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Dealership advertising rebounds after year's pandemic disruption

Eighty-two percent of dealers said they would rely heavily on social media advertising such as Facebook and Instagram for the rest of this year, according to a new survey from automotive digital marketer PureCars.

Sixty-two percent said they would use direct marketing channels, and 61% would use SEO/search marketing efforts to reach customers.

The PureCars survey found that dealers' digital advertising strategies have shifted since the beginning of the COVID-19 pandemic and so have their advertising strategy plans for the remainder of the year.

"It goes without saying that dealership advertising patterns were most disrupted in the spring, following the initial outbreak of COVID-19," PureCars chief executive Jeremy Anspach said in a news release.

The survey also seems to illustrate a decline in interest for using traditional broadcast media for advertising. That represented the lowest percentage in the survey, at 33%. Traditional print media was next lowest, at 37%, followed by traditional media signage/billboard, at 38%.

Forty-eight percent of dealership executives mentioned connected TV as a conduit for reaching customers.

In addition to where and how dealers will spend their advertising dollars, PureCars also surveyed dealer participants about which messages they will convey to customers. PureCars said it was not surprising that 83% of dealers said they will use messages about COVID-19 cleanliness.

Sixty-seven percent said they would use messages about digital retail/contactless.

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FTC to host 'back to basics' ads seminar

The Federal Trade Commission and its regional partners in Cleveland, Ohio, will host a virtual workshop 12-2:45 p.m. CST Oct. 29 to discuss advertising and data security basics for small businesses.

The Green Lights & Red Flags: FTC Rules of the Road for Business workshop will bring together Ohio business owners and marketing execu-

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Auto forecasters see longer product cycles, fewer model trim levels

Automakers once vied to introduce redone vehicle models every five years or so, with midcycle refreshes along the way.

The thinking for the relatively rapid rotation: Fresh product rules the marketplace.

But expect auto companies to elongate those product cycles, both to save money and to redirect resources to other initiatives, such as electric- and autonomous-vehicle R&D, trend trackers said during a recent Society of Automotive Analysts webinar.

"We're seeing extensions of vehicle life cycles," says Joe Langley, IHS Markit's associate director of North America light vehicle production. "A few years ago, the race was for five-year, even four-year cycles."

IHS employees include more than 5,000 analysts, data scientists, financial experts and industry specialists.

Going forward, Langley foresees "seven to 10 years with midcycle updates."

Automakers suspended production in the spring amid the COVID-19 crisis, fearing widespread infection among factory workers. Plants have reopened with health precautions taken. But OEMs in many respects are "still in the restart stage," said Langley, who nonetheless is impressed by how adeptly

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Treasury issues final floor plan financing, bonus depreciation regs

The Treasury Department on Sept. 21 issued final regulations on the availability of bonus depreciation to motor vehicle dealers that Congress excluded from the limitation on the deductibility of business interest which was included in the Tax Cuts and Jobs Act of 2017. The final regulations largely reflect the determinations Treasury made in the proposed regulations it released in September 2019.

Key features of the final regulations that the National Automobile Dealers Association urged Treasury to adopt include:

• Dealers whose total business interest, including floor plan financing interest, is below the statutory cap on interest deductibility (which was 30% of a dealer's adjusted taxable income but was expanded by the CARES Act to 50% for 2020, as well as 2019 for corporations) are eligible for bonus depreciation;

• The determination of a dealer's eligibility for bonus depreciation is made on an annual basis (meaning ineligibility one year does not necessarily preclude eligibility the next year); and

• The IRS will promulgate transition rules for dealers who elected out of bonus depreciation or who reduced their floor plan financing in 2018.

The amount of business interest dealers deduct is a straight calculation (meaning it may not be limited to an amount below the statutory threshold in order to provide access to bonus depreciation).

The NADA will soon release additional information on the final regulations. Dealers are encouraged to review this development with their tax advisor.

New-car sales in US are roaring back from earlier pandemic doldrums

U.S. demand for light vehicles has roared back since the sudden precipitous decline caused by COVID-19 that started in March and bottomed out at an annualized rate of 8.7 million in April — a 50-year low — with volume declining 46% year-over-year to 717,000 units.

Automakers increased and strategically placed incentives and attractive financing offers on certain vehicles, dealers adjusted to lockdowns by upping their online sales efforts among other things, pricing on used vehicles remained solid and sales came out of the pandemic doldrums faster than most expected.

By the end of the summer, while fleet volume was still flagging, retail vehicle sales were closing in on pre-recession totals.

Although growth is expected to temporarily flatten, with the final months of 2020 running at a 14.5 million-unit annualized rate, that count still is well above April's trough. Currently, analysts expect the year's sales to end at 13.9 million units, well below the 17-plus million averaged over the past five years, but above many initial pandemic projections calling for a sub-13 million year.

After the pause, sales are expected to continue sequential growth later in 2021. However, there is more upside opportunity than downside to the 2020 forecast.

One reason is pure momentum. Sales have continually surprised on the high side since the spring, even after incentive spending came back down to Earth after spiking upward 26% year-over-year in April. Since then, there also have been cutbacks in long-term financing options.

What's mostly moderating short-term expectations are economic headwinds, such as permanent job and wage losses, as well as continued limited availability of new vehicles.

One consequence to the sharp growth in sales since April is that automakers are finding it tougher to restock dealers with new vehicles, leading to an extraordinarily high rate in turnover in recent months to meet demand.

That culminated with August sales volume equaling roughly half of the nationwide inventory the month started with, compared with typical turnover closer to one-third.

Widespread vehicle assembly plant shutdowns in the spring caused inventory to drop to 9-year lows and, based on projections, is not expected to improve much above that level over the rest of the year. Indeed, U.S. light-vehicle inventory ended August at 2.6 million units, down 26% year-over-year and lowest for the month since 2011's 2.0 million.

There still is enough uncertainty in the current environment that pegging sales over the final four months of the year at a specific annualized rate is even more problematic than usual.

By the numbers, sales can run higher than projected depending on how much above normal dealers can continue turning over inventory — which might become more challenging when the '21 models, with their mostly higher prices, become widely available in the fourth quarter.

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Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

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Erik K. Higgins — Editor, Director of Dealer Affairs

Nominating underway for AIADA's Mungenast Award

The David F. Mungenast Sr. Lifetime Achievement Award is presented annually to a member of the international nameplate auto retail industry who embodies an unrivaled commitment to his/her dealership and employees, community, and family. It is presented during American International Automobile Dealers Association's annual meeting.

The dealer association's board of directors created the award to honor the memory of Mungenast, a former AIADA member who also served as its chairman in 1998. He was known by family members, employees, and those in the industry and community as their founder, mentor, employer, and friend. Dave Sr. and his wife, Barbara, were both dedicated to giving back to the communities that helped make them successful.

Consider the requirements and fill out the nomination form to nominate an outstanding member of our industry for this award. Please return the nomination forms must be submitted by Oct. 31 to the AIADA by mail, e-mail, or fax. The winner will be announced at the association's 51st annual meeting & luncheon in January.

BBB accepting 2020 Torch Award nominations

Nominations for the 2020 Torch Award for Marketplace Ethics, the Better Business Bureau's most prestigious award, will be accepted through Oct. 9. Five winners will be named, based on the companies' number of employees.

Businesses must be located in northern Illinois. Recent winners include Mancuso Motorsports in Chicago and Advantage Chevrolet of Bolingbrook.

Judges will evaluate the entrants using five criteria:

• Leadership Commitment to Ethical Practices

• Communication of Ethical Practices

• Leadership Practices to Unify the Organization

• Organizational Commitment to Performance Management Practices

• Organizational Commitment to Ethical Human Resource Practices

Full details are on a BBB webpage, https://www.bbb.org/chicago/torch-awards/online-entry-form/

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factories have resumed operations. It hasn't been as simple as turning the lights back on.

The temporary plant closures led to inventory shortages because even though production had stopped, sales didn't, although at a slower pace compared with pre-virus projections.

IHS now predicts North American production of 12.8 million vehicles this year. That's 3.5 million fewer than forecasts in January, before COVID took hold. The forecast for 2026 is 16.7 million units.

Automakers this year are launching fewer vehicles than normal, noted webinar panelist George Augustaitis, director of automotive industry and economic analysis for CarGurus, an online automotive marketplace.

"We're seeing delays in launches," he said, citing production and marketing issues. "It's tough to launch a vehicle now."

COVID's economic impact hit low-wage earners the hardest, he said, referring to the immediate outlook for new-vehicle sales. "They have not fully returned to the new-car market."

In contrast, few high-wage earners ever left that market while middle-income people are coming back, Augustaitis said.

Many people of limited means who still once bought new vehicles will migrate to the used-car market, he predicts. "They are leaving the new-vehicle market. The most price-sensitive consumers are the most affected" by the economic damage the virus has wrought.

Although COVID may have accelerated the swing from new-car to used-car buying among some budget-minded consumers, the virus didn't start the shift. New-car affordability issues that send many consumers to the used-car lot have been evident for a few years.

In addition to lengthening product cycles, automakers also are expected to reduce model trim levels to cut costs, analysts say. "It goes a long way economically," Langley said.

It also allows automakers to redirect more resources to electric- and autonomous-vehicle development, said Kevin Riddell, LMC Automotive's senior manager of U.S. powertrain forecasting.

LMC in January had predicted U.S. EV sales of 288,000 this year. After COVID took root, the firm downsized that forecast to 199,000, or a 1.5% market share.

Riddell is bullish on EVs. "There are a lot of tailwinds," he said while forecasting growing sales. "A lot of EV products are in the pipeline. Incentives continue. OEMs (particularly companies such as General Motors and Volkswagen) are heavy into electrification research and development."

LMC predicts EV sales in the U.S. will hit 1 million in 2024.

Advertising

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tives with national and state legal experts to provide practical insights to business and legal professionals about how established consumer protection principles apply in today's fast-paced marketplace.

The workshop will begin with a discussion of how small businesses can protect themselves from scams. Featured speakers will include Andrew Smith, director of the FTC's Bureau of Consumer Protection; Rebecca Schlag, Ohio's senior assistant attorney general for consumer protection; and officials from the Cuyahoga County (Ohio) Department of Consumer Affairs the Better Business Bureau serving greater Cleveland.

The workshop also will include discussions on truth-in-advertising law, social media marketing, consumer reviews, children's online privacy, email marketing, data security basics, and practical tips on responding to a cyberattack.

The full agenda and other information can be found on the event page. The workshop will be 12-2:45 p.m. CDT. Those interested in attending the virtual event should register using the registration link on the event page.

The event is sponsored by the FTC and officials in Ohio. The workshop continues a popular series of business seminars that the FTC and its regional partners have held over the years in cities nationwide. The FTC relaunched the series in 2019 with an event in Atlanta.

The FTC works to promote competition, and protect and educate consumers. Learn more about consumer topics and file a consumer complaint online or by calling (877) 382-4357 [FTC-HELP].

Forecast

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PureCars said a surprising survey result was that dealers are choosing to promote payment over price as their advertising message. Sixty-seven percent said they promoted F&I options. That is followed by great offers at 64%, and trade-ins at 63%.

Anspach said after the spring disruption in dealership advertising patterns, dealers "quickly regrouped," and dealership advertising has shown a steady rebound through summer and into fall.

"The dealers surveyed confirmed what we're already seeing, which is a boost in digital advertising plans for the balance of year and into 2021," Anspach said. "We've seen dealers invest in channels and tactics they never considered as critical prior to 2020.

"These unprecedented times have forced dealers to rethink their digital advertising and sales strategies, inspiring more creative approaches to solving tactical, as well as operational, challenges that have yielded impressive results, benefiting both dealers and consumers."

Time to elect to be off of LIFO?

By Brian T. Wallace, CPA & Partner
Withum

With industry-wide inventory shortages abound, many dealers have struggled to hold on to incoming inventory to meet the market demands. With some of the fluctuations in sales for new- and used-car dealerships, it will pose some problems going into year-end tax planning scenarios for those that have been valuing inventory under the LIFO accounting method.

Depending on the size of your LIFO reserve and the size of your inventory now in relation to the prior year, you could be in for a sizable income pick-up which could have an impact on future tax scenarios for either the dealership or the pass-through owners.

This, combined with expected income pick-up associated with PPP loan forgiveness (note that the expenses contributing to the non-taxable forgiveness income are nondeductible essentially making the forgiveness itself taxable), could combine for a one-two punch that hinders your dealership's cash flow coming out of the first quarter of 2021.

One consideration would be electing off of LIFO.

Typically, with an accounting method change, you could elect to take in the reserve evenly over four years, reducing your potential tax event in the current year and taking advantage of what remains of some of the more favorable tax years ahead (think qualified business income (QBI) deduction). Not only would this apply for new-car LIFO but, it could apply to many other inventory-based tax deferrals including dealer trade discounts.

Make sure you consult with your dealership tax professionals at year-end planning to make sure a proper LIFO estimate is indexed. While dealers are coming out of some record-breaking gross profit months, it still is important to keep cash reserves, and good tax planning is key to making sure the cash remains in your dealership in times when it is needed.

I am working with local and national industry groups to assess the need for congressional relief, as this clearly is an unintended consequence of the government-mandated shutdowns associated with the COVID-19 pandemic. However, dealerships should not count on this relief and should reach out to their tax advisors to develop a strategy to minimize tax liabilities and help dealers hang onto cash.

Withum was named by Forbes in 2020 as being among America's top recommended tax and accounting firms.