Volume 116, No. 7 April 8, 2019

Chinese automaker Zotye to pitch area franchises at April 10 meeting

As part of its goal to be the first Chinese automaker to sell vehicles in the U.S. under its own Chinese brand name, Zotye Automobile will host an April 10 meeting in Chicago for prospective franchisees.

The new company will be known as Zotye USA and headquartered in Lake Forest, California. Retail U.S. sales are expected to begin in late 2020. The company is considering filling eight open points in Illinois, including in Aurora, Chicago, Elgin, Joliet and Naperville.

The April 10 meeting in Chicago is 9:30 a.m.-12 p.m. at Marriott Chicago O'Hare, 8535 W. Higgins Rd., Chicago. Lunch will be served following the meeting.

Zotye's first model, the T600, is a compact SUV currently being developed for North America. The company will follow that with a mid-size SUV and a full-size SUV by 2023.

Zotye (pronounced ZOH-tay) announced its first 19 U.S. dealerships in January.

Peugeot accelerates plans to re-enter U.S. market

Peugeot's parent company, PSA Group, said the carmaker would begin exporting a selection of models to the U.S. and Canada within three to four years, sooner than a previous timeline of delivering Peugeots to the U.S. by 2026.

The plan follows reports that Fiat Chrysler Automobiles rebuffed an overture from Peugeot to explore a combination between the automakers. Such a deal would turn PSA Group — owner of the Peugeot, Citroën and Opel brands — into a player in the U.S. overnight.

But Carlos Tavares, PSA's chief executive, said that rather than building a traditional dealer network, Peugeot had identified a "relatively innovative" way of distributing cars that included selling online but that would also allow customers to test-drive its vehicles.

"Because people don't know our products, they're not going to buy just based on what they see on the screen," he said.

Tavares said PSA would not build any assembly plants before they could be supported by sales volumes. Vehicles will be imported from PSA factories in Europe "and/or" China, depending on the result of trade negotiations with the Trump

See **Peugeot**, Page 4

Legislation to open dealerships on Sundays stalls

Time has expired on Illinois Sen. Jim Oberweis's sixth attempt to open the state's dealerships to sales on Sundays, with the latest bill failing to move out of committee by March 22.

Senate Bill 22, which Oberweis, R-Sugar Grove, referred to as the Religious Equity Act, would have allowed for the sale of motor vehicles on any six days of the week chosen by the business owner, instead of on any day but Sunday, as the Illinois Vehicle Code currently allows.

The legislation was a repeat of last year's Freedom to Choose Act, also introduced by Oberweis, which would have allowed dealerships the opportunity to be open on any six days of the week of their choice, including Sunday. Oberweis reasoned that if one dealership opened on Sundays, many others would follow.

Sunday car sales have been banned in Illinois since 1984. Automobile dealers largely supported the ban when it was enacted because it gives them a chance to close one day a week, giving workers a day off and saving the business the cost of opening. The Chicago Automobile Trade Association still supports the Sunday ban.

NADA Workforce Study input accepted through May 15

By Charlie Gilchrist
2019 NADA Chairman

The National Automobile Dealers Association projects that U.S. dealers will sell 16.8 million new vehicles in 2019. Along with that sales forecast is the major challenge of attracting and keeping talented employees in our dealerships.

Understanding the strengths and weaknesses of our businesses is critical, so there is no reason why every NADA member shouldn't participate in the NADA's 2019 Dealership Workforce Study (DWS).

The men and women working in our dealerships are the core of our business, and their passion and professionalism count more than ever in today's retail market. The NADA study continues to be the industry's most comprehensive analysis of our workforce, and it's open to all NADA and ATD members.

As a business owner, I have utilized this great management tool for years. It has helped me make informed recruiting and hiring decisions, which is especially important considering the industry's critical service technician shortage. It's no longer enough to simply find and place people in open positions. We need to make a concerted effort to place the best people in our dealerships for the long term.

There is no cost to participate in the study. Dealerships that do receive a complimentary custom report comparing their individual store's status to the aggregated data of other participating dealerships, regionally and nationally. Important measurements include compensation for 60 job positions, employee benefits programs, hours of operation and retention vs. turnover data. Dealers will also receive a complimentary Trends Report with analysis of workforce data across the nation and by region. This report reveals broad trends across our industry, including hiring and retention trends and the generational and demographic makeup of the dealership workforce.

It also includes a forecast for the future and an economic overview. And every participating dealer will receive free access to the DWS database and search tools.

Congratulations!

Rod Baker Ford Sales (Plainfield), **Bredemann Ford** (Glenview), **Highland Park Ford-Lincoln**, **River View Ford** (Oswego), **Van Drunen Ford** (Homewood), **Westfield Ford** (Countryside), and **Wickstrom Ford** (Barrington) are winners of Ford Credit's 2018 Partners in Quality Award, for high levels of customer satisfaction and loyalty to Ford Credit.

Continental Honda, in Countryside, is a Silver-level winner of Honda's Environmental Leadership Award, for making significant reductions in energy consumption.

Continental Acura of Naperville and **Muller's Woodfield Acura** (Hoffman Estates) are Gold medal recipients of Acura's Environmental Leadership Program for reducing their stores' carbon footprint.

Jim Thomas, of **Thomas Dodge-Chrysler-Jeep-Ram**, in Highland, Ind., is a February graduate of the NADA Academy.

Continental Honda (Countryside) and **Valley Honda** (Aurora) are recipients of Honda's 2018 President's Award.

Autohaus on Edens (Northbrook), **Karl Knauz Motors** (Lake Bluff), **Loeber Motors** (Lincolnwood), **Mercedes-Benz of Chicago**, **Mercedes-Benz of Hoffman Estates**, **Mercedes-Benz of St. Charles**, and **Motor Werks of Barrington** are Silver Laurel winners of Mercedes-Benz's Best of the Best Award.

Eleven area dealerships earned Edmunds' 2019 Five Star Premier Dealer designation for receiving an average customer sales review rating of at least 4.5 stars during 2018: **Advantage Chevrolet of Bolingbrook**, **Continental Honda** (Countryside), **Continental Nissan** (Countryside), **Elgin Hyundai**, **Elgin Toyota** (Streamwood), **Gerald Hyundai** (North Aurora), **Gerald Kia of Naperville**, **Gerald Nissan of North Aurora**, **Gerald Subaru of Naperville**, **Gerald Subaru of North Aurora**, and **Joe Rizza Acura** (Orland Park).

Marketplace

Bids will be accepted until April 30 to purchase a bankrupt Nissan dealership and lease the land in Schererville, Ind. A completed dealer application must accompany any bid. Accepted bidders will be invited to a live auction on May 21 to determine the winning bid.

For more information, contact Mike Shanahan at (317) 839-4240 or Mike@IndianaDealerCounsel.com.

The CATA Bulletin is produced by the
Chicago Automobile Trade Association
18W200 Butterfield Rd. Oakbrook Terrace, IL 60181-4810

The CATA Bulletin is distributed via blast email every other Friday except during the Chicago Auto Show, when it is not produced.
Listings of items for sale are subject to the approval of the CATA. Candidates for employment must submit a full resume to the Editor.
Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

David E. Sloan President, Publisher
Erik K. Higgins Editor, Director of Dealer Affairs

Auto industry is overdue a bout of mega-mergers

By David Fickling
Bloomberg Opinion columnist

Love is in the air again among the world's automotive manufacturers.

The alliance of Renault, Nissan and Mitsubishi aims to restart merger talks in 12 months before moving on to a takeover of Fiat Chrysler Automobiles NV, the Financial Times reported in late March. Peugeot-owner PSA Group is also looking to build a partnership with Fiat Chrysler. Nissan Chief Executive Officer Hiroto Saikawa told the deposed alliance chairman Carlos Ghosn in an email last year that he'd been looking at bringing in a fourth manufacturer to the partnership, Bloomberg News's Ania Nussbaum and Jie Ma reported April 1.

For all the ambition behind such mega-deals, the fissiparous nationalist politics that have plagued the Renault-Nissan relationship seem more likely to win out, as my colleagues Chris Bryant and Anjani Trivedi wrote in late March. So why all the desperation to merge?

One underappreciated reason is that the car industry has become dangerously competitive.

Thanks to the decline of Detroit's giants, the rise of China's state-owned joint-venture partners, and the burgeoning success of mid-size car companies, the market share of the top four automotive companies has dropped precipitously over the past two decades. At the turn of the century, those firms accounted for more than two-thirds of industry revenue (levels over 50 percent are typically considered oligopolistic). In 2017, that had fallen to little more than one-third.

Of course, automotive sales are local even if companies are global. Toyota may only have about 11 percent of global revenue, but it accounts for almost half of unit sales in its home market. Volkswagen, the biggest carmaker by worldwide deliveries, sells fewer cars under its own marque in the U.S. than minnows like Kia or Subaru. A core strategy of General Motors CEO Mary Barra has been to retreat back to the company's U.S. market by shedding less-profitable overseas units, some of which had been held for nearly a century.

At the same time, carmakers are in a global fight for supremacy – one reason that figures like Ghosn have been such evangelists for a world of pooled manufacturing platforms and modular designs that can minimize the ferocious costs of developing new vehicles. That's especially crucial in the face of the triple threat from electric vehicles, autonomous driving and shared mobility.

The risks of duplicating capital and research & development expenditure in that environment can be brutal. At BMW, Volkswagen and Tata Motors' Jaguar Land Rover, R&D costs have risen to 6 percent or more of sales in recent years, producing some impressive innovations but cutting dangerously deep into profitability.

As a result, investors are disenchanted with the industry's prospects: The equity and debt of PSA, Fiat Chrysler, and Volkswagen could be bought for less than two years of their forecast Ebitda. By comparison, even in its current fallen state Facebook could be bought for 11.5 times Ebitda.

The flip side of those valuations and the current low cost of debt is that, by traditional metrics, it's phenomenally cheap to buy a carmaker if you're prepared to pay cash.

Even before assuming synergies, Nissan could buy Renault at a 70 percent premium and still double its earnings per share by 14 percent in the first year, based on Bloomberg's merger calculator. Daimler could pay a 30 percent premium for BMW shares and get a deal that was 70 percent accretive. Ford could buy Subaru at the same premium and watch earnings rise by 30 percent in the first year.

Of course, companies don't take over their rivals just because they're cheap. If investors hold a dim view of a stock's prospects, potential acquirers may make the same calculation. What's different right now, though, is that the industry desperately needs to consolidate and reduce the current ruinous levels of competition. Getting even bigger doesn't seem such a bad way of bringing about that future.

It's not clear that this necessary process can easily happen. As we've seen with the Renault-Nissan saga, the Trump administration's automotive tariff proposals, and Daimler's lukewarm response to an investment from Geely Automobile Holdings Ltd.'s parent, the global car industry seems to be getting more, not less nationalist. Things are likely to get worse before they get better.

Changes to the energy markets

By Tom Jankowiak
Utility Management Group

Changes to the energy industry are a constant and require constant monitoring. It's no secret that there's been an influx of suppliers to the Illinois market, with every supplier trying to make its quoted rate appear to be the most attractive. Negotiating the lowest rate for a dealership may not always translate to the lowest cost, as one of the changes we've seen is to suppliers' contract language.

Those changes define, among other things, under what conditions the supplier may change its rate. While every supplier gives itself the right to change rates in the event of increases from Com Ed, the question becomes whether other reasonable changes are allowed or if they give themselves the option to offer a low rate just to attract your business, only to raise it at a later time.

Regarding the natural gas market, every supplier has the option to offer three products: a variable rate; a fixed rate; and the option to store gas during the non-winter months, to be used during the winter months. All options have their benefits, depending on market conditions, which can vary from year to year.

The suppliers we recommend offer the option to take advantage of all of those options. Many suppliers have eliminated a customer's ability to store gas, an option that historically provides savings as well as budget certainty. Many of those suppliers are pushing customers towards one option: either riding the market completely or locking rates for 100 percent of their usage. Being limited to one option may be better and simpler for a supplier, but not for its customers.

These issues are ones that dealerships should consider when vetting suppliers. Since 2010, the Utility Management Group has been offering electric and natural gas programs sponsored by the CATA and will handle the supplier vetting for you, with the goal being to place dealers with a supplier which offers the best combination of price, service and billing accuracy.

Our organization offers a number of benefits that you can review at www.umgconsulting.com. However, two of the most important benefits we offer is monitoring the market for changes to supplier programs and vetting those suppliers for your dealership. UMG monitors those changes and the available solutions so that CATA members can concentrate on what's profitable for them: running their dealerships.

"As a recommended vendor of the CATA's Member Benefits Program, UMG has managed the electric and natural gas accounts of our association office since 2013", said Chris Konecki, CATA executive vice president. "Because of our relationship with UMG, we have saved more than $29,000 in electricity costs and $7,200 in natural gas costs over that period. This has been one of the most successful programs we have instituted for our association since the Member Benefits Program launched. UMG takes the hassle out of buying utilities and allows me to concentrate on other business."

Contact UMG at (630) 279-0117 to discuss your energy needs or to arrange a time to have a representative meet with you in person.

In Memoriam

Margaret M. "Margie" Webb, the mother of CATA director Kelly Webb Roberts, died March 25 at age 62.

Margie Hudetz graduated from St. Francis High School, in Wheaton, where she met her future husband, J. Michael "Mike" Webb. A faithful member of the Catholic Church and Covenant Member of the Wheaton Franciscans for many years, Mrs. Webb was dedicated to volunteering for many organizations and serving on numerous boards.

Other survivors include another daughter, Jacqueline; a son, Brian; and five grandchildren.

Memorial contributions appreciated to the Alzheimer's Association.

Peugeot

Continued from Page 1

administration.

"There won't be any huge investment on production up front and praying that the business case is good," he said. Nor will PSA invest heavily in building a dealer network, he said.

"We won't go conventional on our business model. We have a quite creative and disruptive way of distributing the cars," he said, adding that it was "too soon" to reveal it. "Scalability is the key word," Tavares said. "We'll take our time, because it's all about upside." "Once we step in, we won't step out."

Tavares's plan to re-enter the U.S. market carries risks. The market is dominated by pickups and large sport-utility vehicles — not the strong suits of Peugeot's lineup. The U.S. auto market also is past its peak, and well-established global brands including Ford, General Motors, Toyota, Nissan and Volkswagen have competed aggressively in recent years for those declining new-car sales.

The PSA Group has 18 percent of Europe's new-vehicle market.