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Southern California Broadcasters Association

White Paper Report:

Automotive Overview for 2019

The automotive segment represents the largest ad category for Broadcast Radio in Southern California and the country. Based on actuals for Los Angeles and San Diego, and projected automotive revenue from smaller SoCal markets, the SCBA projects all levels of automotive Radio advertising produced \$121 million dollars in revenue in 2018 for our 170-member stations.

Understanding the automotive industry and what challenges and opportunities it faces in 2019 is the focus of this **SCBA White Paper Report** entitled, “Automotive Overview for 2019.” The SCBA offers this overview for all members wanting a deeper knowledge of the auto industry and their disruptive future ahead as well as providing insights into how Broadcast Radio can play a larger role in automotive advertising.

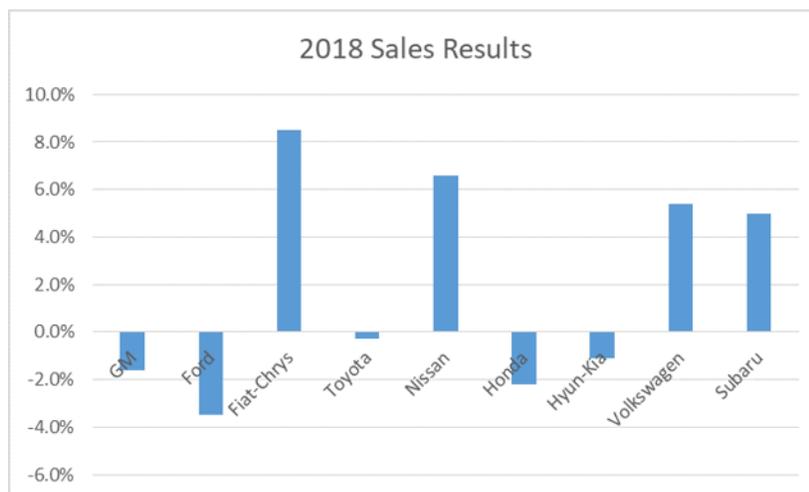
The current state of the auto industry can be realistically described in two words as caution and concern. The disruptive forces facing the industry in 2019 and beyond include:

- The auto industry enjoyed low interest rates which was a key driver in their growth years from 2013 through June 2018. However, interest rates are rising and the term “zero % financing” has disappeared from dealer ads.
- Higher interest rates combined with higher sticker prices for new vehicles have slowed consumer momentum to buy.
- Automakers have had to shut plants, layoff thousands, and have adjusted sales forecasts downward.
- The average price for a new 2019 vehicle is \$35,200, its highest ever.
- Consumer debt on auto loans as of January 2019 is \$1.4 trillion dollars, its highest amount in history.
- GM and Ford have both projected a loss of \$1 billion in profits as a result of recent tariffs.

The U.S. imported 5.5 million tons of aluminum in 2017 with domestic production at only 740,000 tons or 86.5% of all aluminum. The industry cannot afford to ramp up production that quickly to offset the tariff charges of 10% so they are forced to pay more for the same product they got substantially cheaper in 2017 and most of 2018.

It is becoming more and more expensive to produce vehicles with raw material prices increasing by 10% in 2019 which has a direct impact on production costs. Steel has a 25% tariff and plastic resin, a key component in all vehicle production will rise 31% in 2019. The rising costs of all materials in vehicle production are passed on to the consumer, not to mention all the advance technology in most new models, making the sticker shock to the public more tangible than ever.

2018 Sales Results



The above chart is best described as OEMs with too many passenger cars in their line up when consumers wanted SUVs and light trucks in 2018.

Ford has dropped 4 passenger car models from production and will be “90% utilities” by 2020 with only the Ford Mustang and a new model called Active as the only cars available by 2020. GM has dropped 5 passenger models across its platform with a combined industry total of 15 passenger cars no longer available in 2019.

Passenger cars now represent only 30% of new auto sales which is a 43% decline since 2015. Car sales are projected to decline further and dip to 21.5% of the market by 2025. Every 9 out of 10 vehicles sold in 2020 are expected to be SUVs

and other commercial vehicles. However, vehicle sales are declining. There was growth in the early years of 2010-2013, but the change year over year has essentially flattened and has been trending in a negative path for the past three years. However, sedans and small cars will still make up 30% of the overall auto market, and foreign automakers will exploit that fact. Sedans will still have great appeal to first time auto buyers and are generally cheaper to maintain and gas up.

Foreign automakers currently have 19 plants inside the United States, which enables them to avoid currency fluctuations and overseas shipping costs. These are only two of the factors that gave foreign automakers an impressive 51% share of all vehicles sold in the U.S. in 2018. GM, Ford, and Fiat Chrysler, known as the Big Three, control 44% of the U.S. market. Their market share was 74% thirty years ago.

Toyota sales fell by .5 % in 2018, with Toyota Corolla a sales leader in its category. The RAV4 and Tacoma was a sales leader in crossover and truck sales. Nissan suffered from the arrest of its CEO and chairman, Carlos Ghosn and was negative 6.6% in sales for 2018. However, they did finish with a strong December of 7.6% positive sales growth.

Honda sales were down 2.2% and Hyundai-Kia sales were down 1.1%. Volkswagen and Subaru were both up 5.4% and 5% respectively. Volkswagen has also entered into a new global alliance with Ford, with Ford building trucks for both companies by 2022.

Fiat Chrysler, as compared to Ford and GM, was up in 2018 after dropping out entirely of the sedan market in 2016. Fiat Chrysler dominates the sportier segment of the SUV and trucks with both the Jeep and Ram products.

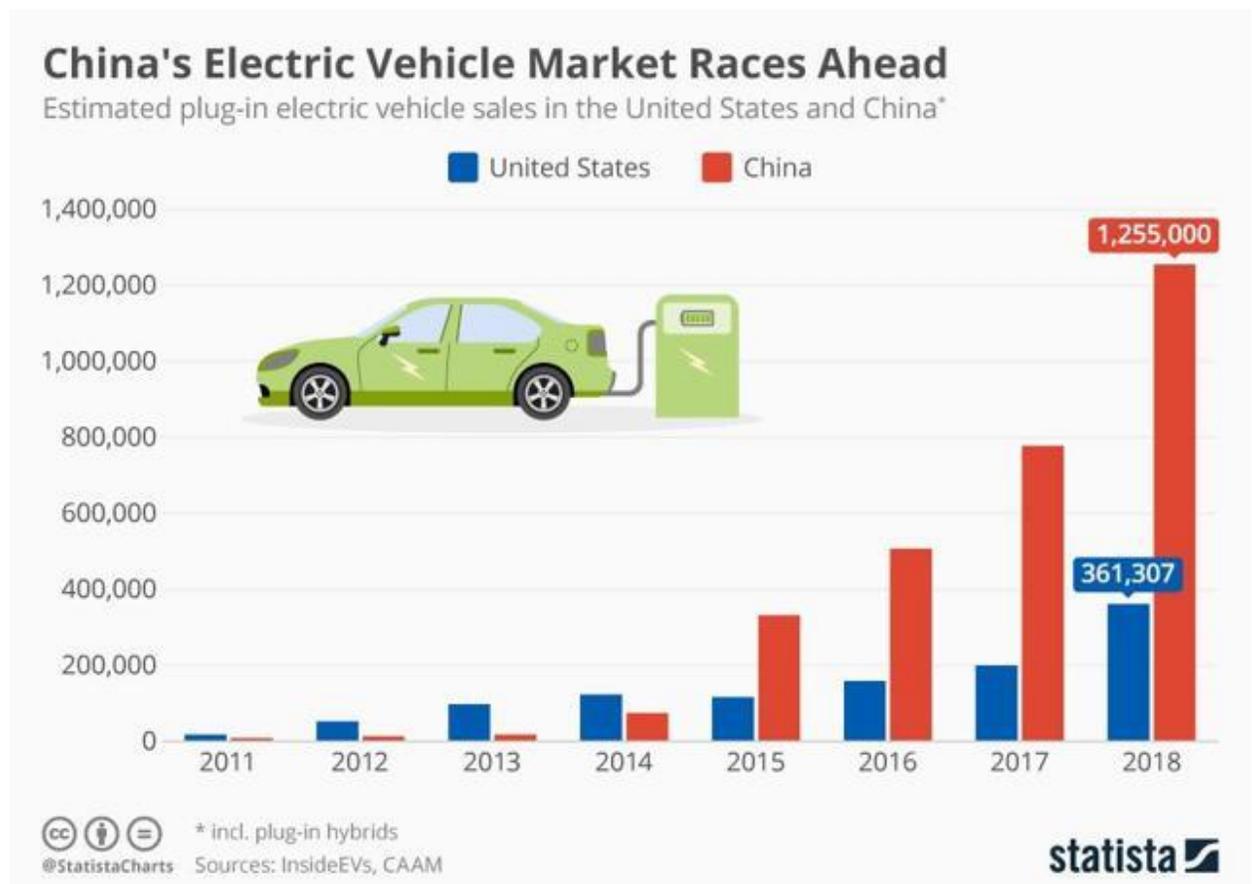
Automakers sold 17 million vehicles in 2017 and the same for 2018. This is the fourth straight year of 17 plus million units sold, but most auto analysts expect that number to be below 17 million in 2019.

Automakers must walk a delicate balance of planning for the future which will include electric and autonomous vehicles while maintaining current levels of sales, model upgrades, dealer networks, severe competition, and a changing customer base.

So, what will the future look like for most automakers and when will it be here?

The Move to Electric is Real

The move to electric vehicles continues to accelerate with Ford announcing that 16 models will be electric by 2022, a remarkable shift in production, materials, and labor that is currently built on the combustible engine platforms. Traditional automotive manufacturing jobs are slowly being replaced by high-tech engineering careers. Producing electric vehicles takes less labor, parts, and overhead than gas powered vehicles. The chart below shows China's leadership in plug-in electric vehicle sales and the U.S. as a distant number two. However, U.S. production has seen exponential growth since 2016.



Why compare China to the U.S? Simple: China is the world's largest auto market and every automaker wants a presence and share of China's enormous customer base. The growth of electric vehicles in the world's largest market will fuel the same growth in the U.S. and the rest of the industrialized world.

Ford has just announced its plans to create a battery-powered version of its most popular offering, the F-series, their best-selling pick-up trucks. A hybrid version is also in the offering. Ford sold more than 900,000 units of the F-series in 2018, making it the best-selling model line in the United States. No date for release has been set yet. It's important to note that transportation is the largest source of greenhouse gases in the United States, and that cars and light-duty trucks account for 60% of these emissions.

Pick-up trucks in the U.S. are more popular than ever, with about 270 pick-up trucks sold every 90 minutes or roughly 6,500 per day. What was once just a haul and tow machine, pick-ups have evolved into a more upmarket and comfortable image builder. That new appeal has driven the F-150 to base prices of \$38,000 and with options, can easily exceed \$75,000.

Despite the current administration in Washington, automakers are convinced that environmental regulations will become more stringent over the next ten years and they are preparing and budgeting for a new electric world ahead.

Ford is planning to invest \$11 billion in EVs, and GM is planning to introduce an all-electric Cadillac by 2022. Additionally, autonomous vehicles in various stages will also be coming to market over the next few years. Level 1, which is the designation for some assisted driving, is already available on many 2019 models. Ford has announced that a Level 3 vehicle will be launched by 2021. Level 3 is just one step below a fully automated vehicle where the driver does not perform any driving functions. All auto makers are moving to EVs but the road may be detoured a bit by driverless vehicles and ride-sharing apps.

We can't discuss EVs without Tesla. While this automaker was the first western company to build a plant in China (with no partnership) and has built a very viable nameplate, it is challenged in its efforts to mass produce an "affordable" EV with their Model 3 as the perfect example. The market for expensive EVs is slowing down and the need for a reasonably priced EV that will appeal to the masses is still an elusive goal to date.

The growth for most automakers will come from electric vehicles as they have the infrastructure and resources to build EVs on a mass scale. Government environmental rules and the market's appetite for EV's will determine the exact timetable for mass production.



This Ford prototype will debut in 2021 as a Level 3, autonomous vehicle, which is one step below Level 4, which is driverless. This achievement by Ford is widely considered a major technology breakthrough for autonomous driving.

Autonomous Vehicles

Stanford University economists predicts that passenger miles will be autonomous by 2030 and while that development is decades away, it's clear that level 3 autonomous driving will be a reality by 2021. Fleets vehicles will be an immediate customer for autonomous vehicles. (Fleet vehicles are groups of vehicles owned or leased by a business or government agency. Examples include car rental firms, taxicab companies, public bus companies, and police departments) Fleets will take full advantage of the ease of maintenance, lack of labor needed, and the manufacturing process of EVs, making them more visible and acceptable to the public.

Ride sharing and car sharing such as Uber and Lyft are evolving into everyday use by millions of urban customers and could disrupt the auto industry as an entire new group of customers want only to get from point A to B without ownership.

Customer Evolution

The largest potential disruption to the auto industry may come from people born after 1995. Generation Z, which is at its oldest is 23, is in a rather large financial prism of student debt, sky rocketing housing costs, wage stagnation, and the first generation to see existing jobs being taken over by technology on a wider scale.

Compressed incomes and the ease of ordering Uber has made Gen Z a less likely customer of a new \$35-40,000 SUV and more likely a small sedan buyer (smaller dealer profit) or not a buyer at all.

Along with Millennials, these two bookend generations have different perspectives, expectations, and behavior. The technology and software revolution have created more access to all forms of communication and commerce and these two groups were basically born with laptops and the internet.

Automakers must adapt to these demographic shifts in buying vehicles and “bring them along” as the next generations of vehicle customers.

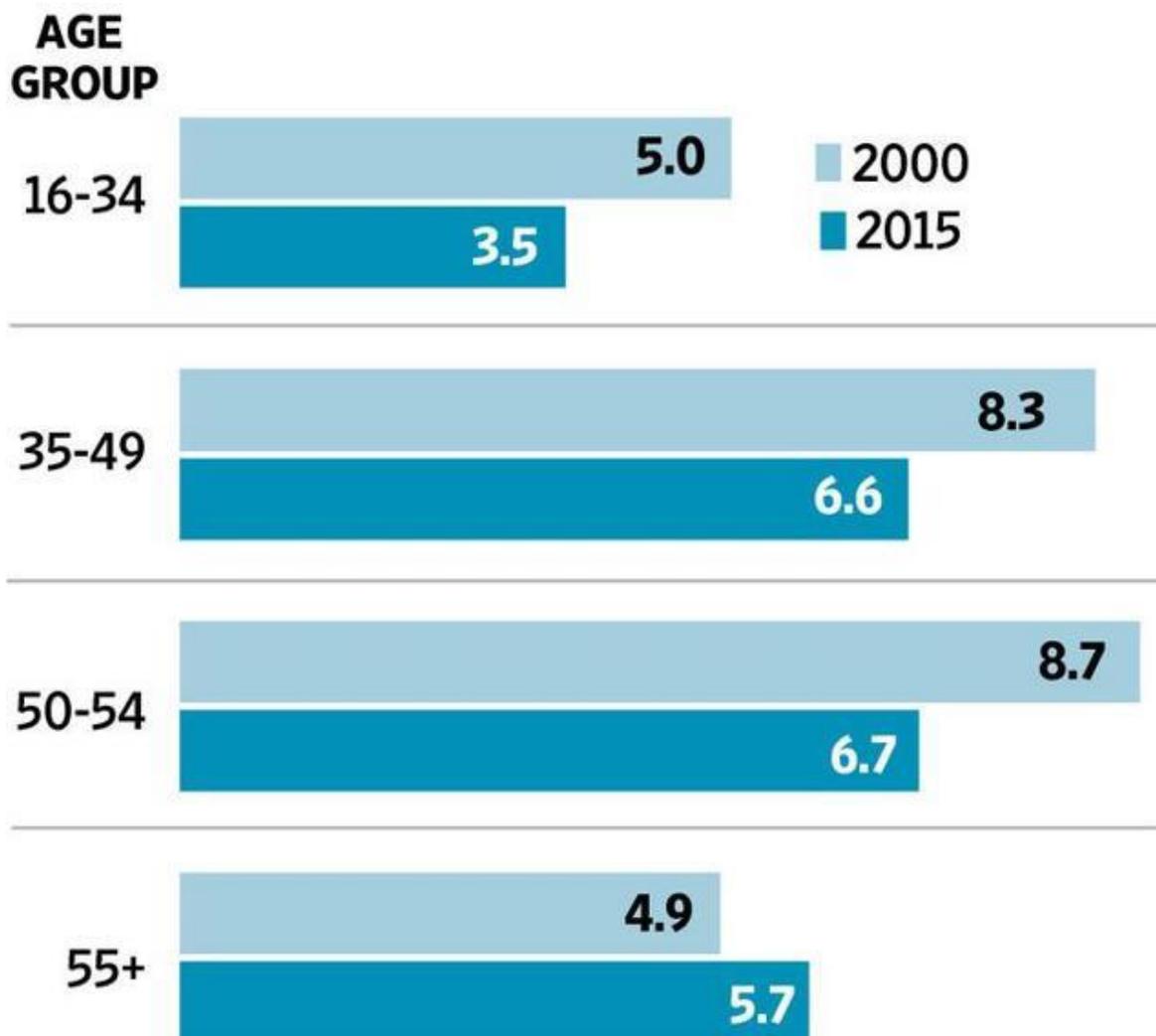
The current rush to chase these two elusive age groups is one reason why the automakers are spending so heavily in digital advertising platforms as these two age groups are the heaviest users of digital and social media platforms. It is the ultimate irony that automakers are chasing these two groups relentlessly through digital advertising while year over year sales remain flat to down and the average age of U.S. vehicle buyers continues to grow older. Where is the ROI for digital? Has the industry grown as a result of this focus on digital? The sales performance of almost all automakers cannot support this level of digital spending in 2019.

First time buyers under 30, the heavy users for digital, will gravitate towards sedans and smaller cars as we now know they are cheaper to maintain and require less gas. If the real profit is in the more expensive SUVs and light trucks, logic would dictate this market is not the heavy digital user.

The following chart should support the use of more traditional media to attract vehicle customers as the average age of Southern California vehicle buyers is 42, which is a world away in income, employment, and attitude from a 23-year-old.

Going the Way of the CD?

The average age of new-vehicle buyers increased by almost 7 years from 2000 to 2015, due partly to an aging population, but also to changes in buying patterns. New vehicles purchased per 100 people per year by age group:



Source: Christopher Kurz, Geng Li and Daniel Vine, "The Young and the Carless? The Demographics of New Vehicle Purchases," FEDS Notes, 2016

THE WALL STREET JOURNAL.

The Compelling Case for Broadcast Radio

The factual case for automakers to invest heavily in Broadcast Radio and their listener focused digital platforms could never be stronger than right now and here's why:

The auto industry has one eye on the present and two eyes on the future and based on what is facing them, we understand their preoccupation. However, dealers need support now and in years to come and misdirected requirements of 50-75% of their dealer coop funds to be spent with more digital than broadcast is simply misguided. The audience they are chasing with digital is simply not in the market to afford a \$35-55,000 SUV.

- In Southern California, the average age of Radio listeners is 45, while the average age of vehicle buyers is 43.
- Southern California Radio delivers 2.4 million people every week who plan to buy a new vehicle. That represents \$52 billion in planned vehicle purchases.
- Broadcast Radio captures 9 in 10 minutes with in-car audio.
- 60% of decided vehicle buyers are 37-51 with higher incomes and are considered "heavy users" of Broadcast Radio.
- There are no bots, time shifting, or ad blockers in Broadcast Radio.

And the urgent and convincing message to all auto makers is simply this:

- 23% of all listeners in the market for a vehicle will visit a dealership after hearing a dealer ad on Radio.
- 13% or 1 in 10 listeners in the market for a vehicle will visit the dealership and buy a vehicle.
- These two data points alone define attribution and real sales results.

Despite all of this and more overwhelming evidence that supports the value and power of Broadcast Radio to sell vehicles, automakers allocate a disproportionately small percentage of their budgets to Radio while Radio most likely represents the driving influence behind 60% of their vehicle sales.

The rationale for this inexplicable gap in ad spending on Radio has yet to be factually articulated and most likely because there is no logical explanation for Radio's under use in media spending. If digital spending now takes up 63% of all automotive ad spending, where is the growth in sales over the past four years? There is a growing gap and disconnect between automakers and today's auto customer on what they will and will not respond to.

The following chart projects how advertising media was allocated for automotive spending in 2018 in the United States. We'll let the dollars and shares by media speak for themselves. With another down to flat year facing the auto industry in 2019, the time for reevaluation and reallocation of media spending is now, right now.

TOTAL U.S. 2018 PROJECTED NEW CAR ADVERTISING SPENDING

IN \$ MILLIONS

Media Choice	Dealers	Co-op*	Dealers + Co-op	Dealer Assoc.**	Auto Manuf.	New Car Ad \$\$ Totals	Share
Broadcast TV	\$441.0	\$364.9	\$805.9	\$208.3	\$1,047.5	\$2,061.6	7.5%
Cable	\$265.7	\$295.3	\$560.9	\$187.9	\$1,355.3	\$2,104.1	7.7%
Cinema	\$197.3	\$49.4	\$246.7	\$123.7	\$302.6	\$673.0	2.5%
Direct Mail	\$641.3	\$157.7	\$799.0	\$45.1	\$202.6	\$1,046.7	3.8%
Directories	\$27.5	\$21.5	\$49.0		\$27.6	\$76.6	0.3%
Newspapers	\$476.1	\$457.4	\$933.6	\$147.4	\$560.4	\$1,641.4	6.0%
Online/Digital	\$5,435.5	\$4,144.4	\$9,579.9	\$228.4	\$7,708.6	\$17,516.8	63.8%
Other Print	\$196.1	\$151.8	\$347.9	\$131.4	\$228.0	\$707.3	2.6%
Outdoor	\$64.3	\$70.3	\$134.6	\$34.8	\$248.6	\$418.0	1.5%
Radio	\$497.2	\$116.7	\$613.9	\$184.7	\$79.6	\$878.2	3.2%
Telemarketing	\$212.9		\$212.9		\$106.9	\$319.8	1.2%
Projected '18 Market Totals	\$8,454.8	\$5,829.4	\$14,284.2	\$1,291.7	\$11,867.8	\$27,443.6	100%

*Purchased by dealers, financed by manufacturer credits
 ** Costs shared between member dealers and manufacturers

Source: Borrell, 2018; © 2018 Borrell

As we understand the current market conditions for auto makers and their dealers, and the direction the auto industry is moving to, Broadcast Radio should not be the underutilized advertising resource it currently is, but rather, Radio should become the essential advertising platform to insure the auto industry's current and future growth.

The Southern California Broadcasters Association

Los Angeles, California

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Sources:

Automotive News, CNBC, VOX, Wards Intelligence, Seeking Alpha, Bloomberg, J.D. Power, Automotive World, Environmental Protection Administration, General Motors, Ford Motor Company, Volkswagen, Nissan, Hyundai/Kia, Wall Street Journal, Stanford University, School of Economics, Nielsen Audio, Nielsen/Scarborough, U.S. Labor Department, Borrell and Associates. Tesla, National Automobile Dealer Association, Kelley Blue Book, New York Times. Fleetcarma.com, U.S. Bureau of Labor Statistics, Adweek.