



# VACC's response to the Productivity Commission's Inquiry into Vulnerable Supply Chains

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## 1. About VACC

The Victorian Automotive Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,000 members in over 20 retail automotive sectors, who employ over 50,000 Victorians.

VACC members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, and farm machinery), repairers (mechanical, electrical, body and repair specialists, 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 automotive dismantlers and recyclers.

## 1. The 'new normal' in retail automotive in Victoria

VACC thanks the Hon. Josh Frydenberg MP and the Productivity Commission for undertaking a study to investigate Australia's resilience to global supply chain disruptions. This is a very real issue affecting numerous retail automotive businesses across Victoria. Interrupted and unreliable supply chains have resulted in limited access to stock, in turn, affecting productivity and business viability.

VACC research reveals 95.73 per cent of Victorian automotive dealers are experiencing a disruption in the supply of mainstream dealer stock supply for new car, motorcycle, commercial vehicle, farm machinery and automotive parts.<sup>1</sup> Conversely, 97% of repairers are experiencing delays in obtaining automotive replacement parts, which can range from one to six months.

The new normal dictates dealerships are now run on an increasingly lean basis, with a reduction in the oversupply of often unwanted vehicles from the Original Equipment Manufacturer (OEM) (franchisor). Ideally, the uptake of lean operational processes, with a just-in-time consumer supply, would result in a positive outcome for OEM, dealer, and the consumer. However, it is expected that some OEMs will revert to the traditional industry practice of dumping excessive stock on Victorian dealers.

The Victorian stage 4 lockdown and Stay at Home Directions (Restricted Areas) No 7 announced on 2 August 2020 meant that Victorians could travel no more than 5 kilometres from their premises and could only leave for one of four reasons including obtaining necessary goods or services. This meant that only critical and essential vehicle repairs were permitted during that period. The restriction on movement and financial uncertainty throughout 2020 caused many Victorians to delay necessary repairs and servicing resulting in pent up demand once restrictions were eased. Less vehicles on the road meant fewer collisions, less kilometres travelled and lower public transport use. When restrictions were finally eased the increased demand meant that the automotive repair industry including independent and franchised mechanical, electrical and collision workshops, experienced a sharp upswing in demand for vehicle repairs and servicing, tyre replacements, roadworthiness checks, and collision related repairs. Victorians in particular, opted for private vehicle use rather than utilising public transport and shared mobility. Sudden increases in consumer demand for products, driven by panic buying and irrational spending,<sup>2</sup> has resulted in households increasing their own individual demand for certain products, with new cars nearing the top of the list. With international travel largely prohibited,<sup>3</sup> consumers are now spending previous holiday savings on a new car or motorcycle. VACC research has highlighted that a concern for the Victorian Government<sup>4</sup> is the public's post-lockdown reluctance to use public transport. This has resulted in an uptake in private vehicle use and encouraged consumers to purchase.<sup>5</sup>

Further, international and ad hoc state border closures have resulted in Australians using their vehicles to travel locally and interstate for their holidaying experiences. Motorists are also keeping their vehicles longer, with the average age of rising from 10.1 years to 10.4 years across Australia in the past year. Post lockdown, automotive workshops are now booked three weeks in advance (considered unprecedented). Some collision repairers have reported wait times of over six months for OEM parts to complete a repair.

As widely acknowledged, the pandemic has had a major impact on the automotive parts supply chain – resulting in parts manufacturing factory closures, shipping and port delays, redirection of parts to different jurisdictions and forecasting errors. All of this has exacerbated repair wait

1 VACC Dealer Supply Chain Scan Survey (2021).

2 Mary Loxton et al, "Consumer Behaviour During Crises: Preliminary Research on How Coronavirus Has Manifested Consumer Panic Buying, Herd Mentality, Changing Discretionary Spending and The Role of The Media in Influencing Behaviour" (2020) 13(8) Journal of Risk and Financial Management 9 [5].

3 Matthew J. Beck and David A. Hensher, "Insights into The Impact Of COVID-19 On Household Travel and Activities in Australia – The Early Days Under Restrictions" (2020) 96 Transport Policy 90 [2].

4 Graham Currie, "Post-Pandemic Gridlock? Public Transport Users Expected to Shift to Driving Cars", Monash University (Webpage, 2020) <<https://www.monash.edu/news/articles/post-pandemic-gridlock-public-transport-users-expected-to-shift-to-driving-cars>> [7].

5 Matthew J. Beck and David A. Hensher, "Insights into The Impact Of COVID-19 On Household Travel and Activities in Australia – The Early Days of Easing Restrictions" (2020) 99 Transport Policy 114 [5].



times, placing higher than usual demand for repairs. Parts in short supply are broad ranging, however, of note are OEM parts, lubricants, mechanical and collision parts for all makes and models. Respondents to a recent VACC survey concluded that workshops are experiencing parts delays between one to three months; and between three to six months for parts from Europe. Some parts suppliers are unable to provide any estimated time of arrival.<sup>6</sup>

Parts supply disruptions are impacting consumers in a variety of ways. For example, creating a backlog of registrations for newly purchased used vehicles due to defects and repairs required. Businesses are having to improvise and find alternative solutions to ensure repairs are completed safely and in accordance with the Australian Consumer Law. Further, vehicles are off the road for prolonged periods, and customers are becoming increasingly frustrated at the length of delays, creating travel plan disruptions.

As the state hardest hit by the COVID-19 pandemic, it is through the lens of Victorian automotive retailers that this submission has been compiled. The following submission presents data from VACC's Dealer Supply Chain Scan Survey and related interviews collected during March 2021. It also includes results collected from the repair and parts supply industry.

## **2. COVID-19 and the fallout for dealers**

The onset of the COVID-19 pandemic has highlighted Australia's vulnerability to global supply chain disruptions. Whilst the Australian Government has claimed Australia's supply chains have held up relatively well during the pandemic,<sup>7</sup> from a state-based perspective, Victoria has borne the greatest exposure to supply chain interruptions from both an imported goods and route to market perspective. This is on the back of reduced manufacturing output, limited freight capacity, and irregular consumer behaviours.<sup>8</sup>

Many OEMs are now suffering from lockdown paralysis and living in fear of further future snap pandemic related restrictions. Future shocks to supply chains for Victorian dealers will likely be different in nature compared with other Australian states. For example, in addition to the reduced inputs for production, the effect of Victoria's strict border closures, work from home mandates and extended lockdown saw large volumes of stock diverted away from Victoria to other, more stable markets.<sup>9</sup>

With a duration of 112 days, the second Victorian lockdown was the longest, continuous period, COVID-19 lockdown in the world.<sup>10</sup> When the lockdown was lifted, automotive retail benefited as a result of increased consumer buying demand, fuelled by unprecedented economic support by state and federal governments, along with the easing of prohibitive lending restrictions.<sup>11</sup> That consumer demand still continues, however, Victorian dealers and their customers are experiencing serious stock delivery delays, waiting on average more than 120 days per order.<sup>12</sup> Pre COVID-19, those delays were an average of 14 days.<sup>13</sup> By way of example, VACC dealers of the Thailand manufactured D-Max model were facing a five-month delay for delivery in September 2020.<sup>14</sup> That delay has now increased to eight months, as the Thailand-based factory was shut down temporarily mid-August 2020.

In response to the recent black-swan events of COVID-19 and the Victorian Bushfires in 2019-20, ongoing business volatility is expected with dealerships needing to strike a balance between supply

6 VACC Research Survey Aftermarket Repair Supply Chain issues March 2021.

7 Australian Government Productivity Commission, Vulnerable Supply Chains (Commonwealth of Australia, 2021) 1 [1].

8 A.T Kearney Aust, Supply chain vulnerability in a time of crisis (2021) <https://www.au.kearney.com/article?/a/supply-chain-vulnerability-in-a-time-of-crisis>.

9 Hafiz Suliman Munawar et al, "Insight into The Impact Of COVID-19 On Australian Transportation Sector: An Economic and Community-Based Perspective" (2021) 13(3) Sustainability Journal <<https://doi.org/10.3390/su13031276>> 17 [2].

10 BBC New "Covid in Australia: Melbourne to exit 112-day lockdown". BBC News (2020) retrieved 7 March 2021.

11 FCAI VFACTS media release January 2021 (2021).

12 VACC (n 1).

13 VACC (n 1).

14 Scott Collie, 2021 Isuzu D-Max facing ongoing supply delays despite factory re-start, (Car expert 2020), <https://www.carexpert.com.au/car-news/2021-isuzu-d-max-facing-ongoing-supply-delays-despite-factory-restart>

chain cost efficiency and resilience.<sup>15</sup> Moving forward, the issue will be for both dealer and OEM to review their current supply chain arrangements and negotiate a strategy through their dealer councils that will result in the best outcome for OEM, dealer and consumer.

VACC makes the point that is not only the global pandemic and associated disruption that has put downward pressure on the automotive industry. It is our members' view that the current environment is made worse by the shortage of semi-conductor components affecting global manufacturers.<sup>16</sup> This is forcing significant production cuts for the manufacture of vehicles produced by Volkswagen, Renault, Nissan, General Motors, Toyota, and Honda.<sup>17</sup> The semi-conductor chip issue is also impacting the ability of Victorian autowave repairers to complete repair work in a timely manner. Parts shortages are disrupting the franchise dealer and aftermarket automotive service and repair industry, extending far beyond the microchips production crisis. Microchips are used extensively within modern day vehicles such as powertrain, safety, and security modules. Modern cars now have over 100 different electronic modules designed for different applications. Each of these electronic modules has a microchip.<sup>18</sup>

With regard to the many issues facing, and affecting, the automotive industry (both COVID-19 and non-COVID-19 related), VACC maintains the Victorian automotive industry requires effective and certain government intervention to assist with the easing of supply chain issues. It is very likely Victorian automotive retail businesses will be forced to permanently exit the market if they cannot access adequate stock supply previously made available in other states and territories. Without the immediate intervention of government, business confidence will remain low, affecting investment in infrastructure, employment and community activities.

### **3. The international situation**

OEMs rely heavily on just-in-time production. In China, it is believed that two-thirds of automotive related production was directly affected by the country's industrial shutdown. At the height of the pandemic, automotive production in Asia is estimated to have declined by 16 per cent in 2020.<sup>19</sup> In Europe, a shutdown of automotive production affected 14 million jobs to both OEMs and a reliant aftermarket. This has on-flow effects to the supply chain and causes route to market delays, as experienced in Victoria – aggravated further by the fact under 25 per cent of vehicles are right-hand drive globally.<sup>20</sup> The cost of producing right-hand drive vehicles makes this type of vehicle less profitable for OEMs due to their low production numbers and subsequent low sales volume. It is assumed that most OEMs' attention will be focused on shoring up the production of left-hand drive vehicles, placing further pressure on local supply chains.

It is not known how long the recovery of the international automotive supply chain will take, even with a multi-supplier scenario and improvements in shipping logistics, import regulations, infrastructure and the availability of a willing workforce.

### **4. What the supply landscape looked like in 2020**

In 2020, Australian importers spent the highest amount on the following six subcategories of vehicles.

- Cars: \$12.9 billion (down -13.3%)
- Trucks: \$5.9 billion (down -7.5%)
- Automobile parts/accessories: \$1.8 billion (down -8.4%)
- Tractors: \$888.9 million (up 4.7%)

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<sup>15</sup> Kearney (n 2).

<sup>16</sup> VACC (n 1).

<sup>17</sup> Joe Miller, "Car Manufacturing Hit by Global Semiconductor Shortage", Ft. Com (Webpage, 2021) <<https://www.ft.com/content/e264fd41-7ee9-4fba-be3c-21446298efd9>>.

<sup>18</sup> <https://www.dakotanewsnow.com/2021/04/16/some-businesses-experiencing-car-parts-shortage/>.

<sup>19</sup> RBC Capital Markets(2020) ,European Automobile Manufacturers Association.

<sup>20</sup> Fleetcare, (2021) <https://www.fleetcare.com.au/fleettorque/end-of-the-road-for-holden>.

- Trailers: \$555.1 million (down -0.6%)
- Motorcycles: \$467.6 million (down -1%)<sup>21</sup>

*N.B. The percentage figures are 2019 v 2020 comparison, and the dollar value is based on \$USD.*

## 5. Key import movements

In January 2021 the decline in imported road vehicles was valued at \$845m or 23 per cent.<sup>22</sup> The decline in road vehicle imports was the first decline since May 2020. At its height, agricultural tractors declined by \$101 million (-49%), following a record high in imports in December 2020<sup>23</sup> influenced mainly by the Federal Government's Instant Asset Write Off Scheme. Following this boom in tractor sales, there are now large stock shortages emerging in this sector.<sup>24</sup>

## 6. Top five sources for imported goods by country

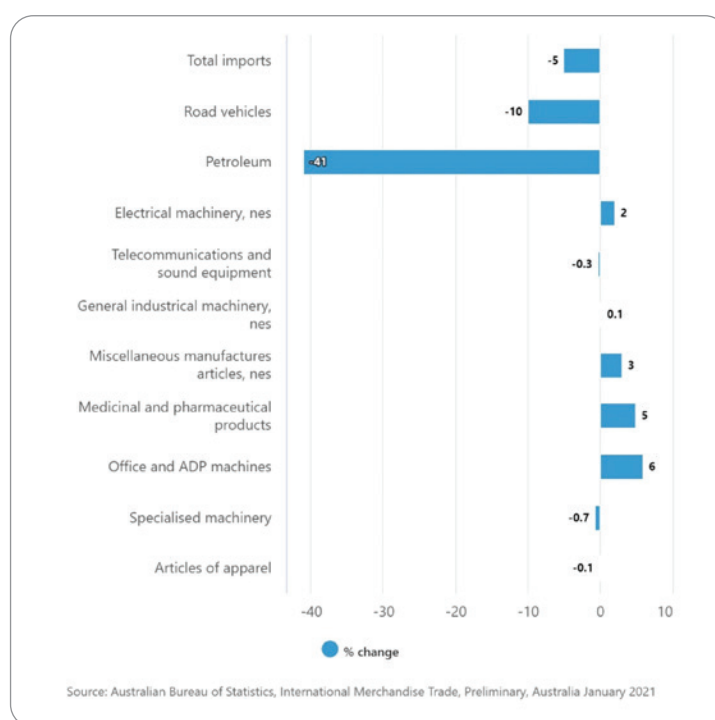
Japan is a key automotive manufacturer supplier to the Australian market. Its total import decline of \$433 million locally was almost entirely driven by road vehicles. These products were down by \$425 million (-35%) as automakers reduced production amidst a global shortage of semi-conductors.

A similar situation has occurred with imports from Thailand, with ABS data revealing a decline in road vehicle imports of \$273 million (-40%), effectively removing Thailand from Australia's top five import source countries for the month.

Key country movements:

- China declined \$1,429m (-17%)
- Japan declined \$433m (-25%)
- Germany declined \$2m (-0%)
- Malaysia increased \$153m (19%)

The graph at right provides a summary movement in imports for 2019-20, including an overall percentage change for automotive. An automotive import deficit of -10 per cent to Australia equates to approximately 91,600 fewer new cars delivered into the Australian market.<sup>25</sup> This is likely to have substantial flow on effects to local supply lines for aftermarket fitments such as towbars, sunroofs and window tints.



**Figure 1: International trade in goods – imports movement from 2019-20 (% change)**

<sup>21</sup> Justin Hillard, 'Where new cars sold in Australia in 2019 came from', (2020) retrieved from <https://www.carsguide.com.au/car-news/where-new-cars-sold-in-australia-in-2019-came-from-77761>

<sup>22</sup> ABS, "International Merchandise Trade, Preliminary, Australia, January 2021", Australian Bureau Of Statistics (Webpage, 2021).

<sup>23</sup> Ibid.

<sup>24</sup> VACC (n 1).

<sup>25</sup> Does not include motorcycles or farm machinery.

## 7. The Victorian and national dealer market

Pre COVID-19, Victorian dealers were trading in recessionary-like conditions. VFACTS data sourced from the Federal Chamber of Automotive Industries (FCAI) shows that Victorian dealerships have been in distress throughout 2020, exhibiting negative 25.6 per cent year-on-year growth.<sup>26</sup>

VFACTS data released for January 2021 showed an increase of 1.8 per cent, with the following month reporting a decrease of 8.7 per cent.

*Table 1: VFACTS data 2019 v 2020*

State	2020	2019	% difference
Australian Capital Territory	19,963	16,061	+22.6 %
New South Wales	302,117	339,818	-11.1%
Northern Territory	7,731	8,609	-10.6%
Queensland	195,769	214,788	-8.9%
South Australia	60,084	67,212	-10.6%
Tasmania	145,673	20,096	-22%
Victoria	226,467	304,382	-25.6%
Western Australia	89,434	91,901	-2.7%
<b>Total</b>	<b>916,968</b>	<b>1,062,867</b>	<b>-13.7%</b>

*Source: VFACTS 2021 Federal Chamber of Automotive Industries (FCAI)*

Victorian consumer demand was evident in January when stock levels were balanced, showing an overall market increase of 1.8 per cent for that month. However, by February 2020 stock shortages caused by supply chain disruptions had become more pronounced, with Victoria experiencing a decrease of 8.7% for the month.

VACC presents the key reasons affecting the supply of stock to Victorian dealers in February 2021:

1. OEMs are diverting stock away from Victoria in fear of future, extended lockdowns (such as the 112-day lockdown of 2020).<sup>27</sup>
2. The Victorian 'circuit breaker' lockdown of mid-February, negatively affected OEMs' confidence, as dealerships were forced to close for three days.
3. The market is now reaching peak unit pricing as supply and demand mechanisms react.

## 8. About the supply chain survey

VACC undertook a survey of its members to better understand the effect of the supply chain restrictions on their businesses. The VACC membership database accounts for approximately 72 per cent of Victoria's Licensed Motor Car Trader (LMCT) cohort.<sup>28</sup> Survey participants include new and used car dealers, motorcycle dealers, commercial vehicles, farm machinery and auto parts suppliers. The geographic breakdown is as follows:

- 55 per cent were metro based
- 45 per cent regionally based.

<sup>26</sup> 2020 VFACTS

<sup>27</sup> Munawar (n 10).

<sup>28</sup> CAV 2019 Annual Report states 1983 LMCTS. Many of these LMCTS run multi franchise locations.



## 8.1 Key results

The key results from the survey show that 95.73 per cent of franchise dealers are experiencing delays caused by supply chain disruptions. This delay has resulted in consumers experiencing lengthy wait times for the delivery of a new car. The median wait time from order to delivery is now 120 days.<sup>29</sup>

Feedback from Victoria dealers regarding pre and post COVID-19 delivery times are indicated below.

**Table 2: What was your usual delivery time for these models (before COVID)?**

Period	% of respondents	Comments
0-7	21.5	52.4% 14-day delivery
8-14	30.9	
15-28	13.7	34.2% 15–60-day delivery
29-60	21.5	
61-90	12.0	12.1% 60 + days
90 PLUS	.1	
Invalid	.3	.3% invalid

**Table 3: What is your predicted delivery time for these from 19 February (post COVID)?**

Period	% of respondents	Comments
1-90 days	27.62 per cent	< 4 % were under 14 days.
91- 180 days	65.71 per cent	Ave median wait time is 120 days
6-12 months	6.67 per cent	> 660 % increase on pre COVID

## 8.2 Summary of dealer commentary for extended supply chain disruption

- 94 per cent of respondents mentioned the supply chain issue brought on by overseas factory closures, interrupted production/component supplier due to COVID-19.
- 48.5 per cent referenced the issue with semi-conductor computer chips.
- 26.7 per cent attribute delays to shipping as a result of COVID-19 (this includes factors such as quarantine issues, union-initiated strikes and freight from dock).
- 18.9 per cent said their manufacturer has not reduced targets despite the current situation.
- 14.6 per cent of dealers believe that stock is being deliberately steered away from Victoria.
- 10.3 per cent believe dealer panic and cancellation of stock has impacted supply.
- Impact of used car accessibility is driven by lack of new car availability.

### Dealer comment:

*“As an independent used car trader, we are in more debt now than we were 10 years ago, through no fault of our own whatsoever.”*

## 8.3 Explanation from participants for experienced delays

Respondents were asked: To the best of your information, why are these delays occurring?

<sup>29</sup> VACC (n 1).

A summary of responses is as follows:

1. Short sighted ordering practices – when the pandemic started – Australian-based manufacturers cancelled two months' worth of orders. The idea was to not get caught with excess stock. However – for most high-volume brands specifically – this coincided with the May/June busy period, and the run-out of several models at the same time all ran out sooner than expected, and we had no incoming stock for several months before the new models were to be launched.
2. Some factory shutdowns/slowdowns overseas, which has caused less cars to be produced.
3. Customer demand has outstripped supply.
4. Computer chip shortages, adding to production line delays.
5. Quarantine delays, too slow pipeline gaps due to closures of factories last year.
6. Most Japanese factories are having componentry issues. Working capacity in South Korea.
7. Mitsubishi Motors Japan decided to redirect most of Australia's allocation to another market for increased commercial profitability.
8. Global supply issues and with Melbourne's current lockdown, OEMs have been sending stock to other states.
9. World demand shipping times.
10. Unprecedented demand during initial COVID-19 Stage 3 lockdowns that cleared floor stock.
11. International production lines unable to maintain factory production rates due to demand, COVID-19 lockdowns, and staff shortages.
12. Lack of shipping containers for shipments to be sent to Australia and huge volume of container ships trying to dock in Australia.
13. Apparent strike by Melbourne wharf workers at the end of 2020, holding up the unloading of containers.
14. Parts delays to the manufacturers, causing the factories to prioritise supply to non-Victorian dealer to achieve maximum [profit] while drip feeding Victorian dealers resulting in undersupply and overprice.
15. Situation even worse by the auction houses are sending A grade Government & lease vehicles interstate, while online retailing substandard vehicles at way above dealership prices in Victoria.

**Dealer comments relating to Victorian supply chain issue:**

*"Manufacturers are very tight lipped. I can only assume vehicle chip issues."*

*"4-12 weeks. Unusual for a customer to wait more than 4 months, even for popular models - it got popped into the next month's production, with little trouble. We now have customers' vehicles being pushed, from one production month, to the next, and the next."*

*"While most customers do not mind some waiting, the uncertainty of what to tell them is the main issue - is it 4 months or 7 months or 10 or 12? We just can't tell them anything, at all."*

*"Factory build has always been around three months; however, you could source most vehicles from either other dealers or the manufactures pool stock."*

*"The manufactures have no stock and dealers will not swap a car without swapping one back."*

**Repairer comments relating to Victorian supply chain issue:**

*"A Jeep Cherokee involved in a collision was towed in October and required approx. \$20,000 worth of parts to repair. It took 5 months for the parts to arrive"*

*"A 2019 Chevrolet Camaro towed in in November 2020 after being involved in a collision. The vehicle is still waiting for a radiator and other parts to arrive seven months later". "Dealers cannot provide us with an ETA due to the international supply shortage".*

#### **8.4 Brands/models in delay from Victorian dealers on 19 February 2021**

The following brand/model delays were identified:

1. Kia has delivery delays to July.
2. Jeep is out of stock completely; this is not expected to ease until October.
3. Hyundai has delivery delays until June.
4. Ford has delivery delays until June.
5. Farm machinery dealers will be out of stock by end of April.
6. Dealers report an 8-month delay for Isuzu Utes.
7. GMSV Silverado extended delays.
8. Dealers advise that Mazda CX-3, CX-5, CX-8, CX-9, CX-30 Mazda 2 are experiencing delays of significance.
9. Mitsubishi with nearly every model but Triton and Pajero Sport are at the worst end.
10. VW Amarok, T-Roc, Transporter, Crafter, Tiguan extended delays.
11. Nissan Navara, Pathfinder, Patrol, X-Trail, Juke
12. Isuzu D-Max, LDV T60, G10 People Mover extended delays.
13. Suzuki Jimny, Swift, Baleno are a three month wait.
14. Range Rover Sport, Land Rover Discovery Sport, Range Rover Evoque
15. Dealers report that Toyota models are a 3-month issue.
  - i. Toyota dealers advise that Landcruiser's/Hybrids/Prado and some Hilux models could be 7-10 months.
  - ii. Toyota Corollas 5-6 months.
  - iii. Every car is to be built in forward order - current waiting times estimated a 4-10 months, depending on model.
16. Dealers advise that Subaru's that were on order, due late Feb, early march were rediverted to other states from Victoria and been advised these will come back 'down the track'.
17. Family SUV, 4x4 wagons and generally cars up to 10 years old

##### **8.4.1 Agricultural Machinery**

- Husqvarna Most products
- All Kubota models and Polaris Ranger models
- CLAAS Tractors and hay equipment, Fendt Deutz, Daedong New Holland, VALAT, Toro, dealers all recorded great demand but commented on a worrying future.
- supply chain scenario.

##### **8.4.2 Commercial Vehicles**

- Most-to all Isuzu models have been delayed,
- Dealers advise that all Iveco volume is critically low.

### 8.4.3 Motorcycles

- Most products from Suzuki
- Royal Enfield all models GT650 Interceptor 650 Classic 500 & 350
- Honda motorcycles nearly ever model we sell.
- Honda motorcycles are not allocating stock to dealers until further notice.
- Husqvarna chain saws 50% of the range now
- Yamaha, Kawasaki, Triumph stock critically low.

### 8.5 The independent used car sector

The following dealer comments were made relating the independent used car sector:

*"Used car traders rely on upwards of 90 per cent of stock acquisition from Victoria. This market, and an unrealistic price approach from private sellers, has seen the used car market for independents virtually collapse."*

*"The used car market relies on wholesale purchase from the bigger, newer dealerships to offer affordable stock for resale. Because of the lack of new cars available and the time taken to import, the dealerships are holding off on wholesale to the dealerships like myself and keeping the used cars for their own resale to fill empty yards. Therefore, pushing the price of cars up in general and making stock very hard to obtain."*

#### **Victorian Dealer comments on brand delay:**

*"All models are affected. Vehicle production supply 'pushbacks' are occurring and overall, we are not receiving enough vehicles in Australia to achieve business targets over the next few months."*

*"Forward order for April provided approx. 68% of stock required to achieve business targets."*

*"Used vehicles are difficult to stock due to the drop in new vehicle deliveries. Our used vehicle department is running at approx. 60% or what we would normally hold on a rolling basis."*

### 8.6 New fees introduced by OEMs as a result of supply chain issues

34.2 per cent of respondents said that manufacturers have increased/introduced transshipment/freight/ferry costs to their businesses over the past 6 months.

Additional fees include:

- Steel levy
- Manual release fees during lockdown
- Most models experienced a price increase
- New plant trailer prices are being increased by approx. \$1,000 and semi-trailers by approx. \$3,000-\$4,000
- Special freight fee
- Pricing vehicles by demand only
- \$1000 increase in vehicle prices and not new models, all current models
- Digital Funds Levy – New

### 8.7 Staffing issues

The following quotes were captured by dealers regarding staffing issues:

*"The lack of Stock in placing enormous pressure the bottom line. We are rotating our salespeople as with lack of stock we do not need as many Salespeople. This in turn affects the admin department and the predelivery departments."*

*"We are below 50 per cent of new car sales. With the lack of sales, we will see a reduction in service in years to come."*

*"The shortages are currently not having a great effect on our business, however if they get worse it may cause a restructure of the business, (reduce costs and staff)."*

*"These delays are impacting on our cash flow, our staff confidence and relationship with our customers as some of them do not accept the delays as being fact."*

## 8.8 Sales issues

The following quotes were captured by dealers regarding staffing issues:

*"We are losing sales because we cannot supply quick enough."*

*"We cannot sustain this type of business. We need to trade with stock to display and test drive vehicles."*

## 8.9 General stock issues

The following comments were captured by dealers regarding general stock issues:

- We are expecting stock control issues for the next 18 months.
- OEM targets do not reflect stock and days' supply.
- Some manufacturers like Hyundai and Kia have not adjusted sales targets for supply shortfalls. Our targets are heavily tied to income, but our targets are far in advance of vehicles they can supply.
- The VACC survey reported some OEMs had not authorised the use of aftermarket oil filters in the service of a consumer's vehicle and that the service for that vehicle would need to be rescheduled until an OEM supplied part was available

### Dealer comment:

*"Something needs to happen. All Subaru dealers are not being treated well at all. Problem supplying accessories and oil/air filters and we requested to use non genuine, which was rejected and told that we need to reschedule customers."*

## 8.10 The agricultural sector

The following comments were captured by dealers of agricultural products:

- Interest rates and government incentives (instant asset write-off) are all contributing to the high demand for tractors and agricultural machinery.
- Steel prices have apparently risen by around 15 per cent, which has in turn forced the manufacturer to charge us more, which in turn has increased the cost for the consumer.

### Dealer comment:

*"Our consumers are finding it hard to understand the delay and are pulling out of deals that have been on order for many months. This leaves us with refunding any deposit funds paid and with unwanted special-order stock that we cannot cancel or return."*

## 9. What can be done in Victoria?

- It is recommended that Federal Government intervene to ensure vehicle and component importers do not redirect stock away from Victoria. Employment and tax receipts are important to both the state and federal agenda.
- The Federal and State Governments must review processes related to the arrival of imported vehicles to speed the route to market. This means taxes associated with the sale of a vehicle reach the government's coffers sooner, consumers can take delivery of their car earlier and dealers and the aftermarket supply chain are paid for delivery of their product.
- Absolute protection must be afforded to machinery imported for agricultural purposes.



## 10. Opportunities for dealers

The following observations have been made in light of the evidence received:

- A small percentage of consumers have turned online during the lockdown, and much of this change is likely to be permanent. Dealers can professionalise their on-line presence and capabilities and provide consumers with real time tracking of their vehicles: from overseas production to landed time in Australia.
- Franchisors can work with dealers to ensure the business model is worked to a degree that all stakeholders are aware of their obligations.
- Dealers and franchisors can control sales funnel data and revisit retail costs. This way all parties can rapidly respond to fluctuating supply and demand by implementing a direct sales model.<sup>30</sup>

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30      Accenture, Impact on the Automotive Industry: Navigating the Human and Business Impact of COVID-19, (2020) 20.



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