

# Automotive News

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## A 'fighting chance' for Fiat dealers

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**D**ETROIT — Steven Wolf belongs to a fairly exclusive club — a Fiat dealer in the U.S. who has consistently made money on the struggling Italian brand.

But even Wolf's faith has been badly shaken as Fiat sales have plunged. Late last year he postponed a plan to build a \$500,000 Fiat showroom on his 15-acre multifranchise campus in Houston — at least until he knew Fiat Chrysler's strategy for the brand.

Wolf was one of 200 or so Fiat dealers

Kuniskis' plan to fix the brand has retailer backing

who flew to Detroit last week to be briefed on that strategy, and he was apprehensive about what he might hear.

Other dealers were, too. Some feared that the franchise — in which they had invested millions — would be opened up to the rest of the FCA US network. A revolt appeared to be brewing.

But by the time Wolf boarded a plane back to Houston after the meeting at an airport hotel, his doubts were swept away.

"I'm going ahead [with the showroom] now," he said the next day. "I called the

general contractor on the way home and said 'Let's do it.'"

During the two-hour session with dealers on Wednesday, March 9, Tim Kuniskis, head of passenger car brands for FCA North America, said the automaker would dramatically alter the way it supports its 206 U.S. Fiat dealerships.

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**Kuniskis: "I'm opening the door."**

### INSIDE TODAY



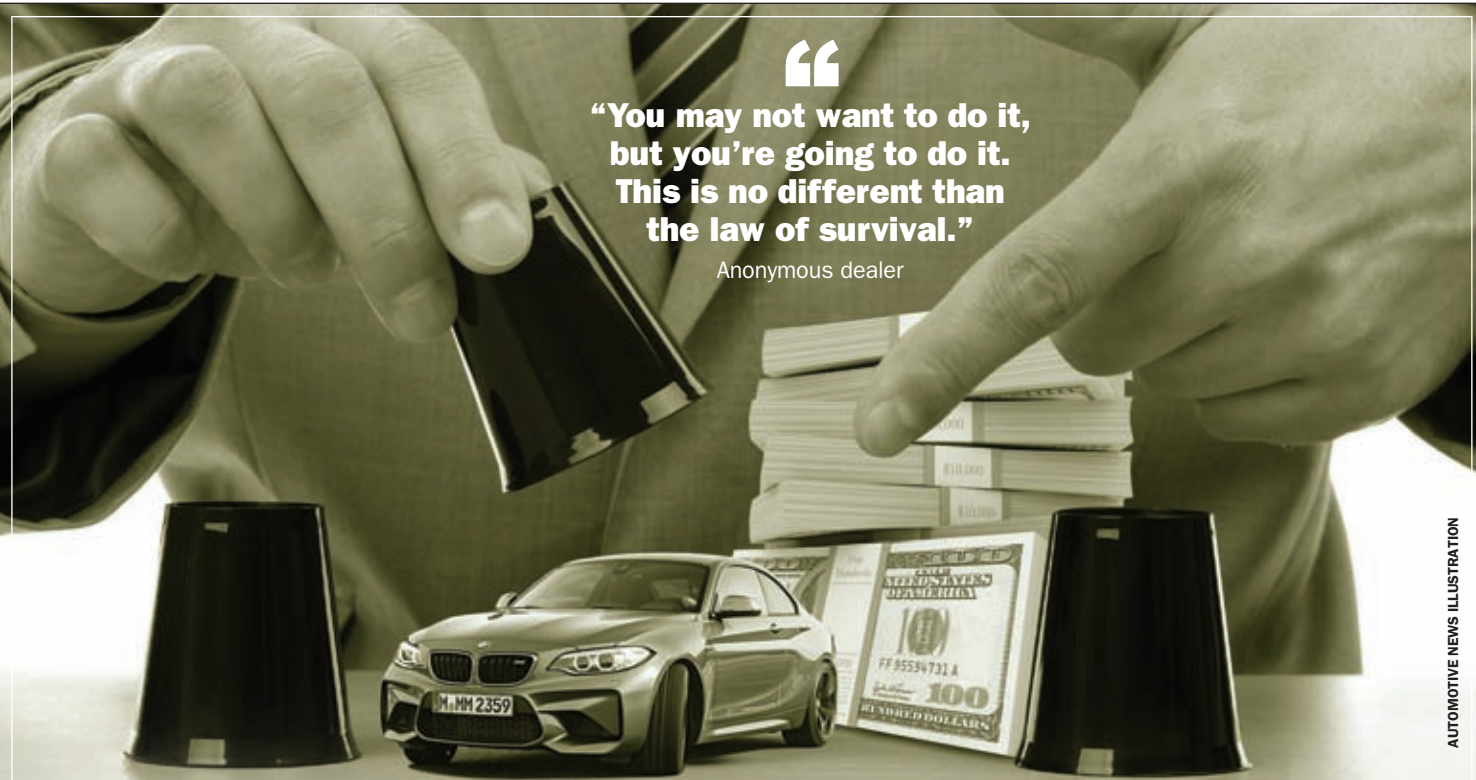
#### PSA's French chiefs: U.S. is on the table

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“You may not want to do it, but you're going to do it. This is no different than the law of survival.”

Anonymous dealer

AUTOMOTIVE NEWS ILLUSTRATION

## Pressure to 'punch'

When is a sale not really a sale? Tactic raises ethical questions

This article was reported by Amy Wilson, Jamie LaReau, Hannah Lutz, Arlena Sawyers and Nick Bunkley. It was written by Nick Bunkley.

**A**s the U.S. auto industry roared toward a record-breaking finish in 2015, BMW, the top-selling luxury brand for three of the four previous years, was clinging to a 553-vehicle lead over Mercedes-Benz. Surging Lexus was threatening to leapfrog both.

But BMW wouldn't leave this race to

Automotive News is examining how U.S. auto sales are reported and wants to hear from dealers about practices used by various brands. Contact [autonews@crain.com](mailto:autonews@crain.com).

chance. A Nov. 30 memo dangled \$1,000 bonuses for each 2015 3-series vehicle dealerships sold to themselves as a "specialty demo" — but the offer was valid that day only. The next round of industry sales reports, released the following afternoon,

showed BMW's edge over Mercedes had quadrupled.

A month later, on the day automakers closed their books on the year, BMW made a stronger plea. It tripled the demo-vehicle offer to \$3,000 on some models, including 2016s. "TODAY is the LAST OPPORTUNITY," it urged dealers in a memo obtained by *Automotive News*.

BMW ended 2015 in first place by 1,422 vehicles, the slimmest margin of victory

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## VW dealers' demand: 'Stop the insanity'

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WASHINGTON — After enduring months of punishing blows, Volkswagen dealers in the U.S. are getting ready to strike back.

It's not just the diesel emissions scandal that has them worked up, said Alan Brown, head of VW's national dealer council. Dealers are seething after having invested \$1 billion in new facilities over the past 10 years to support the automaker's plans to sell 800,000 VWs in the U.S. by 2018, only to see sales fall in each of the last three years, to around 350,000 last year.

They complain about mismanaged supplies and allocations and about ominous signals from VW Group's revamped leadership in Germany about the company's commitment to the U.S.

"There's no way to spin it," said Matthew Welch, general manager of Auburn Volkswagen near Seattle. "It's

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## PUNCH

### Questions raised about sales figures' legitimacy

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since 2000. But when IHS Automotive collected registration data from each state, BMW's win appeared hollow. About 5,000 more new Lexuses had been registered last year than BMWs. On that basis, BMW had fallen to third.

BMW, which said thousands of vehicles its dealers sold in December were registered in January instead, is not the only automaker employing creative strategies to pump up performance. As U.S. new-vehicle sales appear to be near their peak after the longest period of expansion in nearly a century, dealers across the industry face mounting pressure.

Among the most common appears to be a practice called "punching" — dealers buying vehicles from their own inventory and converting them into testers or loaners in order to earn hefty bonuses. In some cases, the vehicles might simply languish on the lot, eventually showing up in the dealer's used-car inventory with virtually no miles on the odometer.

#### Loaners: 'Productive use'

BMW spokesman Kenn Sparks said every vehicle counted as sold serves an important purpose, even if it stays at the dealership.

"Cars are considered retailed when they enter productive use," Sparks wrote in an email, "either from a sale to a customer or when a dealer puts a car into use as a demonstrator or service loaner."

He said BMW recommends that dealers update their loaner fleet twice a year to ensure service customers get fresh vehicles.

"Our customers have told us in surveys and personal interviews that they expect a comparable BMW to their own when they come in for service," Sparks wrote. "There's no question the service loaner program increases customer satisfaction and, we hope, customer loyalty. Loyalty is what brings customers back."

But some dealers said they see things differently.

"It's a fictitious way for the factories to sell product that they don't have sold," said a dealer who has multiple franchises in the southwestern U.S. and spoke on condition of anonymity to avoid retribution from the factories.

"If this goes against your grain, you should not be in the car business, because the factory controls your destiny," the dealer said. "You may not want to do it, but you're going to do it. This is no different than the law of survival."

Some tactics, such as delivering truckloads of undesirable inventory to fleet customers, are widely known and accepted. Others are done more surreptitiously, away from the eyes of shareholders and competitors. In certain cases, the actions tread a fine line between resourcefulness and deception.

"I'm not sure I'd go as far as to say it's illegal," said Aaron Jacoby, a partner at the law

#### Sold but not registered

The gap between U.S. light-vehicle registrations and reported sales was larger in 2015 than any year in the past decade.

YEAR	REGISTRATIONS	SALES	DIFFERENCE
2005	16,761,113	16,997,182	236,069
2006	16,574,314	16,561,482	(12,832)
2007	16,023,380	16,154,010	130,630
2008	13,217,544	13,245,687	28,143
2009	10,350,687	10,430,969	80,282
2010	11,480,471	11,589,844	109,373
2011	12,658,592	12,779,576	120,984
2012	14,315,338	14,493,226	177,888
2013	15,383,651	15,601,148	217,497
2014	16,330,687	16,522,663	191,976
2015	17,183,827	17,470,659	286,832

Source: IHS Automotive, Automotive News Data Center



#### Luxury race

BMW won the 2015 luxury crown by reported sales but ranked 3rd in registrations.

	U.S. SALES	REGISTRATIONS
BMW	346,023	335,259
Lexus	344,601	340,392
Mercedes-Benz*	343,088	337,288

\*Excludes Sprinter

Source: Automotive News Data Center, IHS Automotive

firm Arent Fox in Los Angeles, which has a large automotive practice. "It's problematic and could create legal problems for manufacturers. ... A party could challenge the accuracy of a manufacturer's unit sales for any manufacturer that had a practice of pressuring dealers to punch cars."

A lawsuit filed in January by a suburban Chicago dealership group accuses Fiat Chrysler Automobiles of stepping over the line to outright fraud. The suit says FCA

bribed dealers to report false sales on the last day of a month, then reverse them after the company published its numbers. FCA, which has reported year-over-year sales increases for an industry-leading 71 consecutive months, has denied the allegations.

Last year, BMW settled a suit alleging that dealerships sold 104,000 vehicles as new from 2006 through 2014, even though the dealerships previously had declared them as sold, starting the warranty clock before a consumer took possession. BMW did not admit wrongdoing but agreed to extend warranties and reimburse customers for some repairs.

The suits raise questions about the legitimacy of sales reports, which can influence the value of automakers' stock, affect executive bonuses and even factor into closely watched U.S. economic indicators. Investor sentiment toward many automakers and public dealership groups has turned more negative as industry sales show signs of

nearing a peak, increasing the temptation to find more ways of producing impressive numbers month after month.

At the same time, transactions not tied to actual consumer demand hurt margins and can lead to a host of other challenges, exacerbating inventory surpluses and skewing dealers' performance relative to one another.

"Punching cars is a problem," Jacoby said. "It's a problem with inventory costs, and it's a problem with flooring costs. Nobody wants extra cost in the system, and dealers would rather have their unit sales correctly reflected."

It's unclear exactly how much punching and other artificial sales-boosting methods are used throughout the industry. Dealers and experts interviewed say some brands encourage them frequently and some never do. Anecdotal evidence and registration data reviewed by *Automotive News* suggest it's more common in the luxury market.

Brands can exert pressure in the form of specific incentives, such as those detailed in the BMW memos, or through stair-step bonuses that compel dealers to pull out all the stops in pursuit of ambitious monthly targets.

#### Hamster wheel

A growing disparity between reported sales and registrations in recent years suggests that more cars and trucks are being removed from dealers' new-vehicle inventory before reaching a customer's hands.

In 2015, automakers said they sold 17.47 million light vehicles in the U.S., breaking the industry's 15-year-old record, but consumers and businesses registered just 17.18 million, according to IHS.

While registrations tend to lag sales — and the registration data exclude some heavy-duty pickups that the Detroit automakers report in their sales — the gap of 286,832 vehicles in 2015 is the largest of any year in at least the past decade.

A former longtime Nissan dealer in the Southeast said punching cars was frequently necessary to meet the automaker's ag-

gressive sales targets. The dealer, who spoke on condition of anonymity because of the sensitive nature of the topic, said he used to buy vehicles from his inventory, put them in the store's loaner fleet for one to six months — though many would just sit on the lot — then sell them as used.

"That's the way most dealers who hit their objectives make it work," the dealer said. "They allow you to punch an unlimited number of cars and put them into your loaner fleet. I don't know of any Nissan dealer who doesn't do that. I know of many who have extensive rental operations that don't make money because of that."

Having many pristine, no-mileage "used" cars that customers can get at a sizable discount makes it harder to sell the next batch of vehicles from the factory, the dealer said. "So you're like a hamster running on this wheel," he said. "It's harder to hit their objectives because you've got all this inventory sitting on your lot that's already been punched."

Nissan spokesman David Reuter said the company's steady growth, with U.S. market share gains in eight of the past nine years, is a product of hard work and genuine demand for its vehicles, not numerical tricks.

"You certainly don't get there by taking a short-term action in a month here and a month there," Reuter said.

Registrations of Nissan and Infiniti vehicles closely correspond to sales figures, Reuter said, "and that alone indicates that we are operating with a high degree of integrity in terms of our sales reporting."

#### Luxury crown

BMW's sales in 2015 exceeded registrations by 3.2 percent, compared to a 1.7 percent gap for the industry overall.

But BMW noted that its January registrations outpaced its sales by more than 7,000 vehicles, making up for much of the disparity from 2015.

The numbers support BMW's assertion that registrations can sometimes be slow, though it's also evidence of a last-minute sales frenzy as 2015 came to a close.

A former BMW employee said the company's sales reports can include thousands of punched cars to boost results in slow months. Many are classified internally as "Specialty 8" and might not be driven at all before being relisted as used.

Dealers who don't chase the "Specialty 8" bonuses are "uncompetitive," said the former employee, who requested anonymity while discussing internal company business.

On Jan. 4, the last day automakers could count sales toward 2015, BMW followed a morning bonus memo with an update later in the day saying dealers could collect more "Spec 8" incentives. The memos offered \$3,000 on all 6-series cars and 2015 i8s.

The next day, BMW said 6-series sales soared 64 percent in December, while i8 sales more than quadrupled. The rest of the brand fell 20 percent. It was enough — barely — to claim the luxury crown for another year, even if some of the cars that helped secure the all-important victory still were waiting on a dealership lot for someone to actually buy them. **AN**