A case for removing roadworthy certification for new, low kilometre, dealer-owned cars

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Background

The Victorian Automobile Chamber of Commerce (VACC), is concerned by the financial and resource intensive requirement imposed on its Victorian Automobile Dealer Association (VADA) members to obtain a roadworthy certificate when retailing a new, registered, low kilometre (km) vehicle that has, only ever been owned by a new car dealer.

The following report focuses on these classifications of cars that have an odometer reading of less than 50 km and have only ever been held as dealer stock for a period of less than three months. All vehicles are deemed trading stock, in that they are available for purchase at any time. VACC has lobbied for 3 years to gain an exemption for roadworthy requirements for these vehicles.

The growing prevalence of low km trading stock within car dealerships' vehicle stock holdings, has given rise to unprecedented internal cost rises that are absorbed by VADA members as they are required to obtain a roadworthy certificate for each of these vehicles.

Such vehicles are colloquially referred to in the new car dealer industry under the following categories:

Demonstrator cars

Cars used as demonstrator stock that are exempt from Licensed Motor Car Traders (LMCTs) motor vehicle duty as per the Duties Act 2000, Sections 231 (1) and 231 (2) (a) (ii). Demonstrator vehicles are motor vehicles used for demonstration to prospective buyers for sale of vehicles of the same or similar class. This exemption reflects the Victorian Government's position that motor vehicle dealers should not be disadvantaged in relation to the payment of duty compared to other businesses, simply because the essence of their business is the acquisition and sale of motor vehicles.

Cyber cars or Retail Delivery Advice cars (RDA)

Franchisors often hold dealers (franchisees) accountable to unrealistic volume guides, and a failure to hit target can result in significant financial losses to the business (i.e. loss of bonuses and commissions). By providing significant bonuses for the sale of demonstrator vehicles, franchisors have effectively created a secondary new car market in the sale of demonstrator vehicles that did not exist 12 years ago. This market promotes increased volume at discounted prices and is largely responsible for the increased new car sales over this period to the detriment of profitability. These programs require high turnover and fast movement of stockholdings, generally within 3 months, for dealers to receive bonuses. As a by-product, some programs have ancillary uses (i.e. service demonstrator programs). VACC Research indicates that 84.5 per cent of these types of cars are held in dealer holding yards and rarely, if ever, move from the holding or display yard.

Non-delivered new cars

Non-delivered new cars are vehicles that have been prepared for delivery to a consumer, but the consumer has reneged and not taken delivery. As there is no way to reverse a registration without effecting the vehicles history on the NEVDIS database, these cars are then treated as used vehicles, reducing the retail price of the car and pushed into a low km demonstrator usage. Moreover, the need to complete a roadworthy certificate before on-selling to the next customer, as well as further depreciation losses despite the vehicle having never being utilised on-road, results in a further erosion of profits.

Recent research conducted by VACC indicates that approximately 29 per cent of dealer vehicle stocks fall into one of these types of vehicle categories. With a total of 329,079 new passenger cars, SUV and light commercial vehicles sold in Victoria last year, it is estimated that around 95,433 demonstrator, cyber cars/RDA or non-delivered new cars exist in Victoria alone. The cost of supplying a roadworthy for each of these low km vehicles represents a significant financial impost on car dealers, and ultimately, Victorian consumers.

Industry structural change 2006 – 2018

Since 2006, there have been significant developments within the vehicle retailing industry, including major changes to dealership business models, processes and operating procedures. Profitability continues to drop significantly. Any unnecessary costs to this sector have a negative effect on future reinvestment and employment opportunities.

VACC Research advises that over the past 12 years, the industry sector has contracted by 187 businesses (14.3 per cent) in Victoria. However, there has been a substantial increase in the number of vehicle makes and brands operating in the Australian market, coupled with significant growth in the annual volume of new vehicles sold (Table 1).

The data points towards increased consolidation and concentration within the industry over the period. This is particularly evident when considering the number of large businesses (200 or more employees) and small businesses (1 to 19 employees) operating, which decreased by 52.4 per cent and 29.8 per cent respectively (Table 2).

Table 1: Vehicle dealerships– Victoria

Year	No. of businesses	No. of vehicle brands	No. of vehicle makes	Volume of new vehicles sold (low Kms)
2006	1,308	59	310	242,879
2017	1,121	68	418	339,343
Change 2006 -17	**-187**	**+9**	**+108**	**+96,464**

Source: ABS and VFACTs data

Table 2: Vehicle Dealerships by employment size - Victoria

YEAR ending June	Sole proprietors (No.)	Businesses with (1-19 employees (No.)	Businesses with 20-199 employees (No.)	Businesses with 200+ employees (No.)	Total
2006	504	588	195	21	1,308
2017	507	413	191	10	1,121
Change 2006-17	**3**	**-175**	**-4**	**-11**	**-187**
Per cent change	**0.6**	**-29.8**	**-2.1**	**-52.4**	**-14.3**

Source: ABS

Table 3: Economic Contribution of Victorian New Car Dealers

Measure	Contribution
Turnover/Sales	$16.568 billion
Dealer Wages	$1.537 billion
Tax Contribution	$612.233 million
Total of wages and other expenses	$2.556 billion
Dealer Other Expenses	$1.019 billion
Duties Collection	$594.200 million
Dealer Employees	17,492
Total Economic Contribution	$4.015 billion
New Vehicle Registration	$252.833 million

Source: AADA

In terms of industry structure, dealerships range from family-owned small businesses to larger businesses – including three publicly listed companies (AHG Ltd, AP Eagers Ltd and Autosports Group Ltd). However, most importantly, these listed entities account for around only 12 per cent of total vehicle dealerships.

As 88 per cent of franchised dealerships continue to be owned and operated by individual or family groups, the industry is not dominated by large multinational operators – contrary to popular belief. Annually, new car franchise dealers contribute over $3 billion in industry value-added to the Victorian economy. Furthermore, the industry is not characterised by duopoly or oligopoly market dynamics as witnessed within retail banking and grocery industries in Australia.

The consequences of these developments have seen increased price competition across vehicle brands at all levels of the supply chain. This has reduced industry profit margins from average levels of 4.8 per cent in 2006 to 2.6 per cent in 2017. It is VACC's view that mandating a roadworthy certificate for the above-mentioned vehicle categories dramatically effects the profitability of a dealership.

Victorian Roadworthy data on low km dealer stock

To assess the costs and impacts associated with the provision of roadworthy certificates on low km vehicles, VACC obtained data from 639 individual new vehicle records from VADA members in October 2018.

The survey collected information from eight main dealership groups within metropolitan Melbourne and regional Victoria, and asked respondents to report on the following:

- Vehicle model, type and registration number
- Date of roadworthy certificate completion
- The rectification work required to be completed for the roadworthy certificate
- The cost of the roadworthy certificate to the dealer
- The vehicle odometer reading at the time of the roadworthy
- The roadworthy certificate ID number.

Survey results

Based on an estimated population of 95,433 cyber (RDA) vehicles, and low km demonstrator cars in Victoria, the VACC survey results contain a margin of error of plus or minus 3.8 per cent at a 95 per cent confidence level. The survey results are therefore high quality and statistically robust.

The VACC survey data highlights the following:

- 84.5% of low km dealer stock held by dealers had a roadworthy certificate completed on an odometer reading of between 4 and 50 kms
- 9.4% of low km dealer stock held had a roadworthy certificate completed on an odometer reading of between 51 and 999 kms
- 6.1% of low km dealer stock had a roadworthy certificate completed on an odometer reading of 1,000 kms or more
- The average cost of a roadworthy was $233.38 per vehicle
- Of the 639 records, 635 vehicles or 99.4% required no rectification work to be completed as part of the roadworthy certificate

- Only 4 of the 639 cars (0.6%) required some rectification work to be completed as part of the roadworthy certificate. The nature of this rectification work was very minor and included:

- a leaky tyre valve on one vehicle with an odometer reading of 10 kms
- minor cam phaser work on one vehicle with 689 kms
- a stuck electric window on one vehicle at 1,121 kms
- minor heating drain work on one vehicle with 1,278 kms

The clear majority of these vehicles were held as dealer stock for less than 2 months.

Conclusions

The VACC survey data is decisive. It shows that in the six-month reporting period the overwhelming majority of (99.4 per cent) of low km, demonstrator, cyber and RDA cars held by dealers in Victoria, had no identified faults, or required any rectification work to be undertaken for a roadworthy certificate.

That is, under the criteria mandated under VSI26, there was no rectification work required. This result is not unexpected given that these are brand new vehicles that have been held in dealer custody for usually, less than two months. Car dealers however, were required to pay an average cost of $233.38 per vehicle to obtain a roadworthy certificate for where it was patently not required.

The survey results essentially call into question the requirement for a roadworthy certificate on low km dealer-owned stock. Feedback received by VACC from its dealer members confirms that the cost of providing a roadworthy certificate for these vehicles (average cost of $233.38 per vehicle) is passed on to the consumer, resulting in the consumer paying a higher price for the vehicle than is necessary.

VACC's research supports the argument that roadworthy certificates for these vehicles represent an unqualified and unnecessary financial impost for car dealers and consumers.

The cost of these roadworthy certificates to Victorian consumers is estimated to be $22.2 million per annum. They also represent unnecessary red-tape for businesses.

Based on the evidence that 84.5% of these cars contain an odometer reading of 50 kms or less, VACC recommends that vehicles with an odometer reading of up to 50 kms and held as dealer stock for less than 3 months, should be used as the benchmark for deciding the need for a roadworthy certificate in Victoria.

VACC strongly recommends there be regulatory reform in this area. Reforms should remove the requirement for dealer-owned vehicles with odometer readings of up to 50 kms to have a roadworthy certificate completed. This would constitute a sensible reform, benefitting both Victorian business and consumers.