I’m sure most of you are aware that NADA is turning over 100 years on its odometer this year, and that we will be celebrating that occasion in New Orleans two weeks from now at our annual Convention & Expo.

The past 100 years have been filled with milestones that have taught us myriad lessons. We’ve experienced two world wars, an economic depression, multiple recessions, innovations in the medical and technology fields, and an incredible evolution in cars and trucks – and the manner in which they are sold and serviced.

Through it all, dealers have adapted and thrived, and the franchise system has proven time and again to be the most efficient and cost-effective retail distribution system for large volume auto manufacturers. It’s also the most consumer-friendly way to sell and service new vehicles, handle trade-ins and provide great financing options.

A recent independent research report found that consumers regularly save hundreds and often thousands of dollars on the purchase of their new cars because of robust intra-brand competition by independently owned and operated dealerships.

Even though we just competed another record sales year, everyone here knows that our industry is a cyclical one. And despite numerous forecasts that I’ve heard over the past two days that 2017 will beat more records, it’s likely that we will soon start to experience our first slowdown since the industry started its climb out of the Great Recession six years ago.

My best guess is that we will bump around at a 16-to-18-million-unit SAAR for the next few years. But changes in customer preferences and a new era of exciting mobility products will define how we move forward in the future. There will be serious challenges for all of us.

We’re certainly capable of overcoming these challenges. But doing so will require the removal of as many obstacles to success as possible. It’s these challenges and obstacles that I want to discuss to today.

The first challenge is an erosion of the “customer experience” caused by indiscriminate and unfair marketing strategies utilized by some auto manufacturers.

Let's start with a few statistics, compliments of Cox Automotive.
• In 2005, the average number of times a customer visited a dealership prior to purchasing a new vehicle was 6.1. Today that number has dropped to 2.4 visits.

• Today, new vehicle purchasers spend seven hours – out of a total of 13 hours and four minutes of total shopping time – researching their purchase online.
• 74 percent of today’s vehicle buyers ended up buying the vehicle they selected online prior to visiting a dealership.

• And in today’s world, buyers who identified their dealer as promoting transparent pricing reported significantly higher dealer satisfaction scores (71 percent versus 53 percent) than those who identified their dealer as not promoting transparent pricing.

What does this tell us? It tells me that most customers aren’t physically going to the dealership anymore to negotiate price. That’s because price is no longer something that’s figured out at the dealership; price is available to anyone and everyone with an Internet connection. We are rapidly approaching the point of complete transparency on price.

It’s also critical to note that in today’s market, dealers can’t survive on new-car margins. To be successful, dealers must earn the trust and respect of their customers early on, and maintain that trust during the customer’s entire ownership cycle – and hopefully for life.

In many respects, pricing transparency has been a godsend, because the biggest thing that disappears in the Internet world of price transparency are stories of one customer learning after the fact that he or she paid hundreds or thousands more for the exact same car as his or her neighbor, and for no legitimate reason.

So, in a world where customers crave fairness and transparency in price, why do some manufactures still deploy unfair marketing strategies that produce huge discrepancies in price between various customers?

That’s right, I’m talking about manufacturer strategies such as unfair stair-step incentive programs, indiscriminate price tag coupons, and other schemes that are too complicated, not consumer friendly, and that are not available to all dealers regardless of their size or location. This unfairness leads to multi-tier pricing that has always, and will always, cause our customers to be skeptical of what dealers tell them. Simply put, these types of programs are trust killers.

The situation is more problematic now than ever, because while these unfair programs haven’t really changed, our customers have. Today’s consumers don’t just hope or even expect a fair and transparent sales process; they demand it.

And these programs, while in the short term may produce a bump in sales, they actually run completely afoul of everything customers hold dear.

The CEO of one of our publicly traded dealer members recently put his finger on it when he said:

"Ultimately the only thing they guarantee are an eventual decline in brand sales, a decline in the resale value of vehicles of that brand, and a decline in the value of the brand."
Which leads me to the next challenge: The erosion of brand and brand loyalty.

Unfair and indiscriminate pricing schemes clearly hurt brand loyalty, but that’s not the only factor.

I’m going to cut right to the chase here:

The current situation we’re in, where millions of vehicles are under recall, and millions of customers have to wait months-on-end for repair parts, is completely unsustainable for any brand that expects to thrive in the future. We simply cannot have our customers left in the wilderness when it comes to understanding about the safety of their vehicles, or having assurance that they won’t take a big financial hit when they try to trade-in their vehicles.

In the same way that poor quality slowly, but methodically, erased billions of dollars of brand value for domestic manufacturers in the 1980s, I believe that the scores of recalls that aren’t immediately addressed and repaired will soon destroy billions of dollars of brand value for those manufacturers who don’t move heaven and earth to get replacement parts onto dealership shelves as fast as humanly possible. And, truthfully, a number of manufacturers are falling behind in this respect.

Certainly, the bigger and larger-profile recalls – like Takata – have garnered most of the headlines and attention. But the other recalls matter just as much to a customer who receives a recall notice but is told “we’ll get back to you” when it comes to having replacement parts available. A manufacturer's ability to demonstrate that it’s capable of standing by its product is as much about how quickly it does so as it is about anything else.

Recalls are all about parts availability. Local dealerships have the capacity, the technical know-how, and the desire to help every recall customer. All they need are the parts. Customers can forgive a recall if a defect is promptly fixed, but for many customers, waiting 10 months or longer for a part is just unacceptable – and it kills brand loyalty.

This storm, by the way, isn’t just a concept; it’s real, and it’s bearing down on us as we speak.

And it truly is a shame. Because in so many respects we are in a product renaissance. Today’s cars and truck are better, more reliable, more fuel-efficient, safer, and more fun to drive now than they’ve ever been. But we give it all away every time we are unable to stand behind a product we’ve already sold.

The final challenge I want to discuss today is something I’ll describe as “demand destruction.”

In my opinion, this is the one fundamental obstacle that our industry and public policy makers need to address sooner rather than later. We need to ask some tough questions:

- Are the regulatory policies and industry practices already on the books, and future ones being proposed, going to turn the average car or truck into a luxury good affordable only to America’s top wage earners?

- Are we collectively following a path that will reverse what Henry Ford did in 1908 when he introduced the Model T and changed the way Americans live, work and travel? The marvel of the Model T was that it made car ownership a reality for the average American, not just the
Let’s not kid ourselves. Our industry is already driving down this road. The average price of a new vehicle edged up to over $34,000 last year. The average monthly new-car payment now stands at $508 per month, with a record loan term of 68 months. Add in another $250 a month – for insurance, gas and/or electric charges, and maintenance expenses – and we’re looking at over $750 per month in car payments. And this with historically low interest rates and energy prices.

Since 2005, the percentage of personal income necessary to purchase a new vehicle has risen from 9.5 percent to 12.4 percent – with no end in sight.

Over the past 20 years, the single biggest driver of vehicle price increases has been government regulations and mandates.

- How much has the price of a new car or truck gone up because of environmental and fuel-economy regulations?
- How much has the California ZEV mandate driven up the price of all new cars?
- And how much more will prices be driven up when sophisticated LIDAR and complex software operating systems are added to already expensive autonomous vehicle systems, particularly if they are mandated by the government?

Let me be clear here: The gains we have made as an industry in safety, efficiency and environmental achievements are incredible, and no one is suggesting we turn back the page. But we have to keep a closer eye on cumulative costs. If average working men and women can’t afford a new or newer vehicles, they will be deprived of all the benefits they offer.

100 years ago, Washington lawmakers tried to impose a luxury tax on all automobiles, because back then only rich folks could afford cars. A group of new car dealers travelled to Washington, D.C., and set up camp at the Willard Hotel to successfully oppose that overreaching tax – that’s in fact how NADA was born. It was the first chapter in a long history of local new-car dealers fighting in Washington for their customers, and fighting to ensure the affordability of personal transportation.

During the past century, cars and trucks have become economic necessities, not luxury goods. Affordable vehicles enable freedom of mobility – a phenomenon that greatly improves and enhances the quality of American life.

Affordable personal transportation means working men and women can get to jobs off the public transportation grid. It means they can live in better neighborhoods with better schools. Not to mention the convenience and freedom of going where you want, when you want, without the hassle of relying on someone else to provide a ride. Indeed, for generations, personal car ownership has been the great equalizer in American society.

Unless we as an industry, working with policy makers at all levels of government, start looking through the lens of customer affordability, we risk imposing a new luxury tax on the vehicles our members sell which, in turn, will depress the SAAR, reduce fleet turnover, and deprive large swaths of Americans of
the opportunity to obtain and benefit from the ownership of a new car or truck – that’s what I mean by “demand destruction.” That’s a road that we as an industry and as a nation cannot afford to take.

Now, I understand the reluctance in some quarters not to be seen as too eager to push the regulatory pendulum back in the other direction just because a Republican is soon to be in the White House. But if demand is sapped four years from now because new vehicle price points are no longer attainable for otherwise willing buyers, we’re going have much bigger problems on our hands than political optics.

So today, I want to offer a charge to everyone in this room – to acknowledge that these challenges to vehicle affordability are real, recognize that they aren’t going to evaporate on their own, and embrace the fact that they’re our challenges to overcome.

Instead of waiting around to point the finger elsewhere when affordability starts to dramatically impact future demand, we need to take action now to keep new cars affordable for our customers.

The best way to do this is to recognize that the recent election has served up a unique opportunity – one with a short window of time. This is not a time to rest on our laurels; it’s time to step on the gas and take full advantage of the political and policy landscape that lies before us.

In conclusion, I just want to say that no matter what challenges we face, this still remains a great industry. And if you want to see it come alive, join us in New Orleans in two weeks to toast the past and get ready for the future.

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