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Pollak looks at what's ahead for dealers

In a Dickensian way, Dale Pollak suggested that dealers are experiencing the best of times during nearly a decade of unprecedented sales numbers of new and used vehicles. But, he cautioned, dealers must continue to evolve to succeed.

Pollak, the founder of vAuto, gave a special presentation at the CATA on May 17, "A View of Margin Compression & Mobile Convergence."

vAuto is a software company centered on a specific inventory-management product for car dealers, and Pollak has been regarded as a guru of auto retailing. The inventory-management system is designed to help dealerships select, price and sell vehicle stock based on marketplace supply-and-demand analytics.

A former dealer, Pollak has written books on his belief that running a successful used-car operation in the price-transparent internet age requires focusing more on volume than fat per-vehicle gross profits. When it comes to inventory, it's turn, baby, turn.

Pollak's so-called "velocity" philosophy is this: Hitting lots of doubles and singles rather than an occasional homer puts more runs on the board. It also prevents stranding a lot of vehicles on the lot because they are priced incorrectly or, because of local demand, shouldn't have been there in the first place. He called 20 percent to 30 percent of used-car inventories over-aged, "dead" stock.

He said: "A used car has always been like a cube of ice. It always dissipates."

Pollak said that dealers' investment in used vehicles has increased, yet the retail yield is down. "I don't think there is any reason to believe that trend will stop," he said. "Because of the internet, margins are compressed. Selling cars alone does not make money; dealers must become efficient."

Efficiency also is needed in the methods dealershipsuse to promote themselves. Pollak said that 90 percent of consumers spend time online but that 66 percent of dealers' advertising budgets are spent on traditional media outlets.

Reducing employee turnover can make great strides toward efficiency, said Pollak, who noted that four in

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CATA directors balloting continues till June 8

Ballots mailed May 25 to all CATA dealer members whose dues are up-to-date. Completed ballots must be received by 12 p.m. June 8 by Crowe Horwath, which is tabulating the returns.

Six candidates are competing for five open seats on the board: incumbents Jay Hopkins, Kevin Keefe, JC Phelan and Thomas F. Shirey; plus Ryan Kelly and Anthony Loquercio.

Auto sales expected to lift in May, Edmunds projects

Edmunds forecast that 1,565,683 new cars and trucks would be sold in the U.S. in May for an estimated seasonally adjusted annual rate of 16.7 million. That would reflect a 16 percent increase in sales from April 2018 and a 3.5 percent increase from May 2017.

"The summer selling season is off to a healthy start," said Jeremy Acevedo, Edmunds manager of industry analysis. "Despite rising gas prices, shoppers are clearly demonstrating their confidence in the strength of the economy as they continue to seek out larger, more expensive vehicles."

Edmunds experts noted that Memorial Day sales events could contribute to the lift as well.

"Inventories of in-demand vehicles such as light trucks are still

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Will rising gas prices hurt SUV sales? An analyst sounds the alarm

Has the epitaph for the sedan been written a bit too soon?

With national gas prices at about $3 a gallon and generally rising, a prominent automotive industry watcher is pointing to changes she said could mean a boost for the lowly passenger car and spell trouble for big trucks and SUVs.

That position is a bit of a break from some other analysts who have downplayed the potential that gas price increases could change vehicle buying habits. They note that SUVs are more fuel efficient than in the past.

Maryann Keller, of the New York-area consulting firm Maryann Keller & Associates, has posted an article on the social media site LinkedIn that highlights some of the issues:

- "Gasoline prices are rising. Historical analysis shows that rapid gas price escalation tempers buyer enthusiasm for large vehicles.
- "The RVI Used-Vehicle Price Index segment analysis shows that wholesale prices of sedans are increasing while SUVs are decreasing.
- "Higher fuel prices coincide with the rising supply of late-model trucks and SUVs.
- "The used-vehicle market predicts the financial performance of many automotive-related companies."

Keller said that gas prices are up in part because of oil production cuts in Saudi Arabia and Russia, and she noted that these increases come as the summer driving season starts in less than two weeks.

This all follows Ford's highly publicized decision to stop selling most sedan models in the U.S. and General Motors' recent production cut announcement at the Ohio plant that makes the Chevy Cruze sedan. Fiat Chrysler Automobiles had previously jettisoned the Dodge Dart and Chrysler 200 to focus more on SUVs.

GM officials, including Chairman and CEO Mary Barra, have, however, said that passenger cars remain an important piece of the company's portfolio.

"Most automakers have reduced current output of their remaining sedans to reduce dealer inventory as well. It wouldn't be surprising to see these cuts being made just as gasoline prices are creeping up to a possible point where buyer preferences may again lean in favor of vehicles that offer lower operating costs, especially smaller CUVs and even sedans," Keller wrote.

Although she noted that it's early to declare a trend, Keller also pointed out that wholesale values for sedans were up while they dropped for large SUVs and pickups from March to April.

The potential market changes are playing out as the Trump administration is backing away from higher mileage requirements, a position that has prompted outrage and warnings from some consumer and environmental groups.

Robert Weissman, president of the advocacy group Public Citizen, was particularly pointed in his comments after Ford's sedan announcement:

"Fat on profits from SUV sales in the early 2000s, the Big Three automakers drove themselves to the brink of collapse with their failure to plan for the inevitable rise in gasoline prices."

Sales

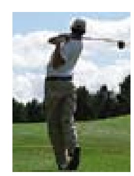
Continued from Page 1

running high, so automakers were motivated to make the holiday weekend sales event count," Acevedo said. "Depending on how shoppers responded, it could set the trend for even sweeter deals as we head deeper into the year."

Edmunds estimated that retail SAAR would come in at 13.6 million vehicles in May 2018, with fleet transactions accounting for 18.5 percent of total sales. An estimated 3.4 million used vehicles could be sold in May 2018, for a SAAR of 39.3 million (compared to 3.5 million — or a SAAR of 39.2 million — in April).

CATA golf outing June 12 at Cog Hill

Don't miss the fun at the association's annual outing! Full details at www.cata.info.



Pollak

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10 dealership employees tend to leave in a year. Among salespeople, the rate is 67 percent.

Looking ahead, Cox Automotive, the parent company of vAuto, projects that while 17.1 million new vehicles will be sold this year — 14.2 million retail, 2.9 million fleet — by 2034, the numbers will be 15.3 million — 6.6 million to fleets and just 8.7 million retail.

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Trump's proposed 'chicken tax' on auto imports is a very bad idea

By The Editorial Board
Washington Post

How different history might have been if the Europeans had not jacked up their tariffs on American frozen chicken imports in 1962. That attempt to protect French, German and Dutch poultry farms triggered U.S. retaliation in the form of a 25 percent tariff on light trucks, which applied worldwide — and has remained in force ever since, even with respect to one key auto producer, South Korea, with which the United States has subsequently made a free-trade agreement.

Thanks to protection from this "chicken tax," Ford, Chevrolet and Dodge have come to dominate the American pickup market, which is a good thing for them, because in 2017, passenger car sales fell 10.9 percent but light truck sales rose 4.3 percent, and because pickup sales are far more profitable than smaller-vehicle sales. In 2012, Morgan Stanley estimated that 90 percent of Ford's global profits came from sales of F-series trucks alone.

We rehearse these obscure facts to place President Trump's latest idea for trade policy in its proper context. By asking the Commerce Department to investigate the possibilities for imposing a 25 percent tariff on all automobile imports on national security grounds, Mr. Trump is essentially contemplating a chicken tax for the entire U.S.-based industry. Even by the standards of Mr. Trump's previous tariff proposals, this is a bad idea.

Mr. Trump's notion is a cure in search of a disease: Making money hand over fist from light trucks and SUVs, U.S. automakers are not clamoring for protection from car imports from the few countries that would be affected — such as Germany, Japan, China and South Korea, which accounted for about 3.3 million of the 17.5 million new light vehicles sold in the United States in 2015. (Canada and Mexico, sources of about 4 million vehicle imports combined in 2015, would be exempt from tariffs under the North American Free Trade Agreement, though that could change if Mr. Trump scraps that deal, too.)

No doubt U.S. manufacturers, both U.S.-headquartered and Asian and German "transplants," and their workers would reap a windfall. The United Auto Workers' president has voiced sympathy for Mr. Trump's proposal. However, it would come at the expense of the vast majority of Americans who do not make cars and who would find themselves paying higher prices for a more limited range of vehicle choices. Quality, too, would fall off if U.S. producers faced less healthy competition. Not to mention possible disruptions to global supply chains.

Under long-standing rules of international commerce, "national security" is meant to be a rare exception to the free-trade norm, for the very good reason that this rationale is susceptible to self-interested manipulation. By following steel and aluminum import levies previously, and dubiously, chalked up to national security with possible tariffs against consumer products from U.S. treaty allies, Mr. Trump demonstrates just how susceptible.

Japanese and European protection of their relatively small domestic auto markets is a legitimate concern that could, and should, be addressed aggressively, in the context of negotiations, such as those over the proposed trans-Atlantic and trans-Pacific trade deals Mr. Trump has spurned. What he is embarking upon now could turn into a game of protectionist chicken that U.S. consumers will lose.

Auto dealers work to uphold fair credit and consumer competition

By Wes Lutz
2018 NADA Chairman

Since 2013, the nation's franchised new-car dealers and industry allies have stood side-by-side and fought the Consumer Financial Protection Bureau to preserve the dealer assisted financing model, and its irrefutable benefit to all car-buying customers. In May, our customers won a major victory when Congress and the President voided the CFPB's 2013 guidance — a NADA priority for the last five years.

But our work is not done. I want to remind all franchised dealers who have not already done so to review and consider implementing the NADA's voluntary Fair Credit Compliance Policy & Program, which we released in 2014 with the American International Automobile Dealers Association and the National Association of Minority Automobile Dealers. Our program helps dealers to offer competitive rates to our customers while abiding by the nation's fair credit laws. It's good for our customers, good for our businesses, and implementing it is the right thing to do.

I cannot stress the benefits of this program enough. It is an effective approach to promote compliance with the federal Equal Credit Opportunity Act, while preserving flexibility for dealerships to allow customers to benefit from today's intensely competitive vehicle financing market. Our NADA program fully adopts — and adds to — the beneficial fair credit risk mitigation model that the Department of Justice developed in 2007 to resolve two fair credit cases involving dealerships.

Rising interest rates could doom some lenders

Rising interest rates will push more independent auto finance companies to close up shop following years of lending to deep-subprime consumers, said Michael Vogan, assistant director and lead auto economist for Moody's Analytics.

"A lot of [independent auto finance companies] are funded by private equity, and they were funded by the cheap capital in the market when interest rates were low," Vogan said during a presentation at the Auto Finance Performance and Compliance Summit. But now the day of reckoning has come, to some degree.

"The interest rate rise is going to affect them a lot, both in terms of their consumers — because given their precarious financial situation they are much more sensitive to monthly payment increases — and then also their capital is going to start dropping and their profit margins are going to get thinner as interest rates go up."

Though non-bank lenders started to pull back in 2016, 90-day delinquency rates have climbed above the peaks of the great recession. While Vogan doesn't believe a doomsday bubble is on the horizon, the delinquency rate is concerning, given the strength of the economy, he said.

"A 500 credit score in bad times could be someone who got unlucky, lost their job, and is going through a rough patch," he said. "Someone with a 500 credit score during a good economy — that's a signal that something is wrong."

While subprime credit degradation is occurring across the board, Moody's found that bank customers performed better than non-bank customers with comparable credit scores. "[The difference is] banks have a lot more regulatory scrutiny than these auto finance lenders," Vogan said. "When [banks] originate, they are much more likely to dot their i's and cross their t's."

Collision schools seek scrap parts

To borrow a phrase, one man's pile of damaged bumper covers is another man's gold.

The Collision Repair Education Foundation, a nonprofit 501(c)3 charity based in Hoffman Estates, is in search of spare automobile parts — fenders, hoods and the like — for donation to local high school and college collision school programs.

The parts enable students to practice collision repair and make the students more productive and efficient entry-level employees upon graduation.

Dealerships with body shops can help the nonprofit foundation remove the financial barriers that program instructors face with limited program budgets. Please consider removing the discarded parts from dumpsters and putting them into the hands of the local school programs.

And maybe the best aspect: Parts donated to schools through the Foundation are tax-deductible. To arrange for a donation, contact the Foundation's Brandon Eckenrode at brandon.eckenrode@ed-foundation.org.

'Climate change is real,' carmakers tell White House in letter

Automakers have urged the White House to cooperate with California officials in a coming rewrite of vehicle efficiency standards, saying "climate change is real."

The plea came in an early May letter to the White House's Office of Management and Budget from the Alliance of Automobile Manufacturers, the industry's leading trade group. It said carmakers "strongly support" continued alignment between federal mileage standards and those set by California. Twelve carmakers are members of the Alliance.

"Automakers remain committed to increasing fuel efficiency requirements, which yield everyday fuel savings for consumers while also reducing emissions -- because climate change is real and we have a continuing role in reducing greenhouse gases and improving fuel efficiency," David Schwietert, executive vice president of federal government relations at the Alliance, wrote in the letter.

The letter came roughly a week before President Donald Trump signaled he was open to talks with California on mileage standards. The direction came after the administration's April ruling that the Obama administration standards for model years 2022-2025 were too aggressive and needed to be eased.

Court battle threat

Officials from the state have pledged to fight a Trump-led rollback, setting up a potential messy legal battle and the risk of different mileage requirements in California and 12 additional states that follow its rules.

"Operating under two or three sets of regulations would be inefficient and disrupt a period of rapid innovation in the auto industry," Schwietert wrote, adding that fractured rules could have negative consequences for the roughly 7 million people employed directly or indirectly by the American auto industry.

A joint proposal for revised mileage targets from the Environmental Protection Agency and National Highway Traffic Safety Administration is still in the works and could be released by early June. A leaked draft of the proposal, led by the NHTSA, recommended freezing mileage requirements at a 37-miles-per-gallon fleet average from 2020 through 2026 instead of increasing each year to eventually reach about 50 miles per gallon.