



NEWS AND INFORMATION FOR AND ABOUT FRANCHISED NEW CAR DEALERS IN THE WASHINGTON AREA

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BUYING BINGE!

A Sizzling Summer for Auto Sales

NADA, J.D. Power Raise Projections for 2002 Sales to 16.8 Million

It may be the dog days of August, but the hot news from the auto industry is a breath of fresh air. Despite the weak economy, struggling stock market and weak job market, zero percent financing and cash rebates sent auto buyers into what the Wall Street Journal called a “buying binge” last month – and August is looking just as strong.

Cars and light trucks sold at a remarkable annualized pace of 18.1 million vehicles, up from annualized sales of about 16.5 million in July 2001. This prompted NADA to raise its 2002 projections for vehicle

sales from 16.3 to 16.8 million units, or 2.4 percent. That would make this year the fourth best ever. Last year, 17.2 million cars and light trucks were sold in the U.S., after a record 17.4 million in 2000.

J.D. Power & Associates, based on retail sales data from the first two weeks of the month, projected that total new light-vehicle sales in August would reach 1.69 million for

(See Auto Sales, page 2)

Americans Love Their Cars

Studies Show Higher Customer Satisfaction Helping Drive Sales

Also fueling the buying binge is rising customer satisfaction, according to two major studies showing that consumers are more satisfied with their autos than they are with most other major products.

In the latest installment of the American Customer Satisfaction Index, conducted during the second quarter and released last week, by the University of Michigan Business School, consumers gave the auto industry a score of 80 out of a possible score of 100. That far exceeded the average score for all categories and was eclipsed only by home appliances, at 82, The Wall Street Journal reported.

A J.D. Power & Associates' study released last week backs up the latest Michigan findings. "We see satisfaction in the automobile industry to be at very, very high levels compared to other industries," Brian Waters, director of product research, told the Journal.

The heated incentive war among automakers is warming customers' feelings toward the process of buying a new vehicle, according to the J.D. Power's study. "It's the first time in a long time that price has such an impact," said Steve Witten, senior director for project operations. Even brands not running specials were, on average, giving discounts," Witten said.

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LAST CHANCE!

**Flu Shot Program
Deadline, Aug. 30
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Auto Sales

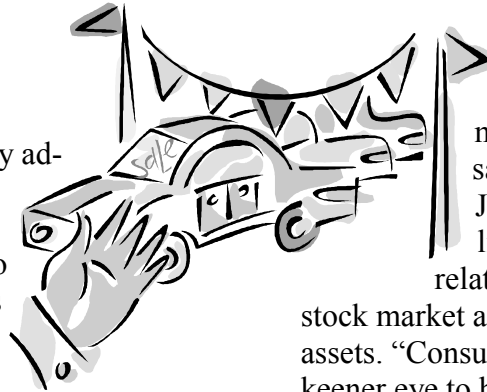
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an 18.4 million-unit seasonally adjusted annualized rate. As a result, Power also revised its 2002 calendar-year forecast to 16.8 million units, up from its previous forecast of 16.5 million units.

"As surprising as an 18.4 million-unit SAAR may seem, we're actually basing that on a fairly conservative assessment," said Walter McManus, executive director of global forecasting at J.D. Power and Associates. "We would not be surprised if the numbers at the end of the month actually come in a bit stronger."

NADA Chief Economist Paul Taylor said, "People are unsettled (about the economy) but confidence hasn't really been shaken in any really dramatic way." He pointed out that interest-free financing offered by automakers boosted sales by 100,000 vehicles in July, to 1.52 million new cars and light trucks, for an annual sales rate of 18.1 million, the highest since October.

Taylor expects the financing incentives to stay strong through November, which he said would be significant in helping maintain sales of new car models as they become plentiful on



dealer lots.

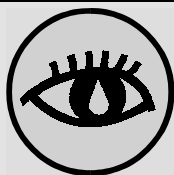
Incentives have also increased the sales in the luxury vehicle market. Taylor said luxury car sales were up 1.5 percent through July. He also noted that luxury light vehicle sales have an obvious relationship to the strength of the stock market as it impacts household average net assets. "Consumers continue to shop, but with a keener eye to bargains," said Taylor.

Satisfaction

(continued from page 1)



The study also showed that speed of completing the transaction was another important factor in enhancing customer satisfaction. Offers of zero-percent and low-interest financing resulted in more customers choosing to finance their vehicles and fewer choosing to lease, the study found. The study, performed in January and February, is based on more than 39,000 responses from buyers and lessees of new 2001 and 2002 model cars and light trucks.



Eye on F&I

F&I is a critical source of revenue and helps dealers build long-term customer relations. But it has come under more and more media and legal scrutiny of late. Recently, class-action lawsuits have been launched against automaker captives and dealers over alleged unfair and deceptive trade practices, as well as racial discrimination.

"There's probably more litigation in this area of the dealership than any other," says NADA Chairman H. Carter Myers, III. And a flurry of media stories has caught the attention of state attorneys general, who are eyeing further regulation.

So where does all this leave dealers? For one thing, "the dealer has to be more involved in everything, more hands-on," Alice Clayton, co-owner, Dilfer Chrysler/Dodge/Jeep, Porterville, CA., told NADA's *AutoExec Magazine*. And for good reason: With F&I and service contracts being 22 percent of new and used car gross last year, according to NADA, this profit center is key.

One study also found that training in proper-disclosure F&I raises not only customer satisfaction but gross and penetration. (See "F&I Menu", page 3, for helpful insight.)

NADA MONTHLY DEALER OPERATIONS COMMENTARY:

F&I Menu Presentation

F&I departments offer a variety of *optional* products and services that are completely separate from vehicle financing. Such products may include, for example, service and maintenance agreements and insurance programs. There are a variety of methods to ensure consistent presentation and pricing of these optional F&I products to each and every customer. Each dealer must make an individual choice, consistent with applicable laws, of the method of presentation. A trend that is currently popular among some dealers and consultants involves a menu-based approach to presenting such non-finance F&I products and services.

Menu presentation is intended to introduce the products and services in a methodical, comprehensive manner, with consistent description and pricing of the products for all customers. A carefully and thoughtfully prepared F&I product menu, when combined with appropriate personnel training, can reduce the chances of misleading product presentation, because it imposes discipline on the selling process.

Although menu presentation methods vary, the general idea is to describe each product or service separately, following a printed "menu," and to state a price for each product. The customer may then make a well-informed decision about which products to purchase—and order from the menu.

Dealers and F&I managers must understand, though, that F&I menus do not automatically assure legal and ethical compliance. Failure to exercise proper care in preparing the menu and training those who present it can result in significant liability exposure.

Accordingly, any dealership interested in employing a menu-based approach to F&I sales should consult with an attorney who is knowledgeable about the various consumer protection and finance-related laws applicable to F&I products. Although business advisors can be helpful, dealers should not rely solely on their assurances that a particular menu approach is legally sound.

Dealers should consider the following when adopting menu presentation:

- The menu and related oral presentation must not be unfair or deceptive to the consumer. (Your attorney can help you with application of these legal terms under your state law and federal law.)
- The description of products on the menu must be accurate and provide sufficient information for the customer to make an informed choice.
- The customer must be informed that he or she has the ability to purchase each product separately, even if you also offer packages.
- The price of each product must be separately and individually listed; merely listing the total monthly payment or package pricing is insufficient.
- The sale or financing of a vehicle is not contingent upon the purchase of any F&I products. To suggest in any way such a contingency would likely result in a Truth-In-Lending Act violation, and be considered a deceptive practice.
- Legal counsel should review all forms and waiver statements for compliance with all applicable state and federal laws and regulations.

The impact of F&I on both your customer and your bottom line requires that F&I managers and staff act with the highest level of integrity. The above was excerpted from NADA Management Bulletin SL.34, *F&I 101: Selling to All Customers*. You can order the bulletin from the National Automobile Dealers Association (NADA) by calling 800-252-6232, ext.2, or 703-821-7227. The cost is \$2.50 for NADA members and \$5.00 for non-members, plus shipping.

LAST CHANCE!**Aug. 30 Deadline for Flu Shot Program**

In order for vaccine supply to meet demand for this year's on-site dealership flu shots, Mobile Screening Authority (MSA), is urging **dealerships interested in providing these services to their employees to sign up by August 30!** MSA also provides health screenings, wellness programs, diabetes-screening and health education seminars for employees and customers.

For more information on pricing, distribution and scheduling, or to sign up now for this fall's flu shot program and other MSA services, dealers should contact George Palmer, executive vice president of MSA, at (301) 931-8060, extension 3; or e-mail him at gpalmer@mobilescreening.com. Additional information also is available on the company's web site at www.mobilescreening.com.

**Dealers Beware: Odometer Fraud Still Rampant**

Despite repeated attempts to eliminate this nagging industry problem, a new report by NHTSA says that there are still 452,000 cases annually of odometer fraud, costing owners more than \$1.1 billion. The study found the practice is most common with fairly new vehicles that accumulate significant mileage in a short period, such as rental and company cars and leased vehicles. Consumers pay an average of \$2,336 more than they should for vehicles with fraudulent mileage totals.

"You can take a two-year-old car with 20,000 miles on it, roll it back to 2,000, and you just made \$4,000," Richard Morse, chief of NHTSA's odometer fraud program, told the Associated Press. "That's without doing anything else to it. You don't even have to wash it."

Newer cars usually have digital odometers, but Morse said it only takes a laptop computer and equipment readily available on the Internet to change the mileage. He said odometer fraud is most often committed by wholesalers who buy fleets of used vehicles and *sell them to dealers*.

Toyota Prius Gas-Electric Car Qualifies For Tax Break

Toyota's Prius car qualified for a \$2,000 U.S. tax deduction, the first gasoline-electric vehicle to be certified under a program to encourage sales of low-pollution cars and trucks. Buyers of new 2001, 2002 and 2003 models can claim the deduction for the year when the car first was put to use, the Internal Revenue Service said in a statement. The IRS said in May that it would expand the deduction to the so-called hybrid cars and trucks from electric vehicles. Three hybrid models are currently on sale in the U.S. They are: the Prius sedan, the Honda Insight two-seater and a version of the Honda Civic sedan.

Staying Ahead...

Finance is the art of passing money from hand to hand until it finally disappears.

—Robert W. Sarnoff

Enclosure:

Universal Underwriters Loss Prevention: Wet Cell Batteries— What Your Employees Don't Know Can Hurt Them