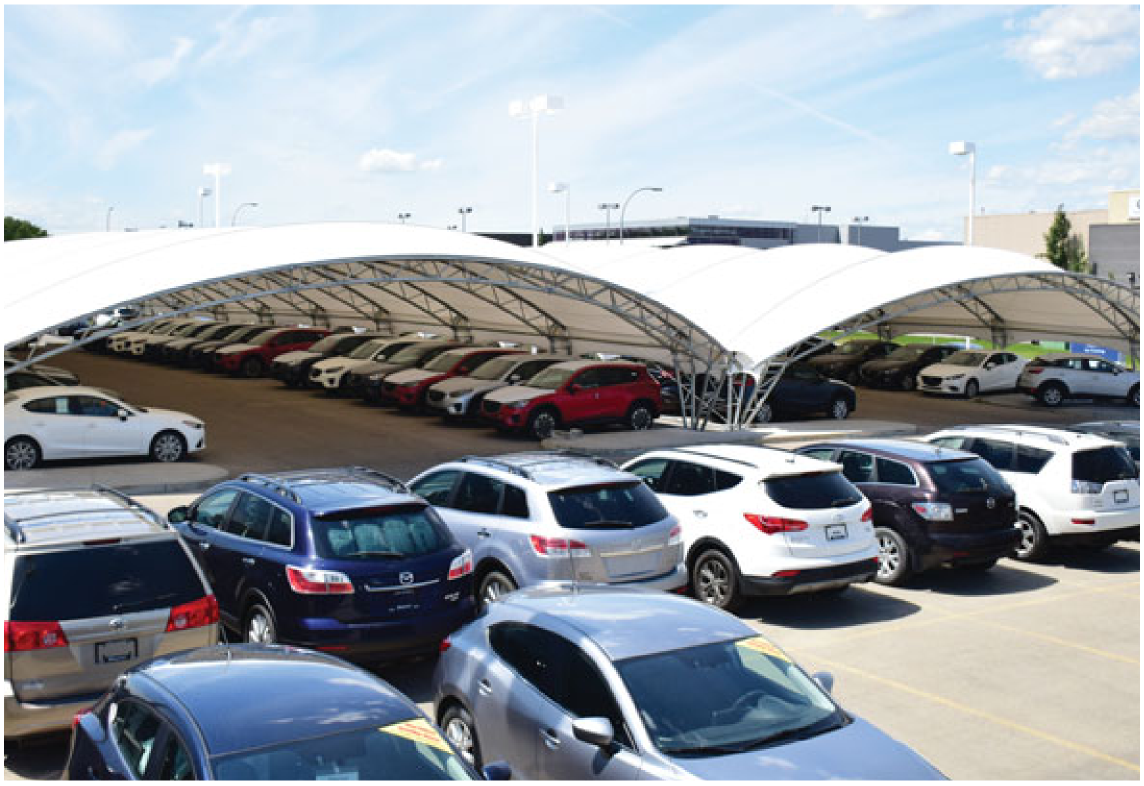
CELEBRATING 25 YEARS OF INFORMATION & IDEAS FOR THE AUTOMOTIVE INDUSTRY

CANADIAN AUTOWORLD

SEPTEMBER 2016 VOLUME 25 NUMBER 9 WWW.CANADIANAUTOWORLD.CA @CANAUTOWORLD $3.00



Hail storms send insurance costs skyrocketing

Lawrence Papoff

CALGARY, ALTA. – The hailstorms of 2014 were the worst ever. Pounding inventory to pieces, they took the new dealerships in Calgary's northwest area by surprise.

"It was the first big one in many years," recalls Asheet Ruparell, whose Stoney Trail Mazda store was one of those that took a pounding and a $2 million loss.

"There have been more since, but that one precipitated a lot of concern," he says. The concern was fuelled by skyrocketing premiums, lower deductibles, high per-event deductibles and the flight of insurers from the market, which runs from Red Deer to Lethbridge. "Hail storm alley," it's called.

The dealer and his colleagues looked to the CADA and its insurance broker Marsh Canada. But the broker had no control over the flight of insurers.

"That was quite a hit," Ruparell says. Then dealers looked to their floor plan finance companies and their insurers. There was little help there."

The fear persisted that if the incidence of storms grew, whatever coverage remained would vanish.

Christopher Nadolny is Marsh Canada's transportation risk manager. He explains that insurers' interest in hail insurance varies with the weather.

"It's cyclical. They pull out when there are big losses and when the weather improves, they go back in."

In the face of $250,000 per-event deductibles and vanishing per-vehicle deductibles, Ruparell was forced to swallow most of the losses, in other words self-insure. Small storms often brought $200,000 to $400,000 losses.

The dealer explains that coping with the aftermath of a storm is demanding: lining up repairs and insurance claims; adding inventory; getting new-car customers vehicles to

| SEE PG 11

Super Sue helps Finneron Hyundai win President's Award

MARKETING A MUST EVEN IN A SMALL TOWN

Lawrence Papoff

COURTENAY, B.C. – When dealer Mike Finneron and his daughter and store general manager Sue Finneron changed their franchise from the defunct Pontiac brand to Hyundai in 2010, they found there was more to the move than just changing pylons.

"We had to learn how to be an import store," Sue Finneron recalls.

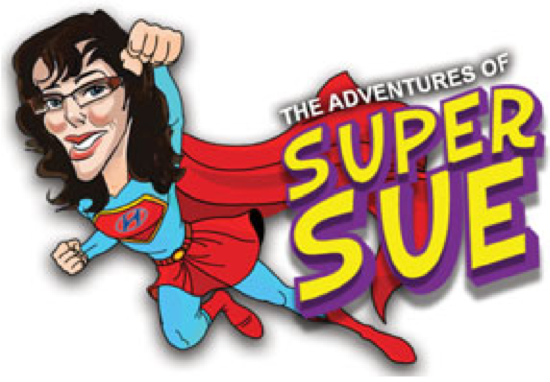
"One of the differences is warranty work. As a GM dealer, we relied quite heavily on warranty work. With Hyundai, our warranty work was cut in at least half.

"We had gone from a three month/5,000 km philosophy in maintenance to six months/6,000 km since cars are better than they used to be. So you aren't used to seeing your customers as much."

Add to that Finneron Hyundai is located in Courtenay, B.C., on the east coast of Vancouver Island in the Comox Valley. There's a population of 24,000 and a trading area of 60,000. It's pickup truck country. But Hyundai hasn't a pickup in its lineup.

"It took us a couple of years to learn,' she said.

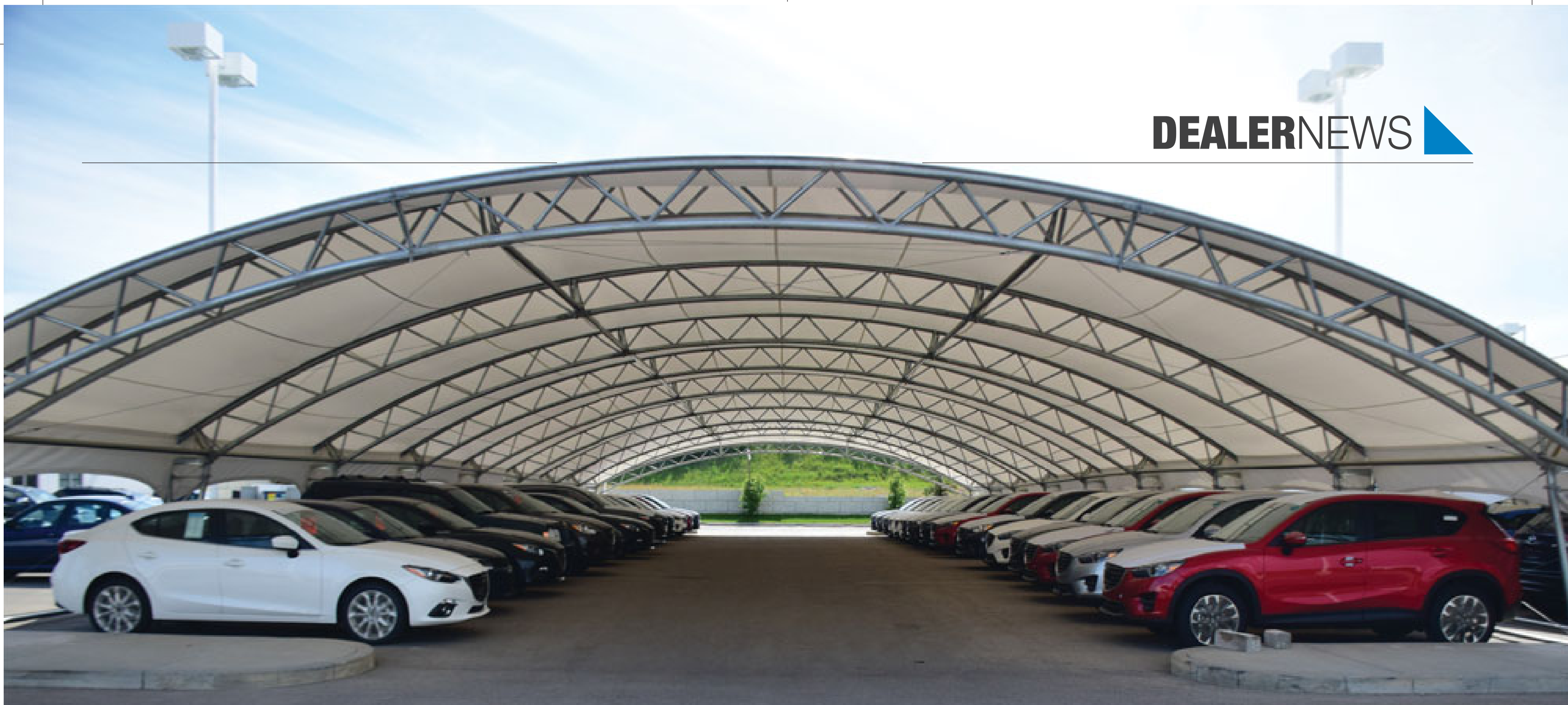
One of the moves she made was to get in touch with a marketing company in Florida and work with them for



| SEE PG 23

INSIDE

Publications Mail Agreement No. 400 69 635



Covering vehicles a must

| FROM PAGE 1

replace the damaged ones and organizing hail storm sales.

With more and more dealers holding these sales and with higher and higher deductibles, these efforts did little to cut losses.

"We lose the best part of our summer selling season doing that," he says.

And so the dealer and staff brainstormed looking for a solution.

Stoney Trails general sales manager Bobby Tulio credits the dealer with the idea of putting up hail tents. They had to be permanent; renting portables and putting them up in the season are just too costly.

The first went up in 2015 after quite a bit of wrangling with city officials, who were concerned about height limits and the space the covering occupies. Ruparell credits city councilor Joe Magliocca with helping pave the way.

"He realized hail was a threat to our business. We couldn't operate without coverings," Ruparell says.

Custom-designed by a local company, Warner Shelter Systems, WSSL, the hail tents are steel frames with a tough fabric covering. There's no need for ventilation or electrical systems. Each tent can house about 60 cars.

"They aren't your typical aluminum frames. These are good for 20 years," he says.

When city officials objected to the height of the first tent, WSSL staff went back to the drawing board to design two that were acceptable.

Tulio says the aisles are wide enough so techs and sales people can move in and out.

But don't call them tents. Tulio says the word doesn't do them justice.

"These are not eyesores; they are appealing."

And they work. As hail storms batter the area, the Stoney Trail vehicles under the coverings ride out the storms unscathed.

So covering the inventory makes sense. But it wasn't painless, not at a cost of over $500,000 for three.

There's no need for ventilation or electrical systems. Each tent can house about 60 cars.

Ruparell says "It's a cost that you don't get any incremental revenue out of," he says. "It's just straight cost so you have to be careful when you spend that kind of money."

But he says the tradeoff is that without them, there is significant exposure to hail damage.

Nadolny visited the dealership to assess the risk. He says that if the store's inventory is downsized in hail season, all new and floor-planned used can be "pack parked" out of harm's way.

He estimates a cost of $3,000 per stall versus hail belt deductibles of $3,500 to $4,500 for unprotected inventory.

"If the dealer misses one hail storm, the canopies are paid for with or without discounts or deductibles."

He says the goal is to get hail belt dealers covering their vehicles. The cost may not be as high as in Calgary, depending on the local bylaws.

"So if, say, 80 per cent of the inventory is covered, the insurer could offer a lower deductible similar to what they would offer in Nova Scotia where there's no hail damage risk.

"With coverings, premiums and deductibles will drop dramatically." CAW

FCA July sales dip in first month with new reporting methodology

SALES DOWN 14 PER CENT

Jackson Hayes

Fresh on the heels of strong allegations and federal investigations in the U.S. regarding how it reports new car sales, FCA Canada posted a 14 per cent drop in sales in July.

The dip comes amidst a change in the way the automaker reports sales both here and in the U.S.

Under the new reporting methodology, FCA Canada reps said as of July, fleet sales are recorded as sales upon shipment by FCA Canada of the vehicle to the customer or end user.

The move came amid a week of allegations and revelations in July when it was revealed the U.S. Department of Justice and the Securities and Exchange Commission were investigating whether the automaker had inflated U.S. sales figures.

Sources with knowledge of the proceedings told media outlets the issue concerns whether the automaker allowed dealers to purchase vehicles or pre-register units as sold to help retailers qualify for stair-step incentives which, as a result, helped the company continue with a positive monthly sales streak that lasted years.

The unproven claims echo the statements made earlier this year by a U.S. dealership group that filed a lawsuit alleging the automaker paid dealers to report selling more vehicles then they actually had.

FCA detailed its process in a long and detailed press release that noted its monthly sales reporting process has been in place, in more or less the same form, for more than 30 years.

It said vehicle unit sales data is comprised of three main components: sales made by dealers to retail customers; sales of vehicles shipped directly by FCA US to fleet customers; and other retail sales including sales by dealers in Puerto Rico, limited deliveries through distributors and a small number of vehicles delivered to FCA employees and retirees and vehicles used for marketing.

For dealers, retail sales data is collected through a reporting system called the New Vehicle Delivery Report (NVDR). It is primarily designed to capture the time of a retail sale for warranty purposes and because it triggers FCA US's obligation to make any manufacturer's incentive payments to the dealer.

"These retail sales are made by dealers out of their own inventory of vehicles. This inventory was purchased by the dealers from FCA US before any retail delivery to the customer," the company explained, noting that, consistent with other automakers' practices, it is this initial sale by FCA US to the dealer that triggers revenue recognition in FCA US and not the ultimate sale of the vehicle by a dealer to a retail customer.

"It is for this reason that the process of reporting monthly retail unit sales has no impact on the revenue reported by FCA in its financial statements," the company reported.

FCA said it was possible for a dealer to "unwind" a transaction recorded in the NVDR system and return the vehicle to the dealer's unsold inventory.

| CONTINUED ON PAGE 51