June 2019

IBISWorld
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Break Down: Changing Consumer Preferences Have Hurt Car Dealers

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Car and motorcycle dealers have struggled as consumer preferences have shifted towards cheaper and more fuel-efficient vehicles

> Motor vehicle dealers have focused on acquisitions to retain or increase their market share

Increasing demand for cheaper and more fuel-efficient vehicles has affected both the Motor Vehicle Dealers industry and the Motorcycle Dealers industry over the past five years. High fuel prices at the start of the period encouraged consumers to opt for more fuel-efficient forms of transport, which promoted sales of smaller and fuel-efficient cars and motorcycles. Although fuel prices have subsequently fallen considerably, firms in both industries have struggled in a volatile operating environment. Weak discretionary income growth and volatile consumer sentiment over the past five years have encouraged many consumers to reduce their expenditure on non-essential items, such as new cars and motorcycles. As a result, consumers have increasingly favoured smaller, fuel-efficient cars and compact SUVs, which are typically cheaper to operate and maintain than larger motor vehicles. Similarly, consumers have increasingly opted for cheaper, used motorcycles over new motorcycles over the period. This shift in consumer preferences has led to a decline in the average revenue per vehicle sold over the past five years.

Greater price competition, a decline in per-unit revenue and weak discretionary income growth have constrained the pace of expansion for both industries over the past five years. Overall, revenue for the Motor Vehicle Dealers industry is expected to decline at an annualised 0.9% over the five years through 2018-19, to $60.2 billion. A fall in new passenger motor vehicle sales, a rise in concerns regarding the slowing housing market, weak inflation and tighter lending practices have all negatively affected motor vehicle dealers over the past five years. Similarly, revenue for the Motorcycle Dealers industry is anticipated to decline at an annualised 2.4% over the five years through 2018-19, to $1.6 billion.

Operators in the Motor Vehicle Dealers industry have focused on acquisitions to retain or increase their market share over the past five years. These acquisitions have helped car dealerships to achieve the economies of scale that allow them to sell motor vehicles at lower prices. The many acquisitions that have taken place have contributed to industry enterprise numbers declining over the past five years, although the revenue generated per enterprise has increased. Conversely, the Motorcycle Dealers industry is highly fragmented, with many firms operating as small, independent motorcycle dealerships. Many motorcycle dealers have a strong local presence, meaning that smaller establishments can survive and operate effectively in their geographic regions. Popular motorcycle brands such as Yamaha, Suzuki, Honda, Kawasaki and BMW dominate the market, but operate as manufacturers and wholesalers, rather than retailers.

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Motorcycle dealers purchase new and used motorcycles, ATVs and motor scooters from these companies and from trade-ins, and then resell these products to consumers.

Both the Motor Vehicle Dealers industry and the Motorcycle Dealers industry are projected to return to revenue growth over the next five years due to rising sales and improved trading conditions. Firms in the Motor Vehicle Dealers industry are forecast to continue restructuring their product offerings over the period in line with shifting consumer preferences. In particular, car dealerships are anticipated to stock more fuel-efficient vehicles over the next five years, with electric and hybrid vehicle sales likely to rise as fuel economy and electric vehicle technology continue to improve. Furthermore, the federal and state governments are projected to increase their investment in public transport systems over the period in response to Australia's growing urban population. The improving affordability and accessibility of public transportation has the potential to limit demand for new and used cars and motorcycles over the next five years.

Related industries:
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Motorcycle Dealers