No dream is out of reach.

AFC has been making dreams come true for more than 25 years, providing flexible lines of credit and the business services that independent dealers need.

Contact AFC today to find out how we can help turn your big dream into a big-time reality.

autofinance.com | (888) 335-6675
PUT THE BRAKES ON COSTLY RECONS

From leading parts coverage to data driven solutions get everything you need to recondition vehicles right and get them on the lot – fast.

GET PARTS

Quality Parts
Sell with confidence and reduce comebacks. Backed by our parts & labor guarantee with 48-hour reimbursement.

Dedicated Services
We prioritize NIADA members’ needs and offer 30 minutes or less delivery on extended import and late model OE and OES parts.

Special Member Pricing
Take advantage of bulk discounts to make the most out of every sale.

ALLDATA
AUTOMOTIVE INTELLIGENCE

FIND REPAIRS

ALLDATA Repair
Whether reconditioning for resale or servicing customers’ vehicles, save time and get the job done right with OE-accurate repair data.

ALLDATA Mobile
Make informed decisions at auto auctions before purchasing. Pull trouble codes and recall information right at the vehicle. Estimate complex repairs to gauge profitability.

ALLDATA Tech-Assist
Call our hotline staffed with ASE-Certified Master Techs. Available Monday through Saturday to help diagnose and repair tough problems.

Find out how you can start saving!
(844) 889-6915 ALLDATA.com/NIADArecon

EXCLUSIVE DISCOUNTS FOR NIADA MEMBERS
AutoZone Parts & Services
ALLDATA Software solutions
NOW THAT MY CASH ISN’T TIED UP IN INVENTORY I CAN DO MORE OF THE THINGS I USED TO JUST DREAM ABOUT.

THAT’S MY PATH TO +MORE

CHRISTINGLER | CAR SHOP INC. | COVINGTON, VA

I used to be a cash buyer, but now that we have a NextGear Capital floor plan to buy inventory, our money is funding the upgrades and lot improvements we thought were 5-10 years off in the future. Discover where we can take you. Visit nextgearcapital.com.

*This testimonial was reviewed via immuno, audio or video submissions. This testimonial is based on the dealer’s individual experience, reflecting real life experiences of a NextGear Capital dealer. NextGear Capital does not claim they are typical results that dealers generally will achieve. The dealer’s experiences may not be indicative of future performance or success of any other dealer. Some of the testimonial has been rephrased as the whole message is not displayed due to size and/or space restrictions.

Cox Automotive
INDUSTRY CONFIDENCE REMAINS STRONG:
CONTINUED GROWTH IN RETAIL SALES AND LOW UNEMPLOYMENT ARE KEY INDICATORS
DEALERS REMAIN CAUTIOUSLY OPTIMISTIC AS THEY MANAGE INDUSTRY DISRUPTION AND THE UP COMING PRESIDENTIAL ELECTION

by Steve Jordan, NIADA CEO

The 2019 Used Car Industry Report perfectly describes this narrative as the industry rebounds from the fluctuations in automotive lending and underwriting over the past couple of years. Prime and near-prime lenders are normalizing their marketplace positions and competing for customers with stronger incomes, and by extension are placing tighter restrictions on auto finance contracts for non-prime and subprime customers.

Auto lenders lending in their normal channels is good for the industry, especially Buy Here-Pay Here dealers and operators. Our 2019 report begins with detailed statistics and demographics from NIADA’s members, and is a valuable tool for our dealer members to compare their dealership numbers and operations to other dealer members nationwide.

Special thanks to those who take the time to complete our membership surveys. Your time and effort is extremely important, ensuring statistical relevance and creating a benchmark for NIADA membership.

The NIADA Business Confidence Survey (Section 2) continues to add a unique, real-time dealer perspective on the state of the industry and its confidence regarding key business indicators.

The quarterly results, compiled with the assistance of industry partner Equifax, are a great educational tool to pass on to legislators, regulators, media and others who seek better insight into the industry on a timely, consistent basis.

As NIADA continues to educate national, state and local officials about the used auto industry, our strong alliances with industry associations like NADA, NAAA and NABD, as well as our many industry vendor partners who assist with data efforts throughout this report are vital to our advocacy efforts.

In Section 3, NABD provides in-depth analysis of the Buy Here-Pay Here segment for the year past, along with forecasts for what BHPH dealers can expect for the rest of 2019 and beyond.

As mentioned, the Used Car Industry Report is also filled with invaluable data from several of NIADA’s industry vendor partners and leading nationally recognized automotive brands. These companies spend millions of dollars on research of the used vehicle industry, including dealer and consumer studies and white papers, contributing to the overall perspective and confidence we all have in the automotive industry.

In Section 4, J.D. Power/NADA Used Car Guide provides a breakdown of used car sales by channel for the year 2018, followed in Sections 5 and 6 by 2019 in-depth market insights and outlooks from Cox Automotive and Edmunds. CPO data and trends are also noted within Section 6 on page 33. And speaking of CPO, our NIADA Certified Pre-Owned program continues to evolve with a brand new NIADA CPO inventory tool. Visit www.niada-certified.com for more information and to sign up to become an NIADA CPO dealer today.

Moving on, our longtime industry partner CARFAX kicks off a series of consumer studies in Sections 7 through 10. Dealers need to carefully review the research graciously provided by CARFAX, Cox Automotive, TrueCar, and CarGurus, as these sections detail merchandising in the digital world and provide updated information on car buyers’ journeys from beginning of search all the way to post sale. New TrueCar data provides a study on trade-in process trust issues, and CarGurus is back for a second year in our report with consumer data detailing vehicle body style preferences.

New data from AutoSoft in section 11 focuses on dealer ROI. Dominion Cross-Sell in Section 12 provides a unique perspective on the Carvana business model and provides tips on how to compete with it.

Financial data from Equifax on subprime credit and lending trends is noted in Section 13. Industry partner Black Book once again provides very important narrative and charts on retention values in Section 14. Continuing with financial themes, Section 15, provided by Home Loan Investment Bank, offers tips to assist your customers in getting credit application approvals.

GoldStar by Spreon in Section 16 provides a fresh perspective and data on impound fee relief and how it affects dealers’ bottom lines. More consumer data is presented by RouteOne in Section 17, summarizing the latest in digital consumer experiences in the automotive finance industry.

Dealer marketing is highlighted in Section 18, as OfferUp details the rise of mobile marketing and lead generation data through this growing marketing medium.

Our report ends this year with a series of Auction Industry Perspectives from several auction industry partners and independent auction groups. The auction industry is a vital part of our industry, and NIADA continues to work closely with the National Auto Auction Association (NAAA) on many initiatives and programs to keep dealers and auctions informed, educated and on the same page.

I’d like to thank all of our industry partners who help us make NIADA’s annual Used Car Industry Report a must-have in understanding our industry.

And I want to thank you, our dealer members and our allied industry partners for your ongoing feedback and support of our shared goals.
MEMBERSHIP DATA

One of the best ways to gauge the success of your dealership and its operations is to compare your dealer demographics and your dealer data to those of other NIADA members around the country. Each year NIADA surveys its members on a quarterly basis on a variety of topics covering demographic and business data.

In addition, we were able to pull six key data points of our dealer members from our InfoGroup data on page 7 of this section. The six charts on page 7 are derived from over 9,200 confirmed dealer member records within our InfoGroup data, providing a 100% confidence level in the validity of the data on this particular page of the report.

Major results of the member survey indicate the following:

- Over 55% of our membership sell vehicles in the 6-10 year old range.
- Over the past year there has been a big shift in the average retail price of vehicles sold by our members. Over 37% of our members are selling vehicles with average retail prices of $5,000 or less, and 33% are selling vehicles in the $5,000 to $10,000 price range.
- 73% of our dealer members sell 400 units or fewer per year.
- 96% of our dealer members are single location dealers.
- 65% of our dealer members have 1-4 employees.
- NIADA dealer members overwhelmingly rely on online advertising as their main advertising avenue. Also, mobile advertising ranks third behind online and radio among media used to promote their vehicles.

---

**Age of Vehicles Sold**

<table>
<thead>
<tr>
<th>PERCENTAGE OF RESPONDENTS</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 YEARS</td>
<td>4.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>3-5 YEARS</td>
<td>38.5%</td>
<td>32.3%</td>
</tr>
<tr>
<td>6-10 YEARS</td>
<td>53.2%</td>
<td>55.9%</td>
</tr>
<tr>
<td>11+ YEARS</td>
<td>12.2%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

**Average Vehicles in Inventory**

<table>
<thead>
<tr>
<th>PERCENTAGE OF RESPONDENTS</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10</td>
<td>32.7%</td>
<td>31.3%</td>
</tr>
<tr>
<td>11-20</td>
<td>31.3%</td>
<td>32.7%</td>
</tr>
<tr>
<td>21-30</td>
<td>11.8%</td>
<td>12.2%</td>
</tr>
<tr>
<td>31-50</td>
<td>15.7%</td>
<td>15.3%</td>
</tr>
<tr>
<td>51-75</td>
<td>15.7%</td>
<td>15.9%</td>
</tr>
<tr>
<td>76-100</td>
<td>10.8%</td>
<td>9.8%</td>
</tr>
<tr>
<td>101-200</td>
<td>9.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>200+</td>
<td>8.2%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

**Average Retail Price**

<table>
<thead>
<tr>
<th>PERCENTAGE OF RESPONDENTS</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-5,000</td>
<td>14.5%</td>
<td>27.1%</td>
</tr>
<tr>
<td>$5,001-10,000</td>
<td>60.4%</td>
<td>54.2%</td>
</tr>
<tr>
<td>$10,001-15,000</td>
<td>13.7%</td>
<td>13.5%</td>
</tr>
<tr>
<td>$15,001-20,000</td>
<td>11.3%</td>
<td>12.7%</td>
</tr>
<tr>
<td>$20,001+</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

**What is the Nature of Your Business?**

<table>
<thead>
<tr>
<th>PERCENTAGE OF RESPONDENTS</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>68.9%</td>
<td>62.1%</td>
</tr>
<tr>
<td>BHPH</td>
<td>45.3%</td>
<td>46.3%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>25.6%</td>
<td>23.5%</td>
</tr>
<tr>
<td>Rental</td>
<td>4.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Leasing</td>
<td>11.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Service Dept.</td>
<td>10.7%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Parts Dept.</td>
<td>7.6%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>
### Dealership Size by Square Footage

<table>
<thead>
<tr>
<th>Source: Infogroup</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 2,500 square feet</td>
<td>44.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>2,500-10k square feet</td>
<td>22.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>10k-40k square feet</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>more than 40k square feet</td>
<td>21.0%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

### Advertising Spend Annual

<table>
<thead>
<tr>
<th>Source: Infogroup</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $10K</td>
<td>35.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>$10-20k</td>
<td>28.0%</td>
<td>28.0%</td>
</tr>
<tr>
<td>$21-50k</td>
<td>13.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>$51-100k</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>more than $100k</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

### Annual Sales Volume

<table>
<thead>
<tr>
<th>Source: Infogroup</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $1 million</td>
<td>38.0%</td>
<td>38.0%</td>
</tr>
<tr>
<td>$1-2.5 million</td>
<td>34.0%</td>
<td>32.0%</td>
</tr>
<tr>
<td>$2.5-5 million</td>
<td>12.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>$5-10 million</td>
<td>8.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>more than $10 million</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

### Annual Retail Sales by Unit

<table>
<thead>
<tr>
<th>Source: NADA Member Survey</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 100</td>
<td>26.7%</td>
<td>26.4%</td>
</tr>
<tr>
<td>101 - 250</td>
<td>25.3%</td>
<td>26.4%</td>
</tr>
<tr>
<td>251 - 400</td>
<td>17.7%</td>
<td>18.3%</td>
</tr>
<tr>
<td>401 - 550</td>
<td>7.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>551 - 700</td>
<td>6.8%</td>
<td>4.3%</td>
</tr>
<tr>
<td>701 - 850</td>
<td>3.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>851 - 1000</td>
<td>3.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>1000+</td>
<td>6.2%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

### Number of Years in Business

<table>
<thead>
<tr>
<th>Source: Infogroup</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>27.0%</td>
<td>27.0%</td>
</tr>
<tr>
<td>6-10 years</td>
<td>20.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>11-15 years</td>
<td>15.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>16-20 years</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>21+ years</td>
<td>28.0%</td>
<td>28.0%</td>
</tr>
</tbody>
</table>

### Multiple Locations

<table>
<thead>
<tr>
<th>Source: Infogroup</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>single location</td>
<td>96.1%</td>
<td>96.0%</td>
</tr>
<tr>
<td>multiple locations</td>
<td>3.9%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

### Number of Employees

<table>
<thead>
<tr>
<th>Source: Infogroup</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4</td>
<td>62.7%</td>
<td>64.0%</td>
</tr>
<tr>
<td>5-9</td>
<td>18.6%</td>
<td>18.0%</td>
</tr>
<tr>
<td>10-19</td>
<td>10.1%</td>
<td>8.0%</td>
</tr>
<tr>
<td>20+</td>
<td>8.5%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
How do you Finance/Floorplan your Inventory? (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Option</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>banks</td>
<td>34.8%</td>
<td>27.5%</td>
</tr>
<tr>
<td>auction floorplanning</td>
<td>32.6%</td>
<td>38.8%</td>
</tr>
<tr>
<td>cash</td>
<td>32.6%</td>
<td>33.7%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

NOTE: NUMBERS WON'T NECESSARILY ADD UP TO 100% BECAUSE DEALERS CAN CHOOSE MORE THAN ONE CATEGORY.

What Finance Options do you Supply to your Customers? (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Option</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHPH</td>
<td>48.2%</td>
<td>52.3%</td>
</tr>
<tr>
<td>finance company</td>
<td>48.2%</td>
<td>52.3%</td>
</tr>
<tr>
<td>banks</td>
<td>45.5%</td>
<td>55.8%</td>
</tr>
<tr>
<td>credit union</td>
<td>5.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

NOTE: NUMBERS WON'T NECESSARILY ADD UP TO 100% BECAUSE DEALERS CAN CHOOSE MORE THAN ONE CATEGORY.

Advertising Media Used (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Media</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>21.5%</td>
<td>13.3%</td>
</tr>
<tr>
<td>newspaper</td>
<td>14.0%</td>
<td>21.3%</td>
</tr>
<tr>
<td>radio</td>
<td>17.1%</td>
<td>21.1%</td>
</tr>
<tr>
<td>online</td>
<td>80.0%</td>
<td>19.8%</td>
</tr>
<tr>
<td>magazine</td>
<td>8.6%</td>
<td>22.8%</td>
</tr>
<tr>
<td>mobile</td>
<td>14.0%</td>
<td>2.3%</td>
</tr>
<tr>
<td>other</td>
<td>1.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

NOTE: NUMBERS WON'T NECESSARILY ADD UP TO 100% BECAUSE DEALERS CAN CHOOSE MORE THAN ONE CATEGORY.

Average Down Payment (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Down Payment</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to $1,000</td>
<td>14.5%</td>
<td>14.8%</td>
</tr>
<tr>
<td>$1,001-$1,500</td>
<td>23.0%</td>
<td>27.4%</td>
</tr>
<tr>
<td>$1,501-$2,000</td>
<td>27.4%</td>
<td>31.4%</td>
</tr>
<tr>
<td>$2,001-$2,500</td>
<td>32.2%</td>
<td>32.2%</td>
</tr>
<tr>
<td>$2,501+</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Average Term of Contract (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Months</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12 months</td>
<td>27.5%</td>
<td>27.5%</td>
</tr>
<tr>
<td>13-24 months</td>
<td>27.5%</td>
<td>32.2%</td>
</tr>
<tr>
<td>25-36 months</td>
<td>22.6%</td>
<td>27.4%</td>
</tr>
<tr>
<td>37-48 months</td>
<td>22.6%</td>
<td>27.4%</td>
</tr>
<tr>
<td>49+ months</td>
<td>22.6%</td>
<td>27.4%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

If you are a BHPH Dealer, do you have a Related Finance Company? (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Option</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>38.3%</td>
<td>62.7%</td>
</tr>
<tr>
<td>No</td>
<td>61.7%</td>
<td>37.3%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Separate F&I Department (PERCENTAGE OF RESPONDENTS) ▼ 2017 ▼ 2018

<table>
<thead>
<tr>
<th>Option</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20.3%</td>
<td>79.9%</td>
</tr>
<tr>
<td>No</td>
<td>79.9%</td>
<td>20.1%</td>
</tr>
<tr>
<td>total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
The best reviewed DMS in the industry

Everything you need to run your dealership in one, easy-to-use system!

DealerCenter.com is an all-in-one, web-based Dealer Management System that allows used car dealers full control over their sales, inventory & customer management, digital marketing, financing, credit bureau reports, book services and more.

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DEAL AND LENDER MANAGEMENT
DIGITAL MARKETING
BHPH PORTFOLIO MANAGEMENT
INVENTORY MERCHANDISING
CUSTOMER MANAGEMENT
CUSTOM DEALER WEBSITES
MOBILE APP SOLUTION

888.669.2669
www.dealercenter.com

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Where do you Buy your Vehicles? (PERCENTAGE OF RESPONDENTS)

Do you Sell Warranties/Service Contracts? (2017) 2018

Do you Sell Aftermarket Products? (2017) 2018

Do you Use GPS Devices? (2016) 2017

Do you Offer Certified Pre-Owned Vehicles? (2017) 2018

Do you Have a Rental Car Operation? (2017) 2018

How do you Wholesale your Vehicles? (PERCENTAGE OF RESPONDENTS)

How Often Does your Dealership Attend Auctions Per Month? (PERCENTAGE OF RESPONDENTS)

How Many Service Bays do you Operate? (PERCENTAGE OF RESPONDENTS)

What do you Spend per Unit Reconditioning your Vehicles? (PERCENTAGE OF RESPONDENTS)

NOTE: NUMBERS WON'T NECESSARILY ADD UP TO 100% BECAUSE DEALERS CAN CHOOSE MORE THAN ONE CATEGORY.
A Finance Partner Uniquely Positioned to Help You

GROW YOUR BUSINESS.

As a division of the national organization American Credit Acceptance, Spartan Financial Partners is uniquely positioned to custom tailor a simple and straightforward solution to meet your specific dealership needs. Explore how our flexibility, auto finance expertise, and industry experts can prepare your business for future growth with a Bulk Purchase or Line of Credit Program.

TRANSPARENT, NO HIDDEN FEES
PROMPT, EFFICIENT CLOSING
HONEST, UPFRONT PRICING

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The confidence of independent vehicle dealers in the economy softened heading into the second quarter of 2019, according to the latest NIADA Business Confidence Survey.

The quarterly survey of NIADA members found the number of respondents expecting the economy to improve was down almost 10 percent from the previous survey, dropping from 42 percent to 33 percent. In addition, expectations for higher retail sales and customer traffic growth both fell.

The lack of confidence showed up in the 17.5 percent decrease in dealers’ plans to invest in expanding their businesses (from 40 percent in Q1 to 33 percent), and in dealers’ plans to increase efficiencies.

Not only did the number who believe their cash flow would increase drop from 52 percent to 46 percent, those who expect it to decline soared from 3 percent to 14 percent. Similarly, 14 percent of the dealers surveyed said they expected retail sales to decrease in the next quarter, up from 5 percent in the previous survey.

That sentiment aligns with the Commerce Department’s retail sales and manufacturing activity report heading into Q2. Retail sales fell a seasonally adjusted 0.2 percent in April from the previous month, driven by declines in categories such as electronics, home improvement, motor vehicles, auto parts and online shopping.

The sagging retail sales could have been an effect of tax refunds that weren’t as large as consumers expected, prompting households to put off major purchases.

The April retail sales decline could also be a sign households were rattled by the U.S.-China trade dispute.

In May, President Trump said tariffs on $200 billion in Chinese goods would rise to 25 percent from 10 percent, and left open the possibility of additional actions as negotiations continue. China retaliated by raising tariffs on $60 billion in U.S. imports.

Dealers’ expense pressure expectations rose as wholesale inventory prices continued to hit record highs. Independent dealers are continuing to trim non-essential expenses, improve productivity and implement new technologies to increase efficiencies.

As a result, fewer independent dealers said they planned to add staff in any of the key areas of the dealership – sales, finance and service – and 42 percent said they don’t anticipate hiring at all, up from 36 percent the quarter before.

Fraud prevention is an important factor in holding down expenses, and the survey showed dealers were seeing less identity theft, employment verification fraud and synthetic IDs than in the previous survey. But income verification fraud was up significantly, with 50 percent of the respondents saying it’s the type of fraud they see occurring most often.

To address that concern, many dealers are using new technologies and resources to aid in the battle against income verification fraud and other schemes. **Q2**

### Overall, does your dealership expect economic conditions to improve, to stay the same, or decline in the auto industry over the next quarter?

<table>
<thead>
<tr>
<th></th>
<th>Q3</th>
<th>Q4/Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IMPROVE</strong></td>
<td>47%</td>
<td>43%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>STAY SAME</strong></td>
<td>43%</td>
<td>43%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>DECLINE</strong></td>
<td>10%</td>
<td>15%</td>
<td>12%</td>
</tr>
</tbody>
</table>

### Do you anticipate your dealership’s total expenses (cost of business) to increase, stay the same or decrease over the next quarter?

<table>
<thead>
<tr>
<th></th>
<th>Q3</th>
<th>Q4/Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCREASE</strong></td>
<td>53%</td>
<td>52%</td>
<td>56%</td>
</tr>
<tr>
<td><strong>STAY SAME</strong></td>
<td>31%</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td><strong>DECREASE</strong></td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

### Did your dealership see fraud and cybersecurity related customer transaction issues increase, stay the same or decrease during the last 6 months?

<table>
<thead>
<tr>
<th></th>
<th>Q3</th>
<th>Q4/Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCREASE</strong></td>
<td>16%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>STAY SAME</strong></td>
<td>74%</td>
<td>71%</td>
<td>76%</td>
</tr>
<tr>
<td><strong>DECREASE</strong></td>
<td>9%</td>
<td>9%</td>
<td>7%</td>
</tr>
</tbody>
</table>

### What types of customer transactional fraud do you see occurring most often?

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q4/Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IDENTITY THEFT</strong></td>
<td>34%</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td><strong>INCOME VERIFICATION FRAUD</strong></td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>EMPL. VERIFICATION FRAUD</strong></td>
<td>17%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>SYNTHETIC ID’S</strong></td>
<td>8%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

### In which department does your dealership anticipate hiring new staff over the next quarter?

<table>
<thead>
<tr>
<th></th>
<th>Q3</th>
<th>Q4/Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td>23%</td>
<td>21%</td>
<td>29%</td>
</tr>
<tr>
<td><strong>FINANCE</strong></td>
<td>3%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>SERVICE</strong></td>
<td>22%</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>DON’T ANTICIPATE</strong></td>
<td>47%</td>
<td>36%</td>
<td>42%</td>
</tr>
</tbody>
</table>

### Considering the following marketing channels, please indicate the level of investment your dealership plans to make over the next quarter.

**Q4/Q1**  
- **ONLINE AND MOBILE**
  - **INCREASE:** 9%  
  - **HOLD:** 11%  
  - **DECREASE:** 71%  

**Q2**  
- **ONLINE AND MOBILE**
  - **INCREASE:** 14%  
  - **HOLD:** 11%  
  - **DECREASE:** 75%  

**Q4/Q1**  
- **TV**
  - **INCREASE:** 3%  
  - **HOLD:** 11%  
  - **DECREASE:** 86%  

**Q2**  
- **TV**
  - **INCREASE:** 26%  
  - **HOLD:** 14%  
  - **DECREASE:** 60%  

**Q4/Q1**  
- **RADIO**
  - **INCREASE:** 14%  
  - **HOLD:** 14%  
  - **DECREASE:** 72%  

**Q2**  
- **RADIO**
  - **INCREASE:** 11%  
  - **HOLD:** 11%  
  - **DECREASE:** 78%  

**Q4/Q1**  
- **NEWSPAPER**
  - **INCREASE:** 12%  
  - **HOLD:** 12%  
  - **DECREASE:** 76%  

**Q2**  
- **NEWSPAPER**
  - **INCREASE:** 9%  
  - **HOLD:** 8%  
  - **DECREASE:** 83%  

**Q4/Q1**  
- **OUTDOOR**
  - **INCREASE:** 18%  
  - **HOLD:** 12%  
  - **DECREASE:** 70%  

**Q2**  
- **OUTDOOR**
  - **INCREASE:** 14%  
  - **HOLD:** 14%  
  - **DECREASE:** 72%  

**Q4/Q1**  
- **DIRECT MAIL**
  - **INCREASE:** 25%  
  - **HOLD:** 11%  
  - **DECREASE:** 64%  

**Q2**  
- **DIRECT MAIL**
  - **INCREASE:** 26%  
  - **HOLD:** 14%  
  - **DECREASE:** 60%  

### What is the single most important problem facing your business today?

<table>
<thead>
<tr>
<th></th>
<th><strong>ECONOMIC CONDITIONS</strong></th>
<th><strong>GOVERNMENT REGULATIONS/ RED TAPE</strong></th>
<th><strong>HEAVYED COMPETITION FROM FRANCHISE DEALERS</strong></th>
<th><strong>LACK OF QUALITY RETAIL INVENTORY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCREASE</strong></td>
<td>11%</td>
<td>11%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>HOLD</strong></td>
<td>11%</td>
<td>11%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>DECREASE</strong></td>
<td>77%</td>
<td>77%</td>
<td>75%</td>
<td>75%</td>
</tr>
</tbody>
</table>

### By Scott Lilja and Jennifer Reid

Scott Lilja is NIADA’s senior vice president of member services. He can be reached at scott@niada.com. Jennifer Reid is Equifax’s vice president of Automotive Marketing and Strategy Leader. She can be reached at jennifer.reid@equifax.com.

By Scott Lilja and Jennifer Reid
WE WORK HARD
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TO RUN YOUR DEALERSHIP.

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The industry is constantly changing. The last thing you need is complexity.
At CDK Global, we equip dealers of all sizes with software solutions that make
their jobs easier. Like our innovative CDK Drive Flex Dealer Management System
that automates and integrates every aspect of your dealership. Why do we work
so hard for you? It’s simple. We’re Dealer People.

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1) Unit sales were generally flat compared with 2017 volumes. The most successful operators did not increase their sales prices and the related amounts financed to avoid further lengthening in the term of their contracts. In addition, down payments (including deferreds) were increased to reduce cash in deal. Repayment amounts remained flat. Individual operators in local markets were affected by varying levels of competition. In the third quarter, Wall Street securitization firms shifted their auto bond emphasis from subprime to near prime and prime credit customers, thereby reducing some of the competitive pressures experienced by independents during the last three years. However, credit unions continued to aggressively pursue subprime auto finance customers. As a result, Experian automotive market data indicated a decline of 0.3% of total outstanding BHPH receivables compared with 12/31/17 (total automotive receivables aggregated $1.175 trillion on 12/31/18). Wall Street auto bond securitizations of deep subprime paper slowed dramatically in the second half of 2018. These subprime securitizations previously fueled the significant growth in finance company portfolios during the last three years. Wall Street securitizers in the second half of 2018 also tightened underwriting criteria in connection with their shift to prime and near prime customers.

2) Increased defaults on deep subprime auto bond securitizations created regulatory pressures that have tightened credit availability for subprime auto operators. Banks and other regulated capital providers have implemented more stringent underwriting criteria and shifted to higher credit quality customers. Unregulated capital providers, like hedge funds, private equity firms, and specialty finance companies, have entered the subprime financing market to supplement the capital needs but not at the same pace.

3) Operators who reduced their sales prices and the amounts financed, tightened underwriting, and increased down payments enjoyed higher returns on their portfolio investments and better collection results.

4) Recovery values on repossessed vehicles (which were not retained) declined slightly in 2018 and are still much lower than realizations from a few years ago. Therefore, average recoveries expressed as a percentage of the deficiency balances were lower.

5) Average financing rates approximated 20% per annum and have remained relatively consistent for the last three years in those states that do not have a regulated rate cap.

6) A comparison of the business models used by the independent operators we surveyed with those models used in the deep subprime auto bond securitizations indicated lower sales prices and amounts financed, shorter terms, and lower average monthly payments for the independents.

7) “Cash in deal”, an important measure of portfolio risk, decreased by approximately 5% for operators who reduced the average cost of the vehicles they sold and required higher down payments.

8) Overall profitability improved slightly in 2018 when compared with 2017 due primarily to reductions in operating and bad debt expenses and increased finance income.
WHAT’S AHEAD FOR 2019?

Although 2018 was a challenging and competitive year, new profit opportunities are ahead for independents in 2019 as follows:

1) Although capital availability for subprime auto remains challenging, competition from finance companies and captives will decline as they shift to higher credit quality customers. This creates an excellent opportunity for independents to regain market share if they have capital available to fund the growth.

2) New car prices coupled with higher interest rates make new vehicles unaffordable to many customers. This should result in an increase in used car sales for 2019.

3) Cash efficient business models continue to provide higher returns on portfolio investments and reduce portfolio risk and the need for additional capital.

4) Customer relationships are needed to regain and to retain the best subprime customers. Operators who proactively use social media to connect with and collect from subprime customers will do better. Subprime operators can no longer rely on tax refund business to regain lost market share.

5) In order to control operating costs, implementing new technology to improve efficiencies is recommended. The biggest historical BHPH “game changers” have been pay portals (ACH, debit cards, etc.), GPS that improves recoveries and collections, and the use of related finance companies to reduce federal income taxes on “phantom income”. Texting and the increased evolution of social media are the best prospects for the future.

6) As Congress enacts changes at the CFPB, compliance remains very important. The state attorneys general have become the new enforcers as the CFPB transfers its enforcement power to them.

7) Competition for the best subprime customers has diluted their overall credit quality. Therefore, a better matching of customer income with the cost of the vehicle and its operating expense is needed to keep the subprime vehicles sold.

8) While used car values remained relatively stable in 2018, further declines should be expected in later year model inventory as off lease and off rental vehicles continue to limit leasing opportunities. Our metrics have indicated higher recoveries are possible with the leasing model inventory as off lease and off rental vehicles.

9) The subprime leasing model has merit in states where returns on portfolio investments and reduce portfolio risk and the need for additional capital.

The biggest historical BHPH “game changers” have been pay portals (ACH, debit cards, etc.), GPS that improves recoveries and collections, and the use of related finance companies to reduce federal income taxes on “phantom income”. Texting and the increased evolution of social media are the best prospects for the future.

6) As Congress enacts changes at the CFPB, compliance remains very important. The state attorneys general have become the new enforcers as the CFPB transfers its enforcement power to them.

7) Competition for the best subprime customers has diluted their overall credit quality. Therefore, a better matching of customer income with the cost of the vehicle and its operating expense is needed to keep the subprime vehicles sold.

8) While used car values remained relatively stable in 2018, further declines should be expected in later model inventory as off lease and off rental vehicles remain in abundant supply.

9) The subprime leasing model has merit in states where compliance rules favor it. However, very limited capital availability, differing state compliance, limited software options, and the lack of secondary markets continue to limit leasing opportunities. Our metrics indicate higher recoveries are possible with the leasing business model.

Operators must educate themselves on new market developments and market changes, the latest technology, enforcement actions, and capital market availability to prosper on the opportunities ahead. The best way to “accelerate your success” is to attend the annual NAIADA/NABD Convention and Expo in Las Vegas and the annual Fall NABD/Subprime conference every October.
### Sales

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Units Sold Per Dealer</td>
<td>708</td>
<td>612</td>
<td>618</td>
</tr>
<tr>
<td>Average Cash In Deal Per Vehicle</td>
<td>$6,466</td>
<td>$5,922</td>
<td>$6,116</td>
</tr>
<tr>
<td>Average ACV Per Vehicle Sold (Includes Recon)</td>
<td>$7,633</td>
<td>$6,538</td>
<td>$6,830</td>
</tr>
<tr>
<td>Average Reconditioning Cost Per Vehicle Sold</td>
<td>$911</td>
<td>$924</td>
<td>$1,018</td>
</tr>
<tr>
<td>Average Gross Per Vehicle Sold</td>
<td>$5,686</td>
<td>$5,013</td>
<td>$5,892</td>
</tr>
<tr>
<td>Average Down Payment</td>
<td>$972</td>
<td>$916</td>
<td>$835</td>
</tr>
<tr>
<td>Average Amount Financed</td>
<td>$12,862</td>
<td>$10,035</td>
<td>$11,917</td>
</tr>
<tr>
<td>Average Term Of Loan (In Weeks)</td>
<td>188</td>
<td>182</td>
<td>188</td>
</tr>
</tbody>
</table>

### Collections / Recoveries

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Weekly Payment Amount</td>
<td>$98</td>
<td>$92</td>
<td>$97</td>
</tr>
<tr>
<td>Percentage Of Accounts Past Due</td>
<td>17.90%</td>
<td>17.30%</td>
<td>19.70%</td>
</tr>
<tr>
<td>Average # Of Past Due Accounts Per Collector</td>
<td>94</td>
<td>88</td>
<td>79</td>
</tr>
<tr>
<td>Average Loss Per Charge Off</td>
<td>$6,807</td>
<td>$5,393</td>
<td>$6,624</td>
</tr>
<tr>
<td>Average Portfolio Delinquency</td>
<td>82.10%</td>
<td>82.70%</td>
<td>80.30%</td>
</tr>
<tr>
<td>Current</td>
<td>10.50%</td>
<td>10.00%</td>
<td>11.10%</td>
</tr>
<tr>
<td>1-15 Days</td>
<td>3.60%</td>
<td>3.10%</td>
<td>3.60%</td>
</tr>
<tr>
<td>16-29 Days</td>
<td>2.30%</td>
<td>2.40%</td>
<td>2.60%</td>
</tr>
<tr>
<td>30-59 Days</td>
<td>0.60%</td>
<td>0.80%</td>
<td>1.00%</td>
</tr>
<tr>
<td>60-89 Days</td>
<td>0.70%</td>
<td>0.90%</td>
<td>1.40%</td>
</tr>
<tr>
<td>90+ Days</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

### Inventory Management

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Days Supply (Units)</td>
<td>59</td>
<td>53</td>
<td>55</td>
</tr>
<tr>
<td>Average Inventory Aging</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-30 Days</td>
<td>48.70%</td>
<td>44.60%</td>
<td>48.20%</td>
</tr>
<tr>
<td>31-60 Days</td>
<td>23.50%</td>
<td>24.80%</td>
<td>23.40%</td>
</tr>
<tr>
<td>61-90 Days</td>
<td>14.30%</td>
<td>14.00%</td>
<td>14.30%</td>
</tr>
<tr>
<td>91+ Days</td>
<td>13.30%</td>
<td>16.60%</td>
<td>13.30%</td>
</tr>
</tbody>
</table>

### BHPH Financial Trends

#### Average Cost Per Vehicle 2014–2018

- **2014**: $7,159
- **2015**: $7,288
- **2016**: $6,987
- **2017**: $7,747
- **2018**: $7,094

#### Average Customer Down Payment 2014–2018

- **2014**: $835
- **2015**: $784
- **2016**: $574
- **2017**: $881
- **2018**: $989

*Source: Subprime Analytics*
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FEATURING

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CBC Credit App
Enhanced Credit Reporting
Inventory & CRM Integration

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More Profit.

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### RATIO COMPARISONS, COMBINED BUY HERE-PAY HERE

**COMBINED BUY HERE-PAY HERE BALANCE SHEET**

<table>
<thead>
<tr>
<th></th>
<th>2016 Average</th>
<th>2017 Average</th>
<th>2018 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory X Days / Cost Of Vehicle Sales</td>
<td>53.21 days</td>
<td>50.24 days</td>
<td>50.51 days</td>
</tr>
<tr>
<td>Cost Of Vehicle Sales / Average Inventory Dollars</td>
<td>6.89x</td>
<td>7.02x</td>
<td>7.35x</td>
</tr>
<tr>
<td>Vehicle Sales / Average Inventory Dollars</td>
<td>11.30x</td>
<td>11.72x</td>
<td>12.03x</td>
</tr>
<tr>
<td>Vehicle Sales / Total Assets</td>
<td>0.85x</td>
<td>0.87x</td>
<td>0.89x</td>
</tr>
<tr>
<td>Allowance For Bad Debts / Finance Receivables*</td>
<td>28%</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>Total Debt / Total Assets</td>
<td>62%</td>
<td>62%</td>
<td>63%</td>
</tr>
</tbody>
</table>

* FINANCE RECEIVABLES ARE NET OF UNEARNED FINANCE CHARGES

### COMBINED BUY HERE-PAY HERE INCOME STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>2016 Average</th>
<th>2017 Average</th>
<th>2018 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Debts / Vehicle Sales</td>
<td>27%</td>
<td>30%</td>
<td>29%</td>
</tr>
<tr>
<td>Cost Of Vehicle Sales / Vehicle Sales</td>
<td>83%</td>
<td>69%</td>
<td>63%</td>
</tr>
<tr>
<td>Gross Profit*** / Vehicle Sales</td>
<td>29%</td>
<td>29%</td>
<td>30%</td>
</tr>
<tr>
<td>Operating Expense / Vehicle Sales</td>
<td>23%</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Interest Expense / Financing Income</td>
<td>18%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Operating Income / Vehicle Sales</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Financing Income / Vehicle Sales</td>
<td>17%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Compensation** / Vehicle Sales</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Reconditioning Cost / Vehicle Sales</td>
<td>8.4%</td>
<td>7.9%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

**NOTES TO RATIO COMPARISONS:**
- ****COMPENSATION EXCLUDES THOSE OF THE OWNERS
- ***GROSS PROFIT IS NET OF BAD DEBTS AND FINANCING INCOME

### RATIO COMPARISONS, BUY HERE-PAY HERE INDUSTRY

BENCHMARKS PREPARED FOR NABD BY SGC CERTIFIED PUBLIC ACCOUNTANTS

THE NABD RESULTS - COMBINED DEALER AND FINANCE AFFILIATE NUMBERS - BREAK DOWN BALANCE SHEETS AND INCOME STATEMENTS INTO 16 CATEGORIES.
IT ALSO COMPARES 2018 TO THE PAST TWO YEARS SO DEALERS CAN EXAMINE INDUSTRY TRENDS.
Advantage GPS puts obsolete to sleep.

Innovative features:

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**BHPH Financial Trends**

**Average Recovery Dollars Per Charge off 2014-2018**

- **2014**: $2,659
- **2015**: $2,500
- **2016**: $1,855
- **2017**: $1,811
- **2018**: $1,877

*SOURCE: SUBPRIME ANALYTICS*

**Bad Debts 2014-2018**

- **2014**: 29%
- **2015**: 30%
- **2016**: 27%
- **2017**: 25%
- **2018**: 26%

*NOTE: PERCENTAGES ARE BASED AS PERCENTAGE OF VEHICLE SALES.*

**Average Weekly Payment Amount 2014-2018**

- **2014**: $90
- **2015**: $88
- **2016**: $89
- **2017**: $89
- **2018**: $90

**Average Original Term (Months) 2014-2018**

- **2014**: 44
- **2015**: 42
- **2016**: 43
- **2017**: 44
- **2018**: 42

---

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After increasing by 2.9% in 2018, the used vehicle market has continued to perform well in 2019. Through July, the J.D. Power Valuation Services’ Seasonally Adjusted Used Vehicle Price Index reached 122.7, a figure 2.1% above year-ago levels. Used price growth this year can be attributed to three primary drivers: Higher new vehicle prices and affordability concerns, high levels of clean late-model off-lease units entering the market, and increased dealer demand for used vehicles are factors working together to help support used prices.

Price increases in 2019 have been led by mainstream passenger car segments, a sign of affordability challenges in the new market. SUV prices have also grown, however, not nearly to the same degree due to higher levels of supply entering the market. Small, compact, and midsize car prices are up between 6% - 9% relative to the same period in 2018, while compact and midsize SUV prices are up but a lesser 1% - 2%. Premium segment prices are down across the board as consumers shift toward mainstream models due to the increased convergence in equipment (e.g., advanced safety tech) and design. In addition, sizeable wholesale volume increases are also working to suppress prices. As a result, compact premium SUV and compact premium car prices are down between 2.5% - 3%, followed by midsize premium SUV and midsize premium car declines of 4%, apiece.

Through July 2019, wholesale volume for units up to 5 years in age is 5.7% greater than during the same period in 2018. As more SUVs are sold on the new side of the market, and increased dealer demand for used vehicles are factors working together to help support used prices.

While the used market is doing well once again this year, the year’s improvement highlights the need for stakeholders to maintain diligence in their understanding of market dynamics and trends expected in the future. Top publicly traded dealer groups in the U.S. continue to focus on and expand used vehicle operations to ease declines associated with slowing new vehicle sales, a trend we expect to continue in the future.

In terms of annual expectations, J.D. Power Valuation Services expects used vehicle prices for units up to eight years in age to increase by 1% in 2019 relative to 2018. Passenger cars prices are expected to outperform their SUV counterparts in 2019. Decreasing levels of supply due to declining sales on the new side of the market will help support passenger car prices. Premium segments will not experience the same strength in prices in 2019. Ultimately, increased content in mainstream vehicles that narrows the gap between them and their luxury counterparts along with increased levels of supply returning to the market will suppress prices.
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Automotive lending has been robust throughout this growth cycle. Auto loan originations in dollar volume in 2018 increased to $584 billion, breaking the previous record of $569 billion set in 2017, according to the Federal Reserve Bank of New York. For auto loan originations, 2018 was the highest year in the 19-year history of the data for auto loan originations (in nominal terms). Growth in used sales more than offset the decline in new, and higher prices for both new and used vehicles drove up loan amounts.

Judging from the new loan origination volumes, credit remains readily available, which is helping to keep demand robust.

**SUBPRIME LENDING AT HEALTHY LEVELS**

A key measure of health and stability in auto lending is the number of loans being made to subprime borrowers. Overall, there was plenty of credit available in 2018 compared to 2017 and consumers took advantage of that. More subprime borrowers were able to obtain loans on both new vehicles and used vehicles in 2018 – a leading reason for overall sales growth. The implication is that lenders saw advantages in subprime loans given low unemployment and low delinquencies.

In the fourth quarter of 2018, the share of auto loan origination volume to subprime borrowers was 19.3%, up from 18.9% the prior year and down from its recent peak of 25.4% in the second quarter of 2015.

Of consumers with active credit, 20% have a score that defines them as subprime, according to Equifax.

The share of subprime lending today appears to be healthy and sustainable as it is normal for subprime borrowers to be represented in auto loans according to their proportion of the population.

Auto lending is diverse, resilient and reactive to market trends. Auto lenders can tolerate more risk compared to other types of lending markets because the risk is worth the reward. Ease of valuation and recovery help limit losses even in the event of default.

A first auto loan, especially for a young, lower-income borrower, is often the beginning of the move up the social ladder and a crucial part of building credit. Data from Equifax show that age and credit scores are correlated. An adult under 35 is more than 50% more likely to have a credit score under 620 compared to the broader population.
CREDIT CONTINUES TO TIGHTEN; DEFAULTS STAY LOW

Keeping a vehicle for transportation is so important for borrowers that, even at the worst stage of the Great Recession, the default rates on auto loans remained under 3%, yet defaults rose to nearly 6% for mortgages and over 9% for credit cards. Today the default rates on auto loans remains close to 1%, according to S&P Experian Credit Default Indices. More aggressive lending in 2015 led to loan performance deterioration. Likewise, the increase in subprime lending in 2018 has led to rising levels of severe delinquency in subprime auto loans. The change in 2018, reversed the more conservative trends evident in subprime origination declines in 2017 and 2018, but the deteriorating loan performance suggests that lenders will likely become more risk averse in 2019 as a result. The Fed’s quarterly survey of senior loan officers at domestic banks showed that the trend in credit standard tightening on auto loans that had lasted for eight straight quarters changed in the third quarter of 2018 as banks loosened standards. That loosening was related to observed spreads on subprime auto loans declining and terms increasing. By the end of 2018, severe loan delinquencies were already on the rise.

As 2018 ended and 2019 began, banks again reported standards tightening. The result of this tightening is that a borrower, especially a subprime borrower, who may have qualified for a loan with extended terms and slightly better rates in the third quarter of 2018 is no longer able to get that loan. Instead, credit-challenged borrowers are likely having to reduce the loan amount by choosing a less expensive vehicle or by putting more money down.
PAYMENT WALK BEHIND USED GROWTH
This “payment walk” – walking from the payment they cannot afford or qualify for on a new vehicle to a used vehicle with a price that works – is a key factor behind the growth in used-vehicle sales we have been witnessing as new-vehicle sales decline.

More conservative underwriting is not the only factor causing payments to move higher. Interest rates moved higher in 2018 and to start 2019 as well. While long-term bond yields and mortgage rates as well saw declines with the Federal Reserve’s more patient stance on monetary policy, auto loan rates have not come down and have actually seen slight increases. As a result, auto loan rates are now at more than eight-year highs.

The most negative factor impacting consumer demand in 2018 was the rise in interest rates that translated into an increase in the average payment for a vehicle. The price that increased the most was the average lease, so leases became far less attractive relative to alternatives like financing a new- and used-vehicle purchase.

The Cox Automotive 2019 Car Buyer Journey study revealed that many vehicle buyers are focused on the payment. The study revealed 20% of all buyers focus solely on the monthly payment, and another 27% pay equal attention to the vehicle price and the payment. This makes sense as the monthly payment is critical to affordability and qualifying for a loan. It isn’t surprising then to see that the monthly payment was more important to younger buyers (Gen X or younger), lower-income buyers (<$75,000) and buyers who were driven by need rather than want.

FINANCING SOURCES VARY BY NEW, USED
Consumers obtain financing for their vehicle purchases through three primary sources: banks, credit unions and dealerships. Dealerships, in turn, are able to tap multiple lender types through technology platforms like Dealertrack, which connect 22,000 dealers with more than 1,600 lenders including banks, captive finance companies and independent finance companies.

In the 2019 Car Buyer Journey study, consumers report that dealerships are more likely to be a source of financing for new vehicles. Banks and credit unions are more likely to be a source for used-vehicle purchases.

Across these sources, lenders are providing financing to a wide range of consumers on a wide range of vehicles. The credit application level data from Dealertrack provide great insights into differences in loan amounts, rates and payment by vehicle type and consumer segment.

Used-vehicle loans are smaller than new-vehicle loans. In 2018, the average difference was $10,700, essentially mirroring the difference in the average price of the vehicles financed. Used-vehicle loans also have higher interest rates, as used vehicles represent a greater risk to lenders due to variability in valuation and greater risk of default. The difference between the average annual percentage rate (APR) on new-vehicle loans and used-vehicle loans is typically about 4%.

Within used-vehicle loans, average APR varies dramatically by the borrower’s credit score. The average difference in 2018 on the average APR between used-vehicle loans to borrowers with credit scores above 760 compared to borrowers with credit scores under 620 was almost 15 percentage points.

The term length of new-vehicle loans is also longer on average compared to used-vehicle loans, as lenders are less willing to take on the higher risk of default for longer terms on an already riskier loan. New-vehicle loans averaged 69 months in 2018, while used-vehicle loans averaged 66 months.

The payment on a vehicle loan is a function of the loan amount, the term length and the APR.
CREDIT REMAINS A HEADWIND
The inflation trends in vehicle prices combined with increasing interest rates due to monetary policy moving from accommodation to tightening create a payment headwind impacting consumer demand for vehicles. With tighter credit standards, extending the terms of loans is also no longer a viable way to keep payments low for consumers who have less than perfect credit.

We are now officially in a much tougher financial environment for consumers to get as much vehicle as they have been able to buy previously in this recovery. Consumers are now contending with a more difficult environment to find payments they can afford, and it will only get worse in the years ahead.

The Federal Reserve raised short-term rate policy four times in 2018. On the surface, it doesn’t appear that rates on long-term loans like mortgages and auto loans moved as much as the Fed’s policy. Indeed, the average interest rate on new-vehicle loans increased by 75 basis points, resulting in a $17 increase to the average monthly payment.

The increase in rates was less substantial for lower credit borrowers, rising by 0.3 percentage point over the last year.

HIGHER RATES, TIGHTER CREDIT PUSH BUYERS TO USED
The effect of higher rates and tighter credit has led the automotive market to fundamentally shift away from new and into used. In 2018, sales of pre-owned vehicles set another record at the expense of new vehicles, likely because many borrowers who would have qualified for a new loan or lease a few years ago bought a less-expensive used vehicle instead.

The monthly payment matters to most buyers. The average interest rate on a used-vehicle loan increased over 80 basis points in 2018. Rates for new-vehicle loans are also up. When rates rise, many consumers do not have an option to pay more. They instead lower the loan amount borrowed.

In 2018, the monthly payment on a new-vehicle loan was $547, up from $511 in 2014. The average lease payment was $486, up from $415 in 2014. Meanwhile, the average monthly payment on a used vehicle purchased in 2018 was a more affordable $411, nearly the same as a lease payment four years before. The used-vehicle market also has ample supply of high-quality vehicles, ironically because of the volume of leases made in 2014, when payments were lower.

Even within the used market, the trend in higher rates is leading to growing headwinds. According to the Cox Automotive Dealer Sentiment Index in the fourth quarter of 2018, 37% of independent dealers cite credit availability for consumers as a key factor holding back their business. This is important because independent dealers sell only used vehicles, and often to more credit-challenged consumers. Eventually, this path of higher rates will result in fewer total vehicles sold as affordability and the negative impact of rising financing costs impact household budgets beyond car buying. The key question will be how fast rates will rise.

Higher rates are the result of a better economy, and more economic growth is expected ahead. Thankfully, the tax reform enacted at the end of 2017 is mitigating some of this pressure, as most consumers see more take-home pay that in most cases more than offset the higher payments caused by higher rates. Further, weak inflation is allowing the Fed to pause monetary policy tightening in 2019.
USED CARS POISED TO STEAL SHoppers FROM THE NEW CAR MARKET

In 2018, over 57 million new and used vehicles were sold in the United States. It’s a staggering figure considering the adult population stood at only 253 million*, which translates to one vehicle transaction per every 4.4 adults. In 2019, however, we expect a pullback in the new car market as rising prices and interest rates push many potential buyers out of the market. As a result, we expect there will be renewed interest in the used car market as a substitute for new for the following reasons:

- The price gap between new and used vehicles has widened, giving consumers an opportunity to save more than ever by opting for a 3-year-old used vehicle.
- While the price gap is widening, the gap between interest rates for new and used vehicles has narrowed. Interest rates on new vehicles have shot up rapidly, with the once popular zero percent offers all but vanishing.
- A record number of lease returns are expected in 2019, increasing inventory of near-new used vehicles and giving consumers a wider selection.
- An uptick in truck and SUV leasing three years ago means higher quantities of these popular vehicles will hit dealer lots throughout the year.

Certified pre-owned vehicles (CPO) represent a small percentage of franchise used sales, but the opportunity to offer CPO vehicles to buyers priced out of the new vehicle market will be important to dealers as well as automakers. While consumer interest in CPO programs is mounting, consumers face a learning curve on the benefits and drawbacks of certified vehicles.

THE PRICE GAP WIDENS BETWEEN NEW AND USED

In 2013, the price gap between new and 3-year-old used vehicles was 56 percent (or $11,398). That number grew significantly to 62 percent (or $13,705) in 2018, with nearly every segment showing notable increases.

<table>
<thead>
<tr>
<th>Segment</th>
<th>2013</th>
<th>2018</th>
<th>Additional % Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcompact Car</td>
<td>$5,750</td>
<td>$7,519</td>
<td>31%</td>
</tr>
<tr>
<td>Compact Car</td>
<td>$7,135</td>
<td>$7,891</td>
<td>11%</td>
</tr>
<tr>
<td>Midsize Car</td>
<td>$9,679</td>
<td>$10,979</td>
<td>13%</td>
</tr>
<tr>
<td>Large Car</td>
<td>$14,771</td>
<td>$15,623</td>
<td>6%</td>
</tr>
<tr>
<td>Sports Car</td>
<td>$9,656</td>
<td>$15,877</td>
<td>64%</td>
</tr>
<tr>
<td>Subcompact SUV</td>
<td>$11,423</td>
<td>$9,332</td>
<td>-19%</td>
</tr>
<tr>
<td>Compact SUV</td>
<td>$7,997</td>
<td>$9,760</td>
<td>22%</td>
</tr>
<tr>
<td>Midsize SUV</td>
<td>$13,753</td>
<td>$13,924</td>
<td>1%</td>
</tr>
<tr>
<td>Large SUV</td>
<td>$21,966</td>
<td>$24,024</td>
<td>9%</td>
</tr>
<tr>
<td>Midsize Truck</td>
<td>$7,594</td>
<td>$9,341</td>
<td>23%</td>
</tr>
<tr>
<td>Large Truck</td>
<td>$14,550</td>
<td>$15,705</td>
<td>8%</td>
</tr>
<tr>
<td>Minivan</td>
<td>$11,765</td>
<td>$12,154</td>
<td>3%</td>
</tr>
<tr>
<td>Luxury Subcompact Car</td>
<td>$8,568</td>
<td>$13,606</td>
<td>59%</td>
</tr>
<tr>
<td>Luxury Compact Car</td>
<td>$15,079</td>
<td>$19,509</td>
<td>29%</td>
</tr>
<tr>
<td>Luxury Midsize Car</td>
<td>$19,755</td>
<td>$25,991</td>
<td>32%</td>
</tr>
<tr>
<td>Luxury Large Car</td>
<td>$35,547</td>
<td>$45,486</td>
<td>28%</td>
</tr>
<tr>
<td>Luxury Sports Car</td>
<td>$33,302</td>
<td>$37,374</td>
<td>12%</td>
</tr>
<tr>
<td>Luxury Subcompact SUV</td>
<td>N/A</td>
<td>$15,242</td>
<td>N/A</td>
</tr>
<tr>
<td>Luxury Compact SUV</td>
<td>$16,141</td>
<td>$18,967</td>
<td>18%</td>
</tr>
<tr>
<td>Luxury Midsize SUV</td>
<td>$19,711</td>
<td>$22,318</td>
<td>13%</td>
</tr>
<tr>
<td>Luxury Large SUV</td>
<td>$36,049</td>
<td>$41,836</td>
<td>15%</td>
</tr>
<tr>
<td>Industry</td>
<td>$11,398</td>
<td>$13,705</td>
<td>20%</td>
</tr>
</tbody>
</table>

*SOURCE: Edmunds
NEAR-NEW INVENTORY ON THE RISE AND MORE SUVS IN THE MARKET

NEW LEASE COMPOSITION BY VEHICLE TYPE

Lease returns have been on the rise but will top out this year with 4.3 million vehicles expected to come off lease. In addition to the higher quantity, we expect to see a higher volume of trucks and SUVs in lease returns, which aligns with prevailing consumer preference. In 2016, SUVs were leased in a higher volume than passenger cars for the first time ever.
CERTIFIED PRE-OWNED (CPO) MAY BE A SAFE TRANSITION INTO THE USED MARKET

Given the less than favorable financial conditions in the new vehicle market, buyers may switch to used as a way to save money or as their only option because they’ve been priced out altogether. For those buyers with more financial latitude, the used market may be attractive since the inventory level of trucks and SUVs will be higher than in years past. Certified pre-owned vehicles are another option for displaced new-car buyers making the switch to the used market. These programs present the opportunity for increased sales for both automakers and dealers as well as greater consumer satisfaction as they offer more favorable pricing than new with the assurance of an automaker warranty. CPO vehicles are also likely to have subsidized finance offers. In fact, interest has risen in “certified pre-owned” as a search term.

CPO SALES & RELATIVE SEARCH INTEREST

<table>
<thead>
<tr>
<th>CPO Relative Search Interest</th>
<th>CPO Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>250K</td>
</tr>
<tr>
<td>90</td>
<td>230K</td>
</tr>
<tr>
<td>80</td>
<td>210K</td>
</tr>
<tr>
<td>70</td>
<td>190K</td>
</tr>
<tr>
<td>60</td>
<td>170K</td>
</tr>
<tr>
<td>50</td>
<td>150K</td>
</tr>
<tr>
<td>40</td>
<td>130K</td>
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<tr>
<td>20</td>
<td>90K</td>
</tr>
<tr>
<td>10</td>
<td>70K</td>
</tr>
<tr>
<td>0</td>
<td>50K</td>
</tr>
</tbody>
</table>

SOURCE: Google Trends February 2019

KEY TAKEAWAYS

<table>
<thead>
<tr>
<th>Year</th>
<th>CPO Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2,112,548</td>
</tr>
<tr>
<td>2014</td>
<td>2,340,348</td>
</tr>
<tr>
<td>2015</td>
<td>2,553,663</td>
</tr>
<tr>
<td>2016</td>
<td>2,641,900</td>
</tr>
<tr>
<td>2017</td>
<td>2,644,422</td>
</tr>
<tr>
<td>2018</td>
<td>2,700,394</td>
</tr>
</tbody>
</table>

SOURCE: Edmunds

The NIADA Certified Pre-Owned program is designed for you, our member dealer and has your customers in mind. The NIADA seal shows your customers that the vehicle and dealership are held to a higher standard, through vigorous certification checklist, vehicle history reports and more.

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LOOKING AHEAD: THE USED TIPPING POINT

Used vehicles have finally emerged as a compelling alternative to new, and market factors in 2019 will only increase their appeal. Growing new-vehicle transaction prices and an oversupply of used vehicles have expanded the savings advantage in pre-owned vehicles. Additionally, consumers give up less going the used route since late-model cars are rich in technology and come in the body styles Americans gravitate toward, namely trucks and SUVs. At the same time, incentives that have made record-high new-vehicle transaction prices more palatable, such as zero percent APR and steeply discounted leases, have dried up. Without these incentives, we expect shoppers will gravitate to used vehicles for the significant savings they present. While the new vehicle market is expected to fall below 17 million sales for the first time in five years, we expect used vehicle sales, which crossed 40 million units in 2018, to strengthen and grow.

SHARE OF FRANCHISE USED SALES BY VEHICLE AGE

3-YEAR-OLD VEHICLES MAKE UP 23% OF ALL FRANCHISED USED SALES

The composition of franchised used vehicle sales has transformed dramatically. Three-year-old vehicles accounted for 8.5 percentage points more sales in 2018 than they did five years earlier, representing the most-sold vehicle age by a wide margin. As a consequence of the record number of lease returns expected in 2019, this figure is only expected to increase. And this flood of inventory generates more opportunities for dealers to certify vehicles to differentiate their inventory. Meanwhile, sales of vehicles 5 years and older have dropped off in volume, creating a scarcity of more affordable used vehicles.
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• Turn our exclusive, in-market audience into your sales

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IN TODAY’S DIGITAL WORLD, USED CAR SHOPPERS HAVE MANY QUESTIONS WHEN DECIDING TO BUY A CAR

- Has the car been in an accident?
- How many owners has the car had?
- Is the car’s price a “Great Value”?
- Are there enough photos of the car?

Learn more about what impacts your online merchandising performance based on Carfax.com shopper behavior.

SHOPPERS HAVE QUESTIONS WHEN STARTING THEIR SEARCH

- 45% Any reported accidents?
- 21% Personal use vehicle?
- 21% Well maintained vehicle?
- 24% One-owner vehicle?

Percentage of times shoppers searched on these vehicle history attributes
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SMARER DEALERS

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CARFAX®
SHOPPERS WANT WELL MAINTAINED CARS

When looking at a list of search results, cars with Service, Personal Use or No Reported Accident histories drive more clicks to the Vehicle Details Pages.

Percentage of VDP clicks with these vehicle history attributes

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles with reported Accidents</td>
<td>28%</td>
</tr>
<tr>
<td>Vehicles with Service or Maintenance Records</td>
<td>96%</td>
</tr>
<tr>
<td>Personal Use vehicles</td>
<td>74%</td>
</tr>
<tr>
<td>One Owner vehicles</td>
<td>40%</td>
</tr>
</tbody>
</table>

Shoppers want more photos. On average, there is a **30% INCREASE IN VEHICLE DETAILS PAGE CLICKS PER LISTING WITH 15 OR MORE PHOTOS.**
SHOPPER LEAD CONVERSION INFLUENCED BY VEHICLE HISTORY

On average, cars with service or personal use histories drive more lead submissions.

<table>
<thead>
<tr>
<th>Vehicles with reported Accidents</th>
<th>26%</th>
<th>Vehicles with Service or Maintenance Records</th>
<th>97%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Use vehicles</td>
<td>76%</td>
<td>One Owner vehicles</td>
<td>38%</td>
</tr>
</tbody>
</table>

Percentage of leads with these vehicle history attributes

SHOPPERS SUBMIT LEADS ON CARS WITH ACCIDENT HISTORIES IF PRICED RIGHT

When priced right and considered a “Great Value”, cars with reported accidents will have a higher lead conversion on average.

Cars with reported accidents that are considered a “Great Value” have a 26% higher lead conversion than cars with reported accidents that are not considered a “Great Value”.

SMARTER DATA
SMARTER DEALERS
DAMAGE LOCATION
DAMAGE SEVERITY SCALE
REAR
FRONT
RIGHT
LEFT
SEVERE
MODERATE
MINOR

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CONSUMERS INCREASINGLY FEEL THAT OWNING A CAR IS TOO EXPENSIVE

Nearly half of consumers feel like owning or leasing a vehicle is becoming too expensive (see Diagram A). The percentage of vehicles costing more than $50K has, in fact, grown from 6% in 2012 to 23% in 2018. This increase in new car prices, coupled with rising interest rates, has created a bigger gap between new and used car payments. With more shoppers concerned about monthly payment information when researching, the rate of those leaning toward a used vehicle has now grown to nearly two-in-three (see Diagram B), with more cross-shoppers also choosing used.

**Diagram A**

| Year | % Agreeing
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>42%</td>
</tr>
<tr>
<td>2018</td>
<td>48%</td>
</tr>
</tbody>
</table>

**Diagram B**

<table>
<thead>
<tr>
<th>Year</th>
<th>New</th>
<th>Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>2018</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>2019</td>
<td>35%</td>
<td>64%</td>
</tr>
</tbody>
</table>
TIME SPENT SHOPPING DROPS, DAYS IN MARKET DECLINES

Car buyers are spending less time car shopping, making decisions more quickly (see Diagram C). They are also spending fewer days in market. Car buyers are now spending 96 days in market – down 22 days since 2017 (see Diagram D). This trend may be a result of increased access to online tools and better information that facilitate faster and easier decision-making, thereby creating a more efficient car-buying process.

As a result, dealers must consider new ways to more effectively compete online, including advertising that is more personalized to the shopper as well as offering more steps to the sale online through digital retailing.

TIME SPENT SHOPPING ONLINE REMAINS CONSISTENT YEAR-OVER-YEAR

Despite the fact that car buyers are spending fewer days in market and less time shopping, the time they spend shopping online has remained stable (see Diagram E), which, in part, could be attributed to an increase in the use of multiple devices. In fact, a majority of car buyers (52%) use multiple devices to shop.
While desktop/laptops remain the most frequently used device for car shoppers, their usage has plateaued. At the same time, smartphone usage has increased 11 percentage points year-over-year (see Diagram F). This “always connected” shopper trend may help explain in part why time in market has decreased. More importantly, though, is the implication for automotive marketers: the car-shopping experience must be optimized across devices to facilitate shopping and decision-making, and yes, even transacting.

While desktop/laptops remain the most frequently used device for car shoppers, their usage has plateaued. At the same time, smartphone usage has increased 11 percentage points year-over-year (see Diagram F). This “always connected” shopper trend may help explain in part why time in market has decreased. More importantly, though, is the implication for automotive marketers: the car-shopping experience must be optimized across devices to facilitate shopping and decision-making, and yes, even transacting.

52% of buyers use multiple devices.

Car buyers are visiting fewer dealerships.

New car buyers visit 2.5 dealerships – around the same number of dealerships they visited two years ago. Used car buyers, on the other hand, now visit 2.2 dealers – down significantly from 2.8 dealerships two years ago and now fewer than new car buyers (see Diagram G). Significantly, 41% of car buyers only visit one dealership – up 11 percentage points from two years ago (see Diagram H).

With car buyers making more decisions online and ahead of time, by the time they arrive at the dealership many of them are likely ready to buy. As a result, dealers should hone their online marketing and sales strategy to help buyers get to “yes” online.

To influence buyers to buy your car from your dealership, consider personalizing the content – that is, making inventory recommendations based on shopper preferences as well as relevant incentives and specials.

Offering more steps to the sale, such as getting a trade-in offer, securing financing and even structuring a deal might also help increase the likelihood a shopper will buy from your dealership. In fact, 83% of consumers want to do one or more steps of the purchase process online and 7 out of 10 are more likely to buy from a dealership if they could start the process online.²
MISTAKES HAPPEN

With Stockwave, they don’t have to.

Wholesale sourcing mistakes happen, whether it’s not having time to prepare, overbidding as the clock runs out or bringing home the wrong car.

Stockwave from vAuto helps you avoid these costly mistakes. Searching auctions across the country, Stockwave finds exactly which wholesale vehicles your dealership needs, and shows you what to pay for them to protect your margins. With Stockwave, you get the higher grossing vehicles in less time.

To learn how, visit vAuto.com/mistakes or call 888.365.1032.
CLOSING THE TRUST GAP IN THE PURCHASE AND TRADE-IN PROCESS

TrueCar conducted research on the consumer path to purchase and trade journey to evaluate specific behaviors and desires among used car buyers. Our findings show that an opportunity exists in the marketplace for used car dealers to stand out and attract more buyers by providing a transparent process for consumers to trade-in or sell their cars. Dealers who can directly solve consumer pain points along the trade-in and appraisal process acquire more cars at a favorable competitive cost to market.

A Trust Gap Still Exists in the Marketplace

Despite the best efforts of great dealers, a “trust gap” still exists

Only 31%* of consumers trust the current trade-in value process

Percent of consumers who trust each type of information given by dealerships

<table>
<thead>
<tr>
<th>Information Type</th>
<th>Trust Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Information</td>
<td>73%</td>
</tr>
<tr>
<td>Financing Terms</td>
<td>45%</td>
</tr>
<tr>
<td>Asking Price</td>
<td>40%</td>
</tr>
<tr>
<td>Trade-In Values</td>
<td>31%</td>
</tr>
</tbody>
</table>

Pain points identified in the trade-in experience highlight consumer frustration with the traditional appraisal process:

- Time consuming
- Online-to-offline discrepancies in valuations
- Lack of appraisal transparency
- Desire to be included in the process
Ways to Build Confidence and Trust

- Bridge the online experience to the showroom by providing transparency through the appraisal process
- Build confidence and trust by leveraging the power of co-branded 3rd party validation
- Align with consumer expectations through more accurate trade-in and purchase offers

Accuracy and Transparency Can Improve the Trade-In Experience

Our 2018 Trade Consumer Survey results reveal how accuracy and transparency can significantly improve the trade-in experience and enable dealers to acquire cars at a competitive cost to market

52%*** of prospects visit a dealer within 7 Days of receiving a TrueCashOffer™

When consumers receive a side-by-side appraisal validation at the dealership, they are 1.5X more likely to sell or trade their vehicle and 3X more likely to give the dealer a 5-star rating.

5 Ways to Win the Trade

TrueCar has identified and studied our top-performing dealers to better understand the key differentiators, sales tactics, and strategies they used to boost their bottom line. The following tips can help independent dealers acquire more quality used car inventory as well as create a positive experience with consumers.

**Side-by-side Walk Around**
Show customers in real-time how things affect the value of their vehicle, which can eliminate the mystery of how the trade-in value was determined, to put you and the customer on the same page.

**Targeted Outreach**
Place a link to your trade-in tool in all emails and signature lines to capture consumers’ trade information earlier.

**Customized Offers**
Drive additional engagement with personalized offers through your third-party trade-in tools.

**Social Media**
Buy cars from social media followers and incorporate a link to your trade-in tool in your social media posts.

**CRM Email Blasts**
Setup email campaigns to target prior customers who may be ready to trade-in.
Never Miss Again


Discover how 17-digit VIN-specific valuations boost your bottom line.

Other Providers

KMHDU46D58

Aggregated Wholesale Values by Vehicle Class for Year, Make & Model

TrueCar Trade

U522839

+ Trim Level VIN-Specific Options
+ Common Problems
+ Vehicle History Report
+ Condition
+ Market Compare

TrueCarTrade.com/dealer
In 2018, we analyzed auto shopping patterns and pricing data on sedans, SUVs, and pickup trucks. This year, we wanted to dig into the CarGurus survey data and user activity to better understand what’s changed for 2019.

Nationwide, truck sales are up 22% from 2018. Truck owners are also the most loyal and decisive category of vehicle owners—they know what model they want and are less likely to switch to a new body style. The 2019 truck owner is young, college educated, and increasingly urban.

At the same time, minivan ownership is declining. Minivan prices have been on a wild roller coaster ride over the last two years. With 56% of used car owners noting price as a key influence on their vehicle purchase, that fluctuation could be making an impact on ownership. Here’s a closer look at the CarGurus data on used vehicle trends.

Pickup truck popularity expands across west and midwest U.S.

Last year, we looked at the top searched body styles by metro area across the U.S., specifically pickup trucks, sedans, and SUVs. In 2018, searches for pickups clustered in rural regions, while SUV and sedan searches skewed more urban and suburban.

The most notable change in 2019 is the increase of truck popularity, especially in the west and midwestern portions of the country. It’s also interesting to see small pockets of truck popularity grow in places like Maine, northern California, and the Upper Peninsula of Michigan.

Sedan popularity is consistent from 2018 to 2019, especially in the southwest and southeastern coasts, where their popularity areas have barely changed. SUVs overall are gaining popularity across the country, taking over both truck searches in the pacific northwest and sedan searches in the Austin and San Antonio areas of Texas.

Most searched for body styles by DMA

Source: Internal CarGurus search data, Q1 2018 and Q1 2019
### The minivan's pricing roller coaster

**Used car prices by body style, July 2017 – June 2019**

Pickup truck and SUV prices have steadily grown over the last two years. Between July 2017 and June 2019, the average price of used pickup trucks and SUVs grew 6% and 11% respectively. Meanwhile, used minivan prices have been on a wild ride. Between March and May 2018, prices climbed 9%, then dropped for the next four months before bottoming out just $350 more than when the growth started in March. Sedan prices increased slightly, with seasonal price jumps each spring. Crossover prices have stayed almost completely flat over the last 24 months.

### Less than half of auto replacers stick with the same body style

**When replacing an existing vehicle...**

<table>
<thead>
<tr>
<th></th>
<th>Switched body style</th>
<th>Switched to a different model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>38%</strong></td>
<td><strong>59%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>30%</strong></td>
<td><strong>9%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Kept same body style</strong></td>
<td><strong>Chose the same model</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Body style loyalty among used buyers**

Regardless of the model, body style, or price, 26% of people who kept their vehicle for eight years or longer switched to a new body style. Lifestyle changes in that time period could influence the switch, such as adding multiple children to a family that owned a compact sedan.

---

Source: Internal CarGurus pricing data, July 2017 – June 2019

Source: GfK | CarGurus Auto Shopping Study, 2019
SECTION 10

Pickup trucks pick up in sales

Truck buyers in 2019 are confident about which model they want. 51% of truck buyers report being certain about the model they wanted, vs. 40% of total vehicle purchasers. But price increases may break this very loyal cohort of vehicle owners. In a recent 2019 survey of pickup truck owners, 70% said they would switch brands if their preferred make raised prices by $10K. If truck owners were to switch brands, what they currently own influences what they buy next.

Top 5 used pickup trucks

<table>
<thead>
<tr>
<th>Brand currently owned</th>
<th>Average price (Jul '17 - Jun '19)</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ford F150</td>
<td>$25,754</td>
<td>↑ 2.2%</td>
</tr>
<tr>
<td>2. Chevrolet Silverado 1500</td>
<td>$25,182</td>
<td>↑ 0.6%</td>
</tr>
<tr>
<td>3. GMC Sierra 1500</td>
<td>$35,874</td>
<td>← 0.0%</td>
</tr>
<tr>
<td>4. Toyota Tacoma</td>
<td>$24,521</td>
<td>↑ 5.6%</td>
</tr>
<tr>
<td>5. Toyota Tundra</td>
<td>$26,844</td>
<td>↑ 0.9%</td>
</tr>
</tbody>
</table>

Source: Oracle/IHS Markit, 2019

Brand switching among truck owners

Who’s buying more pickup trucks in 2019?

<table>
<thead>
<tr>
<th>Group</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
<td>↑ 33%</td>
</tr>
<tr>
<td>College educated</td>
<td>↑ 34%</td>
</tr>
<tr>
<td>Women</td>
<td>↑ 37%</td>
</tr>
<tr>
<td>Urban dwellers</td>
<td>↑ 55%</td>
</tr>
<tr>
<td>Families with children</td>
<td>↑ 27%</td>
</tr>
<tr>
<td>Annual income &lt;$100K</td>
<td>↑ 40%</td>
</tr>
</tbody>
</table>

Source: GfK/CarGurus Auto Shopping Study, 2019

1, 2 2019 CarGurus Truck Sentiment Survey
3 GfK/ CarGurus Auto Shopping Study, 2019
JOIN HUNDREDS OF DEALERS AT NAVIGATE THIS OCTOBER.

EXPERIENCE A NEW KIND OF AUTO CONFERENCE, WHERE YOU WILL:

- Discover insights from tech execs and experts outside of the auto industry
- Learn marketing, sales, and management strategies to grow your dealership
- Get first access to exclusive CarGurus product news and announcements
- Network with dealers, OEMS, and vendors from around the world

KEYNOTES:

Guy Kawasaki
The Art of Innovation

Daymond John’s
5 Shark Points: Fundamentals for Success in Business and Life

REGISTER NOW & EXPLORE SESSIONS:
DEALERS.CARGURUS.COM/NAV19
Some simple questions were asked in regard to the challenges that independent dealers face and the ways in which they address those challenges. The initial survey gleaned some interesting results. At first glance it’s easy to see that these dealers want more traffic and feel if that was addressed it would provide the most benefit. But if we look at all of the data, including what the secondary challenges are and what is currently being done to address them, we may find that traffic isn’t the biggest problem, just the most visible one.

*I’ve Got 99 Problems…*

Digging into what dealers really need

Independent dealers have many challenges, but is traffic (or lack thereof), only the surface problem? Let’s take a look at what dealers said their greatest challenges are.
The Chicken or the Egg
Addressing the biggest challenge by acknowledging where it starts

It likely won’t be disputed that most dealers would say that more traffic will generate the most revenue, and the survey data supports that. But how is the traffic generated? Easy!

The point here is to dig deeper than just the quick fix that may get more customers on the lot today. The quick fix may increase the number of units you move today, but will it generate what is needed to grow your business long term?

- Market to prospects and customers at the right time with the right message
- Have confidence in which vehicles to buy at auction and price them accurately
- Adequately manage your online merchandising efforts
- Retain your best sales reps by giving them technology that makes it easier for them to sell

Challenges That, if Corrected, Could Generate Better ROI

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Traffic</td>
<td>45%</td>
</tr>
<tr>
<td>More Inventory</td>
<td>25%</td>
</tr>
<tr>
<td>More Lenders</td>
<td>10%</td>
</tr>
<tr>
<td>More Retention</td>
<td>5%</td>
</tr>
<tr>
<td>More Service Business</td>
<td>2%</td>
</tr>
<tr>
<td>More Capital</td>
<td>1%</td>
</tr>
<tr>
<td>More Turns</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>More Staff/Employee Retention</td>
<td>0%</td>
</tr>
</tbody>
</table>
Is There a Magic Bullet?
Maximizing your tech for ultimate ROI

There isn’t a technology provider out there that doesn’t use ROI as one of their value propositions. The truth is that most of them really are being truthful at some level. Each of them provides a valuable solution to a current problem, or you wouldn’t be using them. The question is not IS there a return, it’s HOW MUCH of a return?

And if you are using dozens of providers, all of which are returning a small percentage of your investment, what does the combined ROI look like? For example, if your DMS provider also provided online valuation tools, a mobile app, a CRM, and a service lane tool, the ROI discussion becomes a very different one.

How well are all of your technologies communicating with one another? Are they sharing the same data seamlessly to allow you to make the best decisions quickly? Look for the tools that provide actionable reporting and analytics that identify and detail your potential profit leaks throughout the entire dealership. Find software providers that prove ROI at the dealership level, not just in one area of your business. Your dealership is more than just the traffic on your lot, even if that’s where your investments will most visibly pay off.
Manage Compliance Risk with the Brand You Can Trust

Reynolds Document Services is the exclusive provider of LAW® documents, an F&I forms suite available in all 50 states.

LAW documents are ideally suited for NIADA dealers because they are regularly reviewed for compliance with the latest state and federal laws by Reynolds’ industry-leading forms specialists, state dealer associations, major financial institutions, and other top leaders of automotive finance law.

Standardized designs and consumer-friendly language are used throughout the LAW document suite, helping you to streamline processes and improve the customer experience.

For more information on Compliance Solutions, contact your Reynolds Document Services Consultant, call 800.869.7998, or email LAW@reyrey.com.
In just 8 years, shark tank start up Carvana has made major advancements, committing market share robbery from the multitude of used car retailers nationwide. This young company is no longer a speck on the map as they have exponentially increased business by 244% from 2016 to 2018. They have sold 17,134 cars in the first half of 2019. If carvana continues to perform as they have, they will surpass all other used car retailers like Off-Lease and Texas Direct and start cutting into the traditional retailers used car market share and most importantly - profitability. In the Raleigh market, Cross-Sell data reveals that this has already happened to Capitol Ford and Hendrick Toyota. These franchised dealers lost 306 and 141 used vehicles in 2018 respectively. In March of 2019, Carvana passed Capitol Ford in used car vehicle sales for the first time.

2019 Q1 and Q2

<table>
<thead>
<tr>
<th>Rank</th>
<th>Retailer</th>
<th>Used Sales</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CarMax</td>
<td>3,276</td>
<td>1.70%</td>
</tr>
<tr>
<td>2</td>
<td>CarMax Wild</td>
<td>2,238</td>
<td>1.20%</td>
</tr>
<tr>
<td>3</td>
<td>Leith Automotive</td>
<td>1,982</td>
<td>1.00%</td>
</tr>
<tr>
<td>4</td>
<td>Auction Direct</td>
<td>1,569</td>
<td>0.80%</td>
</tr>
<tr>
<td>5</td>
<td>Carvana Raleigh</td>
<td>1,567</td>
<td>0.80%</td>
</tr>
<tr>
<td>6</td>
<td>Capital Ford</td>
<td>1,256</td>
<td>0.70%</td>
</tr>
<tr>
<td>7</td>
<td>Fred Anderson Toyota</td>
<td>1,042</td>
<td>0.50%</td>
</tr>
<tr>
<td>8</td>
<td>Hanna Imports</td>
<td>1,041</td>
<td>0.50%</td>
</tr>
<tr>
<td>9</td>
<td>Apex Imports</td>
<td>1,037</td>
<td>0.50%</td>
</tr>
<tr>
<td>10</td>
<td>Deacon Jones</td>
<td>830</td>
<td>0.40%</td>
</tr>
</tbody>
</table>

Figure 2: In March of 2019, Carvana passed Capital Ford in used car sales for the first time. This table shows their rank in Raleigh, North Carolina though Q2 2019. Source: Cross-Sell Data

Why It’s Working: Reason 1 - Vehicle Condition Reports

In general, Carvana’s modus operandi is to change the way people buy cars. On the surface, this is primarily achieved through their distribution channel by selling cars online and offering an experience that is different than the traditional way of purchasing a vehicle.

So what is it about Carvana that’s making it so successful?

Carvana is making consumers deeply believe in the vehicle they are shopping for by making the most detailed and abstract visual representation of it. This is all made possible by Car360, the company they purchased for $22 million. What’s attractive about Car360 is that the “hotspot” technology allows online shoppers to take a virtual walk around the vehicle and click on hotspots that indicate wear and tear such as low tire tread depth, and tears in the upholstery, or dents in the bumper. This provides visual proof of the value of the condition of the vehicle.

Consumers are actively looking for reasons why they should not buy products and so they obsess over condition. Providing condition details up front instills confidence in the buyer and shortens the time it takes to purchase a vehicle, ultimately improving profitability. Why else would Carvana make a $22 million acquisition?

Condition reports provide details about the vehicles that the consumer is already looking for. For example, if there is a light scratch on the door handle of a vehicle, and that flaw is photographed and posted on every VDP, the consumer thinks, “Wow, if they took the time to notate this level of detail, then not only is this car trustworthy, I am getting a value since the seller has already accounted for it’s imperfections.” The smallest of details are often the most convincing. After the consumer considers the details in the condition report - there is little room for negotiation.

These online condition reports have made it so easy for consumers to trust the vehicle. They fall so hard for the car that they commit to it entirely. That’s why they are willing to buy it sight unseen.

The act of selling a car online is easy - any dealer can do that - it’s the consumer that needs convincing. This public display of a condition report is the main reason why Carvana is winning. And they ARE winning. Check out the consistent growth over a 42-month period in Figure 1.
Why It’s Working: Reason 2 - Establishing Trust

Deep access to information has changed retail especially when it comes to trust. Only 8% of consumers rate traditional car salesman as highly trustworthy and 81% of consumers do not enjoy the car buying process. Consumers are more than happy to establish trust on their own terms - outside of the dealership. There are three main ways that Carvana is establishing trust:

1. **Promising a new way to buy a car.** Since consumers have stated through various studies that they do not enjoy the traditional way of purchasing a car, this has left room for Carvana and other non-traditional retailers to break the glass ceiling. Carvana is achieving this by telling consumers that they don’t have to step foot in a dealership, that they can do everything Online in their “comfy PJ’s” without ever leaving the house.

2. **By sourcing inventory that is “Like new”** New or used, consumers obsess over condition and demand “like new” vehicles even though the vehicle has had a previous owner. Carvana is solving for this by acquiring vehicles that are between two and three years old. Retailers know that these vehicles will last longer, require less maintenance than an older vehicle, and therefore consumers are more likely to be happy with them and trust the place they purchased it from.

3. **Seven-day return policy.** Aside from real estate, consumers can return anything for any reason. Buyers find retailers more trustworthy when they know up front that they can undo their decision.

**Top 10 Carvana Markets**

<table>
<thead>
<tr>
<th>Dealership City</th>
<th>Retail Cars</th>
<th>Retail Trucks</th>
<th>Fleet Cars</th>
<th>Fleet Trucks</th>
<th>2019 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Prairie, TX</td>
<td>5358</td>
<td>3529</td>
<td>5</td>
<td>7</td>
<td>8899</td>
</tr>
<tr>
<td>Jacksonville, FL</td>
<td>2778</td>
<td>1337</td>
<td>6</td>
<td>8</td>
<td>3629</td>
</tr>
<tr>
<td>Raleigh, NC</td>
<td>1354</td>
<td>1059</td>
<td>1</td>
<td>2</td>
<td>2416</td>
</tr>
<tr>
<td>Austin, TX</td>
<td>952</td>
<td>664</td>
<td>0</td>
<td>1</td>
<td>1617</td>
</tr>
<tr>
<td>Charlotte, NC</td>
<td>761</td>
<td>591</td>
<td>1</td>
<td>4</td>
<td>1357</td>
</tr>
<tr>
<td>Columbus, OH</td>
<td>620</td>
<td>541</td>
<td>0</td>
<td>1</td>
<td>1162</td>
</tr>
<tr>
<td>Tempe, AZ</td>
<td>455</td>
<td>374</td>
<td>0</td>
<td>3</td>
<td>832</td>
</tr>
<tr>
<td>Oak Creek, WI</td>
<td>156</td>
<td>175</td>
<td>0</td>
<td>0</td>
<td>331</td>
</tr>
<tr>
<td>Winder, GA</td>
<td>86</td>
<td>64</td>
<td>4</td>
<td>1</td>
<td>155</td>
</tr>
<tr>
<td>Gaithersburg, MD</td>
<td>50</td>
<td>34</td>
<td>0</td>
<td>0</td>
<td>84</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Retail Cars</th>
<th>Retail Trucks</th>
<th>Fleet Cars</th>
<th>Fleet Trucks</th>
<th>2019 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>12070</td>
<td>8368</td>
<td>17</td>
<td>27</td>
<td>20482</td>
</tr>
</tbody>
</table>

**Figure 3**
Source: Cross-Sell Data

Why It’s Working: Reason 3 - Cutting Time

Retailers are in the fight of their lives over the consumer’s time and attention. Time is a currency, the retailers who can cut the time it takes for a consumer to buy a product and have it in their hands, are winning. Carvana’s advertising says “in an era of online retail where everything is just a few clicks away - buying a car should be no different” and “Relax in your comfy pants and enjoy the new way to buy a car.”

In a recent interview with Entrepreneur Magazine, Ernie Garcia III, founder of Carvana, talks about how the idea of Carvana came to him, “I was at a wholesale auction, where dealers buy many of the cars they ultimately sell to consumers. All these people from different dealerships were buying cars, and it only took all of 30 seconds for them to decide to purchase a car and actually buy it. If that car had an issue that wasn’t reported, you could return it. I thought, could we get customers closer to that 30-second experience instead of the four-plus hours that was the status quo for car buying?”

According to SaleCycle data, the more research a customer must do before purchasing a product, the more likely they are to “just browse.” Carvana is capitalizing on consumer demand to stay in control of their time.
Weaknesses

One of the areas where Carvana is trying desperately to win is through sourcing. Carvana is at almost every auction and actively looking on third party listing sites to acquire quality vehicles. As a general practice, Carvana does not accept trades if there is damage to the body of the vehicle.

Moreover, Carvana is selling cars, but not without high logistical costs. It costs Carvana an average of $349 dollars to deliver a car to the end client, according to seekingalpha.com. Traditional dealers can cut this price in half most of the time.

Overall, traditional dealers can do everything Carvana is doing - it’s time to capitalize on weaknesses and replicate their strengths.

Top Makes Sold YTD 2019

HOW TO COMPETE WITH CARVANA - IN A NUTSHELL

• Source the right vehicles by reviewing what has sold in your market on a monthly basis and developing a strategy on acquiring quality vehicles - before Carvana does.
  Suggested resource: www.cross-sell.com

• Maintain an air-tight virtual road to the sale by communicating all the details about your vehicle up front, including condition, in order to force confidence into the buying process.
  Suggested resource: www.carscorereport.com

• Develop a plan that would allow you to deliver a vehicle to a customer who may not be interested in taking a test drive before purchasing the vehicle.

• Record the actual time it takes for a customer to purchase a vehicle from you, from the time they initially contact you to the time they take delivery. Determine if any areas can be shortened.
  Suggested resource: www.drivedominion.com
STOP THROWING AWAY TIME AND MONEY ON INEFFECTIVE MARKETING

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MARKET YOUR SHOP, FILL YOUR BAYS, GROW YOUR BUSINESS

IDENTFIX.COM/MARKET
2018 was a solid year for the auto industry and subprime lending.

All of the historical data that follow are taken from the Equifax Credit Trends 5.0 product. For the purposes of this analysis, classified loans to borrowers with a VantageScore 3.0 credit score of 620 or less (including unscored) at the origination of subprime are displayed.

A close look at subprime originations revealed the following:

- While auto lending had a limited increase, the subprime share of auto lending stopped shrinking. Total Subprime originations increased by 0.1% in 2018 in comparison to the previous year. Prime lending grew at a rate of 2.7%. The net effect was that the share of subprime loans as a proportion of total auto lending decreased to 17.3% in 2018 as compared to 17.7% in 2017. For the first quarter of 2019, the subprime share improved to 19.1%.

- Longer loan terms continue gaining in popularity. In 2018, 26.1% of auto loans had a term of 7 years or more. Within subprime, 17.0% of auto loans had a term of 7 years or more. While subprime leases remain rare, these also tend to be longer: 39.1% of 2018 subprime leases had terms of 4 years or more.

- Recent subprime vintages performance is fair: better than 2007 vintages, but not as well as 2009. 2018 vintage performed slightly worse than 2017 vintage. 2018 Q1 vintages showed early signs of high defaults, but have improved as of late. Performance weakness in subprime overall is largely due to performance in deep subprime, which makes up a larger share now than in 2010.
SEAL THE DEAL.

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Auto Depreciation Dropped to 12.4% in 2018

According to Black Book, the annual depreciation rate on two-to-six-year old vehicles dropped to 12.4% in 2018, which was the lowest in four years. The average depreciation over the last eight years is 12.5%, with 2011 and 2012 registering the lowest due to strong pent-up demand right after the recession. Prior to the Great Recession, annual depreciation of 16% was the norm.

The demand for used vehicles peaked in 2018 due to a confluence of favorable factors: low interest rates, excellent credit availability with lower delinquencies, extremely high job growth, tax cuts enabling both consumers and commercial buyers to upgrade, increased marketing of off-lease vehicles, and disciplined incentives on new vehicles with rising transaction prices.

Black Book expects used vehicles to depreciate at the rate of 14-15% in 2019, an increase from the previous year. While overall economic conditions are expected to remain stable, headwinds on affordability and rising supplies are expected. Furthermore, faster decline in values of their current vehicles at trade-in and increased financing expense due to higher interest rates would drive slightly fewer car shoppers to replace their vehicle. Rising inventories on dealer lots is a harbinger of slowing sales. At the start of the year, the new vehicle inventory was about 4 million, 3% above prior year.

12-Month Depreciation Rates by Segment Jan 1, 2018 - Jan 1, 2019

Two-to-Six-Year Old Vehicles

Last year was a banner year for used vehicle values. The replacement demand stemming from the hurricanes in 2017 alleviated the excess supply in used vehicle inventory at the start of 2018. The tax cuts gave a boost to the spring selling season and the high levels of job growth kept the demand unusually high for used vehicles. This strength continued through the summer in 2018. Typically, Q3 is a slower quarter with declining values. However, the strength was carried broadly by several segments in Q3 with the overall vehicle depreciation of only 0.9%.

The overall market looks quite strong, but when you dig deeper, you find there are significant differences in segment performance. Luxury sedan segments, namely Near Luxury Car, Luxury Car, and Prestige Luxury Car segments performed relatively poorly in depreciation rates, at 16% or worse. Typically, luxury vehicles tend to have higher depreciation. However, the depreciation gap between mainstream brands and luxury brands was particularly high last year. Mid-Size Cars depreciated at a 10.2% rate, whereas Luxury Cars had 18.5% depreciation. That’s an 8-percentage-point gap. Usually, luxury cars depreciate about 3 to 5 percentage points more than mainstream mid-size cars. This highlights the affordability concern that was front and center for used vehicles in 2018.

Compact Vans and Full-Size Vans did particularly well, depreciating only 5.1% and 8.0% respectively. Pickup trucks remained strong through the year, ending at about 9% depreciation in 2018. Affordable vehicles such as Sub-Compact Cars, Compact Cars and Sub-Compact Crossovers retained their values well, with depreciation rates of 8.7%, 8.9%, and 5.5%, respectively.
Black Book Used Vehicle Retention Index

Increased 2.1% in 2018

The Black Book Used Vehicle Retention Index is designed to provide a consistent, representative and unbiased view of the pricing strength of the used vehicle market. The index is calculated using Black Book’s published Wholesale Average value on two-to-six-year old used vehicles, as percent of typically-equipped MSRP. It is weighted based on registration volume and adjusted for seasonality, vehicle age, mileage, and condition. Black Book’s Wholesale Average is a benchmark value for used vehicles selling in wholesale auctions with vehicle quality in Average condition.

The volume of used late model off-lease vehicles for sale has risen in the auto auctions in recent years, which increases the average sale price of a vehicle in auctions because late model vehicles are more expensive. To adjust for this trend, the Black Book Retention Index adjusts for vehicle age and measures used value as a percentage of the original MSRP of the vehicle, thus providing consistency in measuring retention strength across time. In addition, the mix of vehicle segments in the Index is weighted based on registration volume at the time, reflecting a representative and unbiased view of the overall auto market.

The Index increased by 2.1% from 113.1 in January 2018 to 115.4 in January 2019. The Index has not seen this level of increase since 2012. During the summer months in 2018, the Index showed a strong lift, which is unusual for that time of the year. After a strong performance in 2018, the Index is forecasted to decline in 2019 as vehicles register slightly larger depreciation.

Residual Forecasts Lower

Our residual forecast is slightly lower this year than the retention trends seen recently. Compact SUVs have increased competition with higher production volumes. This is one of the segments that is expected to decline in the coming years. The 2016 Model-Year vehicles are retaining 51% of their original typically-equipped MSRP, 3 years later in January 2019. We are projecting the supply to build further in 2020 and in the following years, and demand to soften with a stable, higher level of supply of used vehicles. Overall, this results in our projection of lower residuals in the coming years.

Drill-down analysis of segments, brands and specific vehicles may show different trends on residuals. As an example, the supply and competition are building up relatively high on the Compact Crossover/SUV segment. As a result, there is more downside risk in valuation in the coming years in this segment. On Luxury Cars, the three-year retention in 2019 is only 44% versus 51% for the overall market. Luxury Car manufacturers need to be ahead of the curve on technology and new features as several technology and comfort options have now been commercialized in mainstream brands.
Your customer’s credit application was denied, and now you have difficult news to share. Here are some of the more common reasons why this happens, and some steps they can take to improve their chances next time:

There are lots of reasons for this; some are more easily remedied than others. If the buyer can enlist a relative or friend with good credit to serve as cosigner, you may be able to get the loan approved. If a cosigner is not an option, there are steps buyers can take to improve their chances of future funding. Advise the buyer to call one of the three credit bureaus – Experian, TransUnion or Equifax – and request a free copy of their credit report. The buyer should scour the report for mistakes, and if they find any, write to those creditors and ask for a correction.

Another way to improve a credit score is to reduce debt-to-income ratio by paying down other debt, especially credit card debt. If the buyer’s score is being weighed down by past-due debts, he or she should get on a repayment plan. This will help improve their credit score over time.

Young buyers are particularly susceptible, simply because they are new to using credit. Presuming the buyer is employed and has the means to make timely loan payments, a cosigner on an auto loan can greatly help him or her purchase the vehicle and begin to build credit history.

A numerical error as simple as one wrong digit on an insurance policy or VIN on a trade-in can result in a flag for fraud, leading to denial. Missing information, such as a proof of income or a photocopy of a driver’s license, can also prevent a loan from being approved. Be sure to give your buyers a checklist of all the things they need and urge them to triple-check their work before filing the application.

Even when a buyer has excellent credit, debt-to-income ratio can put the brakes on the purchase of an expensive dream car. Better for him or her to consider a safe, reliable vehicle within their means, get that loan approved, and put the rest of the money they were willing to spend on monthly loan payments into savings. Your client will be happier in the long run, and you will have earned their trust for looking out for their best interests.

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The information provided in this article is for informational purposes only. It should not be considered legal or financial advice. You should consult with an attorney or other professional to determine what may be best for your individual needs.
WE ARE A PRIME LENDER WITH NO RESTRICTIONS ON AGE, MAKE, MILEAGE

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The best-laid plan of mice and men often go awry. Who more than anyone does the adage resonate with than used car dealers and their below-prime customers? Since Spireon’s inaugural impound lot report a year ago, in which we highlighted the little-before-talked-about issue costing dealers a billion dollars nationwide, we have seen the power of technology take effect.

In 2019, with more dealers maximizing GPS technology to help take control of their profitability, we’ve seen 27.8 percent more vehicles liberated from impound lots in less than a day. Conversely, the number of vehicles sitting idle on impound lots, accruing mounting fees — seven days, two weeks, a month — has gone down 27 percent. These trends represent an average savings of $107 per vehicle impounded since the 2018 report.

**2019 vs. 2018 Time in Impound, Average Storage Fees**

*Figure 1 2018 to 2019 Spireon NSpire analytics and June 2019 TechValidate dealer survey*

**Time Is Money**

In 2018, more vehicles remained in impound longer, incurring escalating fees. These fees are a prohibitive expense that — despite well-intentioned consumers’ and dealers’ best-laid plans — often result in an event nobody wants: default.

Back then, however, the context was different. The data, pulled from Spireon’s exclusive NSpire platform, was culled from a market that was just discovering how GPS technology could neutralize the problem. A year has passed. Though impound operators are taking slightly longer to notify owners of impound, more dealers are now using technology to fight back against impound fees.
On average, how long is a vehicle in impound before receiving notice from the impound lot?

11% 16 or more days
9% 11 to 15 days
28% 1 to 2 days
24% 6 to 10 days
28% 3 to 5 days

Figure 2 June 2019 TechValidate Dealer Survey

Impound isn’t a static problem. The information dealers need to combat it is dynamic, including the latest impound lot locations and faster impound notifications. The sooner a vehicle is recovered, the lower the chance of storage damage and reconditioning costs.

<table>
<thead>
<tr>
<th>States With the Most Vehicles in Impound</th>
<th>States With the Highest Avg Time in Impound</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>% Impound</td>
</tr>
<tr>
<td>Alaska</td>
<td>7.37%</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>6.16%</td>
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<tr>
<td>Ohio</td>
<td>4.86%</td>
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<tr>
<td>Texas</td>
<td>3.46%</td>
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<tr>
<td>Michigan</td>
<td>2.67%</td>
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<tr>
<td>Illinois</td>
<td>2.61%</td>
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<tr>
<td>Minnesota</td>
<td>2.35%</td>
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<tr>
<td>California</td>
<td>2.22%</td>
</tr>
<tr>
<td>Utah</td>
<td>2.20%</td>
</tr>
<tr>
<td>Washington</td>
<td>2.06%</td>
</tr>
</tbody>
</table>

Figure 3 Spireon NSpire Analytics 2019
Figure 4 Spireon NSpire Analytics 2019
Total Costs Rise

The total cost of impound per vehicle rose in the West, Midwest, and Northeast by about $142 combined since 2018. The South, on the other hand, managed to save nearly $95 since last year.

Average Daily Storage Fee

Interestingly, average daily storage fees decreased across most of the nation since 2018. The Northeast saw the biggest reduction at $5.71. Meanwhile, storage fees in the South rose by $3.27 per day.

Conclusion

With average recovery costs rising throughout most of the nation, dealers must seek ways to reduce time in impound. Spireon data tells us that as GPS impound recovery technology matures, vehicles spend less time sitting in impound lots accumulating fees. For dealers looking for greater success and reduced expenses, cutting-edge GPS technology may be the key.
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Transform GPS from a cost of doing business into a profit center.

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From Research to Contract Signing - Creating Convenience at Every Stage of the Process

Today, shoppers can purchase virtually ANYTHING online and have come to expect that convenience. The rise of these new consumer expectations has pushed businesses to adapt accordingly, and the availability of new technologies is now widespread.

The automotive finance industry is not only equipped to facilitate the end-to-end digital experience but also empowered to make the online to in-store experience seamless. The latest digital consumer experience is improving CSI among consumers, creating efficiencies between dealers and finance sources, and saving dealerships thousands.

When dealerships embrace all the available tools that allow for transparency and faster connectivity, the vehicle purchase process is streamlined from a customer’s efforts at home to the finishing touches and delivery at your dealership.

40,000+ eContracts
Signed in August 2019 with RouteOne’s new tablet eSigning experience

224% YoY increase in non-captive eContracting volume

100 New Dealers
Activate eContracting with RouteOne every month (July 2018 - July 2019)

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One Connection to All Your F&I

Learn How to Engineer Your Unique Consumer Experience

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Ready to optimize your F&I experience?
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DEALERS THAT RESPOND QUICKLY ON MOBILE CHAT SEE BETTER LEAD SUCCESS

To capitalize on these trends, dealers are posting their inventory to online and mobile markets which utilize chat messaging. OfferUp provides a number of digital tools to aid dealer and buyer engagements but a key driver of dealer success is how quickly they respond to chat leads.

Data gathered from the OfferUp dealer network demonstrates how you can use chat technology to help you keep more leads. Data shows that many dealers are underestimating the value of being responsive in chat. The Buyer/Dealer Median Response Time chart shows that lead quality deteriorates rapidly as the dealer response rate slows. Dealers who respond to leads within one minute enjoy high lead retention, however dealers who take over an hour to respond lose 25% of their leads and the remaining leads’ response time drops drastically. Dealers that wait longer than 24 hours to respond will on average lose 77% of their leads.

Interestingly, dealers vastly overestimate how quickly they respond. Our sample response times chart to the right shows that most dealers believe they are answering inbound inquiries in about an hour, though in reality it is between 6-8 hours. This will typically cost them 40-60% of their leads.

What can you do about this? There are several key things dealers should implement to take advantage of their chat features:

• Assign a dedicated chat leads manager to make sure inbound chats to your team are answered and assigned in a timely manner.
• Make good first impressions by being helpful and courteous when responding to inquiries.
• Be upfront and set expectations if you don’t immediately have an answer to a question. Let the customer know that you will get back to them shortly.
• Track your response rates and make improvements as necessary.

For more information on OfferUp, visit: www.offerup.com/autos

DID YOU KNOW WAITING EVEN AN HOUR TO RESPOND TO A CHAT CAN COST YOU 25% OF YOUR LEADS?

More consumers are moving towards using chat as their preferred way of communicating with businesses. According to a recent national survey, more than half of all Americans prefer to message rather than call a business, and six out of ten reported an increase in their business messaging.
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Oppportunities and Challenges Lie Ahead as Growth Decelerates

BY JONATHAN SMOKE

Last year was a strong one for both the economy and vehicle sales, a year of success – 17.2 million new light vehicle sales and nearly 40 million used – that will be nearly impossible to repeat.

While tax reform boosted economic growth through much of the year, growth decelerated by year’s end and continued to slow through the first half of 2019.

Headwinds for the auto industry are clearly growing, including affordability, credit availability, interest rates and high vehicle prices.

Consumers enjoyed higher take-home pay last year as a result of tax reform. Strong growth in disposable income helped drive a corresponding increase in spending while also keeping credit defaults low.

But the stronger economy also led to higher interest rates, which combined with record consumer debt has meant double-digit increases in interest payments for two years in a row.

Cox Automotive expects 2019 used car sales to nearly equal 2018’s. Strong consumer demand due to affordability challenges with new vehicles and growth in the supply of off-lease vehicles from record new car sales in 2015 and 2016 are fueling the retail used vehicle market.

The most recent Cox Automotive Dealer Sentiment Index found slightly more independent dealers described the used car market as strong than those who said it was weak.

But independents also noted used vehicle inventory was declining – a reversal from earlier surveys.

In fact, the used vehicle inventory index was at its lowest point in the history of the survey, which draws into question whether the strong used vehicle market can maintain momentum through the rest of the year.

A key question for independent dealers is whether sales of younger used product – mainly off-lease vehicles – can offset the decline in sales of vehicles that are nine to 12 years old, traditionally a critical product segment.

The lack of older vehicle supply, due to the Great Recession when new vehicle sales plummeted, will force many interested buyers into either younger or substantially older model years.

A shift to younger, more expensive used vehicles also means higher retail prices and greater dependence on financing.

That’s both an opportunity and a challenge for dealers, especially in the context of the credit cycle, which is now more likely to tighten than loosen.

The rest of 2019 will be heavily influenced by the political landscape.

Trade and tariff uncertainty is weighing on the economy.

A resolution could mean better economic growth than currently expected and correspondingly stronger demand for both new and used vehicles. But that could also mean higher auto loan rates.

Either scenario, however, suggests the used market will remain relatively healthy and see strong price performance for the foreseeable future.

Jonathan Smoke is chief economist for Cox Automotive. Read his Smoke on Cars columns in the Cox Automotive Newsroom, follow him on Twitter at @SmokeonCars or contact him at jonathan.smoke@coxautoinc.com.

Market Absorbs Arrival of Off-Lease Vehicles

BY TOM KONTOS

Many economic forecasters predicted an end this year to the typical spring tax-season uptick in wholesale prices, due to reduced tax returns.

But just as Sir Winston surged from behind late to win the Belmont Stakes, tax returns came back strong as the season progressed.

As it turned out, the 2019 spring tax season market started later but lasted longer than recent years.

Average wholesale prices were up on both a month-over-month and year-over-year basis in May – prices normally peak in March or April. The 2019 spring tax season in the used vehicle market finally ended as summer began in June, with average wholesale prices falling on a month-over-month basis, though they remained up year-over-year.

The wholesale used vehicle market has nicely absorbed the growth in off-lease supply anticipated for 2018 and 2019, based on record new vehicle sales and leasing in 2015 and 2016.

A key reason for that is upstream remarketing, which has effectively redistributed a significant portion of off-lease volume away from physical auctions.

The upstream “take rate” of cars might be helping car prices in the auction lanes more than trucks, as car supply begins to thin out with fewer cars produced and sold.

While used trucks are still fetching strong wholesale prices, truck prices will face greater downward pressure as more crossovers and SUVs enter the used vehicle market following strong new vehicle sales over the past few years.

On the demand side, stumbling blocks to new vehicle affordability, as interest rates rose in 2018 and fell only a quarter of a percent in 2019, have likely increased consumer consideration of used vehicles.

That shift has supported retail used vehicle sales, especially sales of certified pre-owned vehicles.

So far, manufacturers have shown good discipline by not dramatically increasing new vehicle incentives or sales into rental fleets. Those practices have been deployed often in the past as late-cycle new vehicle sales waned, but they are detrimental to used vehicle values.

Conditions could change, but independent dealers still have a horse in the race thanks to the strength of supply and the downward pressure on wholesale values.

Odd’s are there will still be greater selection and better pricing in sourcing vehicles at auction in-lane and online.

In particular, independent dealers should put their money on the “open iteration” of upstream sales, when off-lease units are a horse in the race thanks to the strength of supply and the downward pressure on wholesale values.

Tom Kontos, chief economist for KAR Auction Services, has more than 25 years of experience in market research, financial analysis and strategic planning. Follow his monthly Kontos Commentary, offering analysis of the wholesale used vehicle market, at www.adesa.com/kontos-kommentary.
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INFORMATION SECURITY AWARENESS
PRIVACY, GENERAL CYBER PHISHING, PCI & MORE

VERIFY & PROVE THAT YOUR DEALERSHIP MAINTAINS A CULTURE OF COMPLIANCE

#WhatMakesYouABetterRisk
INNOVATION OF GROWTH, SERVNET MARKS YEAR

BY ERIC AUTENRIETH

The ServNet Auction Group continues its path of growth and innovation in 2019, gaining strength and vitality and from a new generation of auction owners who have been moving up in their family businesses.

That surge of energy has been bolstered by the addition of several new auctions to our roster over the past 18 months – Greater Rockford Auto Auction, Clark County Auto Auction and, most recently, FastLane Auto Exchange – which are led by next generation owners as well.

The owners of those auctions all have great experience and talent, and are helping fuel the innovations that will define ServNet’s future.

In the second half of the year, we’ve been preparing for our biannual client advisory meeting in October at Rough Creek Lodge near Dallas, where we will meet with national account representatives to discuss important industry initiatives and consider business solutions to meet their challenges.

We’ll report on the results of our efforts to ensure condition report consistency, enhance photo quality on Internet postings and develop a national standard for key-making.

With so many mobile options in the industry, we will also discuss ServNet’s capabilities to sell “outside the gate” and make inventory available for sale 24/7, offering storage space on our lots and exposing those vehicles to a national market around the clock.

This fall at our owners meeting, ServNet will transition to new leadership. Bruce Beam of Dealers Auto Auction of Oklahoma City takes over as ServNet’s president for the next two years, while I assume the duties of chairman of the board.

Over our 30–plus-year history, active participation by ServNet’s auction owners has been a hallmark of the group and a major force in our shared strength and impact on the industry.

As we end a year of transition, we approach a major change to our executive team.

In January, 2020, Pierre Pons will step down after a long and successful tenure as ServNet’s CEO. He and his staff at TPC Management did a phenomenal job of building and fortifying the ServNet brand over the past 12 years, and we can’t say enough about his efforts on our behalf.

We are looking forward to working with John Brasher, our new executive director, and Robert Sullivan, who will work with him as administrative director.

Both are individuals of outstanding caliber and reputation in the auction industry and former owners of ServNet auctions, bringing unique and valuable perspectives to their new posts. They’ll be instrumental in driving ServNet’s continued growth and success.

Eric Autenrieth is president of ServNet Auctions, owner of Indiana Auto Auction and general manager of Carolina Auto Auction.

IAG
Independent Auction Group

INDEPENDENT AUCTIONS DELIVER SUPERIOR SERVICES

BY LYNN WEAVER

Auto auctions are vital to the vehicle remarketing process, and there are none better than the members of the Independent Auction Group.

Dealers benefit from the hands-on expertise of independently owned and operated IAG auctions that deliver an end-to-end set of services.

Today’s auto auction environment is complex, with processes extending far beyond auctioneers’ chants, bids from the crowd and the final drop of the gavel as vehicles are sold.

From transporting vehicles to and from well-equipped facilities to exposing them to the broadest audience of qualified buyers, independent auto auctions deliver superior services to their customers.

Vehicle transport provides the bookends to the auction transaction. IAG auctions stand ready to help, whether moving a vehicle across town or across the country.

Using their own drivers for local pickups and deliveries, and their own fleets or relationships with national logistics companies, IAG auctions manage the move of thousands of vehicles between their customers and facilities.

Inspections and reconditioning have become increasingly important to the auction process. Pre- and post-sale inspections and condition report writing are critical parts of the process, particularly as the market area expands to include buyers who attend the auction via digital platforms.

IAG members hire top-of-the-line people who deliver top-of-the-line work. Their training and expertise ensure that inspections meet industry standards and condition reports make critical information available to potential buyers.

Service technicians in IAG auction shops provide an array of vital pre-sale services, from mechanical, body and paint work to reconditioning options ranging from on-spot washes to high-line detailing.

As vehicles are prepared for sale, the marketing personnel at IAG auctions are poised to find the right buyers for the right vehicles. IAG auctions are adept at multi-channel marketing, covering the gamut from sales calls and telemarketing to a multitude of online sale platforms.

Auto dealers benefit from the efforts of the marketing people at IAG auctions who are experienced in managing inventory in the lane and online, reaching buyers locally and nationally.

The unique, hands-on expertise of the independently owned and operated IAG auctions influences every step of the auction process and the many essential services offered.

At IAG auctions, every customer deals directly with people who have experience and a personal stake in the business. For real value and real service in the remarketing industry, nothing is better than a privately owned independent auction: experienced and committed to its customers with a proven record of success.

Lynn Weaver is executive director of Independent Auction Group.
Association EXCELLENCE

www.naaa.com (Available 24/7)

BY BEN LANGE

As the fastest growing auction company in the country, America’s Auto Auction maintains a keen focus on buyers and sellers to nourish healthy local markets and build strong foundations for its institutional remarketers.

Founded in 2005, America’s Auto Auction includes 22 of the nation’s leading auction locations, led by the most talented and most productive team in the industry.

During our 14-year history we have been fortunate to acquire outstanding operations that now fly the America’s Auto Auction banner. They are auctions with proven track records that are successful and high-performing in their markets, with superior facilities and cutting-edge technology.

But even more important than the real estate are the tremendous groups of auction employees who have stayed on as members of the America’s Auto Auction team.

Our most recent additions are great cases in point.

Our newest auction is Greater Boston’s Lynnway Auto Auction, added in March. An A-rated operation with tremendous influence in the Northeast, Lynnway is led by Jim Lamb and a staff of the highest caliber with a proven record in the New England market.

When we acquired West Michigan Auto Auction and Interstate 94 Auto Auction in Michigan in 2017, we welcomed industry veteran Carl Miskotten, who stayed on as the location’s general manager, and a team of experienced, dedicated auction professionals who not only operate two award-winning facilities but have also nurtured strong, unwavering relationships with their customers.

With the addition of Harrisburg Auto Auction in 2014, we were joined by Lynn and Clint Weaver, who, with their understanding of and appreciation for the independent auction, fit perfectly into our company’s culture.

Not only does our organization derive strength from its numbers, but all members of our group benefit from the vision and many years of industry experience shared by those leaders.

Certainly, we recognize the importance of auction sites with great facilities and technological capabilities, but our number one consideration is an auction business with a strong team in place, employees who are responsible for making the business thrive.

The people on the ground at each of our 22 locations give us a competitive edge and fuel our success.

As we grow, our team is growing and developing as well, gaining strength and experience from some of the very best operators in the industry.

Our business is all about our people – and our team at America’s Auto Auction is the very best in the auto auction business.

Ben Lange is president and CEO of America’s Auto Auction, the third-largest auto auction company in the U.S. with 22 locations including facilities in Alabama, Georgia, Illinois, Florida, Kentucky, Louisiana, Massachusetts, Michigan, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas and Virginia. For more information, contact Cynthia Butler at (214) 736-7900 or cynthia.butler@americasautoauction.com, or visit www.americasautoauction.com.

BY ANIL GOYAL

The growing volume of returning off-lease vehicles has been a much-talked about topic for a couple of years. In case you didn’t know, the spike in off-lease returns is already here.

Some predicted doom and gloom in the used markets when the peak arrived, but in fact the markets have held up quite well. A confluence of positive factors is keeping market prices up.

Manufacturers have kept new vehicle incentives in check: Incentives – provided to new vehicle buyers in the form of a cash discount, residual subvention and lower APR – have a direct impact on the used vehicle market. Decreases in incentives actually increase the relative value of a new vehicle.

As a result, new vehicle prices have edged up and used vehicles look increasingly attractive.

Dealers are promoting used vehicles: Franchise dealers are increasingly competing with independents to acquire and promote their used inventory. The margins on used vehicles are better, so it makes good business sense to take advantage of that in an environment of declining margins.

That has helped raise awareness among consumers about the advantages of clean and reliable used vehicles.

Most off-lease vehicles were recently redesigned: With better designs, improved fuel efficiency and technology and safety enhancements introduced in the past several years, the off-lease vehicle is relatively more desirable than in the past.

Credit availability remains strong: High credit availability, particularly in subprime, creates more demand for used vehicles. That allows dealers to close more sales that might have been a problem with tighter credit.

After much speculation about interest rate increases, they held steady – and are now going down.

Newly employed consumers seek affordable used vehicles: As a result, new vehicle prices have edged up and used vehicles look increasingly attractive.

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Newly employed consumers seek affordable used vehicles: The unemployment rate is near a 50-year low, creating more demand for vehicles. In addition, wage growth has been slow, highlighting affordability as a key factor in driving demand for cheaper transportation.

Despite talk of vehicle ownership declining, the rise in ride-sharing has helped vehicle ownership: Many of the more than 1 million active ride-sharing drivers in the U.S. are subsidizing their monthly payment through Uber and Lyft earnings. Off-lease vehicles, particularly sedans, offer a sweet spot for ride-sharing drivers to own.

With more younger vehicles returning to the used market, it has become very important to leverage precise VIN-specific data to value vehicles.

With advanced analytics solutions available, a full 17-digit VIN can now provide a precise valuation for a vehicle. That includes using vehicle history report information to automatically calculate a history-adjusted value, accounting for all the positive and negative events in a vehicle’s history.

Anil Goyal is executive vice president of operations at Black Book (www.blackbook.com), overseeing the final published values and residual forecasts, and managing experienced teams in automotive analysis, data science, technology and operations. He has a Ph.D. in decision sciences and a deep background in strategy and advanced analytics.
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~Bob Blankenship

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