

TURNING LEMONS INTO LEMONADE

Consumer experiences in
the new car market



15 March 2016

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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KEY RESULTS

Everyone has heard horror stories about lemon cars – brand new cars that turn out to be duds, leaving consumers with a tough battle ahead if they want a repair or replacement. But how common are lemon cars, really? And are our existing consumer protection laws working to help consumers get refunds on their dodgy cars, or do we need specific lemon laws?

- Two thirds of new car owners face problems:¹
 - 14% of respondents faced major problems.
 - 21% of respondents had a series of different problems.

CHOICE sought to answer these questions by conducting research into the prevalence of lemon cars and consumers' experiences in getting problems fixed. We hope that this research will be a valuable resource for all stakeholders involved in the upcoming review of the Australian Consumer Law, particularly when considering whether our current law is fit for purpose or whether lemon laws are necessary.

15%
of people weren't able to get their car fixed.²

Our research reveals that an enormous number of brand new cars are not up to scratch. Two thirds of all new car buyers, or 66%, reported that their cars experienced problems in the first five years. If you buy an expensive new product like a car, you should confidently expect it will work. CHOICE is unaware of any other type of product where it is sensible for consumers to expect problems in the first few years.

- It costs consumers an average of \$1295 and 31 hours to fix problems with new cars.³

On the plus side, the majority of car issues were minor, involving in-car technology, batteries, electronics and interiors.

Fourteen percent of new car owners faced major problems that either caused the car to stop working or seriously impaired the operation of the car.

16% of new car owners with problems were asked to sign confidentiality agreements in order to receive a repair or refund.⁴

Most people took action when something went wrong with their car and most were able to get replacements, refunds or repairs where needed. Getting these resolutions was not an easy process. Consumers said they found it difficult to convince dealers to acknowledge that there is a problem with

68% of new Holden owners experienced problems but no make of car had a problem rate below 44%.⁵

their new cars. Some reported that dealers appeared to deliberately avoid acknowledging problems existed until after dealer warranty periods expired.

Consumers are spending \$1295 on average to fix problems with their cars that should be covered by the Australian Consumer Law. This cost includes time spent seeking remedies, an average 31 hours. New cars should work; there shouldn't be a \$1295 lemon fee assigned to the majority of new car owners.



A surprising proportion of consumers are also being made to sign non-disclosure agreements in order to get their car fixed. These agreements prevent them from discussing the problem with the media, consumer regulators, advocates, and other consumers. In at least one case uncovered in our research, the agreement sought to stop the consumer from seeking third-party repairs in the future. A staggering 16% of consumers who had problems with their new cars reported being asked to sign one of these agreements in order to access a repair or replacement.

In addition to the resolution process being slow, expensive and frustrating, 15% of survey respondents who tried to resolve a problem or problems with their new car

➤ Approximately 10% of consumers who contact CHOICE's dispute resolution service are seeking help with a car-related problem.

were unable to do so. The consumer guarantees under Australian Consumer Law mean consumers should be able to get remedies. It appears that consumers need assistance to be able to confidently assert their rights, and the law needs to be enforced on their behalf.

1. How big is the problem?

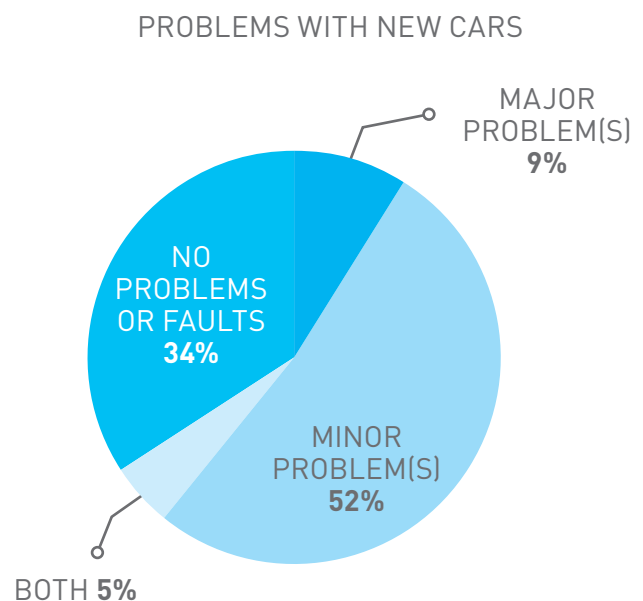
A massive two thirds of consumers who purchased new cars in the last five years experienced problems. New cars are expensive purchases; it is shocking to see that most consumers buying new cars should expect problems in the first five years of ownership.

Most had minor problems – things not working or not up to standard, but that didn't prevent use of a car. Still, 14% or nearly three in 20 consumers experienced major issues with their brand new cars. These were problems that either seriously impaired the car's operation, or rendered it unusable.

66% of new car buyers faced problems with their new cars in the first five years of owning them.⁶

- Half (52%) of all new car buyers experienced minor problems.
- 14% faced a major problem (one that either seriously impaired the car's operation or outright stopped it working) or a combination of major and minor problems.

The likelihood of getting a dud car varies by brand, with some presenting a two in three chance that you will be going back to your dealer with problems to resolve in the first five years of ownership.



Base: n=1,505 car owners who answered the survey.
Q: Have you experienced any of the following types of problems with your new car in the last four years?⁷

Problems under warranty

Three quarters of new cars with problems were still fully covered by a warranty. Buying from a dealer is the best way for consumers to make sure they're fully covered, as cars bought from manufacturers, through private sale and at auction were more likely to only be partly covered by warranty.

73% of new cars that faced a problem in the last five years were fully covered by a warranty.⁸

- 11% were partly covered by a warranty.
- 11% were not covered by a warranty.



The worst and best cars

Holden is the brand of choice for Australians buying new cars – but it's also the car brand with the highest proportion of consumers reporting problems. The incidence of problems with Holdens is significantly higher than it is for Toyota and Mazda, the two other most popular brands.

- The majority of Holden new car owners (68%) reported problems.¹⁰
- Ford owners were the next highest group (65%) to report problems with their cars.
- Toyota (50%) and Mazda (44%) are doing much better than Holden, and better than the overall average.

Car brand	Number of respondents who bought in last 4 years	Number of respondents who faced a problem	Percentage who faced a problem
Holden	199	136	68%
Toyota	197	98	50%
Mazda	187	83	44%
Hyundai	168	102	61%
Ford	158	102	65%
Mitsubishi	110	60	55%
Nissan	104	63	61%
Honda	87	43	49%
Volkswagen	70	43	61%
Subaru	59	31	53%
Kia	57	31	54%
BMW	51	29	57%
Suzuki	47	24	51%
Jeep	46	28	61%
Audi	42	26	62%

Wheeling and dealing

By and large, consumers trust car dealerships, but there is an element of doubt – some consumers believe severe issues might need to be resolved by both consumer protection agencies and dealers or manufacturers. Almost a quarter of consumers who experienced no problems with their cars were unsure whether or not the seller of a new car would provide a remedy if something went wrong.

95%

of respondents bought at least one new car from a dealer.

- Only 8% overall bought at least one new car from a manufacturer.
- 12% of NSW respondents purchased from the manufacturer.

➤ Among the group who had no problems with their new cars, 62% trust that their dealer would voluntarily provide them with a remedy if they faced a major problem.

The vast majority of new car buyers purchase their car through a dealership. A small number of consumers opted to buy from the manufacturer – a much more popular choice for consumers in NSW than any other state or territory.

Consumers who have yet to experience any problems believe that dealers will do the right thing if problems arise. Most of the comparatively small group of new car buyers who have had problem-free cars believe that if their car stopped functioning, their dealer would provide them with a remedy voluntarily.

22% of new car buyers who have faced no problems with their cars are unsure whether or not the seller would provide a remedy if something went wrong.¹¹



2. What sort of problems do consumers have?

In-car technology is the feature most likely to cause problems for consumers, including major problems that prevent the car from working. Other problems consumers are likely to experience include issues with car batteries and electrical components, and with car interiors.

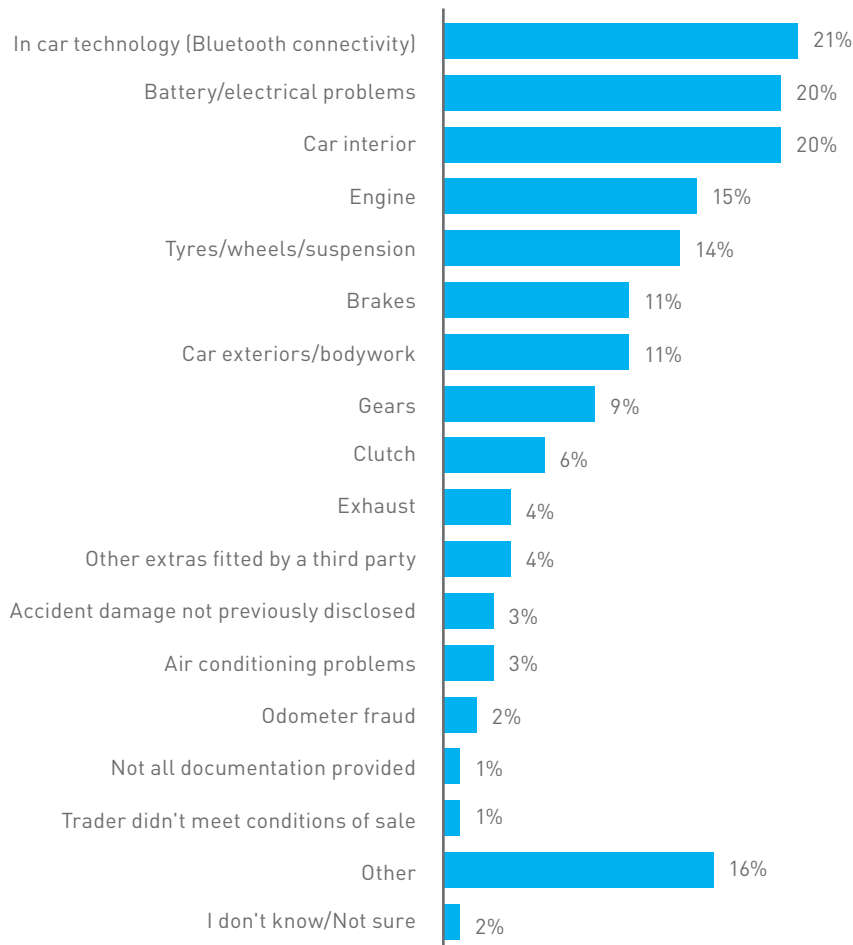
21% of new car buyers had experienced problems with in-car technology (e.g. Bluetooth connectivity, navigation, parking assist).

Outright fraud and deception by salespeople was an issue for a very small percentage of new car buyers. As discussed above, consumers trust car dealers to do the right thing – at least in relation to fraud, this trust is well placed. Problems with the actual components of the car were far more prevalent.

➤ The next most common issues were battery/electrical problems (20%) and car interiors (20%).

➤ Least common issues included odometer fraud (2%) and failure to disclose previous accident damage (3%) or provide all documentation (1%).

PROBLEM AREAS IN NEW CARS



3. Are problems being fixed?

This survey looked at consumers who have purchased new cars in the last five years. Consequently, a large proportion of consumers who dealt with problems with their new cars found that they were covered by the standard three-year/100,000km warranty.

Overall, the majority of consumers were able to resolve their problems. More than half of car owners with issues had their car adequately repaired, and one in five people were provided with a replacement. However, a significant number of consumers received no remedy at all, with women more likely to be denied a resolution to their problem. Given that some or all warranties, extended warranties or the Australian Consumer Law guarantees should apply, this level of unresolved problems is alarming.

New car buyers are pro-active when it comes to seeking remedies for problems, with the overwhelming majority taking steps to have their disputes resolved. Most consumers turn to the dealer as their first point of contact when they want a problem with their car fixed. The majority of consumers don't escalate their complaints beyond their first point of contact, demonstrating how important it is for dealers and salespeople to provide correct information about warranties and consumer rights.

Most people didn't escalate their complaints, but for those who needed a second option, manufacturers and repair shops were the most popular (12%).¹⁶

57%

of car owners with problems had their issue resolved through repairs.¹⁸

18% had their issue resolved by replacement.¹⁹

94%

of respondents who had experienced problems with their new car took action to resolve the problem.¹³

67%

turn to the dealer as their first point of contact when something is wrong with their new car.¹⁵

84% of consumers who had problems with their car found it was fully or partly covered by warranty.¹⁷

15%

were unable to resolve their problem.²⁰

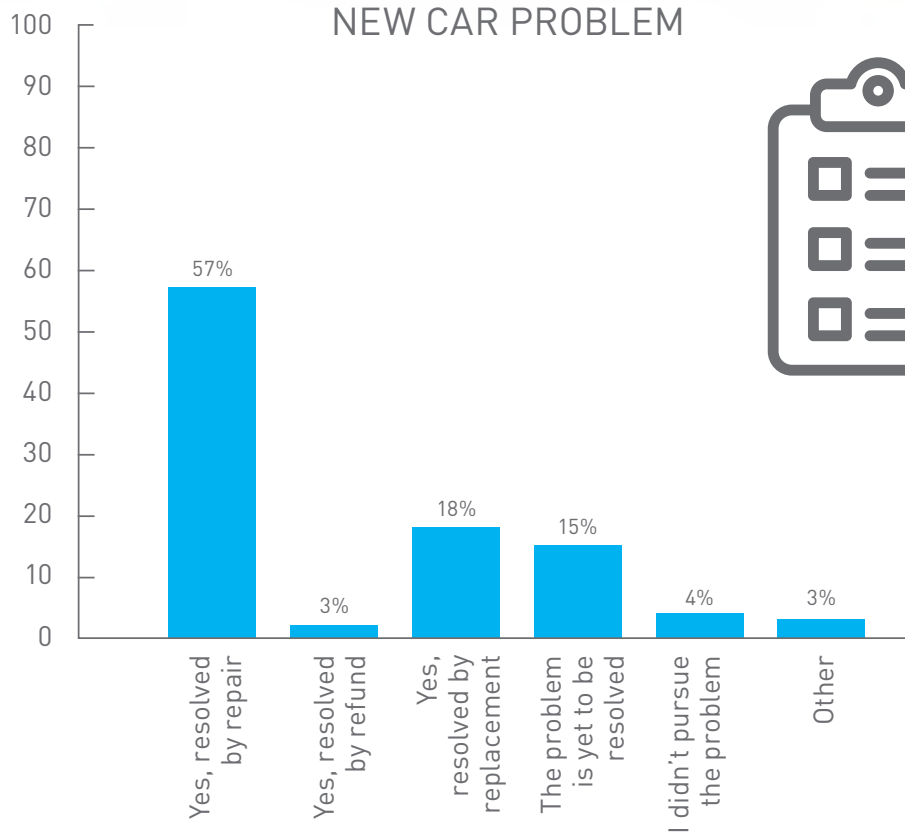
This number was higher for female car owners than their male counterparts (17% female, 13% male).

73% of these were satisfied with the response they received.¹⁴

20% were unsatisfied.



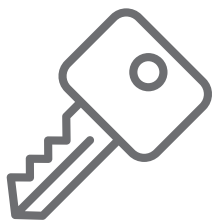
NEW CAR PROBLEM



Base: n=985 car owners who had a problem with their new car.
Q: Was the problem resolved?²¹

Consumer experiences

Dealers were the first point of contact for most consumers wanting to fix problems with their new cars but a quarter of new car owners were dissatisfied with dealers' responses to problems, and many consumers found that the process of resolving disputes with dealers was draining. Worryingly, consumers told us that some dealers avoided addressing complaints until after their warranty period expired.



24%

of new car owners who purchased their cars from a dealer were dissatisfied with their dealer's response to problems.²²

36% were very satisfied.
50% were somewhat satisfied.



13%

of people who experienced problems and did not take action were not sure where to go for advice and help.²³

10%

of new car owners have either had to resort to a tribunal to seek a remedy, or are planning to do so.²⁴

"Very disappointed with Mazda. Every time the problems arise we take the vehicle in and they fob us off by saying the car has to adjust to different drivers or needs a new battery." – Victoria, Skoda owner



"Small problem and the dealer just fobbed it off at the first service. I asked again at the second service and he said it was common to all cars. But the speedo is WAY out. I just guess what my real speed is, which is quite risky. I haven't got a speeding fine yet but it's likely. On the freeway at 110km/hr I think it's out about 10-12 km. At 80km/hr I think it may be about 5-6kms out. Anyway the dealer just did not want to know. I will ask again at the next service. Car is still under warranty." – Victoria, Nissan owner



"I had to fight the dealership for months to solve the problem because they told me they were the dealer, they knew what they were doing and I didn't." - Brisbane, Hyundai owner



Keep it quiet!

We asked respondents, on condition of anonymity, whether they had been asked to sign confidentiality agreements preventing them from disclosing the details of the refund or replacement offered when resolving a problem with their new car. Incredibly, 16% of new car owners had to sign non-disclosure agreements to get their remedy.

CHOICE had reason to believe that this practice was occurring, based on feedback to the CHOICE Help dispute resolution service, but it is staggering to see how common it is. The power imbalance between car dealers and manufacturers and consumers is already making the process of seeking a remedy more difficult than it should be for consumers. Denying them the right to talk about their problems and share knowledge with regulators, advocates and other consumers exacerbates this.

16% of respondents who faced problems with their new car in the last four years stated that they were asked or they have signed some sort of confidential agreement post-refund or repair.²⁴

This behaviour also implies that remedies are provided at the discretion of the seller when there is a legal obligation for products, including cars, to be of acceptable quality, including being free from defects. The consumer guarantees provide consumers with rights to remedies when their new cars have problems, but requiring them to sign intimidating legal agreements before accessing the benefits of these rights obscures this.

CHOICE Help example – CHOICE member Anna purchased a new car in December 2012. Less than six months after purchasing the car, it began to exhibit serious*

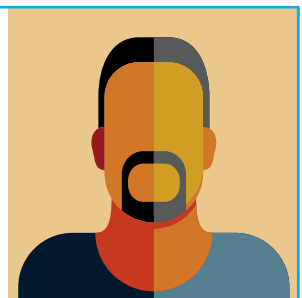


problems related to the transmission. The car shuddered and made a lot of unusual noise when driven. Anna had the clutch repaired a number of times over the next 12 months, and when she approached the car manufacturer she was told the clutch “just needed to settle in”.

The problem persisted and Anna requested a refund in mid-2014. In late July, Anna contacted CHOICE to seek help with having her request for a refund taken seriously. By mid-August, following CHOICE intervention, Anna informed us that her case had been resolved to her satisfaction. However, she stated that she was unable to discuss it further as she had been asked to sign something that prevented her from disclosing any details.

**name changed.*

“Signed the confidential agreement, covering the extent of the coverage, that I cannot take the same problem to another third party without approval, that I cannot disclose what was done and how much was the settlement etc.” – Melbourne, Toyota owner

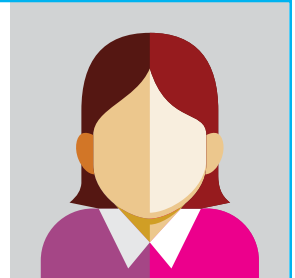


How much does it cost consumers?

Most problems experienced in the first five years of owning a car should cost a consumer nothing to resolve – warranties, insurance or the consumer guarantees should realistically provide most consumers with remedies without their needing to pay anything.

However, on average car owners spent \$858 and 31 hours trying to resolve their problems. Consumers dealing with major problems spent more time, and consumers who bought cars in private sales spent more money.

“As the problem existed when the new car was sold to me I felt the dealership should have gone more out of their way to remedy at no cost or inconvenience to myself. Certainly there was no cost but I was inconvenienced without a car and I needed to attend repair shop twice. I was not offered a lift home or any flexibility in booking times.”



Lost wages in time spent fixing the problem:
\$437



Direct cost:
\$858



Total average cost of fixing new car problems:
\$1295.25

Time spent trying to fix problem:
31 hours



Equivalent roughly to:
a week of work



a return flight and day trip to **Bangkok from Sydney**, or



watching the entire **‘Lord of the Rings’ trilogy back to back, 3 times**



4. How we put this report together

Methodology

Data for this report was collected through a survey among a nationally representative Australian population sample. Survey respondents are representative in terms of Australian national population and also reflective of the population of car owners as per ABS data.

1505 Australians completed the online survey in-field from 25 December 2015 to 21 January 2016.
The survey was hosted by GMI Lightspeed.

The participation criteria included new car owners who had bought a new car in the last five years, i.e. from January 2011 to January 2016. This period was chosen in order to find survey participants with experiences within and after the usual periods of warranties and extended warranties, and during a time period covered by the commencement of the Australian Consumer Law.
Choice acknowledges NRMA's support in the development of this report.



Notes

- 1** Base: n=1505 car owners who answered the survey. Q: Have you experienced any of the following types of problems with your new car in the last four years?
- 2** Base: n=985 car owners who had a problem with their new car. Q: Was the problem resolved?
- 3** Cost of time calculated using the average hourly wage within the total Australian population – including workers and non-workers (\$14.10).
- 4** Base: n=985 car owners who had a problem with their new car. Q: Have you signed/been asked to sign a confidential agreement that prevents you from disclosing details about the refund or replacement offered when resolving the problem with your new car?
- 5** Base: n=985 car owners who had a problem with their new car. Q: And your new car is a? If purchased more than one new car, please answer for all the new cars.
- 6** Base: n=1505 car owners who answered the survey. Q: Have you experienced any of the following types of problems with your new car in the last four years?
- 7** Base: n=1505 car owners who answered the survey. Q: Have you experienced any of the following types of problems with your new car in the last four years?
- 8** Base: n=985 car owners who had a problem with their new car. Q: Was the problem covered by warranty?
- 9** Base: n= 932 car owners who purchased their new car from a dealer and had a problem with their new car. Q: Was the problem covered by warranty?
- 10** Base: n=985 car owners who had a problem with their new car. Q: And your new car is a? If purchased more than one new car, please answer for all the new cars Q: You mentioned that you have experienced problems with your new cars. Please select the car that you faced most severe problems with?
- 11** Base: n=516 new car owners who had no problems with their new car. Q: If your vehicle developed a major defect (that seriously impairs function), do you think your dealer/vehicle manufacturer would resolve the issue?
- 12** Base: n=985 car owners who had a problem with their new car. Q: To the best of your knowledge, which parts were affected or what were the problems?
- 13** Base: n= 985 car owners who had a problem with their new car. Q: Did you take any action to resolve the problem(s)?
- 14** Base: n= 923 car owners who had a problem with their new car and sought resolution. Q: Who did you first contact for help? Plus base: n= 916 car owners who had a problem with their new car and sought resolution (minus those who answered 'do not know' to previous question). Q: How satisfied were you with their response?
- 15** Base: n= 985 car owners who had a problem with their new car. Q: Did you take any action to resolve the problem(s)?
- 16** Base: n= 923 car owners who had a problem with their new car and sought resolution. Q: Who else did you contact for help?
- 17** Base: n= 985 car owners who had a problem with their new car. Q: Was the problem covered by warranty?
- 18** Base: n= 985 car owners who had a problem with their new car. Q: Was the problem resolved?
- 19** Base: n= 985 car owners who had a problem with their new car. Q: Was the problem resolved?
- 20** Base: n= 985 car owners who had a problem with their new car. Q: Was the problem resolved?
- 21** Base: n=985 car owners who had a problem with their new car. Q: Was the problem resolved?
- 22** Base: n= 381 car owners who purchased their new car from a dealer, had a problem, and contacted their dealer to resolve the issue. Q: How satisfied were you with their response?
- 23** Base: n= 62 car owners who had problems with their new car but did not take any action to resolve the problem. Q: Why didn't you take any action to resolve the problem(s)?
- 24** Base: n= 985 car owners who had a problem with their new car. Q: Have you signed/been asked to sign a confidential agreement that prevents you from disclosing details about the refund or replacement offered when resolving the problem with your new car?
- 25** Base: n= 377 car owners who had a problem with their new car and elected to answer the question. Q: Approximately, how much money have you spent in trying to resolve this problem? Your best estimate is fine. Q: Approximately, how many hours have you spent trying to resolve this problem since it first started?

