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## NADA chairman calls some mfr. incentive programs 'brand killers'

The chairman of the National Automobile Dealers Association this month criticized automakers' use of so-called stair-step bonus programs, calling them harmful to U.S. auto dealers, to consumer confidence, and to brand loyalty.

In an Oct. 10 speech in Detroit, NADA Chairman Mark Scarpelli said the practice results in "wild discrepancies and fluctuations" in vehicle prices between different dealers, as well as a lack of consistency, transparency, and explanation that

lead directly to a lack of trust in auto dealers and in vehicle brands.

"In a world where customers rightfully expect fairness and transparency in price," Scarpelli asked, "why do so many manufacturers still deploy unfair marketing strategies that produce huge discrepancies in price between various customers — discrepancies that aren't transparent, that can't be explained rationally, and that run afoul of everything our customers really care about?"

He added: "These stair-step incentive programs are trust killers. ... They are not only trust killers, but they are brand killers, too."

In the past, dealers and dealer groups have criticized Fiat Chrysler Automobiles, Nissan Motor Co. and Ford Motor Co. for using stair-step programs. The NADA commissioned a study into automakers' stair-step programs by Boston-based consultancy Analysis Group, Scarpelli said, whose results it will share with automakers and use them as the basis for

discussion.

Scarpelli said consumers don't understand the discrepancies in pricing because they are between manufacturers and dealers. "But let me tell you what consumers do see. For shoppers of brands that use stair-step incentive programs, they see large discrepancies in price for the same or similar vehicles across different dealers. Or worse, at the same dealer, but at different points in time.

"Or even worse still, a discount applied to a vehicle

SEE **STAIR-STEP**, PAGE 4

## NAFTA changes could mean 'lose-lose' outcome for auto industry

The auto sector is sounding alarms on the Trump administration's efforts to overhaul the North American Free Trade Agreement, with the continent's top parts supplier warning an expected push to increase content requirements in cars could result in a "lose-lose" situation.

Changes to rules of origin, which govern what share of a car must be sourced from NAFTA countries for the vehicle to receive the trade pact's benefits, will add both complexity and costs, said Don Walker, chief executive

of Magna International Inc., a Canadian global automotive supplier.

"If the required content to hit the threshold for a NAFTA vehicle is too high, people may say, 'Look, it's just too difficult, it's too high, so we'll just ship the vehicles in,'" Walker said in an interview in New York ahead of the talks. "In which case, they pay the duty, and it's a lose-lose."

The fourth round of negotiations over NAFTA began Oct. 11, with signals mounting that the U.S. is putting potentially deal-breaking propos-

als on the table. The U.S. Chamber of Commerce and Mexico's auto industry group already have come out against an anticipated proposal for U.S.-specific content requirements. Introducing such a rule, or raising NAFTA-made content requirements from today's 62.5 percent, could risk disruption to the auto industry's vast supply chain.

"We're negotiating a NAFTA deal. It's time after all these years and we'll see what happens," said President Donald Trump, who made trade a key part

SEE **NAFTA**, PAGE 4

## Connexion has solutions to overcome ‘Daylight Spending Time’

Shopping for a new vehicle is a visual and emotional experience, and lighting is an essential part of that experience. Energy-efficient lighting should especially factor into any dealership upgrades, as studies show dealerships use 18 percent more electricity per square foot than a typical business.

CATA member Connexion, the association’s energy

efficient lighting Approved Member Partner, says that with autumn here, the days are getting shorter and we are entering “Daylight Spending Time” — the time of the year when inefficient indoor and outdoor lighting is illuminated for more hours to showcase vehicle inventories.

New, upgraded lighting not only makes inventory more appealing, it typically

saves 30 percent to 50 percent of energy costs in the darkest times of the year. Between energy savings and elimination of lighting maintenance and utility incentives, a dealership’s payback typically is two years or less.

To date, Connexion has helped CATA dealers members save more than \$750,000 in electrical and maintenance expenses through upgraded

efficient lighting.

Connexion offers dealer members a no-cost assessment of their indoor and outdoor lighting to help improve bottom lines and distinguish stores with better looking vehicles.

To schedule an appointment, contact Brian Earl, vice president at Connexion, at (847) 499-8314 or [brian.earl@connexiones.com](mailto:brian.earl@connexiones.com)

## Consumers like in-vehicle tech but don’t fully understand it — or use it

Most owners still don’t completely understand and use all the technology available in their vehicles, according to a recent J.D. Power study. Responses also showed confusion about low-speed collision avoidance and its usefulness.

That could pose problems for a future in which owners are expected to trust technology enough to take their hands off the wheel and let cars drive themselves.

The experience that a consumer has with technology today has an impact on what they want tomorrow, said J.D. Power’s Kristin Kolodge.

“A positive experience with technologies like a back-up camera, blind-spot warning and adaptive cruise control is very important because they are the foundational building blocks, the introductory technologies to lower levels of automated systems,” she said.

Whether consumers are comfortable with the technology in vehicles taking over lower levels of control, whether they like the experience, trust it and find it useful will determine whether they like, trust and want fully self-driving vehicles.

“If they do not have a positive experience, the likelihood that they’ll want a greater level of automation is really very low,” she said.

While not wanting to raise it to the level of a “red flag,” she sees a possible issue building with consumer acceptance of low-speed collision avoidance systems, a technology which is integral to the operation of self-driving cars.

“There is a lot of consumer confusion about how do I know if it’s working? Is the system really on? Is it just going to provide a warning to me or is it actually going to brake? This is where understanding and trust start to come in.”

This isn’t a technology that’s easy for consumers to test the way a consumer can test their back-up camera.

The 2017 Tech Experience Index Study, in its second year, measured drivers’ experiences, usage and interaction.

## In Memoriam

**Dean L. Christenson Sr.**, 66, the owner of Christenson Chevrolet, in Highland, Ind., died Oct. 12.

He enjoyed woodworking, gardening, watching NASCAR, and he loved spending time with his family, which included his wife of 40 years, Faye; daughters Bridgitte, Lisa and Tara; son Dean Jr.; eight grandchildren and six great-grandchildren



**Thomas A. Noe**, who operated Tom Noe’s Park Ridge Mitsubishi-Isuzu until 2007, died Oct. 9 at the age of 65.

Survivors include son Paul and daughter Patricia; his mother, Mildred; brothers Dewey, Terry and William; and sisters Helen and Sue.



Memorials appreciated to The Chick Evans Caddie Scholarship Fund, c/o Western Golf Association, (847) 724-4600; or to Once Was Lost, (847) 338-5554.

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## Chicagoland Dealers Care matches dealers' support of area nonprofits

The CATA's Chicagoland Dealers Care program this month matched two dealerships' cash donations of more than \$2,100 to area nonprofits. The check presentations to the Joliet Salvation Army and to Plant with Purpose followed a \$1,500 donation to the former by the Thomas Auto Group, and a \$643 donation by Continental Toyota to the latter.

"The CATA applauds Continental Toyota and the Thomas Auto Group for their support of area nonprofits," said CATA Chairman Ray Scarpelli Jr. "These are perfect examples of the vital role that dealers play to help those in need — not only within local communities, but people across the globe as well."

The CATA created Chicagoland Dealers Care in 2008 to build upon the charitable efforts of the association's dealer members. The CATA has been a longtime supporter of local nonprofits. Since its inception, the program has donated nearly \$100,000 to local charitable organizations supported by new-car dealers.

"As a well-established community dealership — we just celebrated Thomas Auto Group's 25th anniversary — we feel as though it's our obligation to help neighbors in need," said Denise Thomas, community relations manager for the dealer group. "We've partnered with the Joliet-based Salvation Army since 2010 because it's aligned with our mission of helping people within our community, including providing nourishing food, clothing and shelter to hungry and homeless families."

Not only does Thomas Auto Group, which is based in Joliet, support the Salvation Army, but dealership employees are also actively involved. Employees across various departments — including sales, service or finance — donate a portion of their paychecks directly to the organization. They also volunteer their time at Salvation Army's after-school tutoring programs or music



**ABOVE:** Thomas Toyota general manager Michael Gors (from left); Jim Thomas, Thomas Auto Group owner; Dan Faundez, Salvation Army Joliet pastor/corps officer; Kevin Nolen, Salvation Army Joliet office manager; Linda Trevino, Salvation Army Joliet volunteer coordinator; Ray Scarpelli Jr., CATA chairman; and Dave Sloan, CATA president. **BELOW:** Dave Maher, Plant with Purpose; Cheryl Nelson, Continental Toyota principal; Scarpelli; and Sloan.



classes.

"We're so thankful to have this incredible support from the Chicago Automobile Trade Association and Thomas Auto Group," said Dan Faundez, pastor/corps officer at the Salvation Army in Joliet. "Contributions such as this help us to continue to serve the people of Joliet."

Plant with Purpose has a very specific, effective process for helping poverty-stricken rural families in Third World countries. Dave Mahar, Plant with Purpose regional representative, said the agency uses a three-step approach.

"First and foremost, we help families by restoring the environment where these people reside. We not only assist with the process, but we give inhabitants the tools they need to succeed — even after we've departed. Ninety-three percent of farming families with whom we work are able to bring their crops to market to bring in revenue.

"Second, there's an economic focus.

We request that each family financially contributes an equal amount to a community fund that's only to be used for natural disasters. Should an unexpected weather event occur, such as a hurricane or earthquake, the families can pull resources from this emergency fund to assist with restoration of the land. Finally, we work with families to restore faith and enhance and strengthen relationships within the family unit."

"There's a huge difference in method in that we don't just put a Band-Aid on something; Plant with Purpose is grounded in strategy to build a sustainable system for success," Mahar continued. "We're so thankful for the support of the Chicago Automobile Trade Association and Continental Toyota to help us with our mission."

Cheryl Nelson, the principal of Continental Toyota, said: "While Continental Motors Group supports many local charities, it's an incredible

feeling to also be able to lend support to people across the globe with Plant with Purpose. Last summer, we actually turned the entire showroom over to support Plant with Purpose with a campaign that lasted throughout the month of July.

"For every purchase made in July, whether it was a car or a tire, Continental Toyota pledged to donate \$1 to Plant with Purpose. The customers loved it too and they felt as though they were helping to make an impact."

Plant with Purpose estimated they've helped about 30,000 families in locations across the globe such as Burundi, Democratic Republic of the Congo, Dominican Republic, Haiti, Mexico, Tanzania and Thailand. The organization's next target mission is Ethiopia.

In addition to the Chicagoland Dealers Care program, the association since 1992 has raised nearly \$48 million for area nonprofits through the annual First Look for Charity black-tie event.

## Stair-step

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they don't want, but that can't be applied to a vehicle they do want."

The NADA, a trade association that represents about 16,500 auto dealers, has an influential presence in Washington, built largely on dealers' engagement with and support for local members of Congress.

Scarpelli's speech comes at a time when major automakers and their dealers are coming off a strong run in U.S. new-vehicle sales that lasted from the end of the Great Recession and culminated in record sales of 17.55 million units in 2016.

This year's sales figures

are expected to dip slightly, putting pressure on carmakers and their dealers to sell off high levels of inventory.

"You have a (stair-step) program designed to increase sales volume," Scarpelli said. "But you achieve higher volume only by lowering prices. So you aren't creating new demand, you're just dropping to a lower point on the demand curve.

"But because you've done so in a way that erodes desire for your brand, you've actually created less demand — you've created a new, lower demand curve. And on a new, lower demand curve, you only have two choices: You can sell fewer vehicles or you can further lower prices just to be able to sell

the same amount you would have originally."

The Analysis Group called the practice a "death spiral." The company's findings, in part:

- Stair-step programs can increase sales volume in the short run while simultaneously decreasing demand.

- However, an increase in sales due to an aggressive stair-step program should not be confused with an increase in either consumer demand or the value of the manufacturer's brand.

- In fact, manufacturers who use stair-step programs aggressively risk damaging their brand in the long run and entering a death-spiral of declining demand that eventually no amount of discount-

ing can profitably overcome.

At a time the industry likely finds itself in the middle of a "lengthier sales plateau," Scarpelli said, it is critical for dealers and manufacturers to work together.

In his speech, Scarpelli also cited rising concerns from auto dealers about "increasing attempts by their manufacturer partners to run their stores" and mandate investments in expensive — and possibly unnecessary — facility upgrades.

He said, "At the end of the day, all that these programs are really doing is eroding the entrepreneurial spirit and so much of the decision-making about what it takes to run a modern auto dealership successfully."

## NAFTA

CONTINUED FROM PAGE 1

of his 2016 presidential campaign. "It's possible that we won't be able to make a deal and it's possible that we will."

### Regional content

"If the regional content is by specific country, I think it adds a lot of complexity, and then every country would probably want regional content," Walker said. "If you have U.S. content and Canadian content and Mexican content, the reporting and the bureaucracy and the tracking becomes so complicated — and costly, quite frankly."

It will also be expensive for consumers, Mark Scarpelli, the chairman of the National Automobile Dealers Association, warned in a speech this month in Detroit.

"Anything that raises the price of a car will ultimately affect consumers and automobile sales," he said. "We are concerned, but at the end of the day, we don't know what the rule-making is going to be."

### Tariffs vs. job flight

Trump fixated on the auto industry and carmakers investing in Mexico throughout his campaign and early in his presidency, criticizing companies including Ford, General Motors and Toyota. He told workers near Detroit in March that the U.S. would become "the car capital of the world again."

John Bozzella, CEO of the Association of Global Automakers, said the group that represents overseas-based carmakers in the U.S. has been "blizzarding" Capitol Hill to explain why the expected NAFTA proposals are a problem.

It's been meeting with members of the Trump administration and lawmakers from states where vehicle manufacturers have a large presence as well as holding "extensive briefings" with Republicans and Democrats on Senate Finance and House Ways and Means committees, he said.

"We're concerned that we may be on a course to upset the trade balance in NAFTA that has unquestionably led to a vibrant and successful auto industry in

the United States," said Bozzella, whose group represents companies including Toyota, Honda and Nissan.

The U.S. had a \$63 billion trade deficit with Mexico last year, compared with a surplus of \$7.7 billion with Canada. The automotive trade deficit with Mexico was \$74 billion. In other words, if trade in cars and car parts over America's southern border were set aside, the U.S. would actually be running a trade surplus with Mexico.

Ontario, Canada-based Magna has more than 25,000 employees in the U.S. and supplies more original equipment parts by sales to carmakers on the continent than any other supplier, according to Automotive News rankings. Changing the rules now, after automakers and suppliers have invested across the region, would be a costly shift, Walker said.

"There's been huge investments in Canada, the U.S. and Mexico, that are long-term assets," he said. "To try and change that would be extremely expensive for the industry."