

March 20, 2017

Richard W. Corey
Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: ADVANCED CLEAN CARS MIDTERM REVIEW

Dear Mr. Corey,

The California New Car Dealers Association (CNCDA) is a statewide trade association that represents the interests of over 1,100 franchised new car and truck dealer members. CNCDA members are primarily engaged in the retail sale and lease of new and used motor vehicles, but also provide customers with parts, service, and automotive repair. Our member dealers are actively involved in the communities they serve, and are committed to supporting their customers. Thank you for the opportunity to provide written comments on the California Air Resources Board (ARB) Advanced Clean Cars Midterm Review.

Dealer operations are a vital part of the automobile supply chain. Dealers receive vehicle allocations from the manufacturer, prepare vehicles for delivery, hold vehicles in inventory, conduct frequent checks for vehicle recalls, negotiate sales with their customers, assist consumers with financing, take used vehicles in on trade, and familiarize their customers with vehicle features and operations. In addition, dealers provide after-sales warranty and service support. Every single new car dealer's ultimate goal is to earn and keep lifetime customers.

California's new car dealers are on the front lines of our state's commitment to invest in zero-emission vehicles, and are committed to growing these sales numbers year over year to support the state's goals. We would like to take this opportunity to address some statements in the Midterm Review, and stress that our member dealers want to partner with ARB, and are ready to do so, in order to help put more clean vehicles on California's roads.

Consumer Demand for ZEVs is the Biggest Barrier to Sales.

We appreciate the discussion in the Midterm Review regarding the market realities of zero-emission vehicles and plug-in hybrid electric vehicles up to this point. As we have continually stressed, California's new car dealers will sell any car to any consumer qualified to purchase their preferred vehicle. At this

point, the consumer demand for ZEVs and PHEVs has been low in relation to demand for vehicles with conventional technology. Consumers have many reasons behind their choice in vehicle – gas prices, family size, length of commute, choice of leisure activity, vehicle appearance and styling, residential and workplace charging availability, etc. This list of priorities will be different for every consumer based on their individual circumstances.

According to Cox Automotive, dealers have a less than 30% chance of changing a purchase decision once a customer is on the lot.¹ And it can be a risky business decision for a dealer to try – CNCDA attorneys received at least a dozen phone calls last year from dealers asking for legal compliance advice after they helped convince a customer to purchase a ZEV or PHEV, only to find that the car didn't work for them after all (most often due to vehicle range and lack of charging infrastructure), and the customer soon returned to the dealership asking to return the car and buy a conventional vehicle instead. While they were under no legal obligation to do so, every dealer we spoke with chose to accept the vehicle return and unwind the deal, resulting in a substantial loss to the dealership because this new ZEV or PHEV is now used, and has a much lower market value than comparable used vehicles with conventional technology.

California's new car dealers strongly support the state's infrastructure investment programs to ensure that people who make a big investment in a ZEV or PHEV are able to charge their vehicles while on the go. Increased numbers of charging stations and hydrogen fueling stations will undoubtedly help to assuage customer concerns about charging and fueling capabilities while driving longer distances, which will push consumer demand up and help move more of these vehicles off of dealer lots and onto our roads.

While the incentives made available to consumers on both a state and federal level have certainly helped to accelerate market growth up to this point, the noted phasing out of these incentives, coupled with a general lack of certainty regarding available funding for the incentives, will likely have a negative impact on this still-nascent market. CNCDA has been actively engaged with both ARB and the Center for Sustainable Energy (CSE) in regards to our state's incentive programs (particularly the Clean Vehicle Rebate Project), and last year's rebate waitlist put dealers in a difficult position – dealers had to weigh the risk of informing customers of a substantial rebate check they could receive for purchasing a qualified vehicle, versus the very real possibility that the customer would be placed on a rebate waitlist instead and then turn into a very angry customer, at no fault of the dealer's. At the same time, consumer utilization of CVRP has been steadily increasing since its inception, and it is clear from CSE data that Californians' interest in and knowledge of the program is rising every year. As of March 1, 2017, more than 179,000 rebates have been issued for drivers of eligible battery electric, plug-in hybrid electric and fuel cell electric vehicles.

HOV lane access is another highly-valued incentive for consumers to encourage the purchase of ZEVs and PHEVs. During the past few years, when the green HOV stickers reached capacity and were no longer available, ZEVs and PHEVs on our dealer lots in the Bay Area and in Southern California sat unmoving for months on end. During those periods of time, dealer calls to CNCDA about HOV sticker availability skyrocketed. When HOV sticker limits were increased, ZEV and PHEV sales in high-traffic markets started moving again. For every new zero-emission vehicle purchased by a consumer to replace their older gasoline-powered car, the air gets cleaner and the state gets a little bit closer to meeting its ambitious

¹ 2016 Car Buyer Journey study press release. <http://press.autotrader.com/2016-03-21-For-Dealers-Online-Presence-Key-to-Influencing-Car-Shoppers>.

ZEV goals. Accordingly, it is in the best interests of both new car dealers and the public at large for CVRP and other clean vehicle incentives like HOV lane access to be continued and funding to be ramped up.

Vehicle incentives are just one piece of the ZEV and PHEV vehicle ecosystem, along with many other market and household realities. Notably, the Midterm Review states that not only do all manufacturers with a current ZEV obligation use the dealer franchise model to retail their vehicles, but also less than 10 percent of ZEV and PHEV consumers in California or Massachusetts report that a sales representative tried to discourage a ZEV or PHEV purchase.² While 10 percent is relatively low, which is to be expected, we argue that this percentage is highly inflated because the aspects noted in the referenced survey results should not be characterized as dealer discouragement.

According to the referenced CVRP survey results, the most common reasons dealers “discouraged” customers from buying a ZEV or PHEV were “the incremental price of the PEV (sometimes in relation to fuel savings), the vehicle range relative to driving needs, and a lack of inventory or long wait time for product delivery.”³ All three of these reasons, especially the first two, are simply a result of dealers doing their best to try and find the best car for a particular consumer. Because if dealer salespeople fail to point out the realities of owning a ZEV or PHEV in terms of vehicle price and vehicle range, they would be doing that customer a disservice. Dealers certainly do not want ZEVs and PHEVs to sit on their lots unsold, but they have an obligation to their customers to relay all relevant information about vehicle ownership to prospective buyers.

Dealer Training is Welcomed, But Will Likely Not Result in Substantial Sales Increases.

We very much appreciate the Midterm Review’s thoroughness in evaluating the ZEV and PHEV market, and for taking care to recognize the important role dealers serve as an intermediary between automakers and consumers. As the Review outlines, there are many reasons for consumer vehicle choices, and these will differ from person to person. We have noted that improving dealer knowledge about ZEVs and PHEVs was referenced numerous times in the Midterm Review. While we maintain that California’s new car dealers are the best in the country at selling ZEVs and PHEVs, we want to be clear that our members welcome additional training opportunities on these advanced vehicle technologies.

Dealer training on ZEVs and PHEVs usually comes via the vehicle manufacturer, which makes sense due to the differences in vehicle range and attributes not only across vehicle makes, but also across a certain manufacturer’s available models. Since some manufacturers provide more comprehensive training than others, it follows that consumers will have different experiences across the board regarding any one salesperson’s technical knowledge about ZEVs and PHEVs.

Additionally, when sales numbers for ZEVs and PHEVs remain somewhat stagnant at 3 percent of market share, the percentage of time dealers spend on becoming advanced technology experts has been spent accordingly. For our part, for the past few years CNCDA has actively encouraged our dealers to designate at least one vehicle salesperson to be the ZEV and PHEV on-lot expert, and we are currently working on a dealer best practices guide to selling ZEVs and PHEVs.

² Midterm Review, Appendix B, page B-86.

³ Midterm Review, Appendix B, page B-87.

Since the average consumer now spends upwards of five hours researching their vehicle purchase online before they ever step foot into a dealership⁴, and 71 percent of consumers say that they purchased the vehicle they initially intended to purchase once they visited a dealership,⁵ it is absolutely vital that consumers are educated about the availability and benefits of ZEVs and PHEVs *before* they arrive at their local dealership to sit in their chosen car, check out its features in person, and take it for a test drive before signing the vehicle purchase contract. Just as the Midterm Review found that high proportions of ZEV and PHEV buyers began their shopping process intent on a ZEV or PHEV⁶, the converse is true as well – buyers in the market intent on buying a conventional vehicle are very likely to stick with that decision. In 2015, new-vehicle shoppers who did online research considered an average of 2.4 vehicles, down from 2.6 just two years earlier.⁷ And this online research means that consumers are only visiting an average of just 1.6⁸ to 2.4⁹ dealerships before purchasing a vehicle (depending on your source), down from 5 dealership visits just ten years ago.¹⁰

Dealership business models are heavily centered around each store's Customer Satisfaction Index (CSI) – both dealers and manufacturers specifically track CSI numbers, and manufacturer-to-dealer incentives are largely based on the CSI results. Accordingly, overall customer satisfaction is incredibly important to not just the local customer relations of a dealership, but is also vital to the economic well-being of any one dealership. Dealers are the experts on the vehicles they sell, and this knowledge will only increase as sales of ZEVs and PHEVs increase.

Figure 39 in the Midterm Review illustrates that dealers are in the middle of the pack when it comes to consumer designations of the most influential information sources on ZEVs and PHEVs in California.¹¹ However, we would like to note that vehicle test drives were noted as one of the top two influential information sources.¹² Since the majority of vehicle test drives are conducted at dealerships by licensed vehicle salespeople, we think dealership salespeople deserve more substantial credit in this area. In fact, the Midterm Review found that one of the household factors associated with a positive valuation of ZEVs and PHEVs was a dealership visit.¹³ While Ride and Drive events are also fantastic avenues for consumers to see, touch, and feel these cars, dealers conduct test drives for their customers hundreds of times per day – an experience that cannot be re-created online.

Dealers are committed to continuing to train their staff and salespeople on the benefits and attributes on ZEVs and PHEVs, and welcome suggested avenues for reference such as U.S. DOE's Alternative Fuels Data Center portal. We will be sure to include this resource in our upcoming Best Practices Guide, referenced above. As evidenced by the implementation of the Enhanced Fleet Modernization Program (EFMP) and

⁴ 2016 Car Buyer Journey study, commissioned by Autotrader and conducted by HIS Automotive.

⁵ Id.

⁶ Midterm Review, Appendix B, page B-77.

⁷ J.D. Power 2015 New Autosopper Study.

⁸ The Road to 2020 and Beyond: What's Driving the Global Automotive Industry? McKinsey & Company, 2013.

⁹ J.D. Power 2015 New Autosopper Study.

¹⁰ The Road to 2020 and Beyond: What's Driving the Global Automotive Industry? McKinsey & Company, 2013.

¹¹ Midterm Review, Appendix B, page B-53.

¹² Midterm Review, Appendix B, page B-53.

¹³ Midterm Review, Appendix B, page B-73.

Plus-Up pilot program at the dealership level¹⁴, dealers are committed to doing everything they can to get California drivers into cleaner vehicles.

California's New Car Dealers Are the Correct Avenue for ZEV- and PHEV-Related Services.

The Midterm Review notes that dealerships could adjust the services they provide that are intended to create or assist new ZEV and PHEV drivers “as there appears to be a mismatch between those that are received and those that respondents report to be valuable.”¹⁵ One of the services mentioned was dealer assistance with applying for the CVRP. In its current form, this would be extremely tricky for the majority of dealers to implement at their stores for privacy reasons alone. The CVRP has been continually adjusted the past few years to take into account household incomes and family size and supporting documentation. Dealers would be put at risk if they had to ask for sensitive customer information as part of this application process. It is rightly up to each individual dealer whether or not they can, or should, commit staff resources to helping consumers with this process. If the CVRP moves forward with implementation at the point of sale, this will involve a separate process undertaken by the dealer, and after training by the Center for Sustainable Energy, could be a great way for dealers to help consumers get into a clean vehicle during the F&I process.

Pre-purchase rentals or extended test drives were also referenced as valuable services not currently offered by dealers. In fact, some manufacturers (such as BMW) do offer extended test drives for consumers via their dealer network. However, both pre-purchase rentals and extended test drives would be very difficult for dealers to undertake without manufacturer direction – after utilization in such programs the vehicles would become used as a matter of law, which would cause the dealership's monthly numbers to take a substantial hit. While dealers want to be partners in the process of getting more customers into ZEVs and PHEVs, they also operate on a business model that has very tight margins. That being said, dealers are ready and willing to work with the manufacturers to implement these kinds of programs at their stores.

Vehicle Availability on Dealership Lots is Dictated by Vehicle Allocation Processes.

Lack of ZEVs and PHEVs on dealership lots was referenced numerous times throughout the Midterm Review as a possible reason for low sales rates.¹⁶ We would like to clarify that vehicle availability (or lack of vehicle availability) on dealer lots is the result of complicated vehicle allocation processes from each dealer's associated manufacturer.

Vehicle allocation generally refers to the number of cars and the mix of different models assigned to an individual franchised new car dealer. Much of that breakdown is due to where auto manufacturers, as a result of past sales data, dealership market share, regional statistics, and a variety of other factors, think certain vehicles will sell best. In addition, often dealers can maintain vehicle allocation preference databases that detail which vehicles dealers want (or do not want), based on their own past and projected future sales numbers for particular models. Many automakers try to closely match production with

¹⁴ Midterm Review, Appendix B, page B-142.

¹⁵ Midterm Review, Appendix B, page B-88.

¹⁶ I.e. Midterm Review, Executive Summary, page ES-46.

demand, because it is not profitable for either manufacturers or dealers when vehicles sit unsold for long stretches of time on dealership lots.

California Dealers Are Committed to ARB's Goals.

Almost 50 percent of new ZEV sales are in California, and we want to see California continue leading the nation in ZEV sales numbers – a goal we know ARB shares. According to a past ARB report to the Legislature, vehicles 15 years and older now account for at least 17 percent of the fleet, but are responsible for about 60 percent of the smog-forming emissions from cars.¹⁷ Since about half of all cars on California's roads survive at least 15 years (and one-quarter to at least 20 years),¹⁸ it is vital that dealers are there to serve as the lynchpin between ARB, vehicle manufacturers, and consumers.

Every new car sold that replaces an older car means cleaner air and safer roads, so all Californians can appreciate and benefit from the state's clean vehicle goals. That being said, in our view market forces are the single best way to gauge consumer interest in certain vehicle types above others, and CNCDA's dealer members would not be supportive of any future policy that restricts the availability of cars that consumers want in order to meet ARB's goals – incentives are a positive market force that we wholeheartedly support, whereas penalties on consumer purchase decisions should be avoided.

In summary, CNCDA supports the majority of the findings from ARB's Advanced Clean Cars Midterm Review, and commends ARB staff for their extremely thorough evaluation of the ZEV and PHEV market as well as for their thoughtful analysis of, and appreciation for, all aspects of the automotive and vehicle delivery ecosystem. We thank you for your continued leadership, and for inviting all parties to the table as part of these discussions. Please contact CNCDA's Director of Regulatory Affairs, Alisa Reinhardt, at (916) 441-2599 or areinhardt@cncda.org if you have any questions or would like to discuss these comments further.

Sincerely,



Alisa Reinhardt
Director of Regulatory Affairs
California New Car Dealers Association

¹⁷ California Air Resources Board Report to the California Legislature: Accelerated Light-Duty Vehicle Retirement Program, February 2009.

¹⁸ Id.

