

# VACC Submission to the Annual Wage Review 2014-15

27 March 2015





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## VACC's position

For the reasons covered in this submission, VACC believes that, if an increase is granted by the Fair Work Commission (FWC) as a result of the 2014-2015 Annual Wage Review, then this amount should be modest and not more than \$5.70 per week. This rate is calculated based on the annual Consumer Price Index (CPI) adjusted for 2012-13 and 2013-14 above CPI outcomes and is in line with the Australian Chamber of Commerce and Industry's (ACCI) submission to this review.

## Rationale for VACC's position

The major factors that should be taken into consideration are:

- Businesses are downsizing and closing across the automotive industry. An increase in wages must not add to the pressure that these businesses are already experiencing.
- In the future, business viability will be based on who can retain the largest volume of servicing and sales. This will favour larger companies to the detriment of small businesses and lead to a consolidation in the automotive industry. This will restrict competition, which will have a negative impact on consumers and VACC members.
- The high training costs of employing apprentices is a contributing factor to the ongoing skills shortage in the industry and has harmed the long term domestic growth of the industry. A significant increase in wages across the board is going to have the same effect.
- In the current economic climate, employers are still extremely concerned about maintaining profitability. This means working longer hours with existing staff levels and consolidating their existing workforce.
- Toyota, Ford and Holden will be closing their Australian plants by 2017. The number of jobs that are likely to be lost across the automotive industry is estimated to be about 50,000 across Australia in vehicle manufacturing and flow on industries. It is essential that an increase to wages does not create a disincentive to employing those workers who lose their jobs due to the plant closures.

## Minimum wages objective

As part of the minimum wages objective, the FWC must establish and maintain a safety net of fair minimum wages, taking into account:

- a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth;
- b) promoting social inclusion through increased workforce participation;
- c) relative living standards and the needs of the low paid;
- d) the principle of equal remuneration for work of equal or comparable value; and
- e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

The minimum wages objective is set out at section 284(1) of the Fair Work Act 2009 (FW Act). VACC believes that objectives a) and b) are of particular importance for this review given the current economic climate.

The application of these principles to the current economic conditions in the automotive industry should lead to the conclusion that only a modest wage increase should be awarded.

Concerns about profitability and the alarming rate of business closures, decline in apprenticeship and traineeship commencements, and loss of jobs in the automotive industry support the argument that 'productivity, business competitiveness and viability' should be at the forefront of the FWC's considerations during this review.

If business conditions lead employers either to hold off on hiring new staff or make existing employees redundant, then both 'employment growth' and 'promoting social inclusion through increased workforce participation' will be adversely affected.

This is particularly important in the automotive industry. The imminent closure of Ford, Holden and Toyota will result in employees from those companies looking for employment in the near future. It is vital for social inclusion and workforce participation that there be no disincentive to redeployment.

## ACTU's position to increase compulsory superannuation contributions for award minimum wage workers

Superannuation is a significant cost increase for employers, particularly those in small businesses. VACC members have reported that increases to superannuation have meant that spending cuts must be made elsewhere in the business. This may mean not hiring new employees or investing in plant and equipment.

VACC opposes any increase to the superannuation guarantee by the FWC as has been proposed by the Australian Council of Trade Unions (ACTU) prior to the Australian Government's increases scheduled to resume in 2021.<sup>1</sup> Decisions on superannuation rates are best left to the elected mandate of the federal government. Furthermore, creating a two tiered superannuation guarantee would create an unnecessarily complicated administrative burden for employers.

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<sup>1</sup> ACTU, 'Unions to push for superannuation increase for minimum wage workers,' 26 March 2015  
<http://www.actu.org.au/actu-media/media-releases/2015/unions-to-push-for-superannuation-increase-for-minimum-wage-workers>

## Apprenticeships and traineeships

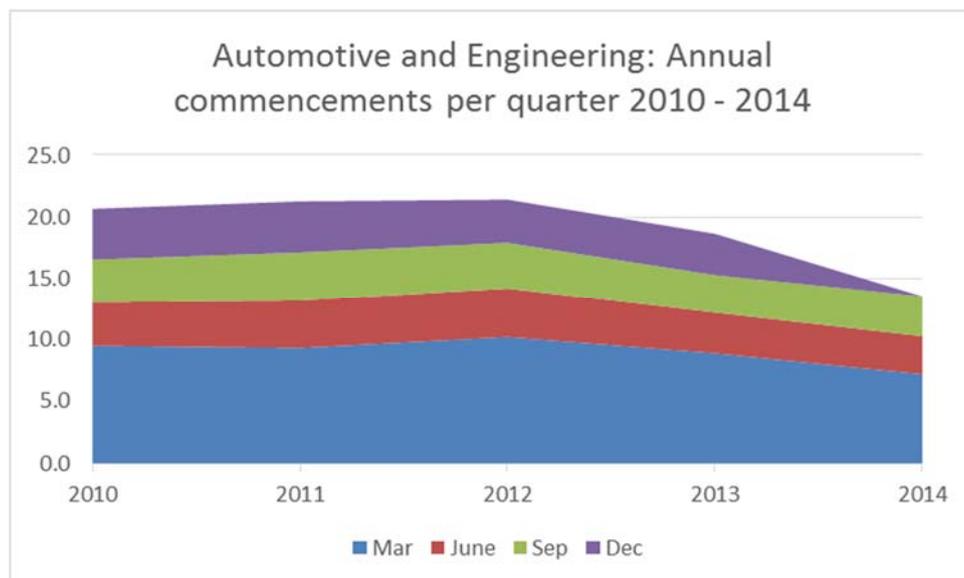
### a. Decline in commencements

Apprenticeships and traineeships are key to facilitating more young people into achieving tangible employment outcomes. However, VACC has observed a consistent decline in the commencement of apprenticeships and traineeships in the past few years.

According to NCVER apprentice and trainee data, with regard to the automotive trades, there has been a consistent decline in apprenticeship and traineeship commencements for each March quarter<sup>2</sup> since 2012<sup>3</sup>:

- March 2012 – 10,200
- March 2013 – 8,900
- March 2014 – 7,200

There has also been a decline in commencements for each quarter for automotive and engineering since 2012<sup>4</sup>:



Source: NCVER, Apprentice and Trainee Collection, September quarter

According to Auto Skills Australia's (ASA) 2015 Automotive Environmental Scan, only 25% of businesses aim to hire apprentices in 2015 – this is lower than at any time since the Automotive Environmental Scan's inception. Skilled workers are mainly in demand (this includes 457 visa workers) rather than apprentices. The higher costs associated with hiring and training an apprentice compared with non-apprentices is one of the factors for a decrease in demand for apprentices among small businesses.

Indeed, the noticeable lack of demand for apprentices is highly concerning. According to 2014 Automotive Environmental Scan, the latest ABS census data reveals a large increase in

<sup>2</sup> The March quarter is used as that is when the greatest concentration of apprenticeship and traineeship commencements occur.

<sup>3</sup> NCVER, Apprentice and Trainee Collection, September quarter 2014

<sup>4</sup> Data for December quarter 2014 remains unknown.

the proportion of older workers across the automotive repair and maintenance sector, particularly in the 60-64 and 65 years and over age groups, from 2006 to 2011. Hence, in an increasingly aging automotive workforce, it is vital that there is continual growth in the employment of apprentices and trainees to ensure the long-term viability of the automotive industry. As such, VACC is concerned that a significant wage increase in the 2014-15 Annual Wage Review will further discourage businesses from hiring apprentices and trainees.

**b. 2013 FWC decision on apprenticeship wages**

On 22 August 2013, the Full Bench of the FWC handed down a decision on apprentice wages and conditions. This decision has had significant cost implications for automotive businesses.

The decision increased the wage rates of junior apprentices employed after 1 January 2014. In December 2013, a first year junior apprentice under the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* with a completed VCE or senior VCAL certificate was entitled to a gross rate of pay of \$304.29 per week. That same junior apprentice, commencing his or her apprenticeship today under the same award, would now be entitled to \$410.41 gross per week – an increase of almost 35%.

The increases were applied to the first and second year levels over a phasing in period, which concluded on 1 January 2015. The accumulated result of the Full Bench's decision to stagger new wages and conditions for apprentices has meant apprentice pay rates have increased four times since 30 June 2013. This has created organisational fatigue and left payroll systems struggling to keep up to date. Another significant increase to the minimum award rate would further exacerbate the administrative burden.

## Economic conditions

### c. The profitability levels of automotive businesses

According to Nielsen's telephone survey of VACC membership<sup>5</sup>, 'profitability' and 'cash flow' are areas that were most negatively impacted by the 3% increase in modern award minimum wage rates effective from 1 July 2014. The survey notes that 35% of businesses experienced a decrease in the level of overall profitability in the business. This is followed with the level of cash flow in the business, in which 27% of businesses reported a decrease as a result of the 3% increase in wages. It is also worth noting that 25% of businesses reported that their selling price of products and services have increased as a result of the 3% increase.

Hence, as the data depicts, it is reasonable to predict that any significant additional increase in minimum wages will place further pressure on the profitability levels of automotive businesses. In addition, a significant wage increase will further increase the selling price of automotive goods and services to the detriment of the consumer. Indeed, this is undesirable given the current slow Australian economy in which consumer confidence levels remain below the long run average levels and 2.7% below levels a year ago.<sup>6</sup>

While the majority of respondents (42%) rated their business profitability as 'good,' a closer examination reveals concerning variations of profitability across the automotive sectors. In particular, the automotive retail sector, the body repair and towing sector and the commercial and agricultural sector are reporting significantly lower levels of profitability compared to the rest of the automotive industry. According to the survey:

- 19% of businesses within the retail sector described business profitability as either 'poor' or 'very poor';
- 24% of businesses within the body repair and towing sector described business profitability as either 'poor' or 'very poor'; and
- 26% of businesses within the commercial and agricultural sector described business profitability as either 'poor' or 'very poor.'

In addition, the Nielsen survey shows that out of the automotive sectors surveyed, VACC members in the retail, body repair and towing and commercial and agricultural sectors employ the most people within their businesses. This means that profitability of these sectors will be most affected if there is another significant increase to modern award minimum rates.

A closer examination of the automotive retail sector shows that vehicle dealers are currently operating under very low to negative profit margins. This has meant that for 2013, despite vehicle sales recording a 2.2% growth on 2012 vehicle sales, the profitability level for the

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<sup>5</sup> Refer to appendix

<sup>6</sup> ANZ-Roy Morgan Australian Consumer Confidence Media release, 24 March 2015  
[http://www.roymorgan.com/findings/6130-anz-roy-morgan-consumer-confidence-march-24-2015-201503240042?utm\\_medium=email&utm\\_campaign=Morgan+Poll+20150324&utm\\_content=Morgan+Poll+20150324+CID\\_035921833eb46d5e871748b291fcfce&utm\\_source=Market%20Research%20Update&utm\\_term=Read%20full%20article](http://www.roymorgan.com/findings/6130-anz-roy-morgan-consumer-confidence-march-24-2015-201503240042?utm_medium=email&utm_campaign=Morgan+Poll+20150324&utm_content=Morgan+Poll+20150324+CID_035921833eb46d5e871748b291fcfce&utm_source=Market%20Research%20Update&utm_term=Read%20full%20article)

average dealer fell by 17%.<sup>7</sup> Deloitte further noted that since 2008, the volume of used cars passing through franchised networks has been in decline, with a “Used to New” ratio just sitting over 0.4:1.<sup>8</sup> Much of this is attributed to the growth of private vehicle sales and the increasing affordability of new cars which has had an effect on consumer demand for used cars. This means that dealerships that only specialise in the retail of used cars are the most affected by the current economic climate. As such, a significant increase to the minimum modern award rate will further debilitate the business conditions of the average dealer.

#### **d. Downsizing and business closures**

Many automotive businesses are ‘small businesses’ and are therefore more exposed to economic changes due to their relatively low levels of capital compared with larger size businesses.

According to the 2015 Automotive Environmental Scan, business consolidation is rapidly rising within the automotive industry. The national automotive business count as of June 2013 is 64,772, which is 2,772 less than June 2012. Reductions in sole traders and small independent businesses account for the majority of business losses. Inability to keep up with technological change and skills training, competition and retirements as well as the lack of capital investment by businesses are cited as key reasons for businesses losses.

The automotive industry has been a consistent contributor to the nation’s GDP at around 2.5% as of 2013/14 (down from 2.6% for 2012/13). The automotive industry is an important contributor to the Australian economy. It is essential that we maintain the size of the contribution for the performance and competitiveness of the national economy.

These figures are based on the new ASA environmental scan, due to be released shortly. The VACC will refer to this updated data in our reply submissions.

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<sup>7</sup> Deloitte, ‘Motor Industry Overview 2014, March 2014’ p. 10,  
[https://www.eprofitfocus.com/media/171086/Deloitte-MIS\\_Industry-Overview\\_2014\\_web.pdf](https://www.eprofitfocus.com/media/171086/Deloitte-MIS_Industry-Overview_2014_web.pdf)

<sup>8</sup> Ibid, p. 18.

## Closure of Ford, Holden and Toyota

Decisions by Ford, Holden and Toyota to close their manufacturing operations in Australia will lead to the restructure of the automotive industry. In the future, the industry will largely comprise sales of imported vehicles and parts plus servicing and repairs.

Ford, Holden and Toyota employees will be first affected as doors close in 2016 (Ford) and 2017 (Holden and Toyota). However, many VACC members in the repair, service and retail sector will also feel the impact of the closures.

On 10 February 2014, VACC's then Executive Director, David Purchase, stated:

*"Toyota Australia's decision will not only have a huge impact on its 2,500 employees but on thousands of businesses and employees in the component parts sector. Many small businesses will be affected and we wait to see the impact on our sector, the repair, service and retail sector."*<sup>9</sup>

On 11 March 2015, VACC's current Executive Director, Geoff Gwilym, commenting on the industry's transition, stated:

*"The automotive industry is not just about car making. Retail, research and innovation, repairs and servicing, transport technology and information systems will continue long after the production plants have closed. It is important that all sectors of the industry have opportunities and future employment, skills and career options are created."*<sup>10</sup>

The ACTU estimates that the number of jobs that are likely to be lost across the automotive industry is about 50,000 across Australia.<sup>11</sup>

There are going to be many thousands of employees looking for work in the automotive and other related sectors over the next few years as the industry undergoes its transition into a more service-oriented industry. Employees will be relying on the FWC to ensure that business conditions are in a state that will allow employers to take on new employees.

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<sup>9</sup> VACC Media Release, 'VACC statement: Reaction to Toyota Australia announcement' 10 February 2014 [http://www.vacc.com.au/Portals/1/MediaRelease\\_Murray/VACC%20statement%20reaction%20to%20Toyota%20Australia%20announcement.pdf](http://www.vacc.com.au/Portals/1/MediaRelease_Murray/VACC%20statement%20reaction%20to%20Toyota%20Australia%20announcement.pdf)

<sup>10</sup> VACC Media Release, 'ATS decision a welcome boost for the whole automotive industry, 11 March 2015 <http://www.vacc.com.au/Portals/1/Media%20Releases/media-release-ats-decision-welcome-boost.pdf>

<sup>11</sup> The Australian, 'Toyota completes car industry demise,' <http://www.theaustralian.com.au/news/latest-news/toyota-to-make-major-announcement/story-fn3dxiwe-1226822810074>

## About VACC

VACC is the peak body for the repair, service and retail sector of the automotive industry in Victoria and Tasmania. VACC represents over 5,000 members, primarily small businesses, which employ over 50,000 people and have an annual turnover of around \$50 billion.

Our members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialist, i.e. radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture), and recycling.

The automotive industry is largely made up of small businesses. Small businesses, including sole traders and businesses with between one and 19 employees, comprise approximately 95% of all automotive businesses. About 13.5% of businesses have an annual turnover of less than \$50,000. Medium to large business make up the remaining 5% in the automotive industry.

## References

ANZ-Roy Morgan Australian Consumer Confidence Media release,

[http://www.roymorgan.com/findings/6130-anz-roy-morgan-consumer-confidence-march-24-2015-201503240042?utm\\_medium=email&utm\\_campaign=Morgan+Poll+20150324&utm\\_content=Morgan+Poll+20150324+CID\\_035921833eb46d5e871748b291fcfce&utm\\_source=Market%20Research%20Update&utm\\_term=Read%20full%20article](http://www.roymorgan.com/findings/6130-anz-roy-morgan-consumer-confidence-march-24-2015-201503240042?utm_medium=email&utm_campaign=Morgan+Poll+20150324&utm_content=Morgan+Poll+20150324+CID_035921833eb46d5e871748b291fcfce&utm_source=Market%20Research%20Update&utm_term=Read%20full%20article)

Auto Skills Australia, 2015 Automotive Environmental Scan

Deloitte, 'Motor Industry Overview 2014, March 2014,'

[https://www.eprofitfocus.com/media/171086/Deloitte-MIS\\_Industry-Overview\\_2014\\_web.pdf](https://www.eprofitfocus.com/media/171086/Deloitte-MIS_Industry-Overview_2014_web.pdf)

FAPM Media Release, 'Announcement sets the end date for Australia's auto manufacturing industry,'

<http://www.fapm.com.au/Portals/0/Website/140210%20Announcement%20Sets%20The%20End%20Date%20for%20Australia's%20Auto%20Manufacturing%20Industry.pdf>

FAPM Media Release, 'Relief for automotive supply chain with reinstatement of ATS funds'

<http://www.fapm.com.au/Portals/0/Website/150310%20Relief%20for%20automotive%20supply%20chain%20with%20reinstatement%20of%20ATS%20funds.pdf>

National Centre for Vocational Education Research, Apprentice and Trainee Collection, September quarter 2014

The Australian, 'Toyota completes car industry demise,'

<http://www.theaustralian.com.au/news/latest-news/toyota-to-make-major-announcement/story-fn3dxiwe-1226822810074>

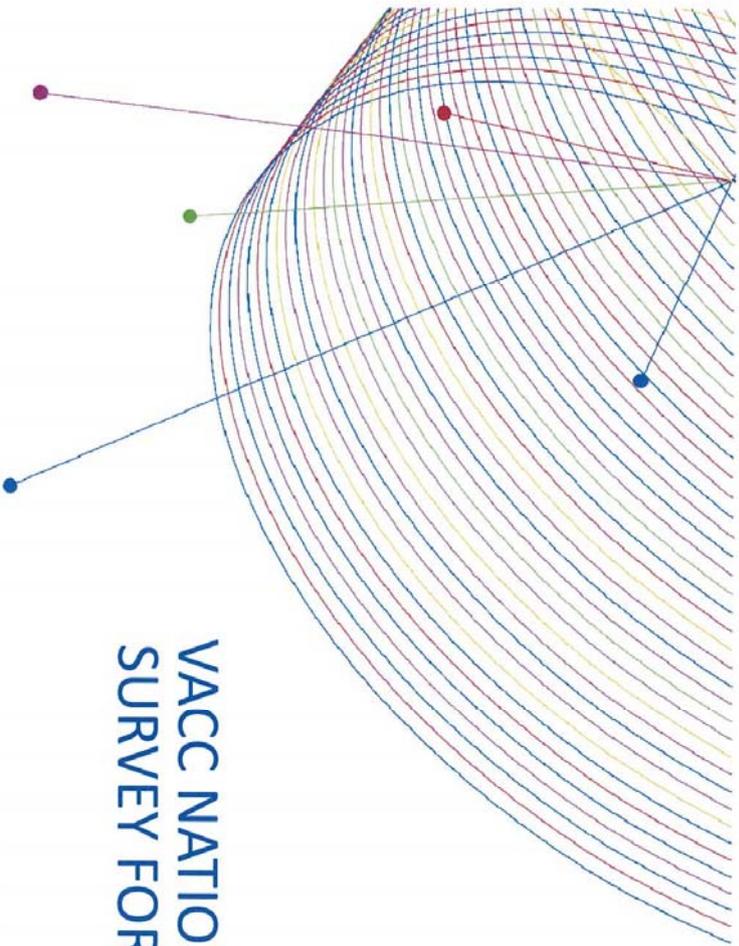
VACC Media Release, 'VACC statement: Reaction to Toyota Australia announcement'

[http://www.vacc.com.au/Portals/1/MediaRelease\\_Murray/VACC%20statement%20reaction%20to%20Toyota%20Australia%20announcement.pdf](http://www.vacc.com.au/Portals/1/MediaRelease_Murray/VACC%20statement%20reaction%20to%20Toyota%20Australia%20announcement.pdf)

VACC Media Release, 'ATS decision a welcome boost for the whole automotive industry'

<http://www.vacc.com.au/Portals/1/Media%20Releases/media-release-ats-decision-welcome-boost.pdf>

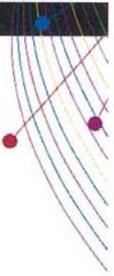
Appendix 1 – Nielsen telephone survey of VACC membership



**VACC NATIONAL TELEPHONE  
SURVEY FOR ANNUAL WAGE  
REVIEW**

VICTORIAN AUTOMOBILE CHAMBER OF COMMERCE

ANDREW FURZE ([andrew.furze@nielsen.com](mailto:andrew.furze@nielsen.com))  
LUKE STARICK ([luke.starick@nielsen.com](mailto:luke.starick@nielsen.com))  
TANIA FOLINO ([tania.folino@nielsen.com](mailto:tania.folino@nielsen.com))



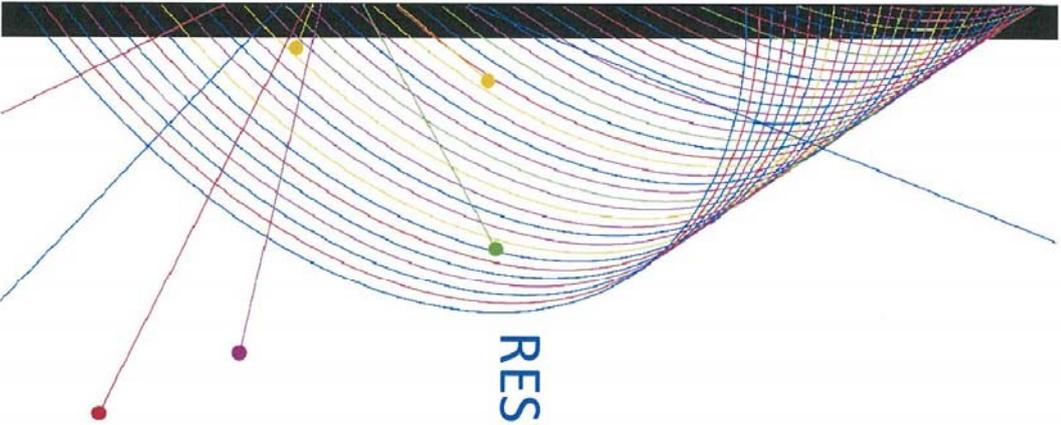
## PLEASE NOTE:

- Significance testing has been applied where charts display either a green or red circle indicating that the data is either significantly higher or lower than the Total.
- Small base size has been indicated by using an asterisk (\*) where results based on a sample size lower than 30 should be viewed with caution.
- The mean score is the average of the numbers: a calculated central value of results.

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# RESEARCH DESIGN AND METHODOLOGY



## RESEARCH DESIGN AND METHODOLOGY

- 600 interviews were completed with VACC members.
- Interviews were conducted from the 4<sup>th</sup> March to the 10<sup>th</sup> March, 2015.
- Victoria and Tasmania were surveyed.
- The average interview length was 7.5 minutes.
- Surveying was conducted via Nielsen's Computer Assisted Telephone Interviewing (CATI) facilities.



## RESEARCH DESIGN AND METHODOLOGY

- Sampling was based on six VACC Division Groupings.
- Quotas for each VACC Division Groupings were recommended by Nielsen to be controlled so that VACC can conduct additional analysis of the survey for internal purposes.
- Nielsen recommended distributing the sample in proportion with the number of members records provided in each grouping, shown in the table below;

VACC Division Grouping	Number of Members	% of Members	Sample Size
Retail	587	12%	67
Automotive Services	2607	53%	318
Body Repairs & Towing	701	14%	86
Commercial & Agricultural	259	5%	35
Service Stations	103	2%	15
Other	648	13%	79
<b>Total</b>	<b>4905</b>	<b>100%</b>	<b>600</b>

- Results have been weighted to represent all VACC members, ensuring the proportion represented in the survey is the same as the membership population.

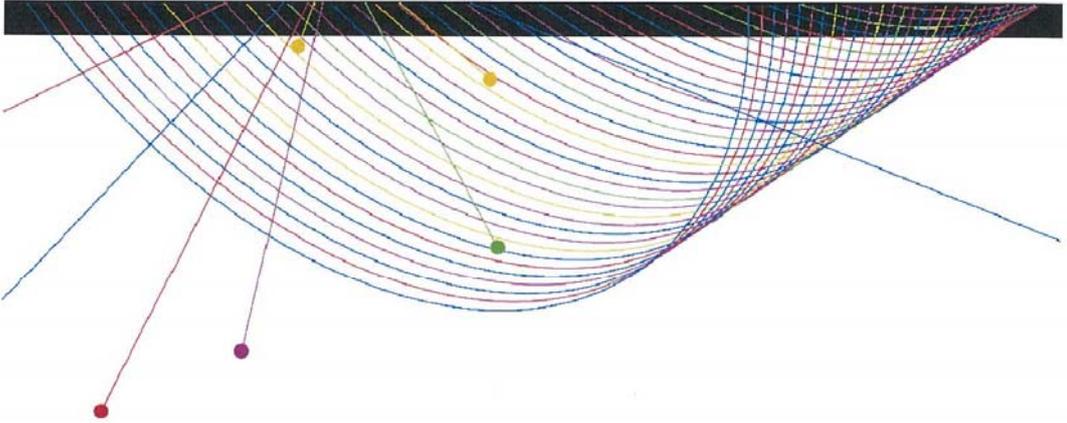
## RESPONSE RATE

- The overall response rate was 31%. This was based on the number of completed interviews as a proportion of businesses attempted to be contacted.
- The overall contact rate was 41% and the refusal rate was 10%.

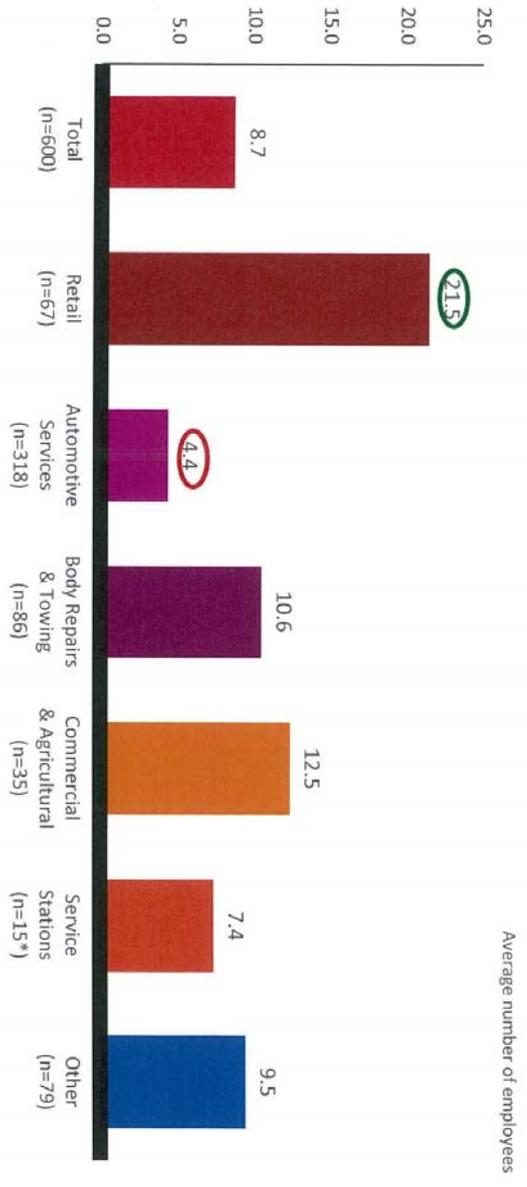
VACC Division Grouping	Client Supplied	Completes	Response Rate
Retail	587	67	33%
Automotive Services	2607	318	43%
Body Repairs & Towing	701	86	38%
Commercial & Agricultural	259	35	39%
Service Stations	103	15	39%
Other	648	79	41%
<b>Total</b>	<b>4905</b>	<b>600</b>	<b>41%</b>



## OUR FINDINGS

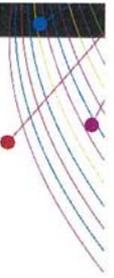


VACC MEMBERS IN THE 'RETAIL' DIVISION EMPLOY THE MOST PEOPLE WITHIN THEIR ORGANISATIONS. 'AUTOMOTIVE SERVICES' TEND TO HAVE FEWER EMPLOYEES.



Base: All Respondents  
 Q1. How many people does the Organisation currently employ?

\*Caution small base size  
 ○ Significantly higher than Total  
 ○ Significantly lower than Total



## GENERALLY, THE AVERAGE NUMBER OF EMPLOYEES RECEIVE OVER THE AWARD RATE.

Average number of employees

	At exactly the award rate	Over the award rate	Other
<b>Total (n=459)</b>	1.7	5.9	1.1
<b>Retail (n = 49)</b>	4.9	14.3	2.4
<b>Automotive Services (n=223)</b>	0.8	3.0	0.6
<b>Body Repairs &amp; Towing (n=76)</b>	1.5	7.5	1.6
<b>Commercial &amp; Agricultural (n=31)</b>	1.4	10.6	0.5
<b>Service Stations (n=14*)</b>	5.0	1.9	0.5
<b>Other (n=66)</b>	1.7	5.9	1.9

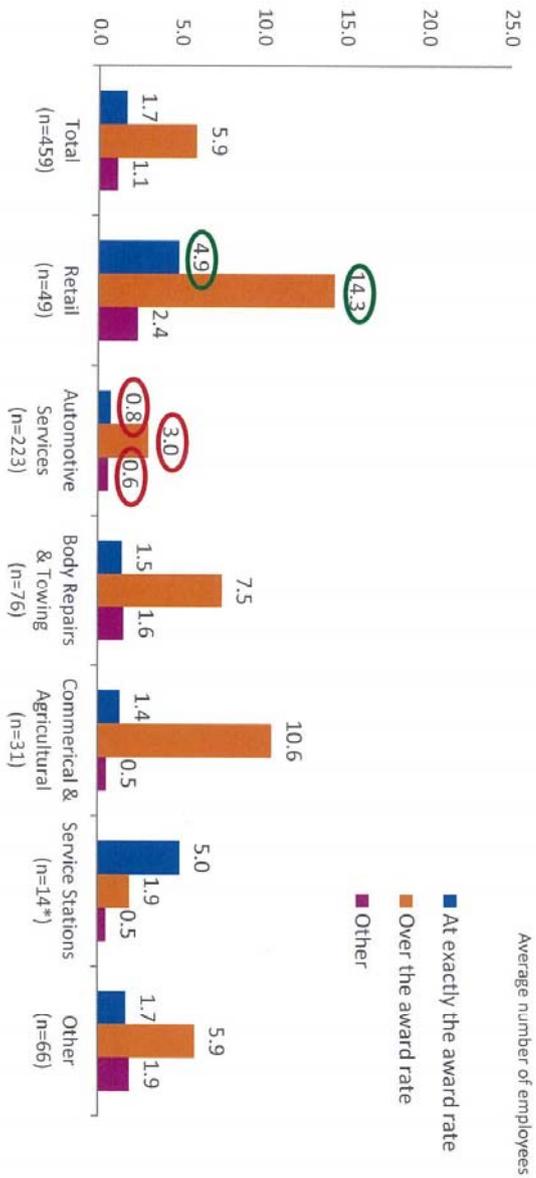
\*Caution small base size

 Significantly higher than Total

 Significantly lower than Total

Base: All respondents with one or more employees  
Q2:How many Organisation employees have their wage or salary set:

**'SERVICE STATIONS' IS THE DIVISION MOST LIKELY TO REPORT THAT THEY PAY AT EXACTLY THE AWARD RATE, NOT ABOVE IT.**



Base: All respondents with one or more employees  
 Q2: How many Organisation employees have their wage or salary set:

○ Significantly higher than Total  
 ○ Significantly lower than Total

\*Caution small base size

**OF THOSE PAID ABOVE THE AWARD RATE, MOST RECEIVED NO INCREASE OR LESS THAN 3% INCREASE PER WEEK AS A DIRECT RESULT OF THE FAIR WORK COMMISSION DECISION.**

Average number of employees

	Received less than 3% (Including no wage increase)	Received exactly the 3%	Received more than the 3%
<b>Total (n=354)</b>	4.3	2.1	1.4
<b>Retail (n=37)</b>	9.5	6.7	2.8
<b>Automotive Services (n=171)</b>	2.0	1.0	1.0
<b>Body Repairs &amp; Towing (n=60)</b>	7.0	1.1	1.5
<b>Commercial &amp; Agricultural (n=29*)</b>	4.2	4.1	3.0
<b>Service Stations (n=8*)</b>	1.5	1.3	0.6
<b>Other (n=49)</b>	5.0	2.4	0.6

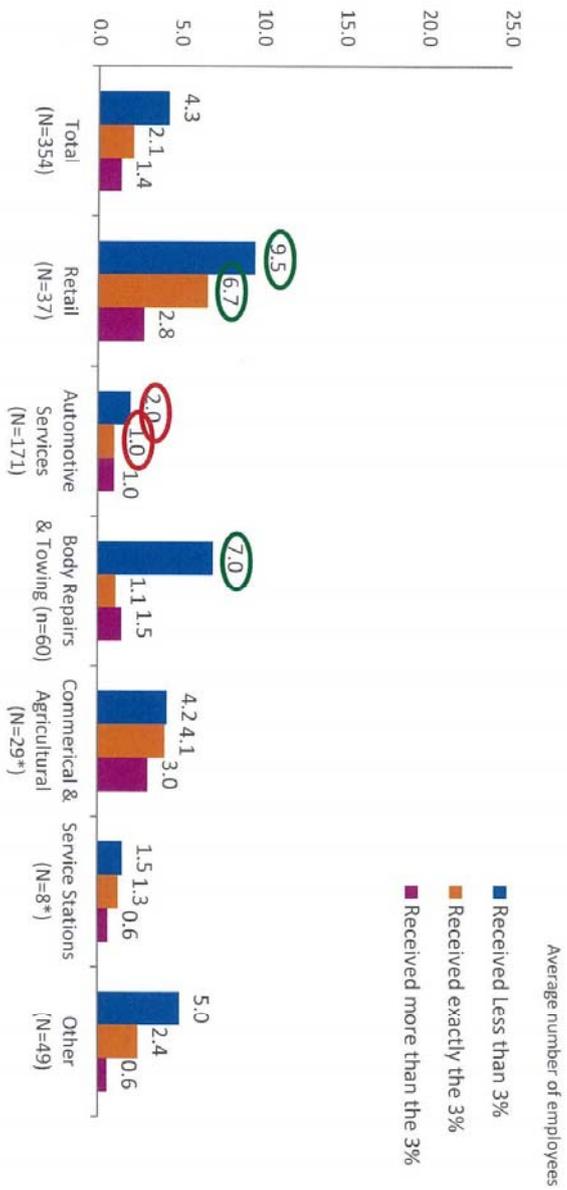
\*Caution small base size

○ Significantly higher than Total

○ Significantly lower than Total

Base: If company pay employees over award  
 Q3: How many of the over the award rate employees paid over the minimum award rate of pay...  
 increase per week wage rise as a direct result of the decision of the Fair Work Commission to increase minimum award rates of pay in July 2014? (Including no wage increase.)

**EMPLOYEES THAT RECEIVE OVER THE AWARD RATE IN BOTH 'RETAIL' AND 'BODY REPAIRS & TOWING' DIVISIONS ARE MOST LIKELY TO BE PAID AT LESS THAN 3% OVER THE AWARD.**



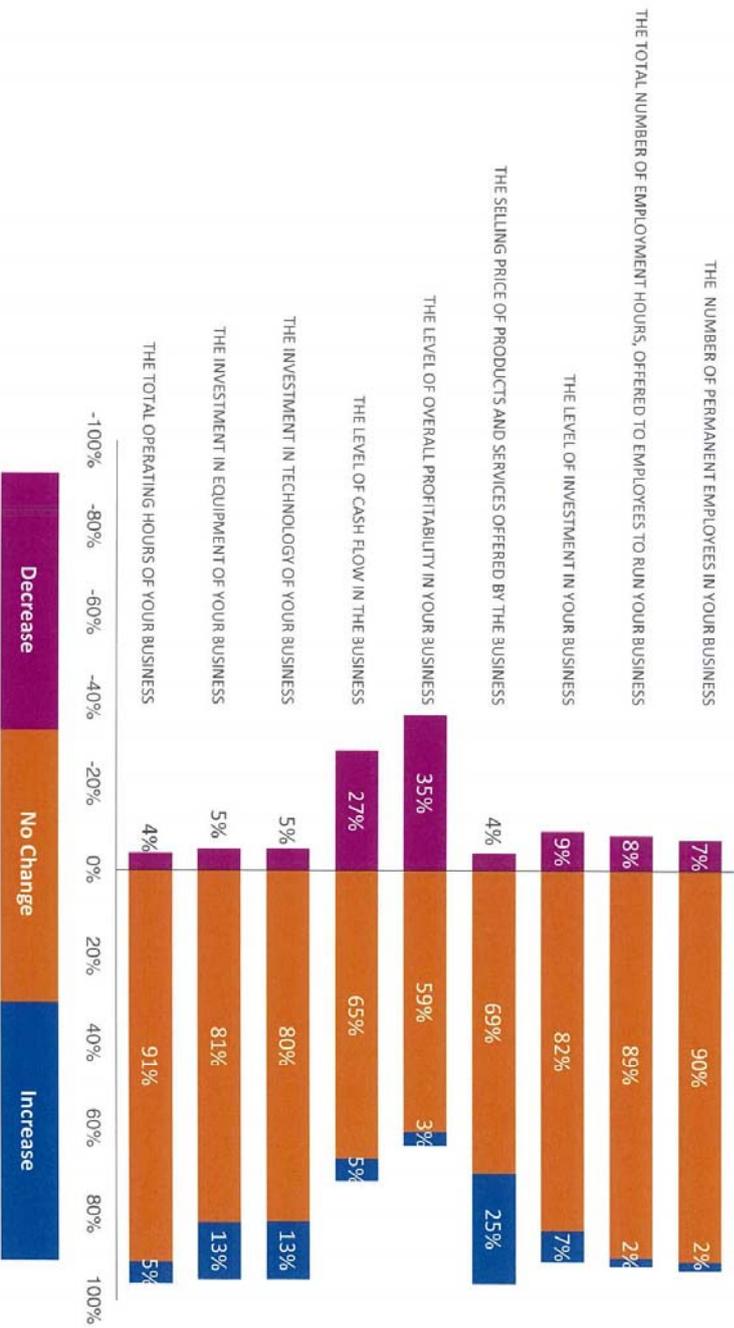
Base: If company pay employees over award  
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 Increase per week wage rise as a direct result of the decision of the Fair Work Commission to increase minimum award rates of pay in July 2014? (including no wage increase)

○ Significantly higher than Total  
 ○ Significantly lower than Total

\*Caution small base size

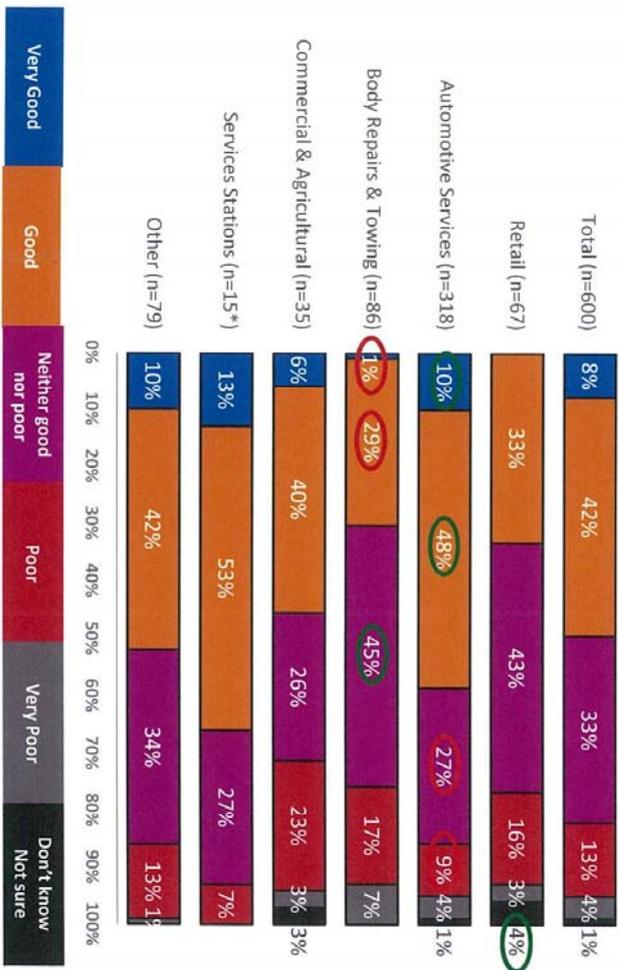


**WHILE THE MAJORITY REPORTED NO CHANGE, LEVELS OF PROFITABILITY AND CASH FLOW WERE MOST NEGATIVELY IMPACTED. THE SELLING PRICE OF PRODUCTS AND SERVICES OFFERED WAS SEEN TO HAVE INCREASED.**



Base: All respondents with one or more employees (n=459)  
 Q4. Has the July 2014 increase of 3% directly led to changes in any of the following areas of your business?

'AUTOMOTIVE' DIVISION MEMBERS ARE MORE LIKELY TO RATE THEIR BUSINESS PROFITABILITY AS GOOD. 'BODY REPAIRS & TOWING' DIVISION MEMBERS ARE MORE LIKELY TO RATE THEIR PROFITABILITY AS NEITHER GOOD NOR POOR.



Base: All Respondents  
 Q5. Thinking about the profitability of your business. At this point in time, would you say that the profitability of your business is...?  
 ○ Significantly higher than Total  
 ○ Significantly lower than Total

\*Caution small base size

nielsen  
AN UNCOMMON SENSE  
OF THE CONSUMER™

