and depreciating. The cost of providing a roadworthy certificate on pre-RDA vehicles was also cited as a further financial impost. VACC is currently in dialogue with VicRoads in pursuit of changes to the Road Safety Regulations that will provide relief to dealers s on this issue.

Other key business impacts reported by respondents included the fact that often dealers did not know what the exact cost of a pre-RDA vehicle was, as the large factory incentives created a wide variable margin. This meant that two identical customers could buy the same vehicle for vastly different amounts depending on the time of the month or circumstances surrounding pre-RDA and this effectively eroded customer trust in dealers.

Increased stress on the business due to the threat of termination of the franchise agreement and the complexity of managing 2 or 3 different 'classes' of stock were also cited as further business impacts.

Impacts of a ban on cyber cars

Most respondents (63%) supported a ban on cyber cars as they believed it would have a positive impact on business profitability and long-term sustainability. These respondents believed that banning cyber cars would assist dealer cash flows and present a fairer trading environment, due to reductions in stock holding costs, a more stable gross profit per unit sold and the ability to swap vehicles with other dealerships.

By contrast 19 per cent of respondents believed that a ban on cyber cars would have a negative impact on business profitability, as they would struggle to achieve target and thus fail to receive manufacturer incentives. Some dealers reported that they earn most of their profit in the final quarter of the year due to back-ended volume bonuses, and with cashflow pressures from PAYG company tax, are forced to remain on the pre-RDA system.

A further 18 per cent of respondents were unsure of the impacts of a ban on cyber cars, stating it depended on the manufacturer response and the flow on impact to rebates and targets. Most within this cohort believed that a ban on cyber cars would inevitably need to be supported by reductions in targets from manufacturers in order to avoid negative gross profits selling vehicles.

Final comments

Survey respondents presented some interesting final comments relating to cyber cars. These included:

- Rural dealers are particularly affected with stocking and cyber registering demands with threats of loss of franchise.
- Cyber cars are not all bad if controlled and sold in a timely manner - it is dealers who rely on this method to turn over large volumes with little vehicle gross that damage the market.
- Distress marketing is creating unrealistic consumer expectations on what a retail price should be for a new car.
- Manufacturers should follow Toyota's lead and offer discounts to the consumer as part of a retail offer and not an incentive to the dealer when selling the vehicle.
- Manufacturers should incentivize the dealership on other metrics and not rely so heavily on volume targets for the Australian market.

Other comments

VACC has written to FCAI will consult with the ACCC regarding the reporting of cyber cars. It is the strong view of VACC that VADA members should not be subject to further downward pressure and implied or actual threats from manufacturers.

The level of consumer detriment should also be considered as far as warranty activation and tenure is concerned. A fair and reasonable franchise code should address this pressure.

There is also a large automotive retail sub-industry who rely on the accuracy of the figures reported each month.

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