

Los Angeles Dealer

OFFICIAL PUBLICATION OF THE GREATER
LOS ANGELES NEW CAR DEALERS ASSOCIATION



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EVS AND THE VALUE
OF DEALERSHIPS

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FERRUZZO



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Originally founded in 1907, the Greater Los Angeles New Car Dealers Association provides valuable educational and philanthropic benefits to the Los Angeles Community.

The Association believes that involvement with local charitable organizations makes a positive difference for everyone involved.



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We hope our dealership members, elected officials, and automotive industry partners are all thriving here as we navigate the summer months and the current business climate. We are hearing from dealerships throughout Los Angeles County that in spite of industry challenges, new car dealerships continue to prosper. This is happening in spite of inventory shortages, rising interest rates, and concerns of a recession.

The association continues to serve the needs and interests of its dealer members politically and philanthropically. We have plans to achieve 100% membership renewal for 2022 before the August 19 deadline. Every Los Angeles County new car dealership that is a paid member (\$100 annually) is entitled to a complimentary ticket package to the 2022 Los Angeles Auto Show. Please contact GLANCDAs Executive Director Bob Smith at 213-748-0243 or bob@glancda.org, to discuss current membership status and benefits.

GLANCDAs proud of its relationship with the Los Angeles Auto Show that goes back many years! New Car Dealerships throughout Los Angeles County benefit from the annual event at the Los Angeles Convention Center that runs this year from November 18-27. In addition to streamlining the process of considering a new vehicle for consumers, it's a fun way to spend a day or evening with family, friends, or colleagues!

The summer months are a busy time in Sacramento and Washington D.C. for our elected officials that are in session. There is no shortage of bills being considered that potentially impact dealership operations. GLANCDAs

is on the front lines communicating with our elected officials and either supporting or opposing legislation depending on the issue. These issues include changes to restrictions on the document processing charge, catalytic converter theft and the sale of voluntary protection products that are sold to our customers. The voice of the dealer is heard when dealerships get involved and reach out to local, state, and federal officials. The association will continue to assist in the advocacy efforts, and membership is the easiest way to get involved.

We hope you appreciate the efforts the association continues to make in its financial support of Los Angeles-based charitable entities. There is an emphasis on areas that involve workforce development efforts to recruit the next generation of dealership employees. The shortage of skilled automotive technicians in dealerships will continue to be a focal point of the association for years to come.

We hope you and your families continue to have a safe and relaxing summer. ☺

David Ellis

GLANCDAs PRESIDENT



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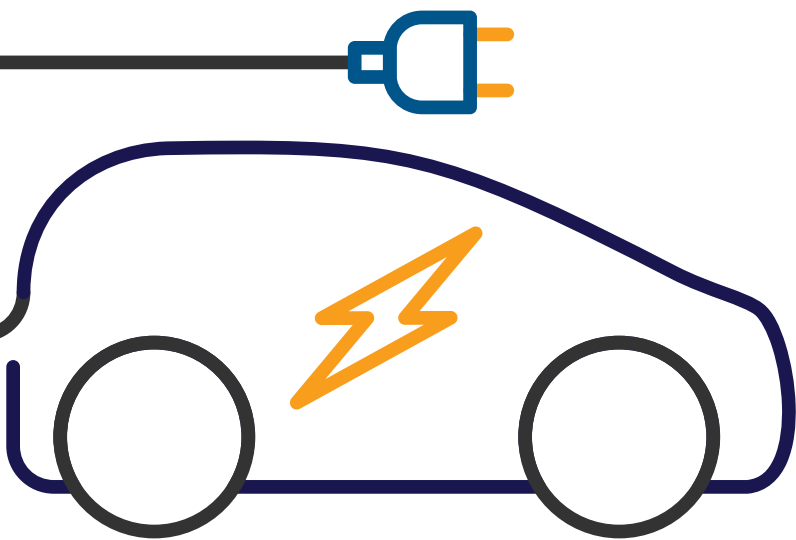
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Weighing In on EVs and the Value of Dealerships



On Jan. 5, 2022, The Washington Post published an op-ed article by Liam Denning entitled “Car Dealership Laws Aren’t Fit for the Electric Age.” On Jan. 13, 2022, NADA’s president and CEO, Mike Stanton, responded. The following sections contain a summary of the op-ed and Mike Stanton’s response.

An Admittedly Biased Summary of Liam Denning’s Article in The Washington Post

The op-ed begins with Liam Denning’s view of the auto dealership world. It isn’t pretty. He sees dealerships as no more than a revolving door for products. (Isn’t that what any good retail store tries to be?) The pandemic and supply chain issues emptied lots, then kept them empty. He saw the dealerships’ response to the pandemic as an opportunity to raise auto prices as volume fell. To support that claim, he said volume for 2020 was 7% less than for 2019, but that gross margin almost doubled, making their response to the pandemic nothing more than a chance to raise prices while volume fell. He then notes that dealers have a “growing challenge” as they move forward.

How accurate are his claims? They are misleading. Although he doesn’t talk about auto manufacturers or

other industries, they too had unexpectedly profitable years after the pandemic shutdown. And although net profit was up for U.S. dealers, net profit included net operating profit and incentives paid by automakers to dealers who exceed sales targets. Also, chip shortages meant manufacturers focused on building SUVs and trucks because they have higher margins than small cars. Higher net profit is to be expected for everyone under those circumstances.

The article then moves to an admiring analysis of EV manufacturers, with Rivian Automotive Inc. and Tesla Inc. mentioned by name. He says nothing about how direct sales affect EV profits, but he does say EV manufacturers are highly valued at the moment. He then talks about how the current system came to be. State laws passed decades ago were designed to prevent predatory behavior by big U.S. automakers and force them to use independent franchises for vehicle sales and service. After the history lesson, he claims that the current market is different from the 1950s market.

Why?

He says three U.S. brands no longer dominate the market. The current market, he claims, is too competitive to allow a repeat of the same issues that caused legislation to be written in the first place. Really? Tesla dwarfs all other EV manufacturers. And although Elon Musk has plans to fill the global market with Teslas, Denning ignores Musk’s gigafactories in Berlin, Shanghai and Texas.

Even though Denning names Rivian and Tesla as two important companies in the developing EV market, citing sky-high valuations, he is wrong there, too. The three largest EV manufacturers are Tesla, VW and General Motors ... not Rivian. Rivian is riding on expectations, not accomplishments. But since newcomer Tesla is the EV

➤ **VALUE OF DEALERSHIPS** — *continued on page 6*

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◉ **VALUE OF DEALERSHIPS** — *continued from page 4*

manufacturer currently dominating the EV market, why would anyone conclude states should throw away hard-earned legislative protections? Remember, too, that Musk – who is admittedly brilliant – will never remind anyone of the late Fred Rogers.

Next, Denning says that high dealership margins come from selling vehicles and then taking care of them. He implies that EV sales departments meet several times with buyers while educating them about their potential purchases and that franchise dealers are all about the hard sell. Since EVs have fewer parts, though, he suggests service departments will be much less profitable in the future.

It's hard to know what to address first. Selling is selling, and doing it right means building a customer relationship. That's why the best dealers have always made a point of helping their communities prosper. There are even many dealerships where the customers and employees are multigenerational. Dealerships like that do not fit a “hi, bye” model, especially in small communities. Dealerships have to care about customers, or they don't last. And “less service” is not the same as “no service.” Tesla, in particular, has skimmed so far on building up the service side of the business. As sales volumes increase, that's going to be a problem.

Denning then turns his attention to Michigan, Florida and New York. Yes, the market is changing, which means the way autos are built and sold will also change. Yes, dealerships have invested a great deal of time and energy working with legislators. Yes, Rivian and Tesla valuations are high and are affecting the market.

None of that somehow makes dealers dishonest or irrelevant.

That's our summary of Liam Denning's article. Read on for Mike Stanton's excellent response, with which fully agree.

How NADA's Mike Stanton Responded

Dear Editor:

Liam Denning's piece on car dealerships (Car Dealership Laws Aren't Fit for the Electric Age, Jan. 5) uses decades-old tropes to make the case for direct sales as the best path to EV adoption. But he misses the mark by failing to grasp what is actually involved when average Americans buy or lease a new vehicle.

The truth is, America's 16,500 dealerships and million-plus highly skilled product specialists and technicians are essential to achieving the government's goals for broad EV adoption. Here's why:

The next stage of EV adoption won't mean getting affluent buyers into \$100k+ luxury or performance vehicles. It will mean getting average consumers into mass-market vehicles they depend on every day to get to work and manage family life. It will mean helping those customers figure out how to finance their vehicles and how to handle their trade-ins. It will mean educating them about the differences EVs present. And it will mean keeping these vehicles on the road when inevitable repairs and recalls happen – without long wait times.

Today's EVs are great vehicles – but they're not perfect. It's possible that EVs may need less service in the future, but in 2021 the data shows they require more service and repairs than ICE vehicles. Tesla's recent recall of some half million vehicles and GM's recent recall of some 100,000 Bolts suggest that EVs are not immune to safety issues that must be fixed.

Because local dealerships compete for customers on sales and service, the result is that pricing is competitive, and service is plentiful – from multiple same-brand dealers. It means you can always get a dealer on the phone, and you can always get a local appointment, with no waiting or frustrating 1-800 calls. With new complex new products like electric vehicles, personal service and education is needed more than ever.

EV buyers agree. In the largest and most comprehensive survey ever conducted of future EV buyers in the U.S., the analytics firm Escalent presented future EV buyers with a factory sales model and a franchise dealership model. Only 20% preferred the direct approach. Twenty-three percent were neutral. And a full 57% chose the current dealership model.

When 20,000 future EV buyers demand for dealerships be a big part of their EV purchase experience, it is clear that the franchise dealership model works just as well for EVs as it does for traditional vehicles.

America's car and truck dealers are all-in on EVs and raring to get going in promoting them. Our best environmental policy is to leverage the network of America's 16,500 dealerships to help America successfully make the transition to EVs. ◉

*Sincerely,
Mike Stanton
President and CEO
National Automobile Dealers Association*



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Retail Warranty Reimbursement

Combating Catalytic Converter Theft



Catalytic converter thefts present a growing problem for dealers and their customers. In 2021, the National Crime Bureau estimated that more than 52,000 catalytic converters were reported as stolen, compared with 1,300 in 2018. That's 40 times as many converters, and it doesn't include the number of catalytic converters thefts that went unreported. If the repair cost is the size of someone's deductible, they may not report the theft to the police or the insurance company since they will have to pay the money either way. Filing a report creates the possibility of increased insurance premiums; not filing maintains the status quo.

Thieves value catalytic converters because they contain precious metals such as palladium, platinum and rhodium. The metals' values have increased exponentially. Worse, catalytic converters are easy to steal and hard to trace.

Another problem caused by catalytic converter theft is the damage when thieves cut the converters from the car. They are in a hurry and don't care about being precise, so they often damage the oxygen sensor and may take other parts of the exhaust system, such as the muffler. That means repairs after the theft will often involve more than just replacing the catalytic converter itself. A stolen catalytic converter is usually worth \$500-\$600 to the thief, but replacing it costs the owner approximately \$3,500.

What can dealers and owners do about catalytic converter theft? They can:

- Make it harder for thieves to get catalytic converters
- Make it easier to trace stolen catalytic converters

How do you make it harder to steal a catalytic converter? Vehicles stored outside are more vulnerable than vehicles inside a garage, so dealerships are attractive targets for thieves. One dealer installed a 7,000-volt security system



Ideally, the grant takes care of the vehicles already on the road. The bill would also require new vehicles to stamp unique, traceable numbers on catalytic converters when vehicles are built to identify an individual converter.

around the dealership. He hasn't had any problems since then. However, one of his customers had seven trucks. Thieves took all seven converters. It took eight weeks for replacement parts to arrive; thieves took all seven converters again one short month later.

Experiences like that have made the second strategy more attractive (making it easier to trace stolen catalytic converters). In January 2022, Indiana Rep. Jim Baird introduced H.R. 6394, the Preventing Auto Recycling Theft (PART) Act, which NADA strongly supports. The bill is intended to increase traceability and enforcement. A day later, Jan. 14, 2022, it was referred to the Subcommittee on Highways and Transit. It still has to pass the House and Senate, so it is a long way from being signed into law by the president.

If the bill passes, the idea would be to use a \$7 million grant program to cover the cost of stamping VINS or other identifiers onto existing vehicles' catalytic converters. The vehicle owner wouldn't have to pay anything for this to be done. Dealers would also be able to use the grant program.

Ideally, the grant takes care of the vehicles already on the road. The bill would also require new vehicles to stamp unique, traceable numbers on catalytic converters when

vehicles are built to identify an individual converter. Purchasers would have to keep records of these numbers. Catalytic converter theft, sale, trafficking or purchase (if the buyer knows the converter was stolen) would be a federal crime. Someone convicted under this law could spend up to five years in jail.

In May 2022, 14 trade associations, other industry organizations and NADA asked Congress to take up H.R. 6394 and get it moving. The signers specifically asked Congress to send it to the House Energy and Commerce Committee for a hearing.

If you have dealt with catalytic converter theft, you know how important this issue is. Now is the time to reach out to your representative and ask them to support H.R. 6394. It wouldn't hurt to communicate with committee members, too. The chair is New Jersey's Rep. Frank Pallone, Jr., and the ranking member is Washington's Cathy McMorris Rodgers. For a full list of committee members, visit <https://energycommerce.house.gov/subcommittees/energy-and-commerce-117th-congress>.

We can help the House and, later, the Senate understand how important this issue is, but we will only be successful if we put in the effort. ☺



Left to Right: Mike Hernandez Jr., Lisbeth Hernandez, Lisa Hernandez and Robb Hernandez



Left to Right: Sara McKinney, Michael Hernandez, Lisa Hernandez, Robb Hernandez, Layne Barajas and Jonathan Margullis



Left to Right: Mike Hernandez Jr., Lisa Hernandez, Lizbeth Hernandez, Robb Hernandez

Robb Hernandez — CARRYING ON A FAMILY LEGACY

Mike Hernandez (Mike Sr.) established Camino Real Chevrolet March 16, 1976. He was involved in the day-to-day operations until his passing in 2019 at 83.

Mike Sr. believed in giving back to the community. He felt that when you have the ability and capacity to help, it becomes a responsibility to do so. Since the 1950s, Mike Sr. was involved in various youth groups and foundations, including The Boy Scouts of America, Little League Baseball and various police associations. He also worked with underprivileged children throughout East Los Angeles, Major League Baseball players who needed help adjusting to life after baseball, and mentored and advised Oscar De La Hoya early in his career.

Many dealerships flounder after the founder passes, but Mike Sr. made sure he taught his children the importance of family. He always said, “I won’t be here forever. Don’t cry for me. Get back to work.”

His highest priority was that Camino Real was always considered a family business. It wasn’t about the accomplishments of individuals but about the dealership

and what it provided for the family, employees and, most importantly, the community.

Mike Sr. left a legacy in a blended family that included his five children. Michael, the oldest, has worked at the dealership for 47 years and serves as the vice president and general manager. Lisa is the chief financial officer, controller and HR director. She has worked at Camino Real for 32 years. Robb is the dealer operator and has been involved full-time since 2014. Mike Sr.’s other children, Tom and Liz, are not involved in the dealership’s day-to-day operations; however, Liz does assist with dealership marketing and social media. In addition, JJ Margullis, Lisa’s son, is the used car manager and Mikey Hernandez, one of Michael’s sons, is an internet sales manager.

The Hernandez family and Camino Real are now focusing on the future, planning and preparing the next generation. Robb is the next generation. Mike Sr.’s desire was for Michael and Lisa, with their knowledge and experience, to prepare Robb for flying solo.

Robb has a bachelor’s degree from CSU-Long Beach and an MBA through GM-sponsored DeVos Graduate



Left to Right: Tom Hernandez, Lizbeth Hernandez, Mike Hernandez Sr., Lisa Hernandez, and Mike Hernandez Jr.

“I have aspirations to expand, but my focus is here first,” says Robb. “This is my passion. I have my family here, and we don’t ever have a bad day. We only have bumps in the road. My father used to say, ‘Have faith, be strong and be your own hero.’ If you have the fire and work ethic from within, you really can be your hero.”

School at Northwood University. He is a board member of the California New Car Dealers Association and the director of the Greater Los Angeles New Car Dealers Association. He also serves as a member of the Chevrolet National Dealer Council; that responsibility is a big commitment of time and focus. Robb says, “My job on these various councils is to help and protect dealers and make me a better dealer. I know I can only take on these opportunities because of my family’s support. If I didn’t have that, I would have to be at the dealership nonstop. Our management team is strong, and there’s no problem leaving for a few days. When I’m gone, I am learning from

other dealers, which helps me be more innovative, and I am a voice for all dealers to the manufacturers. You can’t put a price on what I’m learning from everyone.”

Camino Real has won many awards throughout the years, including Dealer of the Year for Chevrolet in 2006 and from 2017 to 2021. The top 75 dealers are given this award from about 3,000 dealerships nationally. The dealership has also been awarded the Mark of Excellence award at least a dozen times. Robb credits these awards to the dealership family and their commitment to Camino Real.

The auto industry is changing, and Robb sees the shift toward EVs and the technician shortage as important issues. He appreciates how General Motors Corp. is helping dealers prepare to move into the EV space. Although electricity providers need to work on their part, so do employers such as Camino Real Chevrolet. They can address labor shortages by reaching out to schools to solve labor issues in sales and service. Robb points out that many people discourage students from trade schools, which should be an avenue for those who don’t want to go to four-year colleges and universities because of cost or just no desire to further their education. Graduates from automotive service technician schools can make a great living working at a dealership and would have little student debt. “Dealers need to put their best foot forward with high schools and colleges. Nurture and empower students and cut some checks. We need more trade school graduates and have programs to pay for school. That’s something my dad always did,” Robb pointed out.

Camino Real Chevrolet is a single-point dealership, and Robb sees that as an advantage. “The single-point focus has to be taking care of the clientele,” he said. “People are not just another number. If you take care of them like family, there is room to grow. Multipoint doesn’t mean best of the best. Many winners are single points. Being a single point doesn’t mean you will fail. You just have to keep a better pulse on the business and keep expanding your footprint in the community.”

“I have aspirations to expand, but my focus is here first,” says Robb. “This is my passion. I have my family here, and we don’t ever have a bad day. We only have bumps in the road. My father used to say, ‘Have faith, be strong and be your own hero.’ If you have the fire and work ethic from within, you really can be your hero.”

Mike Sr. knew the importance of family and how to leave a legacy that continues to succeed beyond what he started over a half-century ago. 🕒

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Auto Buying Preferences

The auto industry is starting to undergo a massive switchover from ICE autos to EV autos, and there's no shortage of people to tell you EVs are going to have a big impact on the industry. What's less clear is how that implementation will occur. Many people expect direct retail from manufacturers to expand, but fewer people ask what customers want and like.

Escalent is an analytics advisory company that focuses on business disruptions and transformations. The company conducted a survey, May 5-June 16, 2021, of 1,248 new-vehicle buyers from a global database. Those who responded were selected based on age (18-80), gender and location, and the survey's demographics were weighted to reflect actual vehicle sales based on the vehicle segment. The survey was done on an opt-in basis as part of a panel.

What were the results? It wasn't the slam-dunk for direct retail you might have expected. The majority of those

surveyed (57%) prefer traditional car buying. Only 20% prefer direct retail. If you think the older segment skewed that result, think again: 94% of those less than 30 were satisfied with dealerships. Overall, 87% were satisfied.

What about a hybrid buying experience? Again, the preference was for being in-person at the dealership for at least part of the transaction:

- 75% for purchases
- 60% for financing
- 85% for taking delivery versus home delivery
- 79% for repairs and services versus having a technician come to a customer's home

The obvious takeaway is that most people, including younger customers, want to conduct business at the dealership. In particular, 63% want to take EVs for a drive before buying them. Test drives got a higher approval rating than any other source of information. However,

The 2021 Global Automotive Consumer Study, conducted by Deloitte, confirmed these survey results. Approximately 71% of customers want to buy their autos in person, and 64% are uncomfortable buying 100% online. When asked why they preferred going to the dealership, 75% said they wanted to see their vehicle before buying it, and 64% thought a test drive was necessary. Only 38% wanted to negotiate in person and face-to-face.



they are less interested in getting information from a dealership salesperson; 31% said a salesperson would be a primary information source.

The 2021 Global Automotive Consumer Study, conducted by Deloitte, confirmed these survey results. Approximately 71% of customers want to buy their autos in person, and 64% are uncomfortable buying 100% online. When asked why they preferred going to the dealership, 75% said they wanted to see their vehicle before buying it, and 64% thought a test drive was necessary. Only 38% wanted to negotiate in person and face-to-face.

That doesn't mean they wanted to spend a lot of time there. They didn't want to be at the dealership for more than an hour. That's probably why car buyers also preferred doing online research and paperwork, including the financing portion. They wanted transparency and

time while evaluating decisions such as buying extended warranties.

For decades, consumer pain points have included the following:

- Disliking long waits
- Evaluating financing options while under pressure
- Meeting too many people
- Having too much paperwork

Those pain points were a fact of life before the pandemic. Less than 2% of all vehicles were sold online. The pandemic changed that: 30% of U.S. new car sales in 2020 were sold online. But there's a difference between doing something because you have to and doing something you want to. People like going to dealerships. But they don't want to be there for hours.

Buying a vehicle by using a hybrid process gives customers convenience and speed. It also allows them to see their vehicle in person and test drive it before making a final decision.

As a dealer, the key to understanding these survey results is reducing the pain of buying a car and increasing the convenience. Seeing a car and taking it for a drive is not a pain point and can only be done in person. People are always going to want that part of the auto-buying experience. But there's a great deal that can be done to make other parts of the experience more pleasant than they've been in the past.

Dealerships aren't going away. However, changing business practices to include better selling methods won't go away, either. And that's a good thing.🕒



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-Craig Whetter, President, David Wilson Automotive Group (relationship since 1983)



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- Haz Mat Release Response
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- Representation in OSHA Enforcement Cases
- Phase I Environmental Assessment
- Regulatory Permits & Reporting



THE PANDEMIC HAS CHANGED THE WAY **Dealerships Do Business**

Even though it has been about two years since the pandemic shutdown of March 2020, the divide between pre-pandemic life and post-pandemic life has not closed. The future has very few certainties, but that doesn't prevent you from making educated guesses. There are specific areas that could affect the future of your dealership. Those areas are the ones where you should focus your decisions. Here are a few general subjects you should consider to get you started, but everyone's situation is different. There might be others you should add, too.

Cyberattacks

The digital cloud is important for a couple of reasons: convenience and security. The cloud makes it possible to access information somewhere other than a physical store, and it also protects that data by using security protocols.

Although the cloud's convenience is an obvious benefit, security aspects are important, too. Automotive dealerships have a high volume of data, and much of it is sensitive because it involves personal and financial information about customers. Security patches and



updates for cloud-native systems can be installed whenever necessary, and cloud record backups prevent you from losing important information if or when someone hacks your business. If you don't already have a cloud-based DMS, you should consider getting one.

Digital Advertising

Websites, including social media websites, are an opportunity to help potential customers find you. You can then let them know about any special offers you might have. That becomes doubly important at a time when many people are still avoiding brick-and-mortar stores.

Mobile Services

Sometimes people don't want to bring a vehicle in for service. Some dealerships have met that need by expanding their services; more specifically, they offer mobile services. They can pick up a vehicle from a customer's home, rotate the tires or change the oil, and then return it. Suppose you are considering offering

The shift to online research and paperwork that has been filled out in advance allows you to improve efficiency. If customers start the buying process from home, that means you can often shorten the time needed to finalize the sale.

similar services at your dealership. If so, you will need a DMS that can work off-site without a VPN.

Online Shopping

Most potential customers now prefer to do some or all of their shopping online instead of at a dealership. Thanks to the internet, they can conduct in-depth research and become well-informed before making their final buying decisions. According to an online article on the Autolist website that appeared in May 2021, people spend more than nine hours researching vehicles. Going to the dealership to buy a vehicle often takes about three hours. That time might be spent looking at vehicles, talking to the sales staff, test driving, negotiating the purchase price and trade-in price, and signing paperwork.

The shift to online research and paperwork that has been filled out in advance allows you to improve efficiency. If customers start the buying process from home, that means you can often shorten the time needed to finalize the sale. As people do more paperwork at home, the sales process becomes easier, and customers are happier about their vehicle-buying experience.

What is the ideal amount of time? A Car and Driver article by Jack Nerad published Jan. 4, 2018, said customers wanted to spend 45 minutes to an hour finalizing their

➤ **DEALERSHIPS DO BUSINESS** — *continued on page 20*

purchase. Although that was more than four years ago, the pandemic has increased people's expectations about buying goods quickly and easily.

The 2022 Deloitte Global Automotive Consumer Study contains results from a survey of 26,000 people in 25 countries. It found that people still prefer buying in person from an authorized dealer. However, online purchasing was also attractive because those surveyed thought it would be easier and more convenient.

You don't have complete control over how long it takes someone to buy a car, but you should make buying as easy as possible whether customers are online or in your store. Online, you might want to consider having a virtual sales manager.

Payments

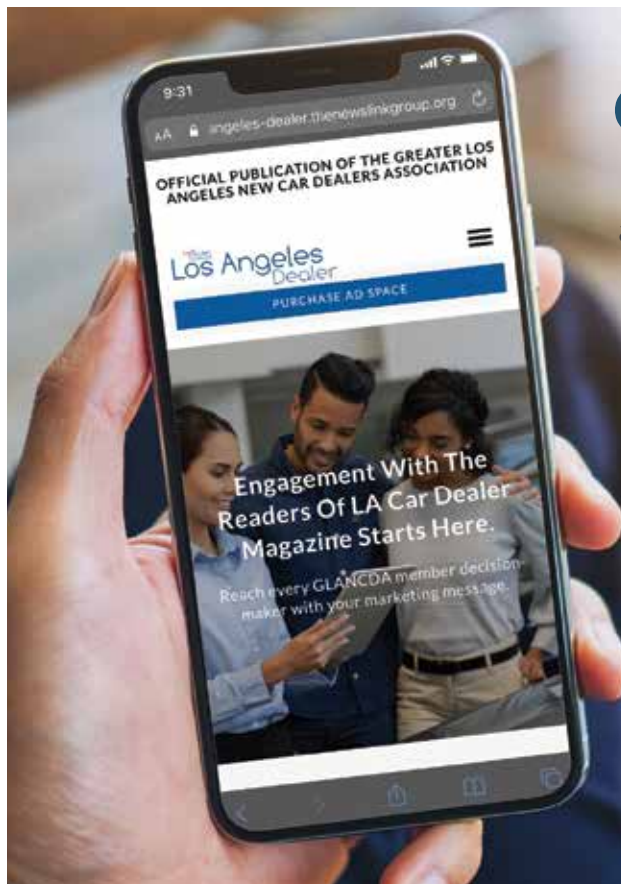
It has become increasingly important to take payments securely online. That way, customers can pay at their

convenience and avoid crowds. Your DMS can do more than enable online payments; it also allows you to track them.

Remote Work

One advantage of cloud-based software is the way it allows employees to work remotely. If you set things up correctly, employees working from home can set up deals, offer different payment options, schedule service and test-drive appointments and allow customers to set up contracts and payments digitally.

The pandemic pushed the entire world forward technologically when it became necessary to shut down public institutions and ask people to isolate themselves. That was hard, and it continues to be hard. But companies also became more efficient, and what used to be considered a concierge level of service became mainstream. As a result, you can deliver a better experience to your customers than ever before. That's always good for business. 🕒



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