

The Consumer Always Prevails
Remarks by
NADA Chairman Ed Tonkin
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The other day I was asked the question, “Who is the most important person in the auto industry?” It’s a good question. You probably know the answer. It’s not Ackerson or Mulally or Lentz. It’s not Obama. And it’s certainly not me.

It’s the consumer. Nothing happens without a buyer.

My job is to try to match supply and demand every single month everywhere I have a dealership. And this is true of every dealer in the country. If you are not able to do that, pretty soon you become a *former* dealer.

This is not based on a national market. My job is to focus on my customer’s needs and demands in the Portland market. And the Portland market is much different than the Atlanta market or the Houston market or the Dakotas, for that matter. Consumer demands vary from market to market. And consumer preference always prevails.

This is not new. But too often companies and the government get it wrong by failing to focus on the consumer. This is an important point to keep in mind as the latest debate over fuel economy heats up. As you know, the EPA and Transportation department are circulating a proposal to dramatically increase fuel economy standards. The timing of the proposal is a bit of a surprise since the ink is hardly dry on their last announcement of a 35.5 MPG standard by 2016.

The latest number that’s getting the most attention is 60 miles per gallon by 2025. Sounds good, doesn’t it? Sixty miles per gallon has a nice ring to it. It’s the kind of number you can get your arms around. Who could be against that? Some environmental groups consider 60 MPG as the Holy Grail. They’ve formed a coalition called “GO-60-MPG.” And they’re already campaigning hard for it. But reasonable people agree it’s a stretch and it will be costly. And no one knows whether it’s even doable.

We would all like to believe consumers would be willing to pay whatever it takes to reach such a worthy goal. But will they? Or is this another example of getting ahead of the consumer, of pushing too far, too fast?

This is what I want to talk to you about today.

The National Automobile Dealers Association has long supported improvements in fuel economy. But it’s also our role to raise some tough questions so that there’s no rush to judgment.

And 60 MPG raises many questions. Is it technically feasible and economically practical? Or is it overly ambitious? What about unintended consequences? Will huge numbers of consumers be priced out of the market? Will it create a new “jalopy effect,” where owners decide to keep their old cars and trucks instead of paying a premium for the higher MPG vehicles? In other words, if car owners decide to drive their old cars longer, wouldn’t this actually hurt the environment and further threaten energy security? Talk about unintended consequences. It does no one any good if the higher-MPG vehicle sits idle on a dealership lot for want of a buyer. Which leads us to a key question: Will this be another failed attempt to force a change in consumer behavior?

The American economy is driven by the consumer. That’s both good and bad. Regardless, history tells us, “ignore the consumer at your own peril.”

You don’t have to look far for examples. Take SunChips. They’re back in the news. About a year ago, Frito-Lay started packaging SunChips in the world’s most environmentally friendly chip bag – 100 percent biodegradable. This was a bold move from a billion dollar company. And the makers of SunChips wanted the world to know. So they hyped the earth-friendly benefits on television and in newspapers and on Facebook and YouTube.

But there was one problem. People stopped buying SunChips. They hated the new biodegradable bag. It was too loud. The only thing louder than the bag was the consumer complaints.

Former SunChips worshipers compared the noise to everything from a lawnmower to a jet engine. Forty-four thousand people joined a Facebook group called “Sorry, But I Can’t Hear You Over This SunChips Bag.”

You can’t open the bag without disturbing everyone else around you. One user who used to quietly open a bag for a snack said, “I can’t sneak ‘em! How can I enjoy junk food if the whole world knows?” A mother of two said, “It wakes up the kids!”

And who do you think was left “holding the bag?” Frito-Lay, of course.

The company just announced it’s going back to the old bag. But the mistake cost the company millions. And the blunder has become an instant classic, a case study to be pondered by Harvard business students for years to come.

The lesson? It’s good to be environmentally conscious, but don’t get ahead of the consumer. Make sure you know what the consumer *really* wants before you make big changes to your product.

Remember CAFE’s unintended consequence? It led to the demise of the station wagon and introduced the Age of the SUV.

The fact is, the American consumer buys products that are convenient, predictable and affordable. It’s the same for cars. The most important factors for a car buyer are overall price and monthly payment.

Miles per gallon becomes a priority when gas prices top \$4 per gallon. That's when huge numbers of buyers shifted almost overnight from larger vehicles to smaller cars. That's when Toyota ramped up production of its Prius hybrid. But then gas prices starting falling and federal tax credits were cut and in one month hybrid sales fell 31 percent. All of a sudden dealer lots were backed up with hybrid inventories. Sitting idle. Going nowhere. Collecting dust. Who would have predicted such a rapid shift back to larger SUVs and crossovers? The buying public can be fickle.

Hybrid sales continue to fall, from around 315,000 two years ago to 290,000 last year. And they are projected to fall another 12 percent this year.

A recent article in *The Washington Post* summed up the challenge this way: "Although efficiency standards are imposed on automakers who are required to produce vehicles that achieve a certain level of miles per gallon, they must in turn sell them to a public often more focused on power and design than the allure of fuel economy."

The fact is, manufacturers have struggled for years to make money on small cars. And consumers remain skeptical that small cars are safe. Which leads us to an important question: What has been the best-selling vehicle in America for the past 33 years? The Ford F-150 pickup. This reflects consumer demand in rural and Western markets as opposed to urban.

But the point is, consumers today are not buying cars based on fuel economy. We may wish it were different. But that doesn't change anything. And good public policy can't be based on wishful thinking.

Making public policy based on surveys can also be dangerous. A recent Consumer Federation survey found a large majority of consumers say they would pay more for a new fuel-efficient car if they recouped the added expenses within one year. Of course, the problem is, they won't recoup the added expenses in one year. Even government analysis puts the payback at three to four years.

But let's work the numbers on one of today's hybrids. The price premium for the hybrid technology is \$5,395. Assuming you drove 40 miles a day in the city and the cost of gasoline was \$5 per gallon, it would take you almost *five* years to recoup your added upfront costs. At \$3 a gallon, payback would take almost *eight* years. Will consumers will be willing to pay these kind of added upfront expenses? Will hybrid technology come down in price? These are valid questions.

Survey findings can be misleading, too. It's easy for most of us to answer survey questions. There is no risk. If SunChips buyers had been surveyed about the biodegradable bag, an overwhelming majority would have said, "Yes." I would have, too. But look what happened. The marketplace is often brutal, and always unforgiving.

Let's talk electric for a moment. The battery-powered car is seen by some as the future of the automobile. But it's complicated.

There is a concern about recharging and the life span of the battery, which creates “range anxiety.”

There are also environmental concerns...since most electricity is generated by burning gas and coal. And there is the question of battery disposal. Plus, electric cars are expensive to develop, difficult to sell to the public and compete with existing models.

Nevertheless, electric cars still hold great promise, prompting partnerships between private business and governments so the electric car can succeed as something more than a novelty. Some optimists even predict 40 percent of the fleet will be electric by 2025. That may be a bit ambitious. But the excitement is real...generated partly by the \$230 million national program known as the E-V – or Electric Vehicle – Project. The project’s initial focus is on building charging stations in five states – including my home state of Oregon, as well as California, Washington, Arizona and Tennessee.

And there is quite a media buzz around the first mass produced all-electric car, the Nissan Leaf, which arrives at dealerships in December.

Listen to this headline from *The New York Times* – “First Buyers of Nissan Leaf Get a Trunkful of Perks.” The article reports that buyers are being bombarded by government incentives like a \$7,500 federal tax credit; a \$2,500 cash rebate from the state of Tennessee; and a \$3,000 home-charging unit courtesy of the Energy Department. It’s described as “an unprecedented effort by federal, state and local governments to stimulate demand for cars that have zero tailpipe emissions.”

If you have concluded this is really all about making advanced technology affordable -- and therefore keeping transportation accessible to all Americans – you are right.

We are cognizant of the ripple effect of higher prices. The risk is, if these fuel economy regulations are overly aggressive, it will price Americans out of the market. The same is true for credit.

Our mantra in Congress in the recent financial services fight was “Keep auto credit affordable and accessible.” Despite huge odds against us, we prevailed because a majority of both the House and Senate recognized the automobile is a necessity of modern life. It is an essential building block of the U.S. economy. And it’s not just because auto sales account for about 20 percent of the retail economy.

America is the most mobile society in the world. Mobility directly affects the size of our GNP, our economic health, our productivity. The automobile provides Americans with a better chance of getting a job. And a better chance of *keeping* a job. It also provides better options for people to choose where to live. In other words, the automobile is central to the pursuit of the American Dream.

What dealers do every day is provide the American consumer with affordable credit and affordable transportation. That is what we will work to preserve. As the debate over fuel

economy continues, we want regulators to listen to reasonable arguments and address legitimate questions, just as Congress did.

We all hope there is some future technology that's affordable and will get us to 60 MPG sooner than later. We all hope greater fuel economy will reduce our dependence on foreign oil. And we all hope advanced technology will further cut greenhouse gases.

But we have to look beyond hope. Public policy has to take into account the harsh realities of the marketplace. And that requires us to keep in mind what I said at the outset:

The most important person in the auto industry is the consumer. And consumer preference always prevails.

That concludes my remarks. I'll be glad to answer any questions you may have.

One question I have already been asked is about the NADA Convention in San Francisco. It's often a bellwether for the overall health of the auto industry. I'm pleased to say that the Expo is already sold out and a waiting list is growing. Registrations are also up. They are running about 10 percent ahead of last year. All major manufacturers will also be there. And I hope many of you will be too. It's in San Francisco from February 5 through 7. For more information, just go to nada.org.

And now, I'm happy to take your questions.

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