



Police issue alert on cars stolen from dealerships

Thieves have stolen more than 100 vehicles this year at dealerships from southeast Wisconsin to northwest Indiana, nearly triple the number stolen in all of 2020. Highland Park police on April 20 issued an alert to help slow the efforts.

Car rental agencies and service shops also have been the targets of thieves, who are stealing vehicles from parking lots and from inside buildings.

“These thefts have occurred by subjects breaking into the buildings and gaining access to vehicles which have keys left inside or are otherwise accessible. This is commonly found in the service departments of the dealerships,” said Brian Bodden, a detective with the Highland Park Police Department.

Thefts in the area have climbed annually since at least 2017, when just seven vehicles were taken from

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Chip shortage could drag on for a year: AutoNation CEO

The global semiconductor shortage that’s crippling the auto industry could drag on for as long as a year, according to Mike Jackson, chief executive of AutoNation, the largest car-dealer chain in the U.S.

AutoNation expects the industry’s vehicle shipments in the second quarter to be double what they were a year ago, but that’s barely enough to keep dealer lots full, Jackson said in an interview.

“The supply chain is frag-

ile and disrupted because of the chip shortages and still dealing with the pandemic,” he said.

Low interest rates, stimulus checks, and a desire for private transportation during the pandemic are fueling demand for vehicles, while assembly plants are sitting idle because of a lack of chips. Dealerships have been increasing used-car sales to make up for the lack of new supply.

“I see it continuing for at

least the next year, the extraordinary demand, and I see no resolution on the microchip side for six to nine months, or a year,” Jackson said.

Memory chip prices soared in 2017 and 2018 but declined in 2019 and 2020 amid sluggish demand from the PC and smartphone markets. In response, top chip-makers, including Samsung, SK Hynix, and Micron Technology, curbed their output before the pandemic.

Support growing for 2 bills shepherded by CATA

Two bills in Springfield — one in the House of Representatives, the other in the Senate — that have been championed by the CATA, the Illinois Automobile Dealers Association, and others are gaining bipartisan support as the General Assembly nears the May 31 end of its spring legislative session.

Dealers, their employees, and other supporters of the bills are urged to convey that support to their senators and representatives.

One measure, House Bill 3940, would amend the Illinois Motor Vehicle Franchise Act to redefine how manufacturers must compensate dealers for repairs of vehicles under warranty. Senate Bill 58 would abolish

the \$10,000 limit on the trade-in credit allowance for first division vehicles, a limit that took effect in 2020.

Both bills have advanced out of their chamber of origin. SB 58 passed the Senate unanimously in March and on April 28 was assigned to the House Revenue & Finance Committee. HB 3940 reached the Senate April 21 and at this newsletter’s deadline was awaiting assignment to a committee.

Automakers consider different time guides for the same repair when technicians fix a car under warranty versus the longer time considered when customers pay for the work. The bill requires manufacturers to compen-

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Carmakers strive to stay ahead of hackers with a lot of firewalls

In garages and driveways across America sits a machine with more lines of code than a modern passenger jet. With an internet link, today's cars and trucks can report the weather, pay for gas, find a parking spot, route around traffic jams and tune in to radio stations from around the world. Soon they'll speak to one another and alert drivers to sales as they pass favorite stores. And one day, they'll even drive themselves.

While consumers may love the features, hackers may love them even more. And that's keeping many in the auto industry awake at night, worried about how they can stay one step (or two or three) ahead of those who could eventually play havoc with the world's private transport systems.

Hackers seemingly can't wait for the opportunity to commandeer vehicles. In 2019, the automotive cybersecurity company Karamba Security posted a fake vehicle electronic control unit online. In under three days, 25,000 breach attempts were made, and one succeeded.

The best-known vehicle takeover occurred in 2015 when security researchers on a laptop 10 miles away caused a Jeep Cherokee to lose power, change its radio station, turn on the windshield

wipers and blast cold air. Jeep's parent company, FCA, recalled 1.4 million vehicles to fix the vulnerability.

Today, the effects of a breach could range from mildly annoying to catastrophic. A hacker could steal a driver's personal data or eavesdrop on phone conversations. Nefarious code inserted into one of a vehicle's electronic control units could cause it to suddenly speed up, shut down or lose braking power.

A fleet of cars could be commandeered and made to steer erratically, potentially causing a major accident. A hacked electric vehicle could shut down the power grid once the car was charging. Even altering a street sign in ways imperceptible to the eye can trick a car into misperceiving a stop sign as a speed limit sign.

And last year, Consumer Watchdog, a nonprofit group in Santa Monica, Calif., sent a "Hacked!" message to the screen of a Tesla.

The problem goes beyond demonstration intrusions. Karamba has been working with a South American trucking company whose fleet was hacked to hide it from its tracking system, allowing thieves to steal its cargo unnoticed. And a quick internet search will reveal scores of successful but so far benign

hacks against many of the world's major automotive brands.

"To take control of a vehicle's direction and speed, this is what everyone in the industry is worried about," said Ami Dotan, Karamba's chief executive. "And everyone is aware this could happen."

The challenge may be even greater than securing the world's airlines. According to a McKinsey & Company report on automotive cybersecurity, modern vehicles employ about 150 electronic control units and about 100 million lines of code. By 2030, with the advent of autonomous driving features and so-called vehicle-to-vehicle communication, the number of lines of code may triple.

Compare that with a modern passenger jet, with just 15 million lines of code, or a mass-market PC operating system with around 40 million lines of code, and the complexities become clear.

Vehicle manufacturers understand that a successful hack that caused death or destruction could be a major blow. "The incentive to prevent a giant malicious attack is huge," said Gundbert Scherf, a McKinsey partner and an author of the report.

Stolen

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dealerships in the same area. Police have made arrests, and Bodden said they have recovered some vehicles, sometimes re-tagged out of state.

"The offenders have also obtained re-programmers and are targeting high-end Dodge and Jeep vehicles. It is believed this crew is searching social media and other online platforms," Bodden said.

Police offered several tips to help thwart thieves:

- Secure all keys
- Cut power to overhead service doors
- Block service doors with vehicles or other similar items
- Make sure alarms are functional and in working order.

Call police for all overnight activations

• If video surveillance is present, check to make sure that cameras are operational and focused on building areas from

which entry can be gained.

"The technology that was created specifically to eliminate car thefts, such as key fob technology, is now being used against us," a Chicago Police Department official said to reporters last month on a day when five stolen cars were recovered in the city.

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Customers giving thumbs up to click-and-brick dealerships

Car dealership customers can surprise you, said Todd Skelton, president and CEO of the Prime Automotive Group, which operates 56 stores in New York, New Jersey and greater New England.

He gives this example of unexpected consumer behavior:

When COVID-19 hit, Prime rushed to put together a program of going to the homes of customers so they wouldn't have to go to the dealership during the pandemic.

"We suggested to customers that we come to them. But they still wanted to come to the dealership," Skelton said. "Seventy-five percent wanted to test drive cars."

His takeaway is that digital automotive retailing is gaining traction, but that the physical dealership still plays a vital role.

"Fewer than 10% want to transact without any human interaction," he said during a session named "The New Role of Brick and Mortar" at the Automotive Retail 2021 confer-

ence in April.

"Listen, these aren't Amazon products," he said of vehicles. "People want to come in and spend meaningful time at the dealership."

But their prior online shopping, researching, inventory viewing and the like help prevent their dealership visit from seeming like they are trapped in time.

Prime Automotive can keep the visit to about 35 minutes, Skelton said. "They come in, ask a few questions, finish up and drive off."

He calls it "the new brick-and-mortar." The shopping experience becomes greater than the sum of its digital and physical parts.

"People aren't afraid to come in; they just don't want to spend three to four hours at the dealership," said Skelton. "As an industry, we've been talking about that for years."

All dealerships need to offer customers digital tools, he said, conceding used-car dealership chain Carvana has the best. But he's not convinced every

dealership should emulate Carvana.

"You just don't want tools that are clunky," Skelton said. "We need tools that walk people through until they decide to come to the store. Everyone talks about digital tools, but we should focus on process, especially one that picks up at the store where the customer left off online."

The "price of entry" for digital auto retailing is to offer tools and functionality "that the customer wants and feels comfortable using," he said. "But most importantly, the process has to be rock solid when the customer contacts the dealership, whether by email, phone or in person."

For auto sales, 2020 was an off year (14.5 million deliveries compared to 17 million in 2019). The trough months of March and April were miserable because of COVID issues. But sales picked up later in the year.

Citing the current demand for vehicles, Skelton predicts 2021 "will be an incredible year for the auto business."

Bills

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sate dealerships for warranty work in the same manner that retail customers pay for retail work, in terms of time allowances, labor rates, and parts prices.

Mechanics Local 701, the union representing area technicians at dealerships, is working with the CATA to advance the legislation. Supporters say HB 3940 would bring a fairness to the payment process that could attract new technicians to dealerships. Wisconsin has had similar policy in place for more than a decade.

In addition to establish-

ing an equitable compensation scheme for warranty work, the bill would prevent manufacturers from imposing cost recovery fees or surcharges to overcome the bill's effect. For manufacturers, it would preserve their right to approve or disapprove dealership claims, and it ensures manufacturers have a way to charge back any false or unsubstantiated claims they paid.

Capping the trade-in credit increases the cost of new vehicles and used vehicles bought at retail. Gov. J.B. Pritzker has voiced his backing of SB 58. The cap took effect in 2020 following moves to find funding for

Pritzker's multibillion dollar state capital infrastructure plan.

Under SB 58, infrastructure projects would instead be funded, in part, by increasing the sales tax charged in private vehicle sales. For instance, the current \$390 sales tax on a 1-year-old vehicle sold privately for less than \$15,000 would increase to \$465. If the same vehicle sells for \$15,001-\$20,000, the sales tax would be increased from \$750 to \$850. The tax rates for private transactions haven't changed in more than 30 years, and the modest increases are much less impactful than a trade-in credit cap, which costs con-

sumers hundreds of dollars and harms dealers statewide.

If the General Assembly passes SB 58, the change to restore the full trade-in allowance on first division vehicles would take effect 120 days after the governor signs the bill. As currently written, the trade-in credit cap exempts second division vehicles.

Dan Marquardt, a Buick-GMC dealer who leads the CATA's Government Relations Committee, noted that few constituents ever contact their lawmakers on pending legislation, so if supporters of the two bills prod their legislators to pass these, it will have an impact.

US auto industry to again press Congress on microchips shortage

Major automakers and suppliers will press Congress again to address the global shortage of semiconductor chips that has curtailed auto production around the world. A U.S. Senate subcommittee will hear May 4 testimony from auto industry groups urging action to address production of “mature node” chips.

The industry backs proposals to spend tens of billions of dollars to boost U.S. semiconductor production and new tax incentives to help chip companies offset costs of creating new lines within existing facilities.

“There is an undeniable need to expand semiconductor capacity in the U.S. to meet the growing demand within the

auto industry, as well as other sectors across the economy,” John Bozzella, the head of the Alliance for Automotive Innovation, will tell the panel in testimony seen by Reuters.

Bozzella wrote in an April 19 letter to U.S. congressional leaders that some of the new funding should be used to build new chip capacity that “will support the auto industry, as well as other sectors that rely on mature nodes – including defense, medical, and critical infrastructure.”

Ann Wilson, senior vice president at the Motor & Equipment Manufacturers Association, will tell the Senate panel that auto suppliers are facing “a significant supply chain crisis.”

Automakers have warned the shortage could result in 1.3 million fewer vehicles built this year in the U.S. and disrupt some production for at least another six months.

Both Ford and Stellantis in late April announced additional chip-related production cuts, while Volkswagen announced production cuts in Mexico.

President Joe Biden’s proposed \$2 trillion infrastructure investment package includes \$50 billion for semiconductor production and research. It also includes another \$50 billion to create a new office at the Commerce Department to monitor domestic industrial capacity and fund investments in the production of critical goods.

US auto suppliers oppose setting gas-powered vehicle phase-out date

Auto suppliers told U.S. lawmakers April 27 that they oppose setting a firm date to end the sale of new gasoline-powered passenger cars, and they warned that a quick shift to all-electric vehicles could cost thousands of jobs.

The Motor & Equipment Manufacturers Association (EMMA), which represents more than 1,000 vehicle suppliers, told a Senate Commerce subcommittee on transportation that the Biden Administration should continue to set regulatory requirements that ensure suppliers keep working to improve internal combustion engines.

“If we move too quickly to a fully electrified fleet we could lose 30% of the supplier jobs in this country,” said Ann Wilson, EMMA’s senior vice president of government affairs. Auto parts manufacturers employ

about 560,000 people in the United States.

Wilson told the panel that new gasoline-powered vehicles “will likely be on the road for an additional 20 years.”

“Engines, transmissions, after-treatment systems, and other parts will simply not be manufactured for battery electric and fuel cell vehicles,” she said.

The governors of a dozen U.S. states and many U.S. lawmakers have called on President Joe Biden to back ending sales of new gasoline-powered vehicles by 2035.

Biden’s infrastructure plan seeks \$174 billion in spending and tax credits for electric vehicles and charging networks but does not call for phasing out gasoline-powered passenger vehicles.

California said in September it planned to end sales of new gasoline-powered passenger vehicles by 2035.

Biden’s campaign said last fall he did not support California’s phase-out plan.

White House climate adviser Gina McCarthy said in late April that the administration had not set any specific

EV adoption targets.

“We’re not making any demands right now because this is about basically using the market to generate the kind of reductions we need,” McCarthy said.

Lending yields back on upswing

Major auto lender Ally Financial said in April that it expects to see yields on retail auto originations in the 7% range for the rest of 2021, above the first-quarter 6.66% average for Ally’s current book of retail auto loans.

Ally’s auto leasing average yields have surged, from 5.2% at the start of 2020 to almost 8.6% in the first quarter of 2021.

But the wonky supply chain isn’t all good news for banks. Dealers typically borrow to finance their floor inventory. When they can’t get cars, and the cars they can

get immediately zoom off the lot, that hurts banks’ loan growth.

Still, there is an upside to that. When supply picks up and puts pressure on used-car prices, for banks there may be an offset in the form of faster dealer floorplan loan growth.

The supply-chain woes that have stymied carmakers have accelerated used-car prices, as buyers scramble to find vehicles — and, in turn, for auto lenders. Banks are relatively bigger players in used-car loans than in new-car loans, and used-car loans generally have higher yields.