Volume 116, No. 16 August 12, 2019

AG readies 6-figure fine against dealer

The Illinois attorney general's office continues to levy fines in excess of $100,000 against area dealerships for violations of the state's Motor Vehicle Advertising Regulations.

While enforcement actions have not accelerated lately, dealers should remember that the AG can be stern in its efforts to maintain a level playing field among area dealers and their ads.

How dealers could be biggest beneficiaries of Fed rate cut

According to data compiled by the National Automobile Dealers Association, the average amount of total expenses at a franchised store climbed by nearly $400,000 between 2016 and 2018, to more than $6.8 million.

During that time, the Federal Reserve raised interest rates eight times.

While "Money and Smoke" might seem like the clever title for the next Hollywood production about the financial world, leaders from KAR Auction Services and Cox Automotive with those names explained how the Fed's action involving interest rates might help dealers with those costs.

To recap, the Federal Reserve cut the target range for the federal funds rate by 25 basis points to 2.25 percent, marking the first downward move by the Federal Open Market Committee (FOMC) in 11 years.

In a nearly unanimous decision, Fed Chairman Jerome Powell led the charge of seven of the nine FOMC members who voted for the cut. The other two members wanted to leave the metric unchanged, as has been the case following the Fed's previous four opportunities this year to make an adjustment.

"As the year began, both the economy and monetary policy were in a good place," Powell said during a press conference on July 31. "The unemployment rate was below 4 percent, and inflation had been running near our 2 percent objective for nine months. Our interest rate target was at the low end of estimates of neutral.

"Over the first half of the year, the economy grew at a healthy pace and job gains pushed unemployment to near a half-century low," he continued. "Wages have

See **Fed**, Page 4

CATA matches dealer's donation to Arlington Heights nonprofit

The Chicago Automobile Trade Association recently matched Arlington Heights Ford's $500 contribution to Elite Stars Foundation, a charitable organization offering unique gymnastics programs to individuals with special needs, both developmental and physical.

"The CATA's Chicagoland Dealers Care match program not only helps our member dealers' dollars stretch a little further for these charities, but it also helps to put a spotlight on new-car dealers' generosity and charitable work within the communities," said CATA President David Sloan.

"During a visit to Elite Stars Foundation's practice facility, I was able to get an inside look at how this wonderful organization helps people with limiting disabilities," said Tony Guido, co-owner of Arlington Heights Ford. "As a local business and a dealership owner in Arlington Heights, we take pride in helping people in need right here within our community. Arlington Heights Ford applauds Elite Stars Foundation for all of its remarkable work helping individuals with special needs."

Elite Stars Foundation began its gymnastics training program 15 years ago to help individuals with special needs of all ages.

"Having a daughter with special needs in the Elite Stars program, I'm

See **Elite,** Page 2

Study recognizes the importance of loyalty to automakers

Customer loyalty could be the most important metric for vehicle manufacturers. The reason? It could lead customers to become "brand ambassadors," said Tyson Jominy.

"When a brand can connect emotionally with owners through the vehicle's content, capabilities or prestige level, owners are much more likely to come back and purchase that same brand again," Jominy, J.D. Power vice president of data and analytics, said in a news release.

Acknowledging the importance of loyalty as an automotive lifecycle component, J.D. Power announced the results of its inaugural J.D. Power 2019 U.S. Automotive Brand Loyalty Study. Ranking highest in their respective segments were Subaru for the mass market segment and Lexus in the luxury category.

Lexus led luxury brands with a 47.6 percent loyalty rate, while Subaru came out on top in the mass market brands category with a loyalty rate of 61.5 percent. Following Subaru and rounding out the top five in the mass market category were Toyota, Honda, RAM and Ford. Following Lexus in the luxury brand category: Mercedes-Benz, BMW, Porsche and Audi ranked Nos. 2 to 5.

J.D. Power said brand loyalty is important to automakers because it could lead to a customer repurchasing or leasing another vehicle from the same manufacturer. Also, that customer could be more likely to recommend the brand to acquaintances and family members who are looking for a new vehicle.

The study used data from the Power Information Network, calculating whether an owner purchased the same brand after trading in an existing vehicle on a new-vehicle purchase or lease.

J.D. Power bases customer loyalty on the percentage of vehicle owners who choose the same brand when they trade in or purchase their next vehicle. The company bases the study's calculations on transaction data from June 2018 through May 2019. It includes all model years traded in.

Elite

Continued from Page 1

able to see firsthand the incredible impact the organization has on these individuals," said Elite Stars Foundation President Michael Jones. "For the first time this year, the Elite Stars gymnastics team competed professionally in Orlando, Florida. It was such an amazing and emotional experience for the team, coaches, staff and parents of the athletes.

"We are so thankful to Arlington Heights Ford and the Chicago Automobile Trade Association for their collective donation of $1,000. That generous contribution will go a long way."

Elite Stars Foundation attracts gymnasts from throughout the area, from Chicago to Schaumburg to South Barrington. The programs are designed to empower all athletes to reach their highest potential, both physically and mentally. Education, training, diet, nutrition, fitness, wellness and community involvement all are a part of its unique program that works to develop well-rounded individuals.

The CATA has been a longtime supporter of local non-profit organizations. Since its inception in 2008, the Chicagoland Dealers Care program has donated more than $100,000 to local charitable organizations supported by new-car dealers. Additionally, since 1992, the association has raised more than $53 million for significant Chicago-area charities during the annual First Look for Charity black-tie event, held the evening before the Chicago Auto Show opens to the public.

Congratulations!

Ten area dealerships were named to J.D. Power's 2019 Dealer of Excellence Program, for having sales teams committed to providing an exceptional customer experience: **Arlington Heights Ford**, **Audi Westmont**, **Continental Toyota** (Hodgkins), **D'Arcy Buick-GMC** (Joliet), **Gerald Subaru of Naperville**, **Gerald Subaru of North Aurora**, **Loeber Motors** (Lincolnwood), **Mercedes-Benz of Naperville**, **Phillips Chevrolet of Frankfort**, and **Bill Jacobs Volkswagen** (Naperville).

Area winners of the 2018 Hyundai Board of Excellence award include Edward Napleton of **Napleton's Valley Hyundai** (Aurora), and J. Michael Webb of **Webb Hyundai** (Highland, Indiana).

Tune in …

. . . to "Drive Chicago," the CATA's automotive radio show, 8-9 a.m. Saturdays on WLS-AM 890.

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Are car dealerships passé? Not the good ones

By Richard Libin

We see it almost every day. Brick-and-mortar stores are closing and moving exclusively online. Is this the future of automotive sales? Are dealerships passé? No, especially not the good ones.

In March, Tesla announced it planned to close its stores and move to 100 percent online sales. Only 10 days later, the company changed its position, stating it will evaluate each site and keep some higher-producing stores open.

While not the exact model of a traditional dealership, this change underscores the need for consumers to learn firsthand about a vehicle and take it for a test drive before making what for most is a large financial obligation, regardless of the brand. For dealerships, it means sticking to the basics.

Don Hall, CEO of the Virginia Automotive Dealers Association, echoed that feeling in a news article: "Though the franchise system is literally more than 100 years old now, it has worked for a reason. Not because we're dinosaurs holding onto dinosaur practices, but more because a car is a huge purchase in one's life."

David Whiston, an analyst from Morningstar, a global independent investment research company, shared this perspective with an automotive publication:

"If a consumer is really undecided between, say, a Tesla, an Audi and a Mercedes ... that person may just prefer to go to the dealer and test drive something before signing a contract."

So why do some dealerships fail? It's simple, they fail to cover the basics and adequately take care of their customers. Period.

Our local food pantry was trying to find a new truck. They called and left a message for a manager at the local dealership, left their contact information and said they wanted to buy a truck.

Five days later, no one had called them back. Do you think the food pantry called the dealership a second time or went somewhere else?

If you ask dealership general managers today how much money they are spending on technology — CRM systems, online marketing, internet tools — they can tell you almost immediately. And they excitedly talk about all the features, bells and whistles.

But if you ask them how many customers came in yesterday, how many had been entered in their CRM system, how many bought a vehicle, how many left without purchasing and how many had been re-contacted within 24 hours, they can't tell you that.

Some dealers invest large sums of money in technology only to dehumanize the experience. They inadvertently remove the human interaction that creates excitement and builds trust for the product, the dealership and the salesperson.

They focus on technology instead of implementing processes that build relationships with their customers to drive sales.

But they need to invest more in their people.

Technology doesn't sell vehicles; people do. Yet management usually has no idea what is going on in their stores. They don't know how people are treated because they don't shop their stores on a regular basis. They look at internet inquiries, not at traffic. They haven't found a way to connect their online presence with human interaction in the showroom.

Managers must educate and train their salespeople how to serve as product advisers who guide customers in finding the right vehicle, the one that meets their needs, wants and desires.

Managers must act as role models and show salespeople how to develop customer trust — for the dealership, the brand and themselves. They must hire and retain salespeople who are sincerely interested in listening, and in getting to know and help the customer.

They must develop processes that bridge human and technical interaction to nurture relationships in a structured and responsive manner.

An effective communication process should include scheduled touch points, as well as responsive communications triggered by events such as customer service appointments, questions and anniversaries of vehicle purchases and other milestones.

With the right skills and tools to communicate value, salespeople will be able to continue providing that value throughout the customer lifecycle.

Car-buying is a personal experience. Dealerships that take care of customers will never become passé. It starts when management has a clear understanding of what is going on.

Build a bridge between technology and human interaction, establish effective customer-centric processes and educate and train salespeople as product advisers.

When technology and people work together to provide the best customer experience possible, dealerships will continue to thrive.

They must invest in both technology and people. Having data is important. But using it effectively to help staff focus on the customer and create a positive experience is vital.

Brick-and-mortar dealerships are here to stay, for a while longer, at least.

The author has written two books, "Who Knew?" and "Who Stopped the Sale?" He is president of Automotive Profit Builders.

2020 NADA Show hotels selling out

NADA Show 2020 advance registrations are underway and the headquarters hotel, Wynn Las Vegas, is nearly sold out. Those who book a room through the NADA receive the lowest room rate available for the weekend, guaranteed. That's more than $120 a night less than the advertised online room rates.

The best hotels will fill up quickly, so don't delay. Plus, register before Sept. 13 to save $100 off the on-site registration rate with the early-bird pricing discount.

The automotive industry's event of the year returns to Las Vegas, Feb. 14-17, 2020.

Fed

Continued from Page 1

been rising, particularly for lower-paying jobs. People who live and work in low- and middle-income communities tell us that many who have struggled to find work are now getting opportunities to add new and better chapters to their lives. This underscores for us the importance of sustaining the expansion so that the strong job market reaches more of those left behind.

"Through the course of the year, weak global growth, trade policy uncertainty, and muted inflation have prompted the FOMC to adjust its assessment of the appropriate path of interest rates. The committee moved from expecting rate increases this year to a patient stance about any changes, and then to today's action," Powell continued.

Policymakers turning aside from a continued path of rising interest rates should please dealers, according to a blog post compiled by Cox Automotive chief economist Jonathan Smoke.

"The biggest immediate beneficiary of lower short-term interest rates in the auto industry will be dealers, as they should see an immediate reduction in the interest expenses they pay for carrying inventory and for capital for infrastructure investments," Smoke wrote.

"Dealers saw investment expense rise with each Fed increase last year, and they have been contending with a perfect storm of higher costs across every major expense from inventory to interest to labor," he added.

Although the NADA's data was limited to new-vehicle metrics, the association indicated that franchised dealers watched their floor-plan interest costs per new model retailed jump $61 per unit year-over-year in 2018.

While captive finance companies sometimes provide the funding for franchised dealerships to stock new inventory, stores still need financial resources for their used inventory. And that's where AFC, the floor-planning division at KAR Auction Services, comes into play.

"Because the interest rate cut announced by the Federal Reserve was only a quarter of a percent, we feel the impact will be very minimal to our business," AFC president Jim Money said. "However, if there are additional cuts, we would anticipate more volume opportunity from our dealer customers in order to meet the consumer demand."

One has to go back to when the U.S. economy unraveled into the Great Recession to find the last time the Fed cut interest rates frequently. Powell cut off a questioner during his July 31 news conference when asked if the FOMC is poised to make more cuts later this year.

"Let me be clear. What I said was it's not the beginning of a long series of rate cuts," Powell said. "I didn't say it's just one or anything like that. What I said is when you think about rate-cutting cycles, they go on for a long time and the committee's not seeing that, not seeing us in that place."

Sedgwick deflects Q2 2019 jobless claims

One hundred thirty-three CATA dealer members reported a combined 391 unemployment claims during the second quarter of 2019 to Sedgwick Claims Management Services, Inc., which has been serving CATA dealers under various names since 1979. The company's efforts saved those dealers a total of $1.13 million in benefit charges by contesting the claims.

Sedgwick monitors any unemployment claims against its clients and contests all unwarranted claims and charges. The company counts about 237 CATA dealers among its clients.

Claims that can be protested and subsequently denied help minimize an employer's unemployment tax rate. The rate can vary between 0.475 percent and 6.4 percent of each employee's first $12,960 in earnings.

The 2019 average unemployment tax rate & new employer rate for Illinois employers is 3.175 percent, or about $411.50 annually per employee ($418 in 2018). The rate has inched down each year from 2007, as the Illinois economy continues to improve.

"The unemployment tax is really the only controllable tax in business, in that it's experience-driven," said Bruce Kijewski of Sedgwick. An ex-employee's claim affects the employer's tax rate for three years.

For new enrollees, Sedgwick client fees amount to $2.85 per employee, per fiscal quarter. For the fee, Sedgwick monitors all unemployment claims; files any appeals; prepares employer witnesses for hearings, as necessary; represents the client at any hearings; verifies the benefit charge statements; and confirms the client's unemployment tax rate.

For more information and information on how to retain Sedgwick's unemployment services, contact Kijewski at (773) 824-4322 or Bruce.Kijewski@Sedgwick.com.