



# WVADA *News*

WEST VIRGINIA AUTOMOBILE DEALERS ASSOCIATION



## The WVADA 88th Annual Dealer Family Convention



### inside:

10

A CONVERSATION WITH  
INCOMING CHAIR,  
CHARLES RASHID

29

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CONVERTER THEFT



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# CONTENTS

WVCAR.COM



**6**

**President's Message  
Uncertainty will be the Fuel to  
Prepare and Protect Our Future**

**10**

**A Conversation with Incoming Chair,  
Charles Rashid**

**11**

**Save the Date  
Motor Vehicle and Title  
Registration Seminar**

**12**

**The WVADA 88th Annual  
Dealer Family Convention**

**18**

**By The Numbers:  
Dealership Values,  
Buy, Sell or Hold?**

**20**

**Counselor's Corner:  
FTC Safeguards Rule –  
Prepare Now for the Coming Years**

**24**

**Carvana Is Looking More Like Icarus  
How the Pandemic Darling May Have  
Flown Too Close to the Sun**

**29**

**Combating Catalytic  
Converter Theft**

**30**

**How To Prepare Today for the EV  
Customer of Tomorrow**

**33**

**Welcome New Member**

**34**

**In The Community**

**38**

**Executive Committee**

**WVADA** News

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## President's Message

By Jared Wyrick

# Uncertainty will be the Fuel to Prepare and Protect Our Future

**T**he past few years for dealers have been tumultuous and lacked certainty. From a pandemic to global supply chain constraints, to non-existing inventory, dealers have had to pivot, adapt and become more innovative. Now on the heel of all these uncertainties, manufacturers are increasingly adopting a tone that makes new franchise dealers feel even more uncertain about their future roles. And if this isn't worrisome enough, the Federal Trade Commission proposed a sweeping new UDAP rule (unfair or deceptive acts or practices) that would impose a wide range of unwarranted new duties and restrictions on dealers. Keep in mind that this newly proposed UDAP rule is in addition to the Safeguards rule that is currently in place and all dealers nationwide must comply with it by Dec. 9, 2022.

This article is not meant to scare you or be doom and gloom, I will leave that to the attorneys; however, this article is intended to make you aware of the challenges that we must be prepared to fight as a strong collective group through WVADA. Let's start with the manufacturers and their incessant attempts of circumventing their dealer "partners." On June 10, 2022, our new franchise law, H.B. 4560, became effective. WVADA has sent a letter to every manufacturer that does

business in WV regarding reservation sales, subscriptions, and direct financing. We want to make sure every manufacturer is on notice and observing WV's new franchise law. In addition, WVADA has sent letters to Ford, Volkswagen, and Subaru this month, regarding the new COVP Name Match Policy, the recent announcement of the Scout new line make, and Subaru's Love Promise Pricing Pledge. Also, on behalf of our Lincoln dealers, WVADA filed a lawsuit against Ford Motor Company last week due to the 2020 and 2022 Lincoln Commitment Programs.

The WVADA Board voted unanimously to fund the Lincoln Suit. Unfortunately, this suit may be one of many that WVADA chooses to support and fund. This is an absolutely crucial time for dealers to support WVADA and the legal defense fund! There is no doubt that we are stronger as a unified collective body. I will keep everyone updated as this suit progresses.

Second, the FTC's safeguards rule is in effect and dealers MUST comply with this federal requirement by December 9 of this year. This rule creates significant technical and administrative compliance requirements for dealers and

*Continued on page 8*

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Your **franchise** is under attack **on all fronts**, franchise dealers **must continue** to show their value while **creating a unified front** through our **strong Association**.

*Continued from page 6*

others such as internal penetration testing, vulnerability assessments, data encryption, security awareness training, and the performance of written risk assessments. WVADA has and will continue to host webinars for dealers and their staff to assist with complying with this rule.

Apparently, the implementation of the Safeguards rule was not enough for the FTC and now they are at it again with a new UDAP rule. This proposed rule includes a prohibition on add-on charges that do not provide value to the customer, new record retention requirements for advertisements, training materials and marketing, and specific disclosure requirements for a vehicle's "offering price" and optional add-on products. However, the FTC fails to provide sufficient support to justify its sweeping set of proposed duties and restrictions.

"NADA is mounting a comprehensive and detailed response to the proposal, which will defend the highly competitive and pro-consumer benefits of the optional, dealer-assisted financing model, and show that, in fact, the FTC's proposal is likely to harm consumers," said Mike Alford, President of NADA.

The FTC has provided the public 60 days to respond to the

proposed rule after it is published in the Federal Register. NADA has requested an extension of time to file and submit an in-depth response to the FTC's proposal that will further educate the FTC on the array of consumer benefits provided by dealers and explain how the many flaws in the FTC's proposed rule will threaten those benefits.

Again, this article is not meant to scare or cast a gloom over our industry. Rather, I hope this article educates and inspires you to continue to be innovative and offer consumers second to none experiences. We must demonstrate to the OEMs and the FTC the important role that franchise dealers play. It is extremely important for you to be or continue to be involved with WVADA and NADA. Your franchise is under attack on all fronts, franchise dealers must continue to show their value while creating a unified front through our strong Association. WVADA vows to protect your investments and combat future uncertainties, but we must do it together.

It is a privilege serving as your President, and as always, do not hesitate to contact me if I can be of any assistance.

Sincerely,  
Jared



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# A Conversation with Incoming Chair, Charles Rashid



WVADA recently sat down with Incoming Chair Charles Rashid to get to know him a little bit better.

Charles Rashid currently has two dealerships, Charleston Mitsubishi and Clarksburg Mitsubishi. He is the dealer principal at Charleston, and his preferred job title is "entrepreneur."

Charles was born and grew up in Charleston, West Virginia. He earned a B.S. in marketing from West Virginia University but has said he still attends the school of hard knocks. He loves reading books and learning new things.

The following is a recap of our conversation:

#### **How did you get into the auto dealer industry?**

I had always dreamed of being in the car business, and in 2007 I could finally pull it off financially — I purchased Logan Chrysler Jeep Dodge Suzuki.

#### **Are you a first-generation dealer?**

Yes.

#### **Who have your main mentors been?**

My father, Richard, and my Uncle LeRoy have been the two most influential people in my business and personal life.

#### **What are the three most important lessons you've learned?**

1. Work hard and never ask someone to do something you aren't willing to do.
2. Keep your head up no matter how bad it gets, and NEVER give up!
3. If you give someone your word, keep it.

#### **What is your most important business success so far?**

I've been blessed with many businesses, but my most important success has been surviving the 2009 financial crisis and still being able to be in the car business after losing two dealerships to manufacturer bankruptcies.

#### **How did you become involved in WVADA?**

When I get into a new business, I like to learn everything there is to know about it, from attending meetings to working in every dealership department. Being on the board of WVADA is just a natural extension of knowing

what's going on in our industry, being tuned in and adding input when necessary.

**How long have you been involved?**

It has been 15 years.

**What do you want dealers to know about you?**

I love our state and creating business and opportunities from nothing. I enjoy teaching and helping others succeed.

**What are your plans as the incoming chair?**

I'd like to make a meaningful impact on the future of our industry.

**What do you think about the current direction of the industry?**

I believe we are in a time where we have the opportunity to reimagine the direction we are going and how it will look in the future.

**What are the most important trends, and how will they affect dealers?**

I am concerned about the direct-to-consumer model because I don't see how it will benefit our communities and customers. It all sounds great now, but I see some major pitfalls ahead.

**Please tell us about your family?**

My wife, Stacy, and I have been married for 21 years. We



have two daughters. Sofia is a junior at the University of Kentucky, and Charlie is a high school sophomore. Both daughters are accomplished equestrians.

We are a very close Lebanese family, and we treat our extended family as our nuclear family.

**What advice do you want the people who read this article to remember when they are done?**

If you want to fulfill your dreams, never give up. The road will be hard, but the effort is worth it in the end. ◀

# Save the Dates!

## MOTOR VEHICLE & TITLE REGISTRATION SEMINAR



### 6 Locations

**Tuesday, Nov. 1st  
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1500 Grand Central Ave  
Vienna, WV 26105

**Wednesday, Nov. 2nd  
CHARLESTON**  
Charleston Coliseum  
200 Civic Center Dr  
Charleston, WV 25301

**Thursday, Nov. 3rd  
BECKLEY**  
Beckley-Raleigh County  
Convention Center  
200 Armory Dr  
Beckley, WV 25801

**Monday, Nov. 14  
MARTINSBURG**  
Hilton Garden Inn  
65 Priority Dr  
Martinsburg, WV 25401

**Wednesday, Nov. 16  
WHEELING**  
Wheeling Country Club  
906 Oglebay Dr,  
Wheeling, WV 26003

**Thursday, Nov. 17  
BRIDGEPORT**  
Bridgeport Conference Center  
300 Conference Center Way  
Bridgeport, WV 26330

*WVADA will be sending out more information and registration forms within the next few weeks. If you have any questions, please contact Haley Justice at 304-343-4158.*



# The WVADA 88th Annual Dealer Family Convention

**T**he WVADA 88th Annual Dealer Family Convention took place from June 12 through the 15 at the Nemaocolin Woodland Resort thanks to our title sponsor, Capital Automotive. As we are almost back to normal, we had another great turnout for our convention.

To begin our convention, Congresswoman Carol Miller kicked off our Protective Welcome Reception by addressing our members. Our Monday kicked off with our informative Pullin, Fowler, Flanagan, Brown & Poe board meeting, followed by our Advanced

DMS & Federated Insurance business meeting with guest speakers Pete Thiel with Haig Partners and WVU Basketball Coach, Bob Huggins. The weather stayed perfect for us that day as our guests enjoyed the Huntington Bank golf scramble. The fun didn't stop there as we concluded our day with the Ally Pool Party with live music, food and a relaxed welcoming atmosphere.

Tuesday began with our Jackson Kelly and Tetrick and Bartlett Dealer PAC Breakfast with our special guest, Senate President Craig Blair. Following that meeting, was our Carsignment and Suttle & Stalnaker business meeting

where we had a fireside chat with NADA Chairman Mike Alford and NADA Paul Metrey, with Johnnie Brown as the moderator. Our attendees had the option to participate in the TrueCar Sporting Clay Shoot or the NADA Empower and Zurich, Pinot and Paint.

Our WVADA 88th Annual Dealer Family Convention ended on Tuesday night at our United Bank Chairman's Dinner, where we honored Roberta Olejasz. Roberta passed the gavel to our incoming Chair, Charles Rashid. Our night ended with a crowd on the dance floor and attendees enjoying the interactive Komax photo booth. ◀
















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## BY THE NUMBERS

# Dealership Values, Buy, Sell or Hold?

By Leon M. (Lonnie) Rogers, CPA/ABV/CFF, Tetrick & Bartlett, PLLC

**C**urrently, if you own a dealership, while it is possible to be marginally profitable or losing money, it is highly unlikely. Because of the recent profits, a growing number of dealers have decided to cash out of their dealerships while a like number of cash-flush investors are looking at dealerships as investments that provide the potential for excellent returns.

This “perfect storm” of the low supply of new vehicles coupled with high demand from consumers has created an unprecedented surge in values. The question many dealers are considering is “Is this the time to cash out, expand our footprint, or ride this current cycle until it reverts to a more “normal” level of activity?”

### **Some items for consideration in weighing your options follow:**

Not all franchises are created equal. The specific franchise you have or are considering will be a major value driver. Whether it is luxury, import, or domestic, specific franchises command a higher price than others. Franchises that are in high demand now will typically continue to be. Those franchises that are not as desirable will more likely than not, continue to be less desirable.

The status of your facilities will also impact the value. If your facilities are compliant with the manufacturer’s current requirements, the impact is neutral. If your facilities are outdated and/or non-compliant, the manufacturer will typically require the buyer to update them. These refreshes typically do not add significant value to the real estate and are incorporated into the purchase price as a reduction of either the real estate value or goodwill.

The current economic performance of your dealership is one of the key factors in determining the goodwill value of the transaction. Most buyers consider the income currently generated by the dealership as an indication of its future performance. There is a limit to the amount of reliance that will be placed on current (2020-2022) performance in determining what the purchase price will be since the current supply shortage will eventually become less of a factor for consumers. In addition, the demographics of your market and customer base will be impacted by rising interest rates, affordability, and inflation.

If you are a buyer, you need to consider these factors when estimating future cash flows and determining your offer to purchase.

If you are a seller there is no better time to market your dealership than now. Values are high and buyers currently have the cash to invest.

If you are “on the fence,” you should consider the future cash flow your store will provide you and your family. In addition, there are several non-cash benefits that you currently enjoy that will no longer be available if you sell. Finally, your time horizon of how long you wish to remain active and if you have a viable succession plan should be considered. There will always be a market for desirable franchises in good locations. ◀

*Leon M. (Lonnie) Rogers, CPA/ABV/CFF is the managing member of Tetrick & Bartlett, PLLC, and has been providing accounting, tax, valuation, and consulting services to automobile dealers since 1977. Tetrick & Bartlett, PLLC currently serves over 50 dealers in West Virginia, Virginia, Ohio, and Pennsylvania and is a member of the AutoCPA Group, a nationwide organization made up of 25 CPA firms specializing in services to automobile dealers. Lonnie can be reached at [lrogers@tb.cpa](mailto:lrogers@tb.cpa) or 304-624-5564.*



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COUNSELOR'S CORNER

# FTC Safeguards Rule – Prepare Now for the Coming Years

*By Johnnie E. Brown, Esq. Pullin, Fowler, Flanagan, Brown & Poe, PLLC*

It was wonderful to see everyone at the recent Annual Convention at the Nemaocolin Resort in Nemaocolin, Pennsylvania. Many positive things are occurring within the motor vehicle dealership industry. Our new franchise law came into effect on June 10 this year, and we achieved a significant legislative accomplishment with B&O tax relief on new cars. We also have seen the implementation of electronic titling at the West Virginia Division of Motor Vehicles, that continues to engage in a significant modernization to better serve the public and assist motor vehicle dealers. The Division of Motor Vehicles deserves praise for its efforts and willingness to work with our industry.

Although you may have received updates concerning the franchise law, I wish to reiterate the many significant positive changes. The West Virginia Auto Dealer Association has attached a brochure containing the new franchise law and

a summary of the significant changes. If you did not receive one at the Annual Convention or have not received one in the mail, please contact the Association, and they will forward it to you.

To mention a few, the new franchise law strengthens a dealer's ability to receive fair compensation for warranty service, provides warranty audit protections, addresses successorship issues, and details limitations with subscriptions, reservations, over-the-air updates and selling above manufacturer's suggested retail price. Know that your Association has worked extremely hard to give West Virginia one of the most comprehensive franchise laws in the country. On the other hand, our industry faces many challenges from the government and the manufacturers. I encourage you to consider the following items as we move into the second half of the year and prepare for the coming years.

Know that **your Association** has **worked** extremely **hard** to give **West Virginia** one of the **most comprehensive franchise laws in the country.**

### 1. FTC Safeguard Rule

As was mentioned at the annual meeting, the Federal Trade Commission implemented a revised and complex safeguard rule that dealers must comply with by Dec. 9, 2022. Since I have already provided a summary to you two articles ago, I will not reiterate that I strongly encourage you to contact a vendor of your choice to assist in preparing this required safeguard plan. Most of the requirements are technical and relate to the strength of your computer technology programs and how they protect the non-public information of buying consumers. We were provided the new NADA Driven guide on the FTC Safeguard Rules, and the author of this NADA Driven guide was ComplyAuto. ComplyAuto is a preferred provider of the West Virginia Auto Dealer Association. Please understand that this is not a program that a dealer can ignore or wait to complete, its requirements are too complex and detailed. It is strongly recommended you start now with proper guidance to complete your Safeguard Program. I suggest again reaching out to the vendor of your choice. The Association stands ready to assist you and provide guidance with this process. Last, please review your policy and program to ensure proper legal compliance.

### 2. Advertising

I encourage you to undertake a review of your advertising procedures and guidelines. Train the individuals responsible for your advertising on the legal

guidelines that apply to their efforts from both a federal and state level. The Federal Trade Commission is taking a more focused approach again motor vehicle dealers and has already fined many dealers over advertising practices and financing procedures. We have seen several enforcement actions recently, the most notable resulting in a \$10 million penalty against a dealership for advertising and financing violations.

### 3. F&I Compliance

Speaking of financing procedures, the week of June 27, 2022, the Federal Trade Commission published a proposed new rule entitled the “Motor Vehicle Dealer’s Trade Regulation Rule.” This 126-page rule is extremely detailed and will force requirements to control what products can be sold and how voluntary protection products are presented to the consumer. To briefly summarize some of the proposed changes in the 126-page rule, the FTC stated its intent to govern deceptive advertising claims and require the dealership to specifically advertise the cost of any add-on products or services, whether financing terms are for a lease, the availability of any discounts or rebates, the actual availability of the vehicles being advertised and whether a financing deal has been finalized. Initially, these proposed rules could impact the use of conditional delivery, or what we commonly refer to as a spot delivery. In addition, the FTC has begun to call some voluntary protection products worthless and will require those voluntary protection products to be offered separately from the price of the motor vehicle. The customer will have to take clear affirmative actions to purchase these products. It is now questionable if our normal procedures with product menus will be sufficient to satisfy this proposed FTC Rule. This Rule will require more documents to be presented to a customer to clarify these new requirements. Ironically, the FTC was critical of the complexity of vehicle purchase and the number of documents that need to be signed by a customer while requiring more paperwork.

It is important to note that the Commission approved this Notice by a four to one vote and that comments are being taken over the next sixty (60) days. If passed, the Commission will have created specific rules controlling actions in the finance office. If violated, even innocently, it will be deemed “deceptive” by the FTC and result in significant administrative penalties. Your Association will be taking steps to provide comments concerning these new proposed regulations and will follow the development of these rules.

### 4. Manufacturers

Manufacturers are certainly taking steps to challenge the franchise system. Dealers have faced recent open hostility by Ford Motor Company, via its CEO Jim Farley, on pricing practices. Furthermore, Ford Motor Company proposed new rules for motor vehicle dealers to sell

*Continued on page 22*

**Again, let me reiterate  
the urgency of  
complying with the new  
FTC Safeguards Rule.**

franchise law. I do not doubt that over the next five years, one of the greatest challenges West Virginia motor vehicle dealers — and all dealers across the country — will face is manufacturers attempting to change the franchise business model, one that has which has served the buying public for well over 100 years. Dealerships provide a pricing competition for consumers. A consumer can receive three competing offers from local dealers on virtually the same motor vehicle. This is the free market at its best. If a manufacturer can sell directly to a consumer, there will be no price negotiation and no pricing competition. A consumer must pay the price unilaterally set by the manufacturer. This will be a negative outcome for consumers.

Know that your West Virginia Automobile Dealer Association is taking significant steps to challenge manufacturers by placing them on notice of violating our West Virginia franchise law and their sales and service agreements. The Association will also continue to educate its members on these changes and is available to the motor vehicle dealer as you attempt to navigate this new environment.

Again, let me reiterate the urgency of complying with the new FTC Safeguards Rule. Please begin the process immediately and should you have any questions about the new safeguard rule requirements or other manufacturer programs or contracts, contact the Association so that we can assist. ◀

*Continued from page 21*

electric vehicles that violate a dealer’s franchise rights. Subaru has attempted to control what price a motor vehicle dealer can sell a motor vehicle through its “Love Promise Pricing Pledge.”

Recently, we learned about General Motors EV reservation requirements and Nissan’s over-the-air update contract that appears to run counter to our

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The program is being presented with financial assistance as a grant from the West Virginia Department of Health and Human Resources registered with the West Virginia Secretary of State's Office.

# Carvana Is Looking More Like Icarus

## How the Pandemic Darling May Have Flown Too Close to the Sun

By David W.R. Harkins, Senior Financial Analyst, Mercer Capital

Recently, Carvana has been in the news for all the wrong reasons. Its share price is down over 90% since its pandemic peak and currently sits below the low levels of March 2020.

This article provides an abbreviated history of Carvana from its founding in 2012 to 2022 and discusses what its successes and struggles mean for traditional auto dealerships.

### Where It All Began

The company was founded by Ernie Garcia III in 2012. Garcia sought to improve the vehicle buying experience for consumers. He attributed the idea partly to how cars are bought and sold at wholesale auctions. These auctions are key sources of supply for auto dealers, particularly used vehicle dealers with limited opportunities to acquire cars via trade-ins. Garcia noted it took dealers all of 30 seconds of seeing a vehicle to purchase it. His vision was to bring this ease of acquisition mainstream.

Prior to founding Carvana, Garcia began working at DriveTime Automotive Group in 2007, an auto giant owned by his father. This is where he got the idea of selling cars online, though it would take years for this idea to take off.

### What Makes Carvana Unique

Carvana has become known for its iconic car vending machines which debuted in late 2015. These worked as

a centralized location for customers to pick up vehicles, lowering delivery costs. It was also a novel concept with marketing benefits for the brand. Compared to a traditional dealership, going vertical reduced the upfront investment in real estate compared to large, expansive lots that are largely sitting empty in the current inventory shortage.

Another thing that makes Carvana stand out is its online-first presence. Carvana operates as an online platform to buy and sell used cars, but this option for consumers isn't new. The difference with Carvana is that the company acts as the dealership rather than taking a fee for simply listing the vehicles. The company also earns a substantial amount of its gross profit from financing rather than the actual sale of vehicles. Vehicle financing has increasingly become a key aspect of profitability for traditional dealerships as well.

While Carvana fixes the vehicles it purchases prior to reselling them, they don't provide after-sale services like repair and maintenance, a key driver of profitability for traditional dealerships.

### Scaling the Business

Carvana seeks to provide a uniform buying experience with price transparency, an oft-cited pain point with traditional auto sales for consumers. To achieve this, the company needed to significantly increase scale in order to be profitable.





Carvana's **strategy** was to use its **aggressive pricing** (selling cars at or below cost) to **create scale**. From there they could **increase prices** and reach **profitability**.

A few years after its founding, the company struggled to gain traction. It resorted to two tactics instrumental to the company's success. First, it subsidized consumers by selling vehicles at or sometimes below cost. This, of course, raised the company's sales from a volume perspective and contributed to significant growth. The company has for years sold a growth story like many other online companies. The thought process is that it can increase its prices once it achieves sufficient scale using its aggressive pricing strategy.

Carvana's second tactic was listing its inventory in numerous markets. While it had fewer cars to sell than its competitors, it began using virtual addresses in order to appear to have a presence in more markets than it actually did. Consumers surveying their options might go into a dealership if they know the brand they want but aren't sure about the model. Before Carvana, third-party listing sites were a better way to start the research process for consumers that were brand-agnostic.

Carvana's strategy enabled its vehicles to show up in more markets, and they subsidized the cost of shipping the vehicle once a sale was recorded. While this strategy was not sustainable from a profit perspective, the investment paid off and generated significant traction. The company's IPO in 2017 further increased its visibility, and its growth story and positioning as a "disruptor" captured public attention in an industry with room for improvement in the customer experience.

### Flying Too Close to the Sun

The company rode its growth story to a stock price of \$110 in February 2020. In less than a month, concerns around the COVID-19 pandemic led the stock price to decline 73% to \$29. Less than a week later, the stock was back to \$63 as the market, at large, sought to reprice all stocks based on uncertain expectations of the path forward.

By June 2020, the stock peaked again as the company was viewed as an early "winner" from the pandemic. Auto sales plummeted in March and April 2020 as dealers were thrust into the world of online sales as a means of survival. For Carvana, the forced shift to online played directly to their strengths.

Prior to the pandemic, the online market for purchasing vehicles was presumed to be relatively small. While online retail works great for certain products, large purchases like cars and mattresses were supposed to be impervious to the "Amazon-ification" of retail. There were two main reasons for this thesis: life cycle of the purchase and cost.

It has long been held that consumers spending large sums of money on products they intend to use for years want to touch and feel what they're buying to ensure they like it. The last thing you want to do is get a bad night's sleep on a bed the first night after you've just shelled out \$100s of dollars for

*Continued on page 26*

a new mattress. The same can be said for the style and feel of automobiles, which is why dealers keep so much inventory on the lots for consumers to test drive various options.

Consumer financing for cars can also be difficult to complete online. Having a dealer walk people through their options or direct them to more affordable options is beneficial to the dealer who still gets the sale and the consumer that needs help wading through the financing process. Carvana appeared to solve both of these problems with easy-to-use online financing tools and a 7-day test drive period. This was a plus compared to the traditional ~30 minutes a consumer spends with a vehicle prior to purchasing it from a dealership.

Before the end of 2020, it was clear that auto dealers (both traditional and online) were benefiting from the economic environment caused by the pandemic as sales bounced back and an increased reliance on technology and lower headcount, interest rates, and advertising led to lower costs. As the pandemic continued, auto dealerships saw heightened profitability, and Carvana's stock price soared to a high of \$370 in August 2021. Conditions were so strong that the growth-focused Carvana actually reported positive earnings per share in Q2 2021. This appeared as though it could be the turning point for the company. Maybe it was reaching the necessary scale to generate large profits in the future.

Unfortunately, the wind has been taken out of its sales as the macro environment has changed in 2022 with rising interest rates and now fears of a recession. At \$25 as of last Friday (July 22, 2022), the stock now sits lower than it did in the depths of the pandemic and is closer to where it traded in the first half of 2018.



It's fair to raise the question: "If the company couldn't make money in the most ideal of conditions for auto dealers (in addition to forced adoption of online retail), what is its ultimate path to sustained profitability?" While the company's innovative ideas generated plenty of traction with consumers, they did not lead to a moat for its operations. Stated plainly, other companies can copy Carvana's offerings, reducing or removing all of its competitive advantages from being the first-mover.

### Recent Struggles

Matching stock price declines, headlines about Carvana are becoming increasingly negative as its fairy tale ride may be coming to an end. Recently, the company has announced

Carvana's **core profitability lever** (financing) is seeing **demand cool.**

layoffs in order to preserve cash. However, a smaller staff may only exacerbate the back-end paperwork issues the company is currently facing. While the company downplays the pervasiveness of the issue, an article in Barron's (subscription may be required) chronicles consumers' struggles with registration delays and issuance of multiple temporary license plates from various states enabling it to sell vehicles for which it had not yet received the title. In many states in which the company does business, such sales are illegal. For these consumers, the relative ease of front-end purchase as compared to in-store dealerships may not be worth the back-end headaches as Carvana seeks to straighten out these issues. Long-term, Carvana is selling a better customer experience, which will extend beyond the initial purchase by getting all the necessary paperwork completed to be street legal.

Anecdotally, we had a colleague last week who spent the better part of a day at the DMV attempting to get his car registered after temporary plates could no longer be extended by law. While the DMV may have shared in some of the blame in this situation, he has yet to receive a title four months after purchase. Interestingly, there were about ten other people at the DMV with similar Carvana issues, though many of them were happy, loyal customers that raved about the front-end experience despite the back-end frustrations.

In addition to back-end issues, the company's core profitability lever (financing) is seeing demand cool. While Carvana is well-known for its vending machines and no-haggle pricing on its website, its earnings (or lack thereof) are more dependent on its financing. Instead of marking up

the vehicles, it sells to market levels, the company subsidizes lower purchase prices to scale and also makes money on the auto loans it originates. Rather than holding these on its balance sheet, the company packages or “securitizes” these loans and sells them to investors.

With near-zero interest rates and a strong economic environment, there was plenty of demand for the increased yield offered on these loans. However, with concerns about the financial strength of consumers and rising interest rates, there is less demand for the loans generated by Carvana. In the second quarter, Carvana didn’t sell a pool of non-prime loans. In previous quarters, it had securitized both prime and non-prime loans. The company is due to report “earnings” on August 4, and some analysts are pessimistic.

### Takeaways for Auto Dealers

Despite its issues, Carvana is the poster child for many consumer-centric shifts in the car buying space.

Consumers across the country now have numerous options to buy vehicles online, with extended test drive options becoming more available. Carvana’s decentralized approach and lower investment in real estate may also change the

level of investment needed for the dealership of the future, though one could argue the current inventory shortage situation may have pushed the industry in this direction even without Carvana.

The auto dealer industry will continue to rely on and require investments in technology, particularly technology centered around the online buying experience. Dealers unwilling or unable to make these investments may opt to divest their dealership while profits and values are at relative peaks.

The fortunate thing for dealers is their access to new and used vehicles, in addition to financing and servicing of vehicles, ultimately means there are numerous potential profit centers that provide downside protection through all economic cycles. Online retailers like Carvana are seeking to disrupt the industry, but their lack of new vehicles and service departments put them at a distinct disadvantage that even explosive growth may not be able to overcome.

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An aerial photograph of a river with a bridge crossing it. The river is a deep blue color, and the bridge is a light grey color. The surrounding landscape is a mix of green and brown, suggesting a natural, somewhat rugged environment.

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# Combating Catalytic Converter Theft



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

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

Another problem caused by catalytic converter theft is the damage when thieves cut the converters from the car. They are in a hurry and don't care about being precise, so they often damage the oxygen sensor and may take other parts of the exhaust system, such as the muffler. That means repairs after

the theft will often involve more than just replacing the catalytic converter itself. A stolen catalytic converter is usually worth \$500-\$600 to the thief, but replacing it costs the owner approximately \$3,500.

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

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

How do you make it harder to steal a catalytic converter? Vehicles stored outside are more vulnerable than vehicles inside a garage, so dealerships are attractive targets for thieves. One dealer installed a 7,000-volt security system around the dealership. He hasn't had any problems since then. However, one of his customers had seven trucks. Thieves took all seven converters. It took eight weeks for replacement parts to arrive; thieves took all seven converters again one short month later.

Experiences like that have made the second strategy more attractive (making it easier to trace stolen catalytic converters). In January 2022, Indiana Rep. Jim Baird introduced H.R. 6394, the Preventing Auto Recycling Theft (PART) Act, which NADA strongly

supports. The bill is intended to increase traceability and enforcement. A day later, Jan. 14, 2022, it was referred to the Subcommittee on Highways and Transit. It still has to pass the House and Senate, so it is a long way from being signed into law by the president.

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


Ideally, the grant takes care of the vehicles already on the road. The bill would also require new vehicles to stamp unique, traceable numbers on catalytic converters when vehicles are built to identify an individual converter. Purchasers would have to keep records of these numbers. Catalytic converter theft, sale, trafficking or purchase (if the buyer knows the converter was stolen) would be a federal crime. Someone convicted under this law could spend up to five years in jail.

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

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

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

# How To Prepare Today for the EV Customer of Tomorrow



Vehicles powered by electricity aren't a new thing. Some experts have said the first ones were developed as early as 1828-1832. A British inventor named Robert Anderson displayed another prototype in 1835 at an industry conference. In the late 1880s, a chemist named William Morrison fitted a carriage with a battery. The carriage could carry 12 people and travel about 20 mph.

When automobiles began replacing horse-drawn vehicles between 1880 and 1914, their power was provided in three different ways: steam (40%), electricity (38%) and gas (22%). Steam proved to be impractical. Drivers had to wait 45 minutes before they could start driving, and they needed to be refilled continuously with water. But even though Thomas Edison and Henry Ford worked on building an EV, gasoline won the three-way race. Gasoline had been discovered in Texas and was easier to provide to rural areas than

electricity, which tended to be limited to cities. Also, Henry Ford's assembly line proved itself as an efficient way to build gas-powered vehicles.

Until the 1970s, when the U.S. began experiencing high prices and shortages, gas-powered engines dominated the market. People wanted to be less dependent on imported oil, especially after the 1973 Arab Oil embargo. However, a limited driving range and slow top speeds were a problem. The Toyota Prius was released in Japan in 1997, then worldwide in 2000. Martin Eberhard and Marc Tarpenning (not Elon Musk) started Tesla Motors in 2003; Elon became the board chair in 2004 and the fourth CEO in 2008. The Nissan LEAF debuted in 2010. Lithium battery costs declined 97% between 1991 and the end of 2021.

Unsurprisingly, people have been predicting the advent of EVs for a long time. But the time of high expectations combined with a less-than-overwhelming market share is



**Dealers can expect to provide conventional auto services for at least another decade, but the balance in 10 years will still have shifted dramatically.**

Dealers can expect to provide conventional auto services for at least another decade, but the balance in 10 years will still have shifted dramatically. That's why dealers who want to continue selling vehicles will want to transition to selling EVs. Then they can position their dealerships for tomorrow's EV customers.

The good news is that you have time. But don't wait to get started; a lot of preparation will need to occur. What needs to happen?

First is training, education and infrastructure investment. You will want EV buyers to view your dealership as a place that has EV experts and offers them important resources, even though you will continue to service conventional gas-engine vehicles. It would be smart to hire an EV expert who can answer questions for customers. The expert should know as much as someone at any store using the direct-sales model, including knowing which benefits are available and which ones stack. Federal, state, local or utility incentives are all potentially available.

Talk to an electrician and the local electricity supplier; you will need more electricity and more electrical infrastructure, so find out what that means in specific terms. You may need new transformers and electrical equipment. Investing in charging stations is also a good idea, as well as thinking about what you need to do to provide service for EVs. Charging stations are expensive, but they will get used even if you only install one or two at a time. Put at least one in the service area. If a technician is working on an EV, the technician can charge the vehicle while it is being serviced. Little things make a big impact on customers. You may need to upgrade tools and machinery so that everything is compatible. That's a challenge, certainly, but be strategic

*Continued on page 32*

ending. Kristen Balasia, VP of Consulting Services at S&P Global, says choices among commercially available EVs have already grown exponentially. It now looks like the U.S. EV market will be much bigger by the decade's end and that the mainstream brands will be making about 90% of EVs by 2030.

The government is pushing EVs hard. The budget for national EV charging networks is \$5 billion. An executive order signed by President Biden mandates 100% zero-emissions vehicle acquisitions. The deadline for that is 2035. Many people want the entire U.S. to be carbon neutral by 2050.

How fast will the transition be? Most new car owners keep their vehicles for about six years because they want to keep up-to-date with the latest features, but in June 2021, the average length of ownership had extended to 11.9 years. That makes sense; the cost of a new vehicle is high, loans take years to repay, and it's a smart strategy to continue driving what you have until the need for repairs changes your mind.



Since EVs do **have to be charged**, you have the chance to **think through** their **needs**. Homeowners can **charge at home**. People who don't have easy **access to electricity** at home may want to **know where charging stations are**, especially at **restaurants** and **shopping** areas.

*Continued from page 31*

about it. Can you work out something with a fellow dealer who has the same problem?

Another issue is battery storage. You may need to store batteries in a separate room or another building. Batteries can start fires. Don't skimp on safety.

Technicians will need in-depth training. EV certifications will matter more and more over time; since most shops don't fix EVs, you can add a revenue stream if you can help your staff get the certifications they need now. You may lose business without those certifications. Your team can still work on vital components, fluids, brakes and tires. Eventually, you can add working on EV motors and replacing batteries.

Despite the expense, you don't have to do everything at once. Take the time to prioritize. Maximize the money you spend by choosing improvements carefully.

The direct-sales manufacturing companies have not invested in the service side as much as they probably should have. Although they might compensate by turning to a business strategy that combines competition with cooperation, neglecting service was a strategic mistake (and, therefore, your opportunity). EVs need less service than conventional vehicles because they have substantially fewer parts, but "less service" is not the same as "no service." You may eventually change your emphasis as a business, but customers will still need service, and there will still be money to be made.

All the preparation in the world won't help you if people don't know about it. How can you let them know?

One effective way is to attend National Drive Electric Week 2022, scheduled this year for Sept. 23 through Oct. 2, 2022. It is a collaboration between Plug In America, the Electric Vehicle Association, the Sierra Club and EVHybridNoire. The event has been around for more than a decade and is held in all 50 states. This year is the 12th year. The people who attend are thinking about buying EVs of all varieties. Organizers welcome dealers. There probably isn't a better way to find many potential customers in one spot. You have the chance to meet them and make a good impression on them. That's great advertising.

Now is also the time to start looking at customer profiles. Since EVs do have to be charged, you have the chance to think through their needs. Homeowners can charge at home. People who don't have easy access to electricity at home may want to know where charging stations are, especially at restaurants and shopping areas. Let them know where they can plug in their vehicle and then do something else while the battery charges. If someone has spent a lot of time in your battery shop, maybe you can talk to them about the new level of reliability that occurs when there aren't as many moving parts.

Stay ahead of the curve. The future will continue to be good for dealers who are ready for it. ◀



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In early July, a 50% scaled replica of the Tomb of the Unknown Soldier was on display at Dutch Miller of Ripley. This was West Virginia’s first time hosting the tribute.



**Miss West Virginia Organization Partners with Dutch Miller Auto Group**

The Miss West Virginia Organization, a state preliminary to the Miss America Organization (one of the largest scholarship organizations for young women across the country, allowing young women to further their education), has partnered with the Dutch Miller Auto Group of Huntington, WV. This group graciously sponsored a car for the newly crowned Miss West Virginia 2022, Elizabeth Lynch, and also awarded the organization a \$10,000 scholarship.

The Dutch Miller Auto Group sponsorship will assist Miss Lynch as she travels throughout the state during her tenure as Miss West Virginia, advocating her platform “Growing Up Growing Ag,” which promotes American farms and farmers’ markets and bridges the gap between producers and consumers. Miss Lynch will also help educate on agricultural careers and remind American consumers to “always thank a farmer.”

Miss Lynch graduated from Delaware State University with a Bachelor’s of Science and recently completed her Master’s Degree in Animal and Poultry Science from West Virginia University. After her year of service as Miss West Virginia, she will attend the doctoral program at Texas Tech. It is through scholarships and sponsors – like Chris Miller at the Dutch Miller Auto Group – that assist Miss Lynch and her peers to obtain their college goals debt free.



Dutch Miller Kia recently participated in “Bowl for Kids’ Sake” by Big Brothers Big Sisters of the Tri-State was so much fun! Thank you for having us!

# Thornhill



Potomac Highlands Soccer League stopped by to collect Timbrook Ford's sponsorship check. Best of luck this season, kids!



Thornhill Ford Lincoln was pleased to host a groundbreaking event, kicking off the construction of broadband internet access in surrounding Logan and Mingo Counties. U.S. Sen. Shelley Moore Capito along with AEP, GigaBeam, and many representatives from around West Virginia were all in attendance. We were very excited to host such an amazing event and look forward to the bright future of southern West Virginia.



It was a great day at the Polish Pines Golf Course. Derek was ecstatic to receive the 2022 corporate sponsorship donation for the 4th Annual KHS Football Golf Tournament. Best of luck this season KHS!



Wally Thornhill of Thornhill Automotive Group made a major donation of \$50,000 to Southern WV Community & Technical College to help with their technical programs on the Williamson campus.

The award was announced at Early College Academy Recognition Banquet. Thornhill is shown with President Dr. Pamela Alderman and Dr. David Lemmon, Dean of Professional and Technical Studies.



Timbrook Chevrolet is happy to sponsor the Keyser High School Lady Tornado Volleyball team!

*Continued on page 36*

# HARRY GREEN 7 ACRES



A 2010 Honda Civic Coupe donated by Harry Green was raffled off by The Knights of Columbus members of All Saints Parrish Father Carroll Council #16494 for local charities.

The raffle was held at Harry Green Chevrolet Nissan. More than \$7,000 in ticket sales were raised and all of the proceeds will support 1,000 children within six local non-profits.

Congratulations to Marlee and Eugene Cross for winning the raffled car!



## Louis Thomas Subaru



Louis Thomas Subaru donated \$29,560 to the local Salvation Army. This generous gift wouldn't be possible without the continued love and support of loyal customers. Thank you for helping making a difference in our community.



The first ever Hummer EV in West Virginia was recently delivered to Matheny Motors! This was a history-making event. It has already been handed over to a thrilled customer.



Buckhannon Toyota topped off donations to the countywide backpack program with a \$3,000 donation. Distribution begins Aug. 8!

# McCLINTON



McClinton Chevrolet held its 10th Annual Car Show on June 12. The event was a huge success with many participants, community partners, and amazing staff who worked tirelessly to organize this event.

Canned food donations were gathered at the event and delivered to the Children's Home Society of WV – Parkersburg Site. In total, \$2,500 was raised for this wonderful organization. Thank you to Lisa Weaver and her team for helping with the delivery – the Chevrolet Sales Manager, Mike Beckett, was happy to deliver the check. ◀

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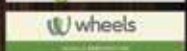
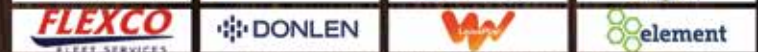
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