

“New-car Dealer: an Auto Remarketer’s Best Customer”
Remarks by
2010 NADA Chairman Ed Tonkin
to the
Conference of Auto Remarketing
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Thank you, Jeff, and good morning, everyone. I’m very happy to be here.

I became NADA chairman just over two weeks ago. It’s truly a privilege for me to serve in this job. I grew up in the business; our first dealership was started by my grandfather, and my father, Ron Tonkin, was NADA president in 1989.

So I understand the remarketing business from a dealer standpoint, but as I’ve become more involved with NADA, I have come to understand your industry better from a “big picture” perspective.

There are two main points I to share with you today: Number one, new-car dealers are your best customers. And no matter what you read in the trade press, no matter what you hear on the news about OEMs closing dealerships, we are not going anywhere!

The second point is that I want you to think of NADA as your partner. We have a long history of working closely with the National Auto Auction Association, and together we have developed some great products and strategies over the years. The most obvious is AuctionNet, which provides up-to-date information to buyers and sellers, helping both parties to the transaction. And we are adding some 750,000 transactions each month to a database that is already 100 million records strong.

Standardizing the voluntary arbitration process has been another big NAAA success, and I applaud them for that. I hope all of the auctions will adopt these standards. And the standardized electronic condition reports have been a dramatic improvement, removing so much subjectivity from the valuation process. The auctions themselves have implemented many, many other efficiencies that have reduced costs to dealers – a subject near and dear to my heart!

I’ll tell you another way you are helping our side of the business, which you might not be aware of: with NADA’s Dealer Academy. In case you don’t know about this partnership, I’ll give you a brief description. During the used car class of the Academy, students are divided into teams and given 15 actual auction vehicles to value. They can use any resources they choose to do it. Then they watch the auction online and see how close they came on those vehicles. It’s a great teaching tool, and the more real-life experience the students have, the better equipped they are to be a real asset as soon as they return to the dealership. In fact, my daughter, Nancy, will graduate from the Academy in a couple of weeks and over the past year I’ve seen her grow so much, thanks in part to partnerships like this one.

What else can we achieve together? Well, we are moving toward greater transparency in the marketplace, and that's a good thing. There are so many more resources available. New-car invoicing on the Web has helped moved things along there.

In fact, at NADA Guides, we work every day to increase transparency and dealer understanding of the market. Just last month NADA Guides introduced auction values to its electronic product line. These new values will be updated weekly to help customers better understand pricing activity for the disposal or purchase of a vehicle in the dynamic auction remarketing channel.

Auction values complement NADA's traditional value offerings in two important ways for dealers and lenders: First, dealers have traditionally used NADA values at auction to help determine what a lender would advance on a particular vehicle. NADA will now also provide the most accurate auction benchmark to help dealers determine pricing activity in the auction lanes.

And second, lenders rely on NADA values for loan origination based on our extensive review of an industry-leading number of data inputs and other factors, not the auction market alone, to help mitigate risk. Lenders will now be able to easily access NADA's auction values to help with remarketing needs and give credit risk managers additional insight. Auction values are available at no additional cost to subscribers to NADA's electronic products.

NADA's suite of pricing information will help the entire industry monitor potential short-term fluctuations in the auction lanes, and show longer-term movement in the market, to provide the complete picture. We think this benefits everyone.

One of the reasons I wanted to serve as NADA chairman is that I'm really troubled by the ever-increasing number of federal legislative and regulatory challenges dealers face every day. A couple of our top priorities in Washington this year affect your industry too.

At the top of the list is Total-loss Disclosure, an issue we've been working on for many years ... and we've seen steady improvement. NADA was instrumental in making total-loss data more complete and publicly available through the National Motor Vehicle Title Information System – the national D-M-V data base. Now we're working to merge that data base into vehicle history reports, which will make it much easier for remarketers, dealers and the public to detect totaled and stolen vehicles. When we worked with Congress to initiate Cash for Clunkers last summer, we recommended that the junked cars' V-I-Ns be entered into the data base, and millions were.

And speaking of Cash for Clunkers, that was really the one bright spot of 2009 for us. NADA first proposed such a program to Congress in 2008 – even before the economic collapse. And during the first six months of 2009, we worked with the Obama administration and Congress to develop a program that would jump-start new-car sales and reduce fuel consumption and pollution.

NADA was instrumental in persuading Congress to provide the first \$1 billion in funding. All of us at NADA are proud not only of the work in Congress that resulted in establishing the scrappage program, but also in helping develop the regulations afterwards and finally helping to launch the program.

To the extent possible, we also tracked Clunker sales. And it's a good thing we did. We were able to alert the government that the program would likely run out of money in the first week! That's how wildly popular it was. We then worked closely with Congress to get an additional \$2 billion to keep the program going another few weeks. In just two months, more than 690,000 clunkers had been removed from the highways. The Department of Transportation reports that the new vehicles on the road in their place have *58 percent* better fuel efficiency.

There's evidence that Cash for Clunkers has increased the overall value of used cars, so it was really a winner for every segment of our industry.

Now there's talk of reviving it, and, according to last week's Automotive News, dealers are pretty divided. They quoted one dealer as saying, "It was stupid, but it sure was good for business!" Boy, it sure was.

So what are some of the current challenges we're facing together? The Toyota situation is certainly one of them. Its implications for all of us are far-reaching. Right now, Toyota still maintains a strong competitive position in the resale market, although prices have fallen. The NADA Used Car Guide has lowered values of models affected by the recall in the March edition.

Initially, the supply of used Toyotas going through auctions declined dramatically – up to 75 percent in some cases – which helped keep prices stable in an environment of lower demand. But within the past couple of weeks, supply has increased to more normal levels, and prices, especially on 2008 and 2009 Camrys, declined much more than those of its closest competitors. The decline was also much greater than on other Toyota models.

The key to maintaining the strength of their used-car values is two-fold: First, how efficiently they handle the actual logistics of the recall – and so far they seem to be getting high marks for that. But they must also restore consumer confidence, and they must do it quickly. While confidence has not eroded as much as we might have expected, it seems that every week brings new accusations against the company.

NADA has asked Congress, as it investigates the recall, not to rush to judgment. Ill-advised comments could unjustifiably alarm the buying public and reverberate through the entire industry. For years Toyota has been a leader in producing quality automobiles, and Toyota dealers are among the best in the industry. It has been our experience over many years that Toyota and its dealers – and I happen to be one – place customer safety as our first priority.

But there's more to it than the possibility of declining sales and market share. About a year-and-a-half ago, the FTC decided to revisit the Used Car Rule, originally implemented in the 1980's. The rule specifically did not require disclosure of prior known defects or problems.

Although this new scrutiny is not a result of Toyota's problems, there will no doubt be increased interest in revising the rule to require that sellers – dealers and auctions, for instance – know whether each vehicle in their inventory has ever been subject to a recall. Then we'd have to figure out if the defect has been remedied. Often, that will mean having the vehicle inspected by

a dealership that sells that brand. Then the recall repair would have to be completed before we could sell it.

This came up a few years ago, just after the Ford/Firestone tire controversy. NADA fought it – and it was quite a battle, but we won. I hope we’re able to avert disaster again, because a rule that included these provisions would place a very heavy burden on the entire used-vehicle chain of commerce.

Another issue we’re continuing to grapple with is floorplan financing. Last fall, after months of discussions, we were successful in getting floorplan securitization covered by TALF funds, and that has helped. But that expires at the end of this month; NADA met last week with the New York Fed to seek an extension.

NADA also met last week with Standard & Poor’s, as they have with the other major credit rating agencies, to ensure that they understand that floorplan securitizations are high quality and deserve high ratings. And we are continuing to work with the Small Business Administration, which has been a very helpful partner in providing floorplan funding to dealers who were really in desperate need.

Earlier, I assured you that dealers – your best customers – are here to stay. How do I know that? Just look what we’ve been through in the past year and a half: the decline of credit availability for flooring and capital loans, difficulty with retail financing, a market that crumbled to almost half of what it was and two major manufacturers going through bankruptcy.

How have dealers survived the economic and industry turmoil and the forced terminations? Several factors have contributed to our ongoing viability.

First, dealerships that were well-capitalized were in the strongest position to survive.

Second, expense control was critical. It is never easy to reduce the number of employees at our dealerships. They’re like our family. But in these challenging times, it became necessary to cut overhead costs, such as personnel and advertising.

Third, dealers have survived because many of them have a diverse group of franchises. More than 42 percent of NADA’s members have multiple franchises. In difficult times, that is an insurance policy to help alleviate the difficulties of a downturn.

Fourth, through NADA, we were able to communicate the dealer message to the public, the media and government — policy makers, politicians and regulators. The dealer network is the auto makers’ greatest asset.

Finally, dealers, unlike manufacturers, have profit centers other than new-vehicle sales. Over the last twenty years, dealers have adopted strategies to leverage service and parts and fixed operations effectively. As we continue to struggle with the profitability of new vehicles, NADA expects dealers to continue to rely more heavily on those business units – as well as used-vehicle

sales – to generate profits. In fact, many dealers that were terminated by GM or Chrysler have been able to continue to operate as used-vehicle dealers and parts and service centers.

So what does the future hold for us?

NADA's chief economist, Paul Taylor, and Guide's analyst Jonathan Banks agree that used-car prices will remain relatively stable throughout this year. That will provide trade equity for customers in their current vehicles and narrow the price spread between a new car or truck and a one or two-year-old model of the same vehicle.

To be successful going forward, franchised dealers must exploit the used-vehicle market more aggressively. In 2008, for the first time, both the new and used-vehicle departments were in decline.

Early that year, there was a large dip in used-car sales as the economy slowed and, importantly, gasoline prices spiked to four dollars and eleven cents a gallon during the summer before falling to below two dollars a gallon in the fall. As a result, dealers had the wrong mix of vehicles from summer through the end of the year: too few small vehicles to sell, both new and used. Then, as the gas price dropped, too few midsized and large vehicles in the fall as gasoline prices moderated.

The deepening recession also contributed to lower values of all used light vehicles at the end of 2008, but then shortages of traded-in vehicles produced a dramatic increase in used-vehicle prices during nearly every month of 2009. Dealers retailed about 10 million used vehicles, out of 37 million sold, in 2008. When the final numbers for 2009 are in, we expect it to be just slightly under that, at 9.6 million. We wholesaled 6 million used units in 2008. So there is a terrific opportunity to grow our business in this segment. New-car dealers need a bigger slice of the used-car pie.

Right now, the supply of used units at franchised dealerships is constrained by lower new-car sales, and the new-to-used ratio is one-to-one, rather than the more typical three used vehicles to four new.

But, as you know, we are seeing an uptick in new sales, partially supported by firm used-car prices. We're looking at selling eleven or twelve million new units this year.

Dr. Taylor also relies on residential real estate trends when making his very accurate predictions. Housing is on track for improved price stability, with homes in the Midwest and East starting to see overall – if modest – price increases. Unfortunately, those of us in the Pacific coastal states are not quite out of the woods yet; the correction is going to take a bit longer there. But all of the signs are positive, and we all have reason to be cautiously optimistic.

I hope you're feeling optimistic, too. Because we are all involved in one of the most dynamic, exciting industries in the world. So let's keep doing what we do best. I wish you all the best in 2010.

Once, again, thank you for inviting me to be here today. Now, I'd be happy to answer any questions you have.

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