

BENTON AUTO SALES, INC., AND THE CHANGING U.S. AUTOMOBILE MARKET

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Paul Benton was concerned. While sales in all sectors of the automobile industry had been increasing for the last 3 years, sales for his retail used vehicle dealership were decreasing. Located in Logan County, West Virginia, Benton Auto Sales, Inc. has 30 years of history in a region that had changed over that time. In addition, the retail automobile market had changed a lot over the last decade, with consumers doing more of their information search and sometimes their buying online. In face of the declining sales in his family business, Mr. Benton needs to decide what he should do. How can he help his business thrive again?

INTRODUCTION

As Paul Benton, owner of Benton Auto Sales, Inc., a retail used vehicle dealership, sat at his desk, and looked at a spreadsheet of his business financials, he was concerned. Despite industry growth for the last 3 years, in new, used, wholesale, and online retail light vehicle sales, his retail dealership's sales had declined.

Mr. Benton had been in the automobile industry for nearly 40 years, starting just out of high school with a job at a new car dealership in in Williamson, West Virginia which sold the Chevy, Buick, Chrysler, Dodge, and Cadillac brands. Less than 10 years later he opened his own used retail vehicle dealership in the nearby Logan, West Virginia, incorporating 1 year later.

Wrapping up the year-end data for 2017, and looking to 2018, Mr. Benton was concerned about what business changes needed to be made in 2018 to address this decline in sales.

THE U.S. AUTOMOBILE INDUSTRY

The automobile in the United States is comprised of 1) New Car Dealers, who sell new cars as well as used cars to the end consumer, 2) Used Car Dealers, who exclusively sell used vehicles to the end consumer, 3) Wholesale Dealers who sell new and used cars to businesses, and 4) Online Car Dealers who sell automobiles to consumers and businesses using the internet. Sales for these four types of dealers can be found in Table 1.

TABLE 1

U.S. CAR DEALER INDUSTRY REVENUE IN BILLIONS, 2012-2017

Year	New Car Dealers	Used Car Dealers	Wholesale Dealers	Online Car Dealers
2012	\$777.3	\$107.7	\$616.2	\$23.2
2013	\$835.2	\$109.9	\$635.7	\$25.5
2014	\$875.6	\$115.8	\$648.9	\$26.5
2015	\$930.2	\$123.8	\$687.7	\$28.7
2016	\$957.2	\$130.5	\$690.2	\$29.4
2017	\$961.4	\$134.9	\$687.2	\$30.8

Source: IBISWorld Industry Reports

THE U.S. USED AUTOMOBILE INDUSTRY

A \$334.9 billion dollar industry in 2017, companies in the U.S. Used Car Dealers industry exclusively sell used passenger vehicles, including passenger cars, light trucks, sports utility vehicles (SUVs) and passenger vans. In addition to selling used passenger vehicles, dealers also provide financing and insurance services to their customers. In fact, examining products and services segmentation in the Used Car Dealer Industry, 64.7% is used cars, 18.2% used vans, minivans, trucks, and buses, 12.5% parts and repair services, and 4.5% financing and insurance (Wood 2021).

In recovery after the Great Recession (2007-2009), U.S. retail light vehicle sales (in units) increased from 9 million vehicles in February of 2009 to 17.5 million vehicles in February of 2017 (U.S. Bureau of Economic Analysis, 2022). At the same time industry revenue increased in the new car, used car, wholesale, and online markets.

KEY DRIVERS OF THE USED CAR DEALER INDUSTRY

The leading factors having an impact on business performance in the Used Car Dealer industry include per capita disposable income, the price of new cars, aggregate household debt, the average age of the vehicle fleet and interest rates.

Per Capita Disposable Income. When consumers have more money to spend, they are more likely to make purchases of expensive, discretionary items such as vehicles. During times when disposable income decreases, discretionary spending declines, with consumers putting off such large purchases. Table 2 shows per capita disposable income from 2012 to 2017.

TABLE 2
U.S. PER CAPITA DISPOSABLE INCOME

Year	2012	2013	2014	2015	2016	2017
PCDI	\$39,784	\$39,002	\$40,309	\$41,684	\$42,207	\$43,234

Source: U.S. Bureau of Economic Analysis

The Price of New Cars. A less expensive alternative to buying a new car, the appeal of purchasing a used car decrease (as do sales) when new cars are comparatively affordable. As new car prices rise, demand for used cars increases. Table 3 shows the U.S. average price of a new car from 2012 to 2017.

TABLE 3
U.S. AVERAGE PRICE OF A NEW CAR

Year	2012	2013	2014	2015	2016	2017
Average Price of a New Car	\$31,436	\$32,890	\$34,367	\$34,428	\$35,530	\$36,133

Source: Kelley Blue Book

Aggregate Household Debt. High levels of debt can be an obstacle for consumers wanting to purchase a car. The more debt that a consumer accumulates, the more difficult it is to qualify for additional debt such as car loans. Table 4 shows the level of U.S. aggregate household debt from 2012 to 2017.

TABLE 4
U.S. AGGREGATE HOUSEHOLD DEBT (\$T)

Year	2012	2013	2014	2015	2016	2017
Aggregate Household Debt	\$13.7	\$13.5	\$13.5	\$13.5	\$13.7	\$13.9

Source: IBISWorld, November 2021.

Average age of vehicle fleet. IBISWorld (2021) defines the average vehicle fleet age as an “equally weighted average age of automobiles and trucks that are registered in the United States.” The average age of vehicle fleets is used to forecast future vehicle purchases. The average age tends to decline in periods of economic growth because people are more likely to purchase new cars. During poor

economic conditions or a recession, average vehicle fleet age increases, and this increase represents pent-up demand for vehicles and signals potential for future opportunity in the industry. Table 5 shows the average age of the U.S. vehicle fleet from 2012 to 2017.

TABLE 5
AVERAGE AGE OF U.S. VEHICLE FLEET (YEARS)

Year	2012	2013	2014	2015	2016	2017
Average Age of Vehicle Fleet	11.2	11.4	11.4	11.5	11.6	11.7

Source: IBIS World, January 2021.

Interest Rates. Interest rates are important in the automobile market because car purchases are often financed. Demand will fluctuate with interest rates, decreasing when the cost of borrowing money rises. Table 6 shows U.S. interest rates from 2012 to 2017.

TABLE 6
U.S. INTEREST RATES

Year	2012	2013	2014	2015	2016	2017
Average Yield	0.15%	0.10%	0.09%	0.15%	0.42%	1.07%

Source: Board of Governors of the Federal Reserve System

Overall, the economy grew 2.3% during 2017, with consumers shopping, businesses investing, and the stock market booming. Consumer confidence is the highest it has been and unemployment the lowest since 2000 (Gillespie, 2018).

CHANGING TECHNOLOGY IN THE AUTO INDUSTRY

Over the last decade technology in automobile has advanced significantly. A new vehicle today has the ability to tell you what is behind you, what is in front of you, give you directions, change cruise control settings due to traffic, brake for you, alert when you change lanes and aid you to stay in your lane, change windshield wiper settings based on the rain, heat and cool the seats, heat the steering wheel, and so much more. In addition to the benefits to the consumer, these complicated systems can also tell technicians what is wrong in just a few minutes. With the correct scan tool, a technician can communicate with the multiple computers and modules in a vehicle and find where an issue originates within mere minutes. As a result of improved quality and technology, U.S. consumers are keeping their vehicles longer.

CITY OF LOGAN, IN LOGAN COUNTY, WEST VIRGINIA

Situated within the same named county, the city of Logan is located along the Guyandotte river in southwest West Virginia, near the Kentucky border. Historically a trading center for logging and coal, this area of Appalachian was made famous by the notorious mountain-family feud between the Hatfield and McCoy families. The city of Logan reached its largest population of over 5,000 people in the early 1940s, with the population beginning to decline after World War II as the coal industry became increasingly mechanized.

Part of the Appalachian region, Logan County is currently characterized as a distressed county by the Appalachian Regional Commission (2022), having high unemployment, low per capita income, and high levels of poverty. With a population of 33,030 people in 2017 (US Census Bureau, 2022), Logan County has a median household income of \$34,925 compared to a national median household income of \$62,626, see Table 7.

TABLE 7
LOGAN COUNTY AND US MEDIAN HOUSEHOLD INCOME

Year	Logan County Median Household Income	Year	U.S. Median Household Income
2012	\$33,542	2012	\$57,623
2013	\$35,773	2013	\$59,640
2014	\$36,437	2014	\$58,725
2015	\$35,615	2015	\$61,748
2016	\$35,667	2016	\$63,683
2017	\$34,924	2017	\$64,557

Source: U.S. Census Bureau

Mr. Benton reflected on the changes in his region since the start of his career in 1979. At a peak in population in 1978, Logan County had 51,400 residents. Since then, he had watched the county decline in population.

THE US COAL INDUSTRY

Because the coal industry is so important to his region, Mr. Benton had followed it closely over his career. He recognized that the fate of Logan County (and its businesses) was tied closely to Coal production, a significant employer in the area. When he started in automobile sales, the coal industry and its workers were flourishing. The United States has the largest coal reserves and resources in the world. But over time, the industry changed, become more mechanized, requiring less labor. Using technology, coal production has become much more efficient,

with a sharp increase in labor productivity, from 1985 to 2000, (2.74 to 7.02 average production per employee hour) creating more coal per man-hour (Humphries, 2017).

While coal production remained relatively stable from 1985 to 2015, the number of mines in the U.S. has decreased over this time, with 3,355 mines in 1985 declining to 834 mines in 2015. Total mine employment also decreased over that same time with 169,300 workers in 1985 and only 65,000 employees in 2015, with a small rally in employment from 2000 to 2010 (Humphries, 2017).

In 2011 heavier coal regulations were beginning to be implemented across the country forcing many small coal mines, like the ones in Kentucky and West Virginia to shut down; as a result, Mr. Benton's customer base was affected significantly. Historically, 70% of his customers were either employed by a coal company or were retired/disabled coal miners and their respective families.

BENTON AUTO SALES, INC.

Over the previous thirty years Paul Benton had guided the family business he created through many changes including upgrading office space and building a state-of-the-art automotive facility at a new location. But now, as his sales decline (see Table 8) while the automobile industry is performing well, he was concerned for the future of his business. As his son and daughter were soon to enter college, he wanted to be able to help pay for their education and give them opportunity to work in the family business if they wanted.

TABLE 8

BENTON AUTO SALES, INC. YEARLY SALES

Year	2015	2016	2017
Sales	\$1,192,500	\$960,570	\$915,000

Selling used cars and offering their customers financing, Benton Auto Sales, Inc. has approximately 25 cars ready for sale on any given day and another 30 that are either repaired or used for parts. The cars the dealership currently carries tend to be lower value used cars with their inventory value being \$10,000 or less. The dealership has a minimal online presence, with no website.

BENTON AUTO SALES, INC.'S CURRENT TARGET MARKET

Historically, the target market for Benton Auto Sales, Inc. was geographically defined with customers coming from the region around his business locations. At the start of his career, when the region was flush with the benefits of a thriving coal industry, Mr. Benson's customers purchased work trucks, sports cars, family cars, and toys such as motorcycles and ATVs. Many miners were making over \$100,000

per year and lived a lavish lifestyle, swapping vehicles often. Over time, Mr. Benton had learned what his customers wanted. Young miners fresh out of high school would buy a big flashy truck, while an older miner who had been in the industry for over a decade would be more likely to find just a decent truck to get them back and forth to work. By that time, the miner understood that the regular old work truck and the big fancy truck would both meet the same fate due to harsh mine conditions and coal dust which would have them ready for the junkyard in the same amount of time. Coal miners' spouses wanted something to haul the family in. Everything was a family affair, from a Monday evening dinner to vacation every year, the family was always involved. Best sellers were economy cars, minivans, and crossovers. Mr. Benton's customers tended to be loyal, buying multiple cars from the dealership and often swapping cars out every few years. In fact, his original customers were even bringing in their children to buy, creating a second generation of loyal customers.

As the coal industry changed, the economy took a sharp downturn. People were out of work and unable to pay their bills. New vehicles were being repossessed by the truckload and cheap clunkers were replacing them at an alarming rate. Those that could get jobs elsewhere were leaving the area in droves. In addition, customers varied in credit worthiness and job history. Coal mining companies often competed for the same employees, with coal miners jumping from job to job looking for the highest rate of pay possible for the area. However, the job changes reflect negatively on the proof of income necessary for financing.

Many of Mr. Benton's customers couldn't afford a new or slightly used car, so they shopped for older models or something that they can afford. Customers often wanted to finance with a low payment and a short term. Many of their customers can't get a loan from the bank to pay for their vehicle, so the Benton Auto Sales, Inc. has other channels to help customers finance their automobile. Benton Auto Sales, Inc. utilizes a Buy Here Pay Here financing option. This allows them to tailor the note to the customer and is typically a 12-24-month term.

THE CHANGING RETAIL AUTO MARKET

As Mr. Benton looked at his industry today, he knew that how people are now buying cars is changing. In fact, these changes in car buying reflect changes in consumer behavior overall, and the impact of the internet on consumers. When consumers engage in information search, to help with their decision making, they overwhelmingly start online. A McKinsey study shows that car consumers are doing more research online, which leads to fewer dealership visits (LeBeau 2014). Getting their information from online sources, the average car buyer visits just 1.6 auto dealerships while car shopping, compared to visiting 5 dealerships 10 years ago. The internet has become a major player in driving automobile sales.

Beyond searching for information online, car consumers can shop online, with the option of buying from dealers directly, using third-party websites such as Edmunds.com, Autotrader, and Cars.com, and making purchases through third party referral such as Costco's Auto Program. In this situation, instead of visiting multiple dealerships and haggling over price, a buyer can work through Costco who then puts them in touch with a local partner with a preset price. Customers using this service pay \$1000 less on average than the customer visiting dealerships on their own trying to get the best price.

In addition to being additional competition, these third-party websites are also an alternative channel for sales. Third-party websites do not advocate for or favor any specific vehicle brands. They provide unbiased content and list new and used vehicles for consumers to buy. Dealers, used and new, can participate at these sites. Using these sites tends to sell vehicles faster than with traditional methods. But price competition means that participating dealerships need to lower prices to remain competitive with other dealers on the site leading to lower profit per sale. However, if we have enough cars, this partnership increases our sales volume which lowers floor plan financing expenses (paying interest on inventory until it sells). This decrease in interest expense helps augment the loss in profit in using this channel to sell vehicles.

The drawback of this channel highlights an overall issue caused by the internet; online resources allow consumers to compare vehicle prices as well as online car sales. The internet has made price easily accessible to customers. In the past when a customer was ready to buy a vehicle they had to travel from dealer to dealer and find what vehicle they liked best and who offered the best deal. Now it is all available online. In addition to pricing information, consumers are also knowledgeable about the vehicle, vehicles value new and used, quality, finance charges, availability, and sometimes the profit margin that the seller makes in a closing deal. The customer has the power in the relationship now, where the dealer had the power in the past.

Changes in technology and the industry have also improved the quality and reliability of used cars. The willingness of dealerships to offer "certified used" automobiles and the use of resources such as Carfax, has taken some of the mystery out of a vehicle's past. These factors have helped change consumer attitudes about used automobiles and increased their sales.

THE WHOLESALE AUTO MARKET

Companies in the U.S. Automobile Wholesaling industry, wholesale a wide range of new and used vehicles, including automobiles, light trucks, motor homes, heavy-

duty trucks, trailers, and motorcycles. Automobile wholesalers do not sell motor vehicle parts or tires (Thomas 2021). This business-to-business market sells vehicles at a price that is less than what retail customers pay.

Key buyers in this industry are U.S. new car dealers, U.S. used car dealers, U.S. recreational vehicle dealers and U.S motorcycle dealers. Consumers in the U.S. are a 2nd tier buyer. Sales in the industry are comprised of 60% new cars, 20% new light trucks and SUVs, 7% used automobiles, 10% heavy trucks and 3% other. In 2017, industry revenue was \$687.2 Billion. Like the used car market, key drivers in this industry include per capita disposable income and the price of new cars.

Mr. Benton wondered if exploring this wholesale market by finding vehicles that other dealers needed and purchasing them at a low enough price that they could make a profit when sold to these dealers might work. Throughout their years of operation, Benton Auto Sales, Inc. had developed a strong network of new and used car dealerships that would sell them vehicles and in turn Benton would sometimes sell these dealers vehicles. Mr. Benton wondered if perhaps he should increase the businesses focus on this wholesale market. While profit per vehicle is lower in this market, if they could create enough volume, it might be profitable enough.

SUMMARY

Paul Benton is concerned. While sales in all sectors of the automobile industry have been increasing for the last 3 years, sales for his retail used vehicle dealership decreased. In face of the declining sales in his family business, Mr. Benton needs to decide what he should do. How can he help his business thrive again?

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