

**NATIONAL MOTOR INDUSTRY
RESPONSE TO ACTU MINIMUM
WAGES CLAIM 2003**

Safety Net Review 2003

Federal Vehicle Industry Award 1982
C2002/5692

-and-

Federal Vehicle Industry Repair, Services
and Retail Award 1983
C2002/5693

Joint Submissions on behalf of:

VACC (inc TACC)
MTA NSW
MTA ACT
MTA NT
MTA QLD
MTA SA
MTA WA
SSA Ltd (NSW)

CONTENTS

MOTOR TRADE ASSOCIATIONS

SUBMISSIONS

SMALL BUSINESS EMPLOYMENT

APPENDIX 1

*HORWATH PROFIT FOCUS OVERVIEW
2002 FULL YEAR SUMMARY*

APPENDIX 2

AC NIELSEN NATIONAL SURVEY RESULTS 2003

APPENDIX 3

EFFECT OF THE DROUGHT ON RURAL MEMBERS

APPENDIX 4

*QUARTERLY ECONOMIC REPORTS
VACC, MTA SA, MTA NSW*

APPENDIX 5

1. INTRODUCTION

This joint submission made on behalf of the Motor Trades organisations in the retail automotive industry opposes the ACTU claim for a \$24.60 per week increase to award rates of pay.

This submission is made on behalf of the following Motor Trades organisations:

- Victorian Automobile Chamber of Commerce (representing Victoria and Tasmania)
- Motor Traders Association of New South Wales
- Motor Trade Association of South Australia Inc
- Motor Trades Association of Queensland
- Motor Trades Association A.C.T. Ltd
- Motor Trades Association of Northern Territory Inc
- Motor Trade Association of Western Australia Inc
- Service Station Association Ltd, (New South Wales)

The Motor Trades organisations which collectively represent in excess of 14,000 members have consistently maintained the position in past Living Wage hearings that as an industry sector made up predominantly of small business, their views should be taken into consideration by the National Wage Bench in determining claims made by the ACTU.

This view is based on the fact that the small business sector is a significant employer in Australia. Recent statistical information contained in a research note released by the Department of the

Parliamentary Library reports that small business, by employing well over three (3) million people, is the largest employer in Australia, and accounts for 47% of all private sector non agricultural employment. The Research Note also notes that employment growth in big business outpaced that of small business. Interestingly, the decline in non employing businesses and higher salaries in small business is also important to note. (Department of the Parliamentary Library, *Research Note*, No 10, 17 Sept 2002) [**Appendix 1**].

In fact, small business which accounts for 96% of all business in the private sector (excluding agriculture), plays a significant role in the Australian economy, (*Australian Bureau of Statistics (ABS) Small Business in Australia 2001, 1321.0 p.9*)

The Senate Employment, Workplace Relations and Education References Committee Inquiry into Small Business, reported from ABS statistics in February 2003, that “ employment growth in small business began to outstrip that in medium and larger size firms from the 1980’s to late 1990’s, but the pace of growth subsequently slowed” (p 4, citing ABS, *Small Business in Australia 2001, 1321.0, 2001 p13*).

The Senate Inquiry also found that business growth also directly affects employment growth. The retail motor industry also shares this characteristic of employment prospects, however, given the competitive nature of the industry, the development of big business or growth of business inevitably reduces prospects for small business in the sector.

2. PROFILE OF THE AUSTRALIAN RETAIL AUTOMOTIVE INDUSTRY

The Industry comprises car retail and wholesale, motor cycle retail, trailer and caravan dealing, new and used parts retailing and wholesale, fuel retail, automotive electrical services, smash repair, tyre retail and manufacture, automotive repair and service, small scale specialist vehicle manufacture and automotive component manufacture.

The latest figures, sourced from the ABS Business Register by the Australian Tax Office in 2001 show the Retail Motor Industry in Australia is made up of 66,214 businesses employing 285,850 employees. The following sets out a break down of these businesses, and employees in these areas:

The Retail Automotive Industry – Australia

Description	Total Locations	Total Employees	Average number of employees
Manufacture			
rubber tyre manufacture	167	3,723	22
motor vehicle body manufacture	1,607	7,796	5
automotive component manufacture	978	23,947	24
Wholesale & Parts			
car wholesale	1,338	5,225	4
commercial vehicle wholesale	246	3,309	13
motor vehicle new part dealing	3,117	27,623	9

Description	Total Locations	Total Employees	Average number of employees
motor vehicle used part dealing	2,024	3,122	2
Retail			
car retail	5,289	45,255	9
motor cycle dealing	1,338	4,715	4
trailer and caravan dealing	427	962	2
automotive fuel retailing	6,713	39,066	6
automotive electrical services	4,066	6,631	2
smash repairing	11,050	30,590	3
tyre retailing	1,748	9,849	6
automotive repair and servicing	26,106	74,037	3
TOTAL	66,214	285,850	4

Source – Australian Business Register 2001

The Industry continues to be made up of a majority of businesses, which employ between 1 to 5 employees. Data derived from a national survey conducted by AC Nielsen confirms that the retail motor industry is mainly made up of small businesses. The data shows that 83% of businesses employed between 1 to 20 employees, 49% in the 1 to 5 employee range; and with 34% falling in the 6 to 20 employee range.

[See Appendix 3 – AC Nielsen Survey Results – Metro / Non metro Business – Business Employee Structure Page 9]

Further, the AC Nielsen survey shows that of those employees employed in businesses with between 1 to 20 employees, 81% were full time employees and 89% were either covered by Federal covered or State awards. *[See Appendix 3 – AC Nielsen survey – Metro / Non Metro Business – Business Employee Structure Pages 9 & 12].*

2.1 Retail Motor Industry is Predominantly Small Business

The retail motor industry is a significant part of the small business community in Australia, accounting for at least 5.9% of the small business sector, and provider of at least 8.7% of employment.

The existence of non employing businesses is also evident in the retail motor industry, however, the number is small. Essentially, the employing businesses are those that join the relevant Motor Trade Association in the State or Territory. The members of the Motor Trade Associations make up the majority of employing businesses across Australia.

From the AC Nielsen survey results [see Appendix 3], the retail motor industry supports the findings contained in the Department of the Parliamentary Library, Research Note, that small business pay high rates of pay. In turn this characteristic explains the low growth rate in employment when these businesses are faced with additional operating costs.

Small business today represents the rare opportunity for individuals to commence self-employment and a viable career

path. The retail motor industry is an industry where commonly employees progress to set up a small business.

In the main, members of the Motor Trades organisations are businesses which are set up by individuals who entered the industry in either a trade or sales position.

Small business unlike big business more directly contributes to the local community by providing employment and through trading with other local business; this is even more so in rural communities.

The effect of the drought on farmers has consequently directly affected the farm machinery dealers and repairers by reduced demand.

Whilst Australia has a large small business community, research shows small business start-ups are expected, and in some cases encouraged despite the potential risk.

“In the year 2001, Australia remained one of the most entrepreneurial countries in the world. Nine percent of more than 2000 adults surveyed were involved in starting a business, ranking us fourth in start-up participation. We led the field of 29 countries in participation as owner-manager in new firms (i.e. firms established since 1998), with 7.2 percent of the survey population involved. When start-up and new firm participation was combined into an index of total entrepreneurial activity (the TEA index), Australia ranked third behind Mexico and New Zealand.” (K Hindle and S Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p 7).

The retail motor industry similarly represents a large portion of small business start ups, but interestingly also represents stable and long term business operations.

In September 2000, VACC commissioned the Monash University National Key Center in Industrial Relations, to assess Future Employment Arrangements and Skill Resources for the retail motor industry. The Report showed some 70.6% of businesses responding to the Reports survey had been operating for more than 10 years. In terms of structure, 62.9% businesses were registered as a company, 22.5% indicated their business was a partnership and only 2.3% operated as a franchise. In 95.9% of the businesses, the owners work in the business.

The retail motor industry also relies on the expertise of contractors due to the increasing complexity of technology in the industry. The introduction of more challenging technological advances has progressively segmented the industry. This form of segmentation has lead to the creation or diversification of niche markets. This in turn indirectly supports employment in other motor industry business operations. Some traditional businesses, such as service stations however, have reduced in numbers due to increasing multi site franchises.

2.2 Particular Economic Pressures on Sections of the Industry

The retail motor industry does not comprise of a homogenous group. The individual economic pressures on differing sections of the industry vary.

Some groups are often at the mercy of big business, which heavily controls their level of investment and expenditure. While others are affected by climate or outside competition (or atypical competitors).

Service Stations

- Oil companies continue to reduce their discretionary support of service stations and re-examine trading terms, which directly affects the operator's profitability and/or cash flow.
- Service stations are experiencing increased operating costs, through higher wage costs, and the unfair competition with alternative suppliers such as large supermarkets.
- Highly regulated and taxed by State and Federal Governments.
- The inability to pass on increases to the consumer through higher petrol prices.

Tow Truck Operators

- Towing is a highly controlled area of business with charge out rates to the consumer fixed in most States
- The direction and control of repair work of vehicles is in the hands of insurance companies, which direct towing operators to their preferred repairers.
- This means that those operators with a body repair shop does not automatically result in a body repair job.
- In some states the regulation of the industry, which most often requires licenses, also regulates the number of providers. The number of providers compete for work. The cost of the license and the maintenance of specialised equipment and vehicles means the cost of operating the business is quite high.
- Nationally, road systems and traffic management has improved which has resulted in fewer accidents on the road. Furthermore, the accidents on the road result in minor repairs to vehicles. Fortunately, this has resulted in safer road conditions, but has directly impacted on the demand for towing and body repair work.

Farm Machinery Dealers

- Climatic conditions affect the productivity of the rural sector, ultimately affecting the level of sales and repair of farm machinery equipment and parts.
- There is a tendency for competitive discounting.
- Farm Machinery dealers also compete with other sources.

Body Repairers

- For most body repairers 90% of the business relates to insurance work. Insurance companies assess the claims based on fixed labour recovery rates. The recovery rates are based on a times manual that does not allow for difficulties relating to the extent of body damage. It is important to note that the fixed recovery rates paid by insurance companies to body repairers to repair vehicles has not increased for more than twelve years. In addition, insurance companies neglect to take into account GST costs on increasing paint prices.
- The trend of insurance companies is also to under assess the labour and time content of the repair job. Consequently, insurance companies control the price and direction of work.

- Parts and material on costs are also subject to insurance company review, which further restricts profit recovery.
- Body repairers compete with back yarders for non insurance work. This practice results in competitive discounting.

Independent Tyre Retailers

- Lean profit margins in this sector are due to the highly competitive nature of the industry. Tyre dealers are pressured to improve their marketing techniques and become part of chains or large buying groups in order to compete with other sections of the motor industry.
- The tyre market share is divided between the individual operator, large tyre dealer chains, manufacturers and those expanding their specialist service such as new car dealerships. This competition for market share leaves lean profits, as consumers are price driven.
- The margin of profit on the price in tyres has reduced over the last 15 years. In contrast, operating costs for dealers have increased (which has been exacerbated by costs associated with the disposal of waste tyres) and the majority of dealers are just able to sustain current employee levels.

New Car Dealers

- Dealer profitability has been declining due to increasing taxes and charges by governments and the imposition of costs by manufacturers through manufacturer policies on pricing, marketing strategies and competitive direct selling.
- The high cost of keeping up with technological change in motor vehicles and resultant information technology requirements.
- The small car market has the lowest profits. This market continues to place additional pressure on all franchises. Consequently, all dealerships are reviewing costs.
- Volume sales have not always maximised profit, the low profile departments of the dealership such as parts, finance and insurance has subsidised profit levels.
- The proliferation of new vehicle models have entered the already crowded sales market. Motor vehicle sales for 2002 have been strong, however, net profit on sale of vehicles is low and often at a loss. Parts and service departments within dealerships offset the loss from vehicle sales. [See *Horwath Profit Focus Overview 2002, Full Year summary- Appendix 2*]

Used Car Traders

- New small vehicles and cheap Korean imports are competitively priced, including a three year warranty, a high level of standard specification and latest technology, which makes the used car uncompetitive in price and features.
- High volume of private sales, which do not offer consumer protection or statutory obligations places undue advantage over the dealers.
- The Used Vehicle business level of profitability is often in a loss position, similar to New Vehicle Sales, although somewhat at a better position. [See *Horwath Profit Focus Overview 2002, Full Year summary- Appendix 2*]

3. THE ACTU CLAIM

In seeking to justify a \$24.60 increase for award employees, the ACTU has claimed that general economic conditions, notwithstanding the effect of the drought in rural areas, can support an increase of this magnitude for award workers who are generally categorised as, “ *only workers who are generally in jobs which pay less, are more likely to be casual or temporary, and more likely to be lower paid*”, (para 8.5 of page 135 of ACTU Written Submission).

The joint submission presented by the Motor Trades Organisations will highlight a number of aspects of general economic conditions in the Industry to support the submission that the claim is excessive.

The submissions will focus on the following areas:

1. The results of a survey conducted by AC Nielsen.

The survey was conducted on a national basis by a telephone poll of a random representative sample of members across all Motor Trade Associations. The survey achieved an overall response rate of 84.4%. The survey includes findings on the total number of employees, employment status, award or agreement coverage, current business performance, payment on the award rate and over the award rate, the extent of overaward payment, absorption of previous National Wage increases and the effect of the wage increase on business factors.

Full commentary on the results of the national survey, is provided in each of the areas presented by the survey in **Appendix 3**.

2. The Effect Of the Drought On Members In Rural Areas.

The drought has affected many regions across Australia. As at 27 February 2003, 23 locations and regions have been declared as “Exceptional Circumstances” areas and have been granted drought relief assistance.

It is generally recognised that the effects of the drought will continue to have an adverse affect on the state of the economy. The effects of the drought pose potentially significant problems for people in rural communities generally. Rural communities rely heavily on the purchasing power of farmers. The agriculture and commodities forecaster, ABARE, predicts the drought will reduce economic growth by close to 6 million in 2002/2003, [**extract attached - Appendix 4**].

New South Wales is experiencing, in many areas, the worst drought on record. Australia has harvested its worst winter grains crop in two decades with NSW being the worst State affected (crop down 77%). Drought has resulted in a significant reduction (18%) in the rural industry labour market in NSW.

Unemployment in rural communities flows into other sectors. Businesses that service these communities are also facing a downturn in sales and profit. Motor dealers, farm machinery and equipment dealers, repairers and other suppliers in the retail

automotive industry will be affected. Any respite from these depressed conditions in rural areas arising principally from the drought will not be forthcoming until well after the winter crops have been harvested, (if there are crops to harvest) in October/November 2003.

Parts of Victoria are experiencing similar problems to NSW. The effect of the drought on the farming sector has also adversely affected VACC members in parts of the rural community. One of the hardest hit by the drought is a farm machinery dealer.

The ARM Machinery Dealers Association, and the VACC both presented submissions to the Federal Government in December 2002 seeking drought relief packages for farm machinery dealers. One of the biggest problems facing the farm machinery sector is the loss of specialised staff as a result of cash flow problems due to the lack of demand for services from farmers.

Once employees leave, they rarely return to the area. Retention of staff is a vital ingredient to maintaining the staff necessary to service the farming sector and the viability of these businesses.

3. Summary of Quarterly Economics Surveys

As a supplement to this submission, reports of the Automotive Industry Economic Survey (AIES) have been included. The survey is undertaken by the VACC and some of the MTAs, namely New South Wales and South Australia, on a quarterly basis.

The surveys collect information from members on the perceptions, performance and expectations of the retail automotive industry, national economy and the state economy. In addition, the survey provides information about business conditions for members, including profitability, sales revenue, level of economic activity, wage costs, employment levels, and capital expenditure.

The AIES is a voluntary survey of VACC and MTA members. The survey is a vehicle by which the business and economic conditions experienced by members can be gauged, and as a means of highlighting the major issues of concern to the membership. The advantage of the AIES is that it provides both quantitative and qualitative data, and provides an insight into the economic and business expectations of members.

The questionnaire is tailored to the needs and issues confronting small business, rather than the priorities of Government and the public service. The use of AIES data facilitates more proactive and better targeted policy development and service delivery by the VACC and MTAs for their members.

Whilst AIES data shows that there are many businesses experiencing an improvement in business conditions, other businesses in both Victoria and NSW reported a decline in reported business conditions over the past twelve months.

At present, members are pessimistic about business conditions. This is a concern for members given that the Australian economy

has experienced moderate to strong economic growth and low levels of inflation for a number of years.

‘Businesses are overwhelmingly pessimistic about the performance of the retail automotive industry in the coming twelve months (for example, the net balance for VACC members is – 23%). Analysis of VACC AIES data for December Quarter 2002 shows that non-metropolitan members are the most pessimistic about the performance of the industry sector in 2003, with some 45% forecasting a weaker industry sector. The drought and the corresponding fall in income in the farming sector is hurting rural members in particular. The drought escalated in severity over 2002, and the Retail Automotive Industry will largely feel its impact throughout 2003.’

Profitability in the Retail Automotive Industry in the December Quarter 2002 was very low, with large negative net balances recorded. This is consistent with long-term trends within the industry. According to the survey respondents, profitability has declined markedly in the past twelve months. Factors such as lack of orders and demand, taxes and charges, climatic conditions, competitive discounting, labour costs, and shortage of skilled and suitable labour continue to hinder business performance.

In summary, rural businesses are adversely affected by the drought, with the prospect that the full effect of the drought is yet to be felt.

VACC, MTA SA and NSW conduct quarterly economic surveys of their members to maintain an up to date review of conditions in the industry, and the views of members on their perceptions on the state of the retail motor industry both over previous quarters and the next year. [See full reports- Appendix 5]

4. CONCLUDING COMMENTS

The small business community is the largest employer in Australia. The retail motor industry is predominantly made up of small business employers and is a major contributor to Australia's economy. The retail motor industry relies mainly on either federal or state awards, however, tends to pay over award rates of pay.

This characteristic is common regardless whether the business operates in metro or non metro areas. Use of Australian Workplace Agreements or Enterprise Bargaining Agreements are uncommon.

The retail motor industry is made up of a diverse group, with sectors of the industry directly affected by large business or climatic/ local conditions. Most of the retail motor industry is unable to pass on to the consumer through price increases, any increase to operating costs.

Levels of profitability and capital investment have been low in the industry despite some sections of the industry reporting that currently they are performing well. A significant number of members do not report their business performance to be good.

More importantly, business conditions have declined and members remain pessimistic about the performance of the industry in the coming twelve months.

Labour and skilled labour shortages place added pressure on employers to maintain high over award rates of pay and to pass on any award wage increases granted by the Australian Industrial Relations Commission.

The effect of drought conditions will merely exacerbate this pressure on some sections of the industry. In rural communities, failure to pass on any increases will risk the loss of labour which is difficult to replace.

Evidence shows that additional operating costs are traditionally absorbed by the business, resulting in reduced cash flow and profitability.

Although nationally the economy has been performing well and motor vehicle sales for 2002 have finished at a record high with forecasts for another strong year of sales in 2003, a closer look at the motor vehicle sales area reveals another story.

The 2002 year saw a record number of new vehicle releases in an already crowded market. The average dealer only made between 1.1 and 1.4% net profit on dealership sales. The average dealer shows a net loss overall. Record sales do not translate into record profit.

The 2003 year is yet to see the full impact of the drought. Employers in the retail motor industry will also realise the full impact during 2003.

The retail motor industry rejects the ACTU wage claim for a \$24.60 weekly award wage adjustment.