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# Used-vehicle prices continue upward climb

Average wholesale used-vehicle prices cracked the $14,000 mark for the first time ever in April and then proceeded to set new highs above $15,000 in May, Tom Kontos, chief economist for KAR Global, said in a recent webinar.

"This," Kontos said, "is the latest sign of the seemingly never-ending rise in wholesale values, resulting from a deluge in demand and a drought in supply."

Wholesale prices in April averaged $14,436, according to KAR Global's latest monthly analysis. That was an increase of 5.9% versus March 2021, and up 50% relative to April 2020.

Kontos said retail used-car sales at franchised new-car dealerships and independent used-car dealerships were down 8.1% in April 2021 versus pre-COVID April 2019. But he concluded the volume decline, "might have

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# Pro-dealer legislation awaits governor's signature

And now, the waiting game.

The just-concluded Illinois General Assembly in late May passed several bills that would benefit dealers, their technicians, and their customers. But Illinoisans could be readying for their year's last dip in the pool before Gov. J.B. Pritzker acts on any of them.

One measure, Senate Bill 58, would restore the tax credit on traded-in vehicles to their full amount. Another, House Bill 3940, would change how manufacturer pay is calculated on warranty work. And Senate Bill 573 would extend driveaway permits from 30 days to 90 days.

A bill passed by both houses must be sent to the governor within 30 days. The governor then has 60 calendar days to sign it or to return it with his veto. If the governor does nothing, the bill will automatically become a law after the 60-day period.

That means Pritzker does not have to act on any of the three bills until the last days of August. At least for the warranty labor legislation, CATA officials said they are asking the governor to sign it before the July 31 expiration of the current collective bargaining agreement with the union representing area technicians, to help negotiations of the next bargaining agreement.

Supporters of the bills are urged to contact Pritzker's office now to help move him to sign the bills. Dan Marquardt, a Buick-GMC dealer who leads the CATA's Government Relations Committee, noted that few constituents ever contact their elected officials on pending legislation, so if supporters of the three bills prod Pritzker to sign these, it will have an impact.

Capping the trade-in credit increases the cost of new vehicles and used vehicles

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# Auto shows still 'the quintessential opportunity to contrast, compare different' vehicles, NADA says

After more than a year of dealing with the COVID-19 pandemic and its resulting shutdowns, one thing that has not changed is the demand for new vehicles and interest in viewing them at auto shows.

Juliet Guerra, the media relations director at the National Automobile Dealers Association, said that auto show organizers throughout the country are revamping shows to meet COVID-19 guidelines because the value of auto shows to consumers has not changed.

"Bringing auto shows back for our industry is a big deal, and consumers are absolutely ready," Auto Shows of North America Chairwoman Jenn Jackson said, ac-

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## 40% of shoppers willing to pay 12% premium over MSRP for next new car

Amid reports of rising car prices, it turns out that consumers seem to understand that there's no way around that if they want to buy a new car today. In a study to examine just how receptive buyers are to higher prices, Cox Automotive found that 40% would not shy away from being charged a 12% premium.

Given that the average new-car MSRP in the U.S. is almost $42,000, that means four in 10 people would accept a price that's $5,000 more than what the sticker says. Despite the higher expected prices, only 37% said they'd wait to buy a vehicle, with 70% of those saying they'll wait at least three months to purchase and 23% saying they'll look at used vehicles instead.

"The current auto market, with low inventory and high demand, is anything but normal. And we know it's driving people away," Cox Automotive spokesman Mark Schirmer said. Cox's research shows that 87% of consumers recognize the issue is impacting both domestic and import nameplates.

As the issue is industry-wide, 73% of consumers are expecting to face higher prices at dealerships, and nearly 60% believe they will find lower incentives. One main reason for this non-sticker shock is the limited supply times that are upending the industry. Cox's survey, conducted in May, found that 75% of car shoppers knew about the global semiconductor chip shortage and that it was wrecking havoc on new-car production. Almost as many, 73% said they expected to see higher prices at the dealership, and almost 60% said they expected that any incentives they might find would be lower than before.

However, Cox's Schirmer also said: "Our recent research shows nearly 40% of buyers who were considered 'in market' for a vehicle are now dropping out or deciding to delay their purchase. High prices and limited selection likely are the cause.

"For the most part, car-buying in America continues to be driven by the deal," he said, noting that even under current conditions, "Older shoppers — and specifically older male shoppers — [are] less willing to pay over sticker. These older buyers are a cohort we call 'Straight Shooters,' and they are experienced vehicle buyers, with plenty of good deals in their past. Paying above sticker is an unnatural act for this group."

## Auto, student loans fuel rise in consumer borrowing, Fed reports

U.S. consumer borrowing rose by $18.6 billion in April, fueled by a big rise in auto and student loans that offset a drop in credit card use.

The April gain reported June 7 by the Federal Reserve was the third straight month of strong increases in consumer borrowing. It followed a similar $18.6 billion increase in March.

The latest increase reflected a $20.6 billion increase in the Fed's category that covers auto and student loans. It was the biggest increase in those loans since a $22.7 billion rise in June 2020.

Consumer borrowing is followed closely for signals it can send about households' willingness to finance consumer spending, which accounts for more than two-thirds of economic activity.

Total borrowing in the Fed's monthly report stood $4.24 trillion in April, 0.4% above the pre-pandemic peak of $4.22 trillion set in February 2020.

"From our perspective, it's been a very strong year on the consumer lending front," said Jay Magulski, chief executive of Landmark.

The Fed's monthly borrowing report does not cover home mortgages or any other loans secured by real estate such as home equity loans.

Nancy Vanden Houten, senior economist at Oxford Economics, noted that despite a rebound in consumer spending fueled by stimulus checks and an economy reopening after pandemic lockdowns, consumers are still reluctant to use their credit cards.

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High student loan debt can leave graduates less qualified for loans for cars and homes.

## Prices

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been supply-constrained, not demand-constrained."

Used vehicles are a notoriously fast-depreciating asset, especially right after they're first sold as new. But while it lasts, a combination of high demand and relatively short supply has turned the used-vehicle world upside down.

KAR Global sells millions of vehicles annually through wholesale, dealer-only, used-car auctions.

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# The sad, lazy myth of the ‘Middleman’

**Jonathan Collegio**
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Many first-year MBA students learn a marketing concept called the “Iron Law of Distribution.” The idea is that when a product is brought to market, who owns the distribution channel for that product can be changed — but changing who distributes the product doesn’t change the cost structure associated with distributing the product.

That is, a manufacturer can change whether a factory or an independent company owns the retail outlet — but that by itself doesn’t change or make retailing costs disappear.

This is a stumbling block for lots of factories that are looking for ways to reinvent themselves. It’s also a huge source of misunderstanding for business reporters who cover companies seeking to “sell direct.” If factories own their own stores, the narrative goes, then there will be no “middleman,” their costs and profits will go away, and the savings will get passed along to customers.

Except for the Iron Law. Changing retail ownership doesn’t actually create any savings in and of itself, because the factory store becomes the new “middleman.” The factory will need to make its own profits retailing. And worst of all, customers are usually hurt when factories vertically integrate sales with manufacturing, because it raises prices by reducing retail price competition.

**The myth of the Middleman**

The fact is that when a factory decides to sell its products directly to customers, the factory incurs costs of selling those products to customers — in the exact same way that an independent distributor would incur costs.

In the automobile business, that means factories “selling direct” incur the costs of running a dealership. That is, they incur the costs of buildings, land, equipment, inventory, insurance policies, utility bills, and all the human capital needed to run the operation.

And the auto dealership business is complex. Longtime auto industry analyst Glenn Mercer calls the dealership business, “the most complex retail business in America today.”

That’s because local dealerships don’t just sell new cars. They service them. They arrange financing for them. They handle registrations and titles. They take trade-ins. They advertise and collect sales data and customer lists. They often also sell used cars. This is another reality that gets completely lost in the “direct sales” debate: **Dealerships take care of their customers for the entire lifetime of the automobile across the entire automotive ecosystem, not just the point of sale**.

Manufacturers that experiment with selling directly always eventually run into that reality. They always find that auto retail is complex, that factories are not all that good at retailing, and that having local dealers buying those cars off the factory line, and selling and servicing them in their local communities makes a lot more sense as a business model.

“But what about the profits?” one might ask. “Can’t selling direct eliminate dealership profits?”

Not really. The fact is that dealerships make very little money selling new cars. Local dealerships are profitable only when they take into account the entire ecosystem of the vehicle — sales, service, used-vehicle sales, reconditioning contracts, fleet maintenance, and so on.

Local dealerships are capital intensive businesses, meaning it costs a lot in land, buildings and equipment to run them. American dealerships have invested more than $200 billion in land and buildings alone. **Any factory wishing to sell directly would incur those same costs of capital — and its shareholders would certainly expect to get a return on those expenditures**. Why sink money into a retailing operation when there’s no return on it?

For consumers, it’s even worse. When factories own retail outlets, there is no competition to keep prices down. Factories set prices and hold excess profits for themselves. When independent retailers compete, that always creates price pressure. That’s why no supermarket can sell Campbells Soup for 10% or 20% more than another supermarket, or they’ll eventually go out of business. Same thing with car dealerships. When car dealers compete, prices go down.

One peer-reviewed academic study has shown that when dealerships compete in proximity to each other, the average price of a vehicle goes down by about $500.

And price competition impacts not only sales, but also service and repairs. Customers at one factory-owned dealership chain have had to wait literally three weeks or longer for a service appointment.

# Discounted auto show admission!

Members of the CATA are the only group eligible to access vouchers to gain admission to this summer’s Chicago Auto Show at a reduced price. Call the CATA at (630) 495-2282 to learn how to obtain the vouchers for $6 each. Adult admission regularly is $13.

## Dealers vital part of EV presale education, engagement

While automakers, utility companies and third-party charging station providers all have roles to play in educating consumers about electric vehicles, dealerships arguably have the biggest role — and biggest incentive — with creating demand by engaging with non-EV owners. They are in the best position, physically, to engage with the shopper in a local context. As a result, dealerships can provide important insights into the resources, policies and incentives that are unique to their community.

New daily driving habits must be developed. Charging awareness is the key to addressing range anxiety and is an issue that will subside as a robust infrastructure evolves to support the growing fleet of EVs on the streets. Since most owners likely will have a charging kit at home, they can simply charge the battery overnight, similar to what they do with their mobile devices. This means that in most cases a sufficient charge is available in the morning when owners go to work or run errands. It simply is a different experience than with a gas-powered vehicle. And to EVs' credit, owners of internal combustion vehicles can't top-off gas tanks at home.

Beyond education on the local landscape, prospective buyers must understand what it means to live with an EV. It requires a unique approach to planning for different driving experiences so that potential pitfalls can be avoided.

Take for instance, the all-American road trip tradition. Conventional vehicle owners simply need to know how to gas up and go. EV owners need to be aware of their vehicle's range and the charging infrastructure that is available over the course of their route.

As consumers figure out how to integrate EVs into their daily lives, driving range ceases to be the deterrent that many think it is. The key issue revolves around when and how consumers are put behind the wheel, literally and figuratively.

## Legislation

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bought at retail. Pritzker has voiced his backing of SB 58. The cap took effect in 2020 following moves to find funding for Pritzker's multi-billion dollar state capital infrastructure plan.

Under SB 58, infrastructure projects would instead be funded, in part, by increasing the sales tax charged in private vehicle sales. For instance, the current $390 sales tax on a 1-year-old vehicle sold privately for less than $15,000 would increase to $465. If the same vehicle sells for $15,001-$20,000, the sales tax would be increased from $750 to $850.

The tax rates for private transactions haven't changed in more than 30 years, and the modest increases are much less impactful than a trade-in credit cap, which costs consumers hundreds of dollars and harms dealers statewide.

Regarding HB 3940, automakers consider different time guides for the same repair when technicians fix a car under warranty versus the longer time considered when customers pay for the work. The bill requires manufacturers to compensate dealerships for warranty work in the same manner that retail customers pay for retail work, in terms of time allowances, labor rates, and parts prices.

Mechanics Local 701, the union representing area technicians at dealerships, is working with the CATA to advance the legislation. Supporters say HB 3940 would bring a fairness to the payment process that could attract new technicians to dealerships. Wisconsin has had similar policy in place for more than a decade.

In addition to establishing an equitable compensation scheme for warranty work, the bill would prevent manufacturers from imposing cost recovery fees or surcharges to overcome the bill's effect. For manufacturers, it would preserve their right to approve or disapprove dealership claims, and it ensures manufacturers have a way to charge back any false or unsubstantiated claims they paid.

**Three-month permits**

Under SB 573, a registration permit valid for 90 days could be provided for a fee of $13 for registration plus 1/10 of the flat weight tax. Permits currently are valid for one month.

## Auto shows

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cording to the NADA website. "Auto Shows are the quintessential opportunity to contrast and compare different makes and models in a low-pressure environment. For a consumer who is close to purchase, visiting an auto show will often solidify their decision on their next vehicle."

The first auto show that kicked things off was the first-ever summertime Houston Auto Show, which took place May 19-23, Mega Dealer News reported. The Chicago Auto Show will hold a special summer edition July 15-19 at McCormick Place's West facility.

The Chicago and Houston shows, like others that are in the works for the upcoming months, followed Centers for Disease Control and Prevention guidelines to protect customers at the venues, which included not requiring vaccinated people to wear masks, but strongly recommending masks to be worn at the show.

"While offering consumers a first-class auto show experience, attendee safety is the top priority for show organizers. Show organizers have adopted enhanced cleaning and safety protocols, including temperature checks, mandatory mask use, increased sanitization stations and enhanced vehicle cleanings between visitors," the NADA website said.

According to the NADA, all shows are working with health and safety officials "to ensure that all applicable local, state and federal sanitation guidelines are followed."