

# Automotive News

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## Countering Chevy's Silverado surge

Retooled Ford, refocused Ram threaten to retake share



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DETROIT — Chevrolet last year made its biggest market share gain in the full-size pickup segment in more than a decade. But for 2016, big questions loom over one of the industry's most lucrative categories.

How will Ford respond with production finally at full throttle after lengthy plant changeovers for its aluminum-bodied F-150? And what does Fiat Chrysler's re-

doubled focus on the truck business mean for Ram's plan to attack the pickup market?

Chevy's Silverado grabbed market share in 2015 at the expense of every major rival in the segment. It gained 1.9 percentage points, to 27.5 percent, while the F series lost 0.8 points, dropping to 35.7 percent, with Ford short-handed as it took several months to prep two assembly plants for the F-150's groundbreaking switch to aluminum. The Ram and the Toyota Tundra

ceded market share, too, while the GMC Sierra slipped 0.1 percentage point.

Last year also was the first time in six years that combined Silverado and Sierra sales topped volume of the F series.

"We've got a lot of momentum," Brian Sweeney, U.S. vice president of Chevrolet, said in an interview last month.

The latest quarterly results

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2016 Silverado



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# SUNSET FOR SCION

### Toyota's youth brand fulfilled its purpose, if not its potential

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**S**cion's original idea was elegantly simple: Take affordable, efficient, quirky cars from Toyota's global lineup and re-badge them for the United States. Wind them up and aim them at the finicky young buyers who wouldn't be caught dead in Dad's Corolla.

It was an experiment Toyota seemed ready to jettison at any time if things got hairy.

"This is the classroom for us," said Jim Press, then COO of Toyota Motor Sales U.S.A., introducing the newborn brand's two concept cars at the 2002 New York auto show. "We're listening. Are we going to make mistakes? You bet we are."

Fourteen years later, those mistakes led Toyota to finally shutter Scion. But within the failed experiment are crucial successes

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## Cash for Nissan's preferred dealers

Factory quietly supports facilities, other costs

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In its drive to grab more U.S. market share, Nissan North America is quietly forming alliances with selected dealers who get favorable treatment, and sometimes millions of dollars, from the company.

One so-called preferred dealer is Bernie Moreno, who has acquired two Nissan and three Infiniti stores in Ohio in the past six years. To help him ramp up and expand, Nissan promised to give him as much as \$6.6 million, according to court documents from a case related to an open Infiniti point awarded to Moreno in Coral Gables, Fla.

For the Coral Gables location, Nissan agreed to give Moreno as much as \$4.4 million — \$200,000 when the dealership opens and an additional \$120,000 per quarter for up to seven years — if sales goals are achieved, according to a 2014 agreement signed by Moreno and Nissan. He is also supposed to get \$1 million for store improvements — about twice the amount Nissan normally provides, according to court documents.

In exchange, Moreno promises dramatic performance. He aims to sell more than 2,100 Infinitis the first year the store is open, which



**Moreno: "I accepted what they offered."**

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## NISSAN

### Retailer sees no advantage from aid

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would be more than almost any other Infiniti dealership, according to the court documents.

Moreno is not alone. In the Coral Gables case, a Nissan executive testified the company has given other dealers — whom he did not name — even richer packages than Moreno's.

David Reuter, a Nissan North America spokesman, said the automaker sees strengthening its retail networks and helping dealers expand as a "real opportunity," although he declined to elaborate about any specific efforts or dealers, including Moreno.

"When we see an opportunity, we are going to help the dealer to be successful," he said. "We will help any dealer that comes to us and says, 'We could be more successful. Will you help us do that?'"

In some markets, he noted, Nissan is seen as "perennially the third Japanese brand" and is working hard to strengthen the allure of its marques. "We have some metro markets where we have opportunities to do better," he said.

The Coral Gables court case centers on a protest over the awarding of the point to Moreno. It was filed by the owners of Miami-area South Motors Infiniti, who also expressed interest in the location and whose territory once included Coral Gables. Moreno prevailed, and the other side is weighing an appeal.

#### Substantial sums

That case and interviews with dealers make clear that Nissan's support can include substantial sums of money. Typically it is offered to ambitious, growth-oriented dealers to offset the cost of opening new stores, acquiring prime real estate and constructing plush dealerships.

In Nissan's view, the arrival of a new, financially backed dealer doesn't hurt neighboring stores but rather lifts sales for all Nissan or Infiniti retailers in the area, according to testimony by company representatives in the Coral Gables case.

Jeff Rosen, 2015 chairman of the Nissan National Dealer Advisory Board, said he does

#### Payment plan

For a new open Infiniti point in Coral Gables, Fla., Nissan North America agreed to the following payments to dealer Bernie Moreno. Most annual totals are paid out quarterly.

	TOTAL ANNUAL PAYMENT	REQUIRED SALES EFFECTIVENESS* LEVEL
Year 1	\$560,000	None
Year 2	\$1,480,000**	None
Year 3	\$480,000	70%
Year 4	\$480,000	80%
Year 5	\$480,000	90%
Year 6	\$480,000	100%
Year 7	\$480,000	100%

\*A performance metric that compares a dealer's actual sales with a factory-set target; 100% meets the target while an outperforming store could be at 150%.

\*\*Includes \$1 million for store improvements

Source: Documents filed in case before the Florida Division of Administrative Hearings

not know of Nissan having any favored dealers. He said Nissan executives are looking for "good, engaged dealers, and if they have that, they believe they can move the bar."

The preferred dealer concept is part of Nissan's strategy to increase the U.S. market share of the automaker's Nissan and Infiniti brands to 10 percent by the end of March 2017. The company's share was 8.5 percent in 2015.

That drive to grow has involved stair-step incentives and aggressive sales targets that have put Nissan at odds with some dealers, especially those who have smaller lots and lack the means or stomach to invest millions of dollars. Some have surrendered their franchises; others have faced termination notices from the manufacturer, numerous dealers report.

To replace the old guard, Nissan has looked to partner with new dealer principals who are true believers in Nissan and Infiniti products, have a knack for driving volume and are eager to beat key rivals Toyota, Honda, Audi, Lexus, BMW and Mercedes-Benz, according to dealers, company executives and court documents.

#### 'Long-term plan'

Nissan's "long-term plan is to have designated dealers in markets who have three, four or five stores," said Mark Johnson, president

of advisory firm MD Johnson Inc. in Seattle, who has worked on multiple Nissan buy-sell deals.

He said, "That is a significant holding to that dealer, so that dealer will give 100 percent to being a Nissan dealer."

Nissan sees these dealers as "investors" more than preferred dealers, Moreno said.

In an interview, he said Nissan's assistance helps cover his investment costs but gives him no advantage over other same-brand dealers.

In 2012, for example, he bought a Nissan store in Ohio, paying about \$4 million in goodwill, and a nearby Infiniti store, with blue sky of about \$550,000. He then built gleaming new homes for them near Cleveland's airport.

Nissan agreed to give him \$3.75 million over five years for the Nissan store and \$650,000 for the Infiniti dealership. The money "was a fraction of what it takes for me to even be close to competitive in costs" because of his acquisition, relocation and facilities expenses, Moreno said.

The decision to back Moreno is paying off for Nissan. Airport Nissan of Cleveland usually leads its region in sales, selling about 130 new vehicles a month, nosing ahead of another store, Nissan of North Olmsted, 7.6 miles away, according to dealers with access to Nissan's sales reporting system.

Likewise, Moreno testified in the Coral Gables case that he was paying more than \$115,000 a month to hold real estate for that Florida store, to be on the ground floor of the opulent Bacardi USA headquarters. Remote service and inventory locations add to costs, as will the coffee bar and nail salon that Moreno wants to offer the area's well-heeled customers.

Nissan "should have offered much more" than the \$4.4 million package he received for the new Infiniti store, he said. "I accepted what they offered."

#### Confidentiality

One key to the agreements is confidentiality, which keeps other dealers from learning of them, Jeffrey Harris, an Infiniti USA regional vice president, testified in the Coral Gables case.

"I can't have an Infiniti dealer go to an Infiniti dealer meeting and ... say, 'I got \$2 million out of Infiniti,'" Harris said, according to a transcript from the case.

In addition to financial help, favored deal-

ers get access to Nissan executives and sometimes waivers that allow them to own adjacent stores in a market. Moreno, one of the few dealers publicly identified, was given clearance to own all three Infiniti stores in the Cleveland market, for example.

Nissan's "investor" dealers also get opportunities to acquire additional franchises, especially coveted open locations, documents from the Coral Gables case show.

Dealer Vince Sheehy has six Nissan stores and three Infiniti stores in Maryland and Virginia and was awarded an open point in White Marsh, Md., which opened in November. Two of his Infiniti stores' territories are contiguous.

"I would think we're well-regarded, but I can't speak to Nissan's consolidation efforts," Sheehy said. "Nissan's philosophy is growth with good dealers, so I think they would like us to continue to grow with them."

Carl Leckner was a general manager at the Sheehy Group until he acquired one Nissan store in Virginia in June and a second in Maryland in December.

He hopes to add "a couple" this year. Asked whether Nissan helped finance the purchase of his stores, Leckner said, "That's not something I'm going to discuss."

His business is booming, though. His Virginia store now sells about 100 new vehicles a month, up from around 40 before he took over. "It's a great time to be a Nissan dealer," Leckner said. "Nissan is a great partner."

Several dealers suggested Terry Taylor is in the preferred category and is likely working closely with Nissan to grow. Taylor's Automotive Management Services Inc. owns more than 100 dealerships and Nissan has described him as one of the largest private holders of Nissan and Infiniti stores.

#### 'Shares the vision'

At the Detroit auto show in January, Nissan North America Chairman Jose Munoz said Taylor "shares the vision with us" and noted he "continues to invest."

Taylor did not respond to calls for comment.

Ed Napleton sold a Nissan store in West Palm Beach, Fla., in the third quarter of last year. He declined to discuss details of the sale, citing a confidentiality agreement. But Napleton told *Automotive News*, "I was not a favored a dealer and I sold it to Terry Taylor." **AN**

## PICKUPS

### Analyst: Market is primed for incentive competition

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from General Motors and Ford underscore just how critical pickups remain to the bottom lines of the domestic automakers. Each topped \$10 billion in pretax profit last year, with GM last week reporting pretax operating profit of \$10.8 billion for 2015, its best year since before the 2009 bankruptcy.

For both companies, profits were driven by healthy pickup sales and record transaction prices, as truck buyers continue to show an insatiable appetite for pricey features and add-ons. With car sales sagging and talk of a U.S. sales peak or plateau, analysts say none of the Detroit 3 will cede pickup market share this year without a fight.

GM is looking to keep its momentum on several fronts. Recently launched freshenings of the Silverado and Sierra — just two-and-a-half years after the redesigned pickups debuted — sport a more modern look. Chevy launched a yearlong stair-step incentive program that will pay as much as \$1,000 per Silverado sale to qualifying dealers. It even has a new commercial tweaking Ford, in which pickup drivers are asked to choose between a Silverado with 4G LTE Internet connection and an F-150 — sans Internet — hitched to a wood-paneled trailer equipped with a fax machine.

#### Truck tussle

The Chevrolet Silverado was the lone U.S. market-share gainer among full-size pickups last year.

	2015	2014	2013
<b>Chevy Silverado</b>	27.5%	25.6%	25.1%
<b>Ford F series</b>	35.7%	36.5%	39.9%
<b>GMC Sierra</b>	10.2%	10.3%	9.6%
<b>Nissan Titan</b>	0.6%	0.6%	0.8%
<b>Ram</b>	20.6%	21.3%	18.6%
<b>Toyota Tundra</b>	5.4%	5.7%	5.9%

Source: Automotive News Data Center

But some market watchers suspect Chevy's recent run has poked the bear. With launch constraints resolved, F-150 sales already were bouncing back in the fourth quarter. (F-series market share was 36.6 percent in the quarter, the highest since the launch of the redesign.) And that was without opening the incentive spigot — Ford spent about \$3,500 in incentives per F-series pickup in the fourth quarter vs. an industry average of about \$4,100, according to TrueCar.com.

"We think we're going to have a really strong February and [are] looking forward to the spring selling season," Ford U.S. sales chief Mark LaNeve said last week. "Dealers are very excited about being able to stock a lot of the cab types that they haven't really had for a year."

Ford had constraints for a good part of last

year on some regular-cab models as well as SuperCabs with 8-foot-long beds.

Susquehanna Financial Group analyst Matthew Stover estimates that Ford boosted its pickup capacity 7 to 10 percent when it retooled its plants for the redesign by moving to a more flexible shift schedule. And it expanded F-series production capacity by adding Super Duty chassis cab production last month at its Avon Lake, Ohio, truck plant. Ford, Stover says, "is positioned to gain share this year."

The analyst believes the full-size pickup market is primed for more-intense incentive activity in coming months, with Ford production at full throttle and with FCA's proclamation last month that it's doubling down on truck sales to drive growth.

FCA's Ram brand is fighting back. It's offering a variety of financing and leasing deals, including \$2,500 cash back along with 0 percent interest for five years, or 84-month financing at 2.9 percent. The deals are advertised on the [ramtrucks.com](http://ramtrucks.com) website and vary by region, with some straight rebate offers of as much as \$5,000 on specific Ram pickups.

Ram is also offering \$1,000 incentives on pickups outfitted with its more fuel-efficient V-6 engine. Dealers were offered an extra dealer cash objective-based incentive of \$1,000 on Ram 1500 crew cabs that doesn't show up on the brand's consumer website but that adds to a dealer's flexibility to win sales. A Ram spokesman declined to com-

ment on incentives.

Late last year, incentives heated up after relative restraint amid Ford's capacity crunch. Full-size pickup incentives averaged around \$4,100 in the fourth quarter, up 17 percent from about \$3,500 the year earlier, according to research from TrueCar.com.

For now, executives are vowing discipline. GM CFO Chuck Stevens told analysts last week that he doesn't foresee the threat of weaker pickup pricing this year. He says GM won't offer big incentives in part because it has relatively lean inventories.

"I think we will be erring on maintaining share and maintaining profitability, as opposed to chasing incremental share in 2016," Stevens said.

In recent months, Chevy has run "15 percent off" sales on some inventory, a simple marketing message that has resonated with customers, says Dug Dugger, general manager of Ourisman Rockmont Chevrolet in Rockville, Md. He said the new Silverado stair-step has helped motivate sales staffers, too.

Meanwhile, the new face on the '16 Silverado, with its more-muscular hood and LED headlights, has motivated some buyers. Dugger says some customers have traded in their 2-year-old Silverados to get the freshened ones.

Dugger said: "They'll say 'I don't care. I just like those new lights.'" **AN**

Nick Bunkley and Larry P. Vellequette contributed to this report.