

# **1 Futures Report – Executive Summary**

## **1.1 The purpose of this report**

The purpose of this Report is to provide Automotive Training Australia (ATA) with an overview of the future direction in the Retail, Service & Repair (RS&R) sector that covers changes in customer service, customer focus, technology, work practices and the impact of environmental considerations which will be capable of interpretation and translation to training needs.

The Report has been produced to assist ATA in meeting one of the conditions of endorsement of its current training packages, which requires the training package be reviewed after 18 months and is redeveloped and accredited three years after initial endorsement.

## **1.2 The approach to the study ...**

The Study Brief provided by ATA required the following constructs to be examined under the Study, namely:

- customer service and focus;
- technology;
- work practices; and
- the impact of environmental considerations.

Definitions of these constructs can be found in Part 3 of this Report.

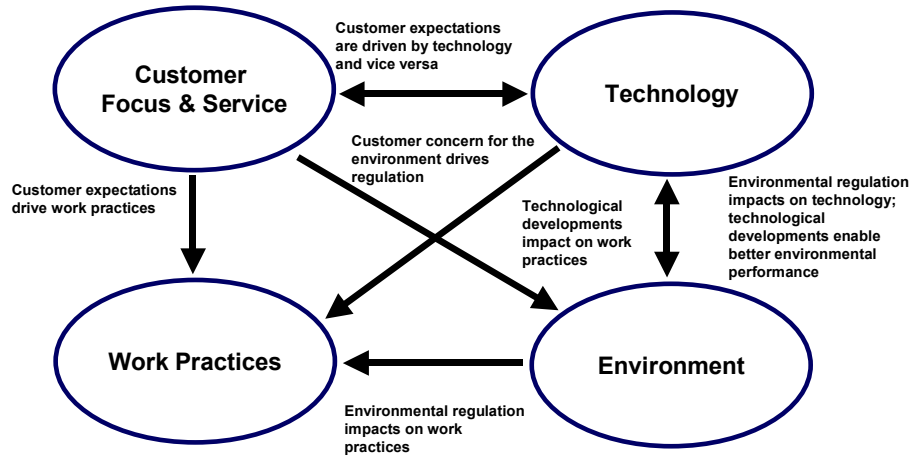
This examination was carried out using a combination of desk research and interviews.

Information and views gathered in a workshop held with the Board of ATA on 23 August 2001 have also been used in completing the Study.

## **1.3 The “four constructs” are inextricably linked**

The four constructs examined in this report are inextricably linked. As an example, customer expectations drive work practices, technology and environmental regulation. Customer expectations are driven by technological developments in the vehicle, as are work practices. This interaction is shown in Figure 1 following.

Fig1: The interaction of the Four Constructs



These links need to be recognised in the interpretation of the information provided in this Report.

Despite the importance of these links, in preparing this Executive Summary, it has been decided to focus initially on Customer Service.

#### 1.4 The services offered by the RS&R sector will be driven by increasing customer expectations

This conclusion was drawn by participants in the 23 August Workshop and confirmed by desk research and interviews. It could be said that customers want what they have always wanted - a high level of workmanship from skilled technicians performed at a convenient location. It could also be said that customers will continue to be loyal to a particular service provider until either a perceived overcharging or poor service from staff abuses their trust.

However, it would seem that two factors have combined to drive customer expectations to a higher level:

- the improved quality of vehicles; and
- a greater awareness by consumers of their rights.

Additional factors driving this increased level of expectation include:

- a greater level of competition within the RS&R sector generally;
- a greater level of competition for discretionary income (particularly important at the accessory retail end);

- an expectation that repairs will be done in the minimum of time (especially important in the body repair segment of the RS&R sector);
- the wider range of consumer choice, particularly in the new car sales segment of the RS&R sector;
- a general trend to expect more from service providers and retailers; and
- the increased availability of information via the Internet and other means, resulting in a better-informed consumer.

This latter point has led to a greater level of focus on customer expectations by the vehicle manufacturers, which drives a greater level of expectation of the automotive industry, including the RS&R sector generally.

## **1.5 How will services be offered to customers**

### **1.5.1 Internet & e-commerce**

It is anticipated that, over the next five years, more use will be made of the Internet and e-commerce to make contact with customers. However, it is unlikely that the volume of B2C (Business to Consumer) transactions effected using the Internet or e-commerce will increase.

Overseas, large and increasing numbers of customers are using the Internet to ascertain dealer costs and MSRPs (manufacturer suggested retail prices) for various vehicles and options. Customers come to the dealer armed with a wealth of data and can negotiate with the sales person more effectively than in the past. In addition greater numbers of buyers are entering dealerships already “pre-sold” on a particular vehicle and set of options.

In Australia, we have not been as quick to embrace the Internet for transacting business as (for example) our American counterparts. We are, however, using the Internet in increasing numbers. This has created a more informed customer with higher expectations and increased options.

Notwithstanding this apparent reluctance by Australians to embrace B2C via the Internet, RS&R participants will need to be e-commerce capable because of the increasing use of the Internet as a B2B (Business to Business) medium.

### **1.5.2 There is still a strong emphasis on face to face contact**

The primary means of customer contact will be face to face. The nature of that contact may change. As noted above, the Internet has created a more informed customer. As a result it is felt that the sales persons role will change in the future to acting more as a purchase advisor in the sales process and as a consultant for the customer. The changed role will also involve the salesperson being a product expert and relationship manager.

Some overseas research has indicated that face-to-face contact may not be as important to those now aged between 16 and 22. This research describes them as completely “internalising” use of the Internet. Older customers adopt it as a means of using a “new way to do old things”. For these young customers the internalisation of the Internet makes them see information as ubiquitous and building trust as not requiring face-to-face interaction. Marketing to these potential customers will demand more of an electronic interface.

### 1.5.3 B2B e-commerce will increase

Two examples of B2B e-commerce were highlighted by the interviews:

- on-line assessment of vehicle damage – vehicle insurer NRMA has introduced an on-line damage assessment process using a combination of digital camera technology and the internet; and
- on-line warranty repair assistance – component producer Air International is developing an Internet based diagnostic and repair process to assist dealer service departments in rectifying Air International components fitted to locally made vehicles.

These examples, together with developments such as on line catalogues, indicate that B2B e-commerce will increase.

Other studies indicate independent RS&R participants have weaknesses arising from:

- limited use of information systems;
- difficulties in making time for training
- “trial and error” time; and
- access to information.

These weaknesses could be addressed through increased use of the Internet. The Internet is increasingly being used for self-paced training delivery. “Trial and error time” could be reduced through the use of on-line assistance.

### 1.5.4 Structural issues

The structure of the RS&R sector is changing as a result of:

- an increased focus on the “S&R” elements of the after sales value chain by the vehicle makers and the component producers – the vehicle makers focus has resulted in the acquisition or establishment of “fast fit” service networks, wrecking yards and panel shops;
- component producers developing accreditation programs and providing support through “soft franchise” or support network arrangements; and
- parts wholesalers working to group repairers together to drive theirs and the repairers growth through mechanisms such as accreditation and loyalty programs.

There is a dichotomy of views as to what this will mean for the independent RS&R participant. These range from “working in a small business is becoming increasingly difficult” to “do not underestimate the independents – they are not going to go away”.

In Part 5 of the report, perceived “pluses” and “minuses” of the independent RS&R participants are examined. Alignment with a “soft franchise” or support network may assist the independent to overcome the minuses while retaining the pluses, and allow the supporting wholesaler or component producer to take advantage of the pluses. In particular, if the partner in such an alignment provides IT support, the alignment will enable the independent to overcome the weaknesses referred to 1.5.3 above.

## 1.6 Technology

The following significant trends in automotive technology were identified:

- mechatronics;
- recyclability;
- systems and module supply;
- development of alternative energy sources; and
- the development of the intelligent car.

These are examined in detail in Part 6 of this Report.

The following conclusions have been drawn:

- a reasonable length of time will elapse before current developments in mechatronics will be seen in vehicles serviced by the non-dealer participants in the RS&R sector;
- the adoption of the sub assembly and modular supply mode of vehicle manufacture will require the RS&R sector to understand the “theoretical underpinnings” of the way modules interface with each other and software and software protocols;
- there may also be a change in the way in which the RS&R sector obtains the knowledge to effect service and repairs - for example, it may be necessary to subscribe to a number of warranty repair assistance intranets;
- Alternative fuel sources will have minimal impact on the RS&R sector:
  - sales of hybrid powered vehicles in Australia will be limited (perhaps up to 1,200 per year) and will be serviced by specially designated dealers within the manufacturers network;
  - difficulties with the storage and delivery of hydrogen will preclude its widespread use in the near future; and
  - there may be increased sales of diesel passenger vehicles as the disadvantages of diesel engines are overcome and diesel fuel quality, pricing and taxation issues are addressed.
- some elements of telematics will come to Australia and the RS&R sector will be required to meet customers’ expectations in dealing with the technology.

## **1.7 Work practices**

### **1.7.1 Customer service is likely to have the most significant impact on work practices.**

Comments made in the interviews in response to the question:

*“Which do you think will have the greater impact on work practices in the RS&R sector – customer service and expectations or technological change”*

indicate that customer service expectations are expected to have more of an effect on work practices in the sector than technological change.

Without wishing to imply that the RS&R sector does not presently meet customer expectations, the sector needs to recognise that customers are expecting more from all of their service providers (not just in the automotive sector). It may be necessary to:

- in the case of larger organizations, separate (or maintain the separation) of the customer facing personnel and the technical staff, and ensure the former are properly equipped and trained to deal with the increased level of expectation; and
- in the case of smaller organisations, ensure that the proprietor and staff are properly equipped and trained to deal with the increased level of expectation.

### **1.7.2 The impact of technology on work practices**

The developments in electronics or mechatronics and the move to sub assembly or modules in the manufacture of vehicles has led to a move from repairable to replacement parts. Component producers do not manufacture for serviceability. Any component that fails while in service (or is alleged to have failed) is merely returned for testing and destroyed.

This has led to an increased use of diagnostic equipment, a trend that is likely to continue. Because of the quality of electronics in vehicles and the general reliability of vehicles, up to 70% of work that is done will be routine servicing. There will be a greater emphasis on equipment-assisted diagnostics that will lead to the need for different skills. A select group of better-trained technicians will provide both diagnostic and rectification services.

### **1.7.3 Classification of employment**

Interviewees were asked:

*“Do you think the classification of employment in the RS&R sector into the following categories – administration, electrical, mechanical, sales and vehicle body - will be valid in five years time?”*

Most responses focused on the electrical and mechanical categories, noting:

- there will some blurring or merging in these areas;
- we will not be able to separate these categories
- electrical and mechanical will merge; and
- the move will be to electrical.

Based on the developments in electronics covered in Part 6 of this Report, the comments would seem reasonable.

## **1.8 Environmental considerations**

This part of the study looked at environmental considerations, including those expressed by the community and the way in which regulators are reacting to those concerns. The study focused on:

- how those concerns might manifest themselves by way of regulation;
- greener ways of getting around such as alternative fuels or hybrid or lighter vehicles; and
- the recycling of materials and components used in the production and operation of vehicles.

### **1.8.1 Regulation**

#### **1.8.1.1 *A change to economic instruments***

There will be a change from “command and control” style of regulation to “economic instruments” such as:

- charges, fees or taxes;
- tradable permits;
- deposit refund schemes; and
- subsidies.

#### **1.8.1.2 *The Federal government’s approach***

The Federal Government announced its Automotive Industry Environmental Strategy in 1997 and has implemented two pieces of legislation to give effect to that strategy:

- the National Fuel Quality Standards Act, which has as its objectives:
  - the reduction of the level of pollutants and emissions arising from the use of fuel that may cause environmental and health problems;
  - facilitation of the adoption of better engine technology and emission control technology; and
  - the more effective operation of engines; and
- the Product Stewardship (Oil) Act of 2001 (PSOA), which has as its objectives:
  - to develop a Product Stewardship arrangement for waste oil;
  - to ensure the environmentally sustainable management, refining and re-use of waste oil; and
  - to support economic recycling options for waste oil.

This latter piece of legislation may point to the style of regulation preferred by the Government. It falls into the category of an “economic instrument”, imposing a levy on oil producers and importers and rewarding producers who manufacture product from reclaimed oil.

A recent report on waste tyres suggests (amongst other options) a similar approach to this environmental issue.

### **1.8.1.3 *The implications for the RS&R sector***

The move to the use of “economic instruments” to give effect to environmental legislation:

- will result in the RS&R sector becoming “agents” of the producer of oils, other consumables and ultimately the motor vehicle in the recovery of product;
- may result in an additional administrative burden for the RS&R participant;
- will require the RS&R participant to gain an understanding of the impact of changed fuel standards on vehicle performance; and
- may provide additional opportunities for the RS&R participant to derive income from the recycling of product.

## **1.8.2 Greener ways of getting around**

Overseas research and the interviews indicate that

- it is unlikely fuel cell or hydrogen powered vehicles would be introduced to the Australian market within the ten year time frame - difficulties with establishing the support infrastructure for hydrogen were referred to by all interviewees;
- hybrid vehicles would be more accepted in the market but only if the “price/amenity” ratio could be addressed - that is, vehicle purchasers get a lot more for their money in terms of accessories, power, etc. in conventional vehicles than they get in the current hybrid offerings; and
- the use of diesel vehicles might increase, subject to the Fuel Quality Standards Act improving the quality of diesel fuel offered in Australia and the tax regime being amended to reduce the price of diesel.

It has been concluded that the RS&R sector will not be significantly affected by the introduction of alternative power sources in the short to medium term.

## **1.8.3 Recycling and re-use of parts**

### **1.8.3.1 *European initiatives***

The European Commission as part of its Priority Waste Streams Programme has launched a transnational car recycling strategy aimed in the short-term at the re-utilisation of materials, although emphasis will shift more to the development of ‘recyclable’ vehicles in the longer-term.

The aim of the programme is to bring together Government, industry and environmental interests so that a consensus may be reached on future action.

Without providing subsidies or infringing on competition, the strategy targets a 95% recovery rate for vehicle materials by the year 2015.

While it is generally held that any such strategy will require vehicle manufacturers to have a degree of “cradle to grave” responsibility for their product, it is probable that part of the responsibility will devolve to the RS&R sector.

### ***1.8.3.2 Vehicle makers are driving re-use of parts***

One of the drivers of an increased level of re-use of parts has been carmaker activity in this area, with Ford being the most prominent. It has acquired approximately 25 salvage yards throughout the USA to disassemble cars and trucks for parts and as an outlet for parts from its US plants.

Similar activities have been conducted in Australia.

### ***1.8.3.3 Issues to be faced***

The issues involved in the re-use of parts include:

- warranty provisions;
- terms & conditions of sale;
- part quality and descriptions;
- stock inventory management;
- delivery service;
- staff training;
- safety requirements; and
- environmental procedures including total vehicle fluid management.

These issues need to be taken into account by any RS&R participants considering involvement in the recovery or re-use of recycled parts.

## **1.9 An interpretation of the Report**

While not strictly required under the terms of reference for the Study, the following interpretation of the training needs indicated by the Study is provided for the reader.

### **1.9.1 Customer service & focus**

There seems to be the need for a greater emphasis on customer service training.

While the Internet has yet to be accepted as a B2C tool, developments in the B2B area indicate the need for training in the business applications of the Internet and e-commerce generally.

## **1.9.2 Technology**

### *The impact of mechatronics and telematics*

The enabling technologies for the Intelligent Car – the next stage of mechatronics and telematics – will find their way into the Australian car park over the next five to ten years. In the short term, this development will have a greater impact on the dealer participants of the RS&R sector than the non-dealer participants. The latter will receive necessary training in the retailing, service and repair of parts and vehicles using these technologies from their vehicle maker franchisers. Training will need to be developed for non-dealer participants to prepare them for mechatronics and telematics.

### *Diagnostics*

Training will need to focus more on the use of diagnostic equipment. The training should reflect that up to 70% of the work carried out in the S&R areas would be routine servicing, with rectification work being carried out by employees with a higher level of training, (provided or approved by the vehicle maker).

## **1.9.3 Work practices**

### *Mechanical and electrical*

These employment categories will merge as a result of the increase in mechatronics.

### *Customer expectations*

These are seen as the driver of work practices. Training will need to reflect these expectations.

## **1.9.4 Environmental considerations**

### *Regulation*

Monitor regulation and provide training in the interpretation and application of regulation.

### *Re-use of parts*

Provide training in the removal of re-usable parts to ensure awareness of the issues detailed in 1.8.3.3 above.