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Dealership buy-sells at record pace

While there may be some potential headwinds in 2022, brokers for dealership mergers and acquisitions report the dealership buy-sell market remains red hot.

“Our book of business is at a robust pace, and so is the rest of the industry,” said George Karolis, president of the Presidio Group. “I think we’re at record levels.”

The question for buyers and sellers is how long the current, favorable environ-

ment can last, with demand outpacing supply, record average transaction prices for new and used vehicles, and pent-up demand for parts and service. Cuts in dealership head counts and marketing budgets also have contributed to record profitability.

At the same time, interest rates are low, and for publicly traded dealership groups share prices are high, and

SEE **BUY-SELLS**, PAGE 3

Warranty reimbursement provisions softened during fall veto session

Illinois legislators on Oct. 28 loosened the provisions passed three months ago on dealership reimbursements for repairs of vehicles under warranty, reducing payouts on engines and transmissions to 30% of what the franchi-see paid.

Gov. J.B. Pritzker is expected to sign the bill.

Strong opposition from the dealer community to

House Bill 1769’s initial drafts softened the blows sought by OEMs, including one provision which stated that “no debit reduction or charge back of any item on a warranty repair may be made absent a finding of fraud or illegal actions by the dealer.” Vehicle manufacturers could have manipulated that to

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Consumers favoring dealership service centers over independents

A growing number of people who seek vehicle repair and maintenance work say they prefer auto dealership service departments over other repair facilities.

That’s according to the newly released 2021 Cox Automotive Service Industry Study. It indicates 34% of consumers prefer dealership service centers, a percentage increase from

2018, and ahead of general repair shops.

That is good news for dealers who over the years have faced challenges from independent shops and national car-care chains, which are geographically more prevalent than are car dealerships.

Because of such competitors, Cox Automotive estimates dealers aren’t capturing about \$214 billion

in potential annual revenue.

Dealerships enjoy a reputation for doing quality service work — one reason for their popularity.

They also are cited as preferred because of their existing relationships with customers. The Cox Automotive survey indicates 55% of consumers say they go to a dealership because its service personnel know their

vehicle better.

But dealerships continue to combat the perception that they are overpriced compared with the competition. The top barriers to returning to the dealership are not only cost but also location.

Another negative: Nearly 25% of polled consumers say their dealership service visits take longer than expected.

Exacerbated by the COVID pandemic, service departments cite parts delays from manufacturers (58%) and finding or hiring the right technicians (45%) as their primary operational frustrations. Both issues can affect consumer experiences.

On average, the survey found dealerships citing a recent decline in the consumer satis-

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Carmakers building more sustainable cars, from headlamp to tailpipe

In the 1970s, Chrysler's TV commercials played up its vehicles' "rich Corinthian leather." That meaningless phrase, dreamed up by marketers and cooed by the actor Ricardo Montalban, became emblematic of what defined a luxury vehicle.

Fifty years later, those words have been replaced by elements that are creating a new concept of automotive luxury: recycled PET bottles, coffee grounds and tree fiber.

"The definition of a premium automobile is changing," said Rüdiger Recknagel, Audi's chief environmental officer. "It's now who's using the best materials with the least environmental impact."

As companies around the world turn their attention to reducing the effect their products have on the environment, carmakers are turning away from traditional materials that are hard to recycle, such as leather and plastics, and looking to alternatives that continue to convey quality. In manufacturing as well, they have moved to recycled components in an effort to use fewer resources

and cut down on emissions.

Recycled materials make up 29% of a BMW vehicle, said Patrick Hudde, BMW's vice president for sustainability supply chain. The company obtains 20% of its plastics from recycled materials, as well as 50% of its aluminum and 25% of its steel.

At Audi, the Mission: Zero program hopes to achieve a 30% reduction of vehicle-specific carbon dioxide emissions by 2025 compared with 2015, and to achieve carbon neutrality across its entire network by 2050; that includes suppliers, manufacturing, logistics and dealer operations.

General Motors expects to have 50% sustainable content by weight in its vehicles by 2030, said Jennifer Widdrick, GM's director of global color and trim. The company defines sustainable materials "as those that do not deplete nonrenewable resources or disrupt the environment or key natural resource systems."

And Swedish manufacturer Volvo predicts that by 2025, 25% of its plastics will be bio-based or from

recycled materials. In addition, it's looking to reduce its carbon footprint by 40% in four years, compared with 2018, and to achieve climate-neutral manufacturing at that time.

"We've had to switch suppliers when they can't meet our recycling standards," said Anders Karrberg, Volvo's head of global sustainability.

Ford expects that by 2035, half of its plastics will come from recycled or nonrenewable materials, and that the company will be completely carbon-neutral by 2050.

In addition to recycled metals and plastics, manufacturers are exploring the use of materials that were never before considered viable for vehicle parts.

Ford, in partnership with HP, the printer manufacturer, uses spent powders from 3-D printers to create injection-molded fuel line clips on F-250 trucks. It has identified 10 other parts that can be made from the material.

The company also has a partnership with Jose Cuervo, the tequila distiller, to use fiber from agave plants to reinforce window mechanisms. And at the end of last

year, it introduced the use of headlamp housings made from coffee chaff, the unusable skin of roasted beans, which it buys from McDonald's. The result" a housing with improved heat deflection, said Deborah Mielewski, Ford's technical fellow of sustainability.

The company is looking at using orange and potato peels discarded by McDonald's to make plastic parts more resilient, Mielewski said. And it is exploring using nylon fishing nets, which are often employed in the sea for only a few weeks, to strengthen parts.

"I hate plastic," Mielewski said. "I'm always worried about its impact on the environment."

While much of the world devours, and then discards, single-use water bottles, carmakers have figured out innovative ways to use them in manufacturing.

In markets outside the U.S. and Canada, available seat material in Audi's new A3 compact sedan and its coming Q4 electric vehicle is made from recycled 1.5-liter PET bottles. For the A3, 45

SEE SUSTAINABILITY, PAGE 4

Congratulations!

Kunes Ford of Antioch was named one of the 100 "Best Dealerships to Work For" in Automotive News's 2021 polling. Winning dealerships were ranked based on employee surveys and information from management.

Assurance, Inc., the parent company of CATA member American Financial & Automotive Services, won seven 2021 Dealers' Choice Awards, including three "diamond" status awards, the top prize in the award's 35 categories. The award recognizes auto dealers' favorite vendors, suppliers, and finance partners.

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Warranty

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deny many warranty claims.

Dan Marquardt, a Barrington dealer and CATA director who led efforts to first pass [House Bill 3940](#) in July, said strong dealer outreach as HB 1769 was crafted “shows how critical support and rela-

tionships with our legislators is, both state and federal.”

“At the end of the day,” Marquardt said, “the changes to HB 3940 were the reduction of our margin on engines and transmissions to 30% markup, and reimbursement for other warranty parts must be reasonable based on market norms.”

HB 1769 passed the House last spring but did not initially advance out of the Senate. During the veto session, legislators used it to jump-start the state’s electric vehicle industry by providing major tax credits for electric vehicle manufacturers and for makers of electric vehicle component parts.

To win support from the vehicle manufacturers, Pritzker’s office first added language to remove provisions tied to manufacturer reimbursements to dealerships for work performed on vehicles under warranty. The reimbursements are scheduled to take effect Jan. 1, 2022.

Service

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faction they deliver, with only 55% of dealers believing satisfaction has improved in the past 12 months (down from 71% when surveyed in 2018).

Dealers have struggled for years with hiring and retaining qualified service technicians.

That remains a problem, according to the survey. Fifty-seven percent of dealership respondents say their service department is not fully staffed. Eight in 10 expect these labor shortages to continue or even worsen in the future.

Yet, the majority (60%) say they plan to hire more service technicians this year, indicating an investment priority.

“The industry is ripe for transforming the consumer experience,” said Tracy Fred, vice president of operations for

Xtime, a Cox Automotive business unit that offers online dealership appointment scheduling and other service-related digital tools on dealer websites.

“Elevating the entire service experience with a consumer-first mindset and the use of technology can help raise overall profits, capture additional market share and help mitigate the frustrations service departments are currently facing,” she says.

Dealers who say they’ve improved the customer experience in the past year more often offer services such as service pick-up and delivery, ridesharing, work progress tracking, online cost estimates and mobile check-in.

The survey says car owners’ feedback is that they want the ability to schedule their appointment online. Nearly 75% of dealers offer that option today. Some polled consumers said they didn’t know

that.

Consumers also want to online review and approve repair estimates (67%) and access their vehicle service history (66%) which, according to those surveyed, are among the most critical digital features a service center should readily and transparently offer.

Top-performing service departments possess a consumer-first mindset and use technology to enhance the experience by offering digital tools and convenience-focused services, Fred said.

“Consumers,” she said, “continue to stress the importance of a digital experience, and dealerships must evolve and offer flexibility by enhancing online capabilities.

“Meeting consumer demand for convenience by considering new service lines like ridesharing also can help combat location as a barrier.”

Buy-sells

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that makes it more affordable to purchase dealerships partly with shares of stock, said Brodie Cobb, founder and CEO of the Presidio Group.

“The one thing that is just unbelievable is how inexpensive capital is today, how inexpensive debt is,” Cobb said. “And every time those stocks go up, it gets cheaper and cheaper.”

Another dealership bro-

kerage firm, Kerrigan Advisors, said the total number of completed dealership transactions in first-half 2021 was 144, an increase of 27% year over year, and on track to surpass the record of 289 buy-sells last year. For the 12 months ended June 30, the total number was 320, up 11%, the company reported.

“Today, we are tracking to hit another record,” said Erin Kerrigan, founder and managing director of Kerrigan Advisors. In a webinar hosted by the American Interna-

tional Automobile Dealers Association., she predicted 2021 buy-sells will pass 350.

One of those potential headwinds mentioned earlier is that would-be buyers may balk at high prices for dealerships, to the extent that high prices are based on the record profits they’re raking in, in the current highly unusual circumstances.

Earl Hesterberg, president and CEO of Houston-based Group 1 Automotive, said during a conference call to announce second-quarter

earnings that the acquisition market is “as frothy as it’s ever been.”

Kerrigan predicts the “froth” Hesterberg describes will last at least well into 2022.

“Dealers do not believe their dealerships will fully return to the low margins” at pre-pandemic levels, she said — not even when supply eventually recovers and high demand subsides. “Yesterday’s valuations seem ludicrous with regard to today’s profits.”

North Carolina dealer to lead NADA as chairman in 2022

The 65-member board of directors of the National Automobile Dealers Association on Oct. 19 elected North Carolina dealer Mike Alford as its 2022 chairman.

“It is an honor and privilege to be elected to serve as NADA board chairman for 2022,” said Alford, president of Marine Chevrolet Cadillac in Jacksonville, N.C. “The opportunity to chair this dynamic group of automotive leaders is both exciting and humbling.”

Alford, 57, the current NADA vice chairman, will

succeed Paul Walser beginning at NADA Show in Las Vegas in March.

Metro Washington, D.C., dealer Geoffrey Pohanka will become the NADA vice chairman; Tom Castriota, owner of Castriota Chevrolet in Florida will be the new NADA secretary; and Kirt Frye, president of Sunnyside Automotive Group in Florida, will become the association's new treasurer.



Mike Alford

New-car loans now easier to get than new cars

Finding a car may be harder than in recent memory, but shoppers who do line up a new vehicle are more likely to qualify for a loan.

Researchers found access to loans in September was 5.5% easier than during the same period a year earlier. Generally speaking, credit access from banks, credit unions, and captive finance arms at automakers is nearly back to pre-pandemic levels.

However, only automakers have loosened up loans to the level where consumers were just as likely to qualify in October 2021 as they were in February 2020, before the pandemic took hold of the global economy.

That doesn't mean car dealers are flush with vehicles, however. Inventory levels remain at historic lows with little change in sight as automakers struggle to source parts needed to assemble new vehicles. Supply chain bottlenecks, compounded by the global labor and computer chip shortage, make new cars challenging to locate.

Similarly, discounts on new vehicles — as well as incentive and rebate spending from automakers — are few and far between. Some automakers are now offering unusual spiffs, such as credit for accessory items, in place of rebates.

Sustainability

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bottles are used, ground up to create a granulate that is turned into a polyester yarn, accounting for 89% of the seat material.

GM also is looking into using PET water bottles that can be made into fabrics, including carpet. It already converts recycled PET plastic for wheel well liners, and uses other recycled plastics for license plate and radio brackets.

Even Ricardo Montalbán's quintessential definition of automotive luxury, leather seating, is getting scrutiny.

Audi's new high-end E-tron GT electric vehicle will offer a black design package that uses Dinamica, a suede-like microfiber, for seats. GM's new electric Hummer will use artificial fibers for carpet, seating and headliners.

Polestar, the luxury electric sub brand from Volvo, uses a material it calls WeaveTech in lieu of leather. It's derived from PVC and resembles the material in wet suits. The company's goal is to make all its interior materials from recycled PET bottles, said Fredrika Klarén, Polestar's head of sustainability.

Klarén believes that customers will deem WeaveTech as luxurious as leather. “If you make the material beautiful, you will make it acceptable to the buyer,” she said.

Despite its high price, the electric Hummer “will be leather-free,” Widrick said. “We'll use leatherette with a technical, repeatable, non-organic grain.” And Ford is

looking at a wide variety of leather substitutes, Mielewski said.

Lenzing, an Austrian company, creates fiber from trees grown in sustainable forests and supplies it to Range Rover for seats in its Evoque. It's also working on projects with Audi and Volvo to create woven “sustainable luxury” material as a leather substitute, said Georg Spindler, the company's manager for specialty applications.

Yet using the proper materials is not the entire battle. When a vehicle reaches the end of its life, recycling sustainable products still can be a challenge.

BMW is designing vehicles with a reduced number of larger components to make recycling easier. Polestar wants to ensure that foam, which would make recycling difficult, is not stuck to its textiles.

And while not an immediate problem, carmakers are figuring out how to eventually recycle what will become of electrical vehicle batteries and their manufacturing scrap. In May, GM announced that it and LG Energy Solution will invest \$2.3 billion to recycle battery materials, including cobalt, nickel, lithium, graphite, copper, manganese and aluminum, with 95% of the materials available for use in the production of new batteries. The process emits 30% less greenhouse gas than standard methods.

And Audi is working with a German-Indian company to use recycled batteries to supply green energy.