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Young consumers' trust in dealerships increases as online activity increases

The wholesale rush of car buying online has jangled traditional auto dealers, forced them to rethink their business models and nudged many into exiting the business altogether. But for those dealers who stick around, the takeover by e-commerce during the pandemic ironically may provide a big benefit.

Young consumers are more likely to trust the auto sales process the more that it moves online. "For younger Americans," the rise of automotive e-commerce "has elevated trust," said Joanna Piacenza, head of industry intelligence for Morning Consult.

Her insight is based in part on a new survey conducted by the Washington, D.C.-based market-research firm of 4,400 adults to gauge their trust in the auto industry and how it's built — and hurt.

"It's meeting them where they are. They're used to conducting sales on their phone. Don't make them get up and go to a car dealership. They're used to the online platform. And if they're suspicious about anything, they know exactly how to go on the web site where they can gut-check something.

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Techs end 8-week strike

Unionized technicians ended their longest strike since 1975 when they voted Sept. 26 to ratify a new four-year collective bargaining agreement. Work had stopped Aug. 1 when the previous pact expired.

More than 800 technicians initially walked off the job at 56 area new-car dealerships. About 600 mechanics at 35 dealerships remained on strike until the vote after 21 dealerships broke ranks with the New Car Dealer Committee and signed deals with the union during the course of the eight-week walkout.

At issue were such matters as base pay guarantee for technicians and dealership contributions to the union's health and welfare fund.

Dealers at nonunionized stores who are interested in details of the new contract should contact Chris Konecki, the CATA's executive vice president, at ckonecki@drivechicago.com.

Vehicle shoppers leaving market as inventory shortages continue

Nearly half of car shoppers are exiting the market and delaying their purchase for the next several months due to the impacts of the global microchip shortage on the automotive industry, according to consumer research reported Sept. 21 by Kelley Blue Book.

The survey, taken in late August, also reveals further details about car shoppers' current perspectives and intentions given the state of an automotive marketplace plagued by inventory shortages and record-high vehicle prices.

"The latest research indicates that most consumers anticipate negative impacts on the automotive market due to the chip shortage, from increased prices to inventory shortages and longer delivery times," said Vanessa Ton of Kelley Blue Book. "With a large portion of the in-market population now saying they plan to delay their purchase given the current market conditions, it will be interesting to see how that could impact the ongoing delicate balance of supply, demand and pricing across the industry. Long term, OEMs are likely experimenting with made-to-order deliveries for consumers."

Among in-market shoppers, 48% say they are likely to postpone their purchase due to the chip shortage. Of those likely to postpone, most plan to wait at least several months: 40% said three-to-six months, and 12% said one-to-two months. Shoppers who do not plan to postpone understand that they may need to make some changes to their

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Supply chain woes could cost automakers $210 billion in ’21: forecast

Global automakers could lose $210 billion in revenue this year because of supply chain disruptions, nearly double a forecast earlier this year, consulting firm Alixpartners said Sept. 23.

A shortage of semiconductors is just part of the problem, Alixpartners said in its new forecast. High prices and tight supplies of commodities such as steel and plastic resin are driving up costs and forcing automakers to curtail production.

Automakers are on track to lose production of 7.7 million vehicles in 2021, according to the new forecast. Alixpartners advises automakers on supply chain and other issues.

In May, the firm predicted automakers would lose $110 billion in revenue and fall 3.9 million vehicles short of production plans for the year.

The dour new forecast comes amid warnings from automakers and commercial truck manufacturers that semiconductor shortages and commodity price spikes are not easing as 2021 heads into its final months, as industry executives had hoped they would.

IHS Markit in September slashed its global auto industry production outlook for 2021 and 2022.

In the U.S. market, vehicle sales have begun to slow because inventories on dealer lots are about 20 days’ supply, less than half the normal levels, said Dan Hearsch, a managing director in Alixpartners’ auto practice.

“We had originally assumed we would get back to normal and claw back volume” in the fourth quarter, Hearsch told Reuters. “That is not going to happen.”

Instead, automakers could have tight inventories until late 2022 or early 2023, he said.

Supplies of semiconductors have been hit in the past few months by a COVID surge in Malaysia, which has hobbled production at important suppliers.

Backlogs at major U.S. ports are hampering efforts by auto manufacturers to import more plastic resins and steel, he said.

In response, automakers are committing to longer contracts to lock in supplies, buying as much as 40-50 weeks in advance, Hearsch said.

“They are signing up for things they would never have done a year ago,” he said.

AIADA campaigns against EV tax credit considered by Congress

The American International Automobile Dealers Association on Sept. 27 launched an awareness campaign to highlight the employment and environmental consequences that would result from the severe limitations of a proposed new tax credit for electric vehicles.

“There are more than 50 EV models sold in the U.S., but Congress’s proposed new $4,500 tax credit will apply only to five union-made cars,” said Cody Lusk, president and CEO of the AIADA.

“This rule undermines consumer choice and competition, it treats non-union autoworkers and international dealers unfairly, and it absolutely runs counter to the goal of an EV tax credit, which is reducing carbon emissions by getting as many green vehicles on the road as possible.”

The AIADA’s campaign is attempting to bring attention to the consequences of what it calls an unfair tax credit proposal, including:

• Fewer EVs will be sold because of the severe restrictions of the EV tax credit. This, in turn, will mean slower progress toward reducing America’s carbon emissions.

• The proposed tax credit threatens the livelihoods of American workers. The U.S. ecosystem of international autos — including dozens of non-union plants and thousands of dealerships — supports nearly 700,000 American jobs. The tax credit would lower sales of non-union international brand EVs, jeopardizing the jobs of Americans who work in that innovative and competitive sector.

• The proposed tax credit would benefit some regions of the country, such as the Midwest, at the expense of others, including southeastern states such as Alabama and Georgia. The tax credit would reduce payroll and economic activity in states and communities that provide a home for non-union auto plants.

“The solution is simple,” Lusk said. “Congress should ensure the tax credit proposal applies to both union and non-union made EVs. It’s wrong for lawmakers to pick winners and losers among American workers.”

Established in 1970, the AIADA is the national trade association representing America’s 9,400 international nameplate dealers.

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Erik K. Higgins — Editor, Director of Dealer Affairs

Profit potential of impending Ill. legislation focus of special meeting

Date: Monday, Oct. 18

Where: Rich Harvest Farms, a private golf course and country club near Sugar Grove

Host: Dynatron Software

MEETING PURPOSE

Review of new revenue opportunities stemming from OEM warranty legislation effective Jan 1. As you may be aware, House Bill 3940 was signed and takes effect Jan 1, 2022. This groundbreaking legislation requires your IMMEDIATE ATTENTION to capitalize on significant short-term net profit impact.

AGENDA

• 11:00-11:45 a.m.: CATA introduction and business meeting to review financial opportunity associated with new legislation, to be held in the private auto collection and museum of Jerome "Jerry" Rich, the estate's owner and president.

• 11:45 a.m.-12:30 p.m.: Lunch and tours of the Auto Collection and Museum

• 12:30 p.m.: Practice and warmup

• 1:00 p.m.: Shotgun start (Dealers only)

HOW TO REGISTER

RSVP is required. To RSVP, please visit www.dynatronsoftware.com/golf. Please indicate if you will be joining for just lunch and meeting or if you will be joining for lunch, meeting and golf. Limited golf spots are available, so please be certain of your availability before RSVPing.

No tax credits for paid Families First COVID leave after Sept. 30

The Families First Coronavirus Response Act (FFCRA) established a *mandatory* obligation to provide employees with paid emergency sick and family medical leave until Dec. 31, 2020. Since then, dealerships have had access to tax credits to offset the cost of any such leave provided to their employees *voluntarily*. Unless extended by Congress (which appears unlikely) those tax credits *were available for FFCRA leave provided on or before Sept. 30, 2021*.

With the end of these tax credits, dealerships should:

1. Determine if they will provide voluntary paid leave for any (or all) of the permissible FFCRA purposes through Sept. 30, 2021;

2. Take advantage of the tax credits available for any such paid leave; and

3. Review existing leave policies and applicable family and medical leave mandates, for their potential application to leave requests for FFCRA-type purposes. Important: State and local law may impose leave mandates over and above those imposed by federal law.

Questions can be submitted to regulatoryaffairs@nada.org.

September sales expected to fall to lowest volume since Great Recession

U.S. light-vehicle sales volume in September was projected to fall to its lowest September level since 2009, according to a forecast by Cox Automotive.

Cox predicted that sales would drop to 1 million units in the just-concluded month, down 26% from a year ago. There have been only three months of below 1 million volume in the past decade, according to Cox.

Many U.S. automakers planned to report September and third-quarter light-vehicle sales on Oct. 1, as they continued to idle plants intermittently to redirect scarce semiconductor microchips. AutoForecast Solutions estimated the global auto industry has lost 8.9 million vehicles from production plans because of the chip crisis, including 2.9 million in North America.

Cox expected the September sales pace, or the seasonally adjusted annual rate (SAAR), to fall to about 12.1 million vehicles, the slowest pace since May 2020, when much of the country was shut down in the early months of the coronavirus pandemic. That pace is down about 1 million vehicles from August and about 4 million units from the sales rate set in September 2020.

September would mark the fifth straight month of U.S. light-vehicle SAAR declines. In each of those months, the sales pace has declined by more than a million units. Stock on dealership lots has sunk 58% since 12 months ago, down by nearly 1.4 million units, Cox said.

"After a strong spring selling season, the supply situation has worsened precipitously and is dragging sales down with it," Charlie Chesbrough, Cox Automotive senior economist, said in a statement.

No vehicle segments bolstered sales in September, Cox said. The largest year-over-year decreases were in the midsize car segment at 41% and the compact crossover segment at 33.7%

With the September sales drop, Cox expected third-quarter volume to drop 14% from a year ago and 22% from the third quarter of 2019.

Consumer demand is strong, but inventory on dealers' lots has remained sparse.

Officials charge 6 with operating multistate vehicle theft ring

A new Illinois task force battling retail theft charged five men and a woman on Sept. 28 with running a multistate car theft ring.

Anthony Brown (who, as a rapper, goes by Tony Sosa), 40, of Lansing; and Sierra Wells, 27, of Orland Park allegedly obtained high-value vehicles by defrauding dealerships and financial institutions of about $100,000 by using stolen and fraudulent identities. The pair face up to 30 years in prison.

Illinois Attorney General Kwame Raoul said his office worked with police from Barrington and West Chicago to investigate a pattern of seemingly isolated retail automobile thefts. The investigation spanned years and involved thefts in Illinois and other states. Entities in the banking, insurance and automotive industries helped identify organizers of the crimes.

Accomplices Kevin Bandy, 48; DeAngelo Hackney, 30; James Krout, 47; and Zebedee Moore, 48, were charged with identity theft, aggravated possession of a stolen motor vehicle, theft by deception, financial institution fraud, and forgery, charges which could bring up to 15 years in prison.

"These indictments allege that the defendants orchestrated and executed a complex fraud operation that crossed county and even state lines to steal expensive luxury vehicles and defraud car dealerships and financial institutions in the process," Raoul said.

"I appreciate the critical support from our federal and local law enforcement partners as well as our retail partners. Today's charges demonstrate the importance of partnerships and collaborations in order to better protect communities and hold individuals accountable for these complex criminal operations."

Raoul's office was supported during the investigation and prosecution by the state's attorney offices of Robert Berlin in DuPage County and Kimberly Foxx in Cook County.

Shortages

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plans to be able to purchase a vehicle sooner rather than later. Among shoppers who said they would not postpone their purchase, 25% said they would consider switching brands, 19% said they would consider changing vehicle categories, and 18% said they would consider shifting from purchasing new to used.

Slightly more than a third (35%) of all surveyed in-market shoppers said they are willing to pay above MSRP, further indicating they would pay up to a 13% premium, or roughly $5,600 more based on Kelley Blue Book's latest average transaction prices. In addition, three-quarters of consumers are willing to drive outside their local area for a vehicle, with most shoppers willing to drive 50-200 miles; however, fewer than 20% would drive more than 200 miles.

In addition, many shoppers said they are willing to make some changes to their vehicle purchase plans due to the chip shortage. Among all in-market shoppers surveyed, 35% said they would shift from an import to a domestic brand, 32% said they would switch brands they are considering, and 31% said they would shift vehicle categories. Further, 38% said they would shift from buying a new vehicle to a used vehicle, but only 18% said they would consider shifting from buying used to new.

In general, overall awareness of the chip shortage among car shoppers is high. More than half of shoppers (58%) are aware of the cause of the shortage, and 71% are familiar with the effects of the shortage on the automotive market. Other findings:

• An overwhelming majority (90%) of shoppers are aware of the new-vehicle inventory shortage problem at dealerships, and they understand there are significant impacts to their car-buying experience;

• 84% think the vehicle with their desired options/specs will take longer;

• 83% think the vehicle of their desired category will take longer;

• 69% think prices will increase; and

• 61% think there will be less favorable deals/incentives available.

Shoppers also seem to understand that the issue mostly is industry-wide.

Trust

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They're used to this interface. It's going to increase their trust in the industry."

On the other hand, Piacenza said, the U.S. automakers' growing problem with microchip shortages is eroding trust by consumers in the entire industry and in specific brands. As the shortages continue to whack the output of the companies' factories — depleting inventories, strapping selection, delaying deliveries and inflating prices — would-be car buyers are getting increasingly frustrated, she said.

"There's a growing risk not necessarily of distrust but of consumer dissatisfaction with not getting the product they've saved up for and want to buy," Piacenza said. "It's not available because of the supply chain." She predicted the car shortage "will get worse before it gets better" and that if consumers "didn't buy a car during the pandemic surge, you should probably wait until after the chip shortage is over."