

FINAL REPORT

**Motor Vehicle Sales Authority of British Columbia (VSA)
ENVIRONMENTAL SCAN**

Prepared by:
R.A. Malatest & Associates Ltd.

October 2008

EXECUTIVE SUMMARY

Highlighted below are the key issues currently affecting BC's economy and automotive retail sector.

Recent economic trends have underscored the considerable volatility and risks associated with anticipating future economic growth in the province. For example:

- Crude oil prices have changed by more than 50% during the period from July to October 2008.
- The Canadian dollar has experienced a sharp devaluation, most of which occurred in an eight week period starting in late August 2008.
- Forecast agencies have reduced BC's economic growth by one-half for 2009 compared to previous forecasts published in early 2008.
- British Columbia will experience slower growth but not a recession, primarily due to the positive impact of the 2010 Winter Olympics as well as continued investment in mining/energy projects.

Economic uncertainty and rising fuel prices have adversely affected vehicle sales in late 2008.

Economic turbulence has impacted consumer confidence, with the result that major purchases – including homes and automobiles – have witnessed a marked decline in sales throughout much of the year. New vehicle sales in BC declined by more than 10% in July 2008 (latest data available), with sales of light trucks down by almost 20% for the same period.

With the recent reverse in oil prices, and the decline in interest rates, there is some optimism that vehicle sales will begin to recover. It should be noted, however, that in the light of current economic uncertainty, it is likely that consumers will continue to adopt a cautious attitude with respect to major purchases.

Total Automotive Sales in BC increased in 2007 relative to 2006, however, new motor vehicle sales in the first seven months of 2008 were down by 4.8% relative to the same period in 2007.

Total automotive sales in BC were estimated to be 580,062 units in 2007, up from 518,680 units in 2006 (+11.8%). Excluding private sales, total units sold in BC were 440,045 units in 2007, up from 399,348 (+10.2%). In July 2008, however, new vehicle sales in BC had declined by more than 10% (no data available for total sales).

While little data exists as to forecasts of new vehicle sales at the provincial level, the Bank of Montreal forecast suggests that new vehicle sales in Canada will decline by less than 2% in 2009. The Bank of Montreal cites several factors for this relatively positive outlook, given the deterioration in economic conditions - including the average age of vehicles in Canada and lower interest rates – which could stimulate major purchases.

The trend towards smaller vehicles, as well as price reductions for some vehicle types, resulted in an average price decline of approximately 1.0% across all vehicle types.

In 2007, approximately two-thirds (68.8%) of MVSA regulated sales (i.e., total sales excluding private sales) were through new car dealers. This share is down slightly from the 72.9% share held by new car dealers in 2006.

About one out of every four new-vehicle transactions in Canada includes a trade-in vehicle, down from about one of every three transactions two years ago.

The average age of trade-ins on new cars in 2008 (6.7 years) is up slightly from two years ago (6.3 years), while the average odometer reading remained stable at 118,000 km.

Cross-border vehicle purchases may decline.

The considerable increase in the number of vehicles purchased in the US and brought into BC in 2007 was the result of several factors – a high Canadian dollar and the delay in Canadian dealerships adjusting prices to adjust for exchange rate movement. In light of the recent decline in the Canadian dollar to below 0.85/US (October 2008), as well as publicized price reductions for new vehicles, it is expected that Canadian consumer purchases of US vehicles will abate.

BC residents are among the heaviest Internet users in Canada.

While rates of Internet use among Canadians increased in every province between 2005 and 2007, the rate in British Columbia was higher than the national average of 73%. This was attributed to high Internet usage rates in major census metropolitan areas in the Province. Internet penetration in Canada increased by 6% between 2004 and 2008 from 72% to 78%. The average number of hours spent online also increased during this period from 13 hours per week in 2004 to 17 hours per week in 2008. Canada ranks number one for Internet use by its eldest citizens with more than half of Canadians over 60 using the Internet regularly¹. Internet use in the US is similar with a reported 72.5% of Americans using the Internet as of June 2008².

Among late-model used vehicle buyers, the Internet has surpassed all other shopping methods as the source for locating the vehicle a buyer ultimately purchases.

In 2007, 23% of buyers of late-model used vehicles used an Internet vehicle locator or online classified ad service to find the vehicle they ultimately purchased. This is a 44% increase since 2006. 2007 was the first year that Internet use surpassed all other shopping methods for finding the used vehicle that the buyer ultimately purchased.

There is considerable turnover in BC's automotive sales force.

The decline in vehicle sales in 2008 may have contributed to the decline in the number of licenced salespeople. The industry in BC recorded a 9% decline in the number of licenced salespeople. Of particular concern is the high proportion (25.9%) of recently certified salespeople (took certification on June 30, 2007) who were no longer in the industry as of June 2008.

¹ CNW Group <www.newswire.ca/en/releases/archive/September2008/24/c7832.html>

² Internet World Statistics <www.internetworldstats.com>



MVSA Activities remained high in 2008 relative to 2007.

For fiscal year 2007/08, the total number of enquiries fielded by VSA was 4,027, down slightly from the 4,109 fielded in FY 2006/07. On average, 279 investigation files were active each month, which was comparable to the 387 investigation files that were active each month in FY 2006/07.



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SECTION 1: INTRODUCTION

1.1 Overview of the Automotive Retail Sector in BC and VSA

Motor dealers include establishments primarily engaged in retailing new and used automobiles, motorcycles and recreational vehicles. The motor dealer industry of BC consists of approximately 1,600 licenced dealers of new and used automobiles, light trucks, motorcycles, mopeds and RV's. There are approximately 7,200 automotive sales people in the province.

The Motor Vehicle Sales Authority of British Columbia (VSA) is an administrative authority delegated by the provincial government to administer and enforce the Motor Dealer Act and its regulations, the Business Practices and Consumer Protection Act as it relates to the sale of motor vehicles, and other related statutes. Founded in 2004 and formerly named the Motor Dealer Council of B.C. (MDC), the agency became one of the first examples of the B.C. government's new approach for administering public policy through a "delegated administrative authority."

The VSA regulates and licenses approximately 1,600 motor dealers and 7,200 salespeople and consumer-related business staff of dealerships. The VSA works with both industry and the public with respect to business practices, regulation, enforcement, complaint resolution, dealership inspections, consumer services, legislation reviews, advertising guidelines and all related issues.

The provincial government maintains responsibility for all policy and legislation governing the licensing of motor dealers including any future changes to the Motor Dealer Act.

As a not-for-profit organization, the VSA is led by a Board of Directors made up of consumer and motor-dealer industry representatives and the general public. The 11-member Board is selected through an extensive nomination process that involves consumer and industry associations, government and the general public. The Board is responsible for establishing strategic direction and overseeing the operations of the VSA while ensuring its financial and organizational viability.

1.2 Project Background

In October 2007, VSA released a report titled *Motor Vehicle Sales Authority of BC Environmental Scan*. The report detailed demographic and economic trends in BC, provided automotive retail industry data, identified market trends, presented VSA licence data, VSA consumer enquiry and compliance data and briefly outlined the VSA salesperson certification course.

The current report provides an update to and expands upon the 2007 report. Where possible and relevant, the current report makes comparison with the data contained in last year's report.

1.3 Methodology

The information presented in the 2008 report is a synthesis of information obtained through a variety of sources. The environmental scan was completed utilizing an iterative process as detailed below:

- Known sources of publicly available data were reviewed and evaluated according to their relevance to the BC automotive retail sector;
- An additional extensive review of potential online resources was conducted;
- VSA supplied data was reviewed and analysed; and
- Statistical data from BC Stats and Statistics Canada.

The current report is organized as follows:

Section 1: Introduction

Section 2: Demographic and Economic Trends

Section 3: Industry Data

Section 4: VSA Licence Data

Section 5: VSA Consumer Enquiry and Compliance Data

SECTION 2: DEMOGRAPHIC AND ECONOMIC TRENDS

2.1 Demographic Trends

According to the 2006 Census, the population of BC increased by 5.3% between 2001 and 2006. This was slightly lower than the national average population growth rate of 5.4%³. As of July 1, 2007, BC has approximately 4,380,300 people (based on post-census population estimates)⁴.

The bulge of the BC population pyramid continues to shift up, as the baby boomers continue to age. In 2006, for the first time, the median age of British Columbians went over 40 to 40.8. The median age was 38.4 in 2001⁵. These numbers were higher than the national median age reported for 2006 (39.5) and 2001 (37.6).

In 2007, seniors (age 65+) comprised 14.1% (617,800) of BC's total population^{6,7}. BC Stats projects that the proportion of seniors will increase to 14.3% (636,200) in 2008, and will reach 18.0% (874,600) over the next 10 years. The proportion of British Columbians who are age 80 and over was estimated to be 4.0% in 2007, and projected to increase modestly over the next 10 years to 4.5%. BC Stats noted that population growth in the future will be driven primarily by inter-provincial and international migration, as the natural course of population change due to births and deaths continues to stabilize⁸.

On the other end of the age distribution, the younger working-age groups (15-44) actually decreased by 1.4% (from 43.2% in 2001 to 40.5% in 2006)⁶.

Data released from the 2006 Census shows that the median total income for individual British Columbians in 2005 was \$24,867⁹, which was slightly lower than the national median total income (\$25,615)¹⁰. The median after tax income was \$22,785 for BC and

3 Statistics Canada. 2007. Population and dwelling counts, for Canada, provinces and territories, 2006 and 2001 censuses - 100% data (table). Population and Dwelling Count Highlight Tables. 2006 Census. Statistics Canada Catalogue no. 97-550-XWE2006002. Ottawa. Released March 13, 2007.

<http://www12.statcan.ca/english/census06/data/popdwel/Table.cfm?T=101&SR=1&S=0&O=A&RPP=25&PR=0&CMA=0> (accessed October 10, 2008)

4 Statistics Canada, CANSIM, table (for fee) 051-0001. Last modified: 2007-11-29.

5 Statistics Canada. 2007. Age and Sex, median age by sex along with age group ratios for both sexes, for Canada, provinces and territories - 100% data (table). Age and Sex Highlight Tables. 2006 Census. Statistics Canada Catalogue no. 97-551-XWE2006002. Ottawa. Released July 17, 2007.

<http://www12.statcan.ca/english/census06/data/highlights/agesex/index.cfm?Lang=E> (accessed October 10, 2008).

6 BC Stats. Table 5 British Columbia Population Distributions by Selected Age Groups Estimated (1971-2007) and Forecast (2008-2036). <http://www.bcstats.gov.bc.ca/data/pop/pop/project/bctab5.pdf> (accessed October 10, 2008).

7 BC Stats. Table 3 British Columbia Population by Selected Age Groups Estimated (1971-2007) and Forecast (2008-2036). <http://www.bcstats.gov.bc.ca/data/pop/pop/project/bctab3.pdf> (accessed October 10, 2008).

8 BC Stats. Infoline. Issues 7-29. <http://www.bcstats.gov.bc.ca/releases/info2007/in0729.pdf> (accessed October 10, 2008).

9 Statistics Canada. 2008. Presence of Income (9), Age Groups (5A) and Sex (3) for the Population 15 Years and Over of Canada, Provinces, Territories, Census Metropolitan Areas and Census Agglomerations, 2005 - 20% Sample Data (table). Topic-based tabulation. 2006 Census of Population. Statistics Canada catalogue no. 97-563-XCB2006013. Ottawa. Released May 01, 2008.

<http://www12.statcan.ca/english/census06/data/topics/Print.cfm?PID=94189&GID=838062&D1=0&D2=0&D3=0&D4=0&D5=0&D6=0> (accessed October 10, 2008).

10 Statistics Canada. 2008. Presence of Income (9), Age Groups (5A) and Sex (3) for the Population 15 Years and Over of Canada, Provinces, Territories, Census Metropolitan Areas and Census Agglomerations, 2005 - 20% Sample Data (table). Topic-based tabulation. 2006 Census of Population. Statistics Canada catalogue no. 97-563-XCB2006013. Ottawa. Released May 01, 2008.

<http://www12.statcan.ca/english/census06/data/topics/Print.cfm?PID=94189&GID=837928&D1=0&D2=0&D3=0&D4=0&D5=0&D6=0> (accessed October 10, 2008).

\$23,307 for Canada. The median total income for economic families in BC (\$65,787) was also lower than the national median (\$66,343)¹¹.

According to BC Stats¹², in 2007, the provincial per capita personal income was \$34,331. This represented a 5.1% increase from 2006 (\$32,660). On average, British Columbians earned slightly less than Canadians as a whole, with the national per capita personal income in 2007 being \$35,221.

According to BC Stats¹³, in September 2008, the seasonally adjusted unemployment rate in British Columbia was 4.6%. The seasonally adjusted unemployment rate for all of Canada was 6.1%. The provincial working age population was 3,658,600 as of September 2008.

2.2 Economic Outlook

While BC's economy witnessed strong economic growth in 2007 and the first six months of 2008, the recent crisis in financial markets, coupled with an economic slowdown in the province's major trading partner (US) suggests that BC's economic outlook will be subject to several risks over the next two years.

As highlighted in Chart 2-1, BC recorded very strong employment growth in 2007 and employment growth in the first eight months of 2008 was the second highest in the country. Only Alberta recorded higher employment growth during this same period.

¹¹ Statistics Canada. 2008. Earnings and incomes of Canadians over the past quarter century, 2006 Census. Statistics Canada catalogue no. 97-563-XIE2006001. Ottawa. Released May 01, 2008.

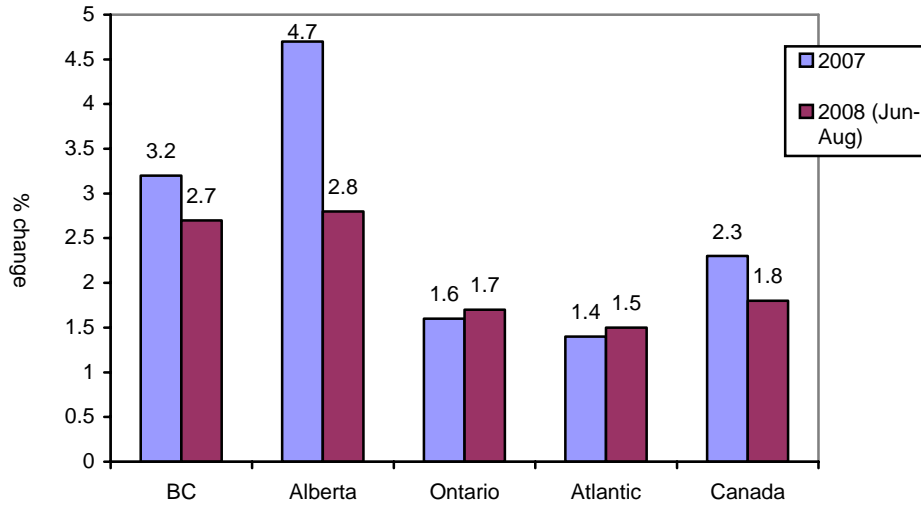
¹² BC Stats. Economic Activity: British Columbia and Canada 1990-2007. <http://www12.statcan.ca/english/census06/analysis/income/pdf/97-563-XIE2006001.pdf> (accessed October, 10, 2008).

¹³ BC Stats. Labour force statistics: Summary for September 2008—Actual and seasonally adjusted data table. http://www.bcstats.gov.bc.ca/data/bus_stat/bcea/tab1.asp (accessed October 10, 2008).

¹³ BC Stats. Labour force statistics: Summary for September 2008—Actual and seasonally adjusted data table.

<http://www.bcstats.gov.bc.ca/pubs/lfs/lfsdata.pdf> (accessed October, 10, 2008).

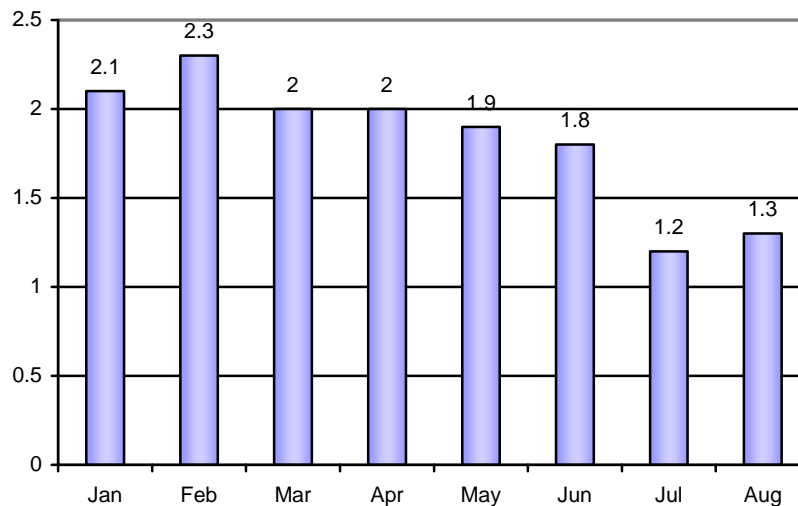
**Chart 2-1
Employment Growth – Selected Jurisdictions
2007 and 2008 (Jun-Aug)**



Source: BC Stats Labour Force Survey

Notwithstanding the strong economic growth in the first half of 2008, BC is not immune to world economic forces. The combination of fluctuating oil prices, significant decline in the US housing market (and the US economy in general) and a decline in total BC exports has resulted in a “slowing” of the BC economy. As depicted in Chart 2-2, on an annual basis, employment growth has been subsiding since early 2008.

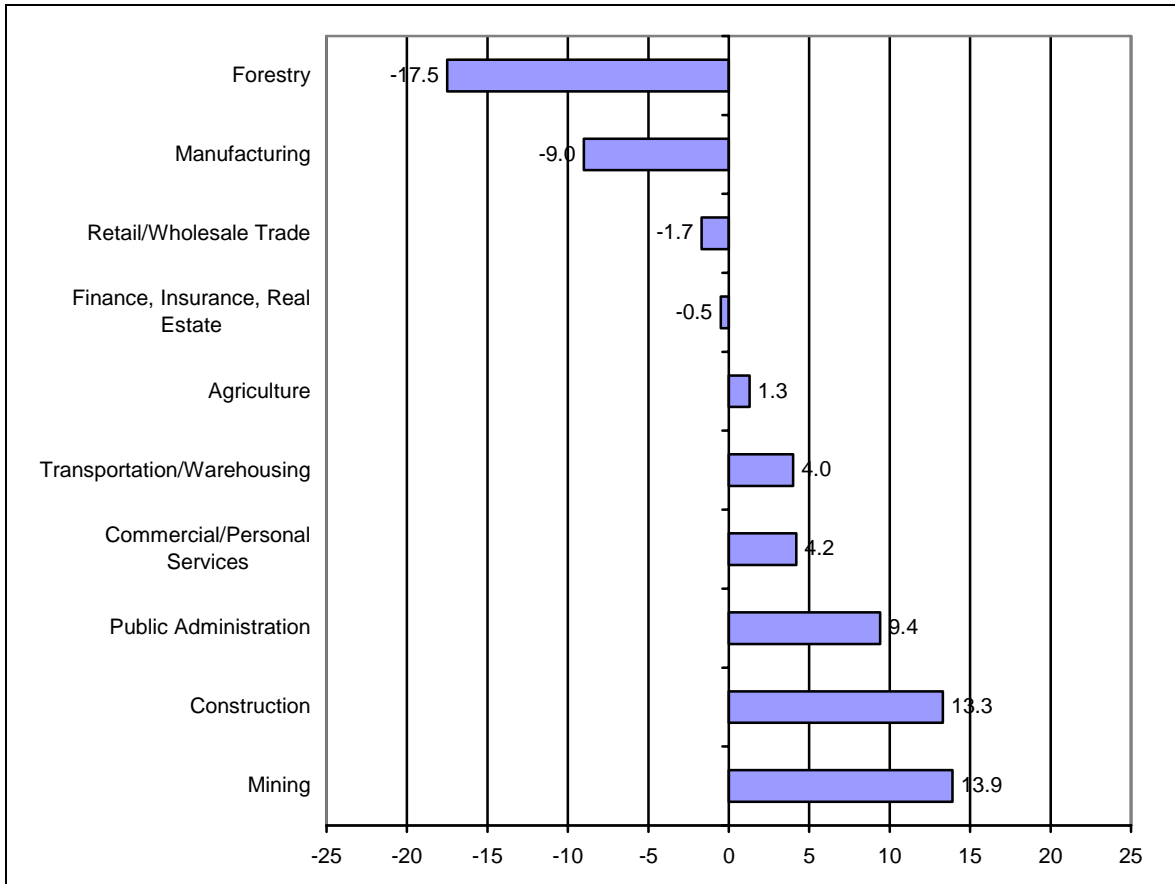
**Chart 2-2
BC Employment Growth- Year over Year Basis
2008 (Jan-Aug)**



Source: BC Stats (Labour Force Survey)

Analysis of employment growth shows that with the exception of the construction and mining sector, employment growth in most BC industries has been very weak, with many sectors such as forestry (-17.5%) and manufacturing (-9.0) experiencing significant decline in employment in the first eight months of 2008 relative to the same period in 2007.

**Chart 2-3
Employment Growth by Industry
% Change to date from same period in 2007-2008 (Jan-Aug)**



A review of key economic industries suggests that BC will continue to experience slower economic growth in 2009 relative to growth in 2007 and the first half of 2008. Incorporating the most up-to-date statistics for 2008 suggests that many sectors are experiencing slower growth and some sectors (forestry, manufacturing) have experienced a significant contraction. Notwithstanding the slower growth in many sectors, BC's economy is not expected to slip into recession in either 2009 or 2010 due to a variety of factors including:

- Continued economic stimulus of the 2010 Winter Olympics. Although construction of most venues should be complete by 2009, the Games themselves will contribute significant economic impetus to the Province. Research completed for the Salt

Lake City Winter Games in 2004¹⁴ suggests that the Games generated more than \$356 million in the State, excluding construction-related investment. BC government forecasts that the 2010 Olympic Games will generate approximately 76,000 person-years of employment using their “average” impact of which more than one-third will accrue in 2009 and 2010.

- Combined investment in energy/mineral developments. BC has attracted considerable energy investment due to favourable royalty structure relative to that of Alberta. In particular, it is expected that natural gas related exploration/production will continue to generate significant employment/revenues for the Province. In addition, several mining projects are in development or about to begin production.

It should be noted, however, that BC’s economic growth over the next two years will subside as the Royal Bank expects real GDP growth in 2008 and 2009 to be considerably below that of 2007.

**Table 2-1
BC Key Economic Indicators
Year to Date, Forecasts for 2008 & 2009**

	2007	Current Year to Date (2008)	Forecast-Royal Bank (2008)	Forecast Royal Bank (2009)
BC Real GDP	3.1%	N/A	1.2%	2.1%
Employment Growth	3.2%	2.6% (Jan-Aug)	2.4%	1.4%
Unemployment Rate	4.2%	4.3% (Jan-Aug)	4.4%	5.1%
Retail Sales	6.7%	2.9% (Jan-Jul)	3.0%	6.5%
New Motor Vehicle Sales	3.6%	- 4.8% (Jan-Jul)	N/A	N/A
Exports	- 5.6%	- 2.1% (Jan-Jul)	N/A	N/A
Housing Starts	7.6%	1.0% (Jan-Aug)	- 11.2%	- 25.3%
Inflation (CPI)	1.7%	2.1% (Jan-Aug)	2.5%	2.0%

Sources: BC STATS (2007, 2008 YTD), Royal Bank Provincial Outlook, October 2008.

While little data exists as to forecasts of new vehicle sales at the provincial level, the Bank of Montreal forecast suggests that new vehicle sales in Canada will decline by less than 2% in 2009. The Bank of Montreal cites several factors for this relatively positive outlook, given the deterioration in economic conditions - including the average age of vehicles in Canada and lower interest rates – which could stimulate major purchases.

2.3 Motor Vehicle Sales Outlook 2008 and 2009

While light vehicle sales through July 2008 in the US were roughly 10% lower than in 2007, Canadian sales were up 2.7% within the same time frame. Much of the market weakness is concentrated in light trucks. From peak of almost 55% in 2004, the share of trucks in total light vehicle sales in Canada and the US fell to 52% in 2007 and to 45.4%

¹⁴ The Economic Impact of the 2010 Olympic and the Para-Olympic Games –An Update.

by July 2008. In Canada, while light truck sales are down so far this year, passenger car sales have been strong, rising 8.8% through July¹⁵.

The Canadian and US automotive markets have been diverging for the past four years and that trend continued through the first three quarters of 2008. Total sales of light vehicles in the US are likely to fall by 14% (13.8 million units) by the end of 2008 whereas in Canada, sales are expected to remain in positive territory. Overall, in Canada, light vehicle sales are project to rise 1.7% in 2008 (1.682 million units)¹⁶.

In BC, new motor vehicle sales in the first seven months of 2008 were down by 4.8% relative to the sales in 2007 (Jan – Jul). Of further concern is the steeper decline in the value of vehicles sold, as the total value of new vehicles sold in British Columbia declined by 8.6%, suggesting that consumers are purchasing less expensive vehicles. Recent data (July 2008) suggests that the decline in auto sales is continuing, as Statistics Canada reported that BC new vehicle sales were down by 10.9% in terms of the number of units sold, and 13.6% in terms of dollar value. Light truck sales in BC also declined by 19.8% and 21.9% respectively in July 2008.

¹⁵ Auto Industry Monitor, BMO Capital Markets, Economic Research, August 2008.

¹⁶ Auto Industry Monitor, BMO Capital Markets, Economic Research, August 2008.

SECTION 3: INDUSTRY DATA

3.1 MVSA Regulated Sales

In 2007, it was estimated that there were 580,062 motor vehicles, motorcycles or recreational vehicles sold in British Columbia, which represents an almost 12% increase over the number of sales recorded in 2006. In terms of sales volume, total sales grew from \$8.7 billion in 2006 to \$9.43 billion in 2007 (an 8.4% increase). Analysis of the sales trends include the following:

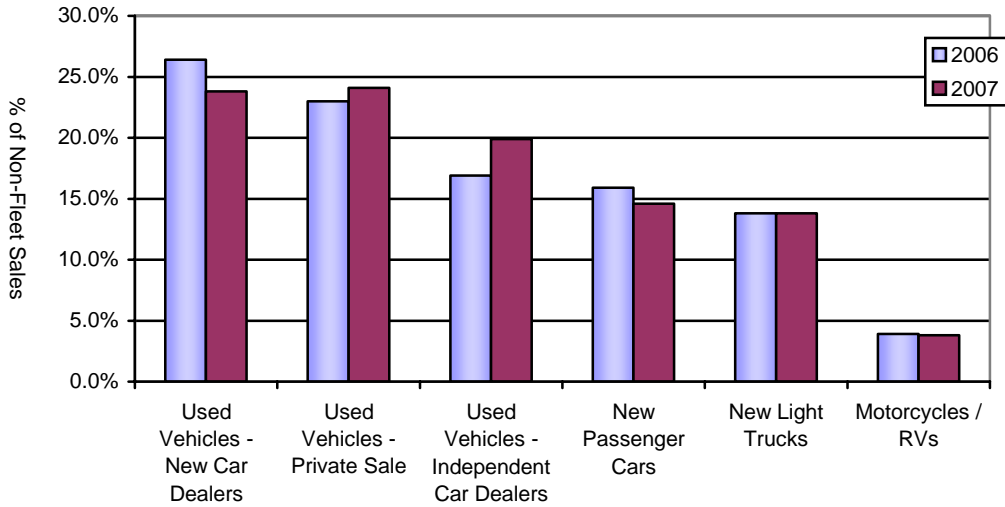
- Growth in new passenger car sales (+2.2%) was markedly lower than the growth in new light truck sales (+11.4%)
- The largest growth occurred in the sales of used cars by independent car dealers (+31.6%)
- Due to sales of lower average-priced vehicles, the total sales volume growth was lower than that of the growth in the number of units sold.

Table 3-1
Sales Trends in British Columbia (2006 – 2007)

Category	Units Sold		% Change	Total Sales (\$M)		% Change
	2006	2007		2006	2007	
New Passenger Cars (excl. fleet)	82,634	84,523	+2.2%	2,111.5	2,138.8	+1.1%
New Light Trucks (excl. fleet)	71,614	79,792	+11.4%	2,345.2	2,589.5	+10.4%
Used vehicles by new car dealers	136,881	138,267	+1.0%	2,091.8	2,094.0	+0.1%
Used vehicles – independent car dealers	87,744	115,514	+31.6%	1,100.7	1,436.0	+30.5%
Used vehicles – private sales	119,332	140,017	+17.3%	571.6	664.6	+16.3%
Motorcycles (street legal)	9,410	9,985	+6.1%	128.7	127.10	-1.2%
New & used RV's	11,065	11,965	+8.1%	350.0	375.1	+7.2%
Total	518,680	580,062	+11.8%	8,699.6	9,425.1	+8.4%

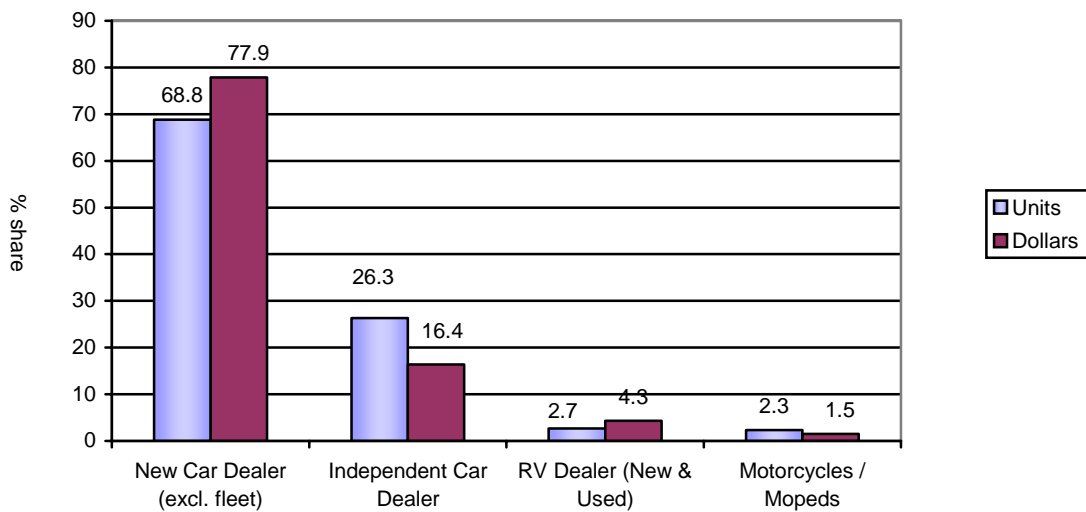
Source: Desrosiers Annual Report (cars, light trucks, used vehicles), Motorcycles and Moped Industry Council (Motorcycles), Statistics Canada (RV sales)

**Figure 3-1
Vehicle Sales by Group (2006 – 2007 % share)**



Excluding out the sale of used vehicles by private sale and combining data for the new car dealers, it is possible to identify the market share of VSA-regulated sales by vendor type. As highlighted in Chart 3-2, new car dealers accounted for the bulk of sales in terms of both of the number of units sold and the total value of vehicles sold.

**Figure 3-2
2007 VSA-Regulated Sales by Dealer Type
Units & Dollars**



3.2 Market Trends (BC, Canada and US)

The following sub-sections outline briefly, a number of trends that are expected to have an impact on the retail automotive sector in BC.

3.2.1 Average Prices

The average price for a new passenger car sold in BC declined from \$25,553 in 2006 to \$25,304 in 2007 – a decline of approximately 1.0%. The Canadian Automotive Dealers Association (CADA) reported that car prices (both new and used) declined by 0.9% in 2007 relative to prices in 2006.

3.2.2 Registered Vehicles in BC

There were 2.7 million registered vehicles in BC in 2007¹⁷, up from 2.6 million in 2006¹⁸.

3.2.3 Consumer and Business Confidence

Recent financial turmoil has likely affected consumer and business confidence although recent data (September 2008) suggests that the current financial crisis has not been captured in consumer/business confidence surveys. Recent studies indicate Canadian and BC consumers and business confidence is weak at best. For example:

- The Conference Board of Canada reported consumer confidence has increased slowly since June of 2008 although the current level (85.7) is well below that of 2006 (at which time the index was above 100) or the 2002 base year (100).
- After recording significant increases in capital investment during the past three years, planned investment in British Columbia in 2008 was expected to grow by less than 5% in 2008 which was well below the increases in capital investment recorded in 2005 (12.1%) or 2006 (20.0%).

3.2.4 Brand Selection

Japanese vehicles continue their domination over domestic and European brands (Consumer Reports' Annual Car Owner Satisfaction Survey)¹⁹ with Toyota and Honda continuing to be ranked as top automotive brands in consumer perception. (Consumer Reports Car Brand Perceptions Survey - December 2007)²⁰. However, the reliability of domestic models, led by Ford, and consumer confidence in domestic brands, continue to improve (Consumer Reports 2007 Annual Car Reliability Survey)²¹.

¹⁷ BC Stats Infoline, Issue 08-23, June 6, 2008

¹⁸ BC Stats

¹⁹ <http://www.yorkregion.com/article/64619>

²⁰ <http://blogs.consumerreports.org/cars/2008/01/carbrand-survey.html?resultPageIndex=1&resultIndex=5&searchTerm=car%20survey>

²¹ <http://www.consumerreports.org/cro/cars/used-cars/reliability/best-worst-in-car-reliability-1005/overview/index.htm?resultPageIndex=1&resultIndex=8&searchTerm=car%20survey>

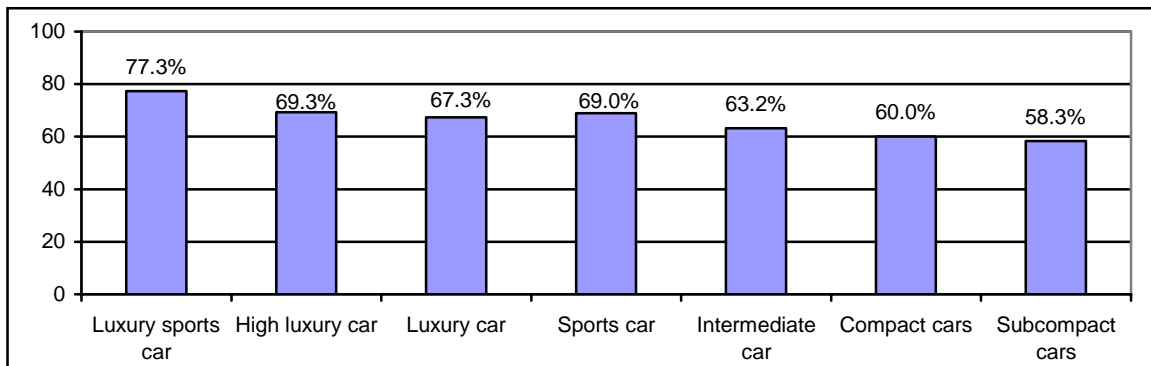
3.2.5 Trade-in Vehicles

About one out of every four new-vehicle transactions in Canada includes a trade-in vehicle, down from about one of every three transactions two years ago. The average age of trade-ins on new cars in 2008 (6.7 years) is up slightly from two years ago (6.3 years), while the average odometer reading remained stable at 118,000 km. About 17% of trades in 2008 have been “upside-down” trades, whereby the payout exceeds the value of the trade-in. This percentage has remained similar to that of two years ago. The trade cycle differs across regions, with the lowest rate of new vehicle trade-ins seen in Calgary/Edmonton and the highest rate seen in Vancouver²².

3.2.6 Scrapage and Disappearance Rates

Longevity trends may be changing due to changes in consumer preferences. Luxury and niche cars continue to have the longest survival rate while smaller, compact vehicles tend to have shorter survival time and, therefore, higher scrapage or disappearance rates.

**Figure 3-3
Passenger Car Survival Rates (Average 1984-2007)**



Source: Desrosiers Report, August 15, 2008

The recent trend to switch to more compact vehicles is expected to result in an increase in scrapage in the next few years²³.

3.2.7 Cross-Border Pricing Disparities

Automotive pricing disparities between Canada and the US received a great deal of media and consumer attention in the last quarter of 2007 and first half of 2008. Desrosiers reported that 2007 MSRP differentials are actually quite small for all but the high end luxury vehicles that represent just 6% of the market, arguing that the perception of huge price differentials was fueled by the media²⁴. In fact, Desrosiers reported that MSRP for compact cars decreased from 2006 to 2007. The average MSRP declined \$400 in 2007

²² Canadian Driver, September 29, 2008. <www.canadiandriver.com>

²³ Desrosiers Reports.

²⁴ Desrosiers Reports.

as compared to 2006²⁵. However, significant pricing disparities in the luxury vehicle segment persisted through 2007.

Table 3-2
Average Price Differential Between
Canadian-sold and American-sold Vehicles
Luxury Vehicle Segment

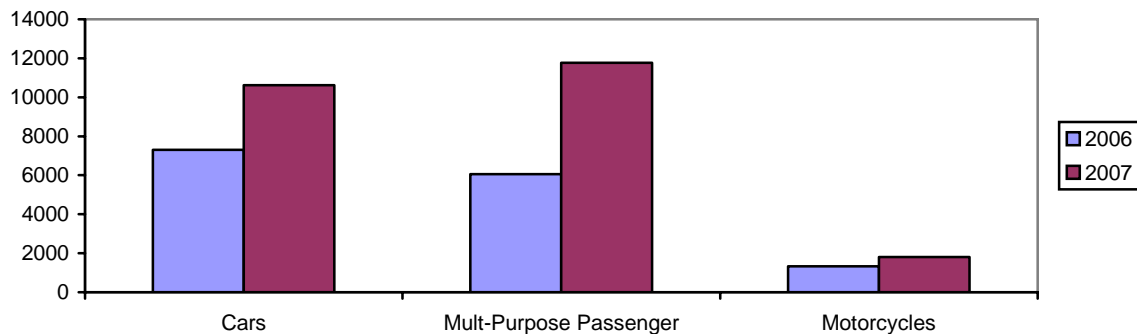
Overall	20.56%
Compact	11.76%
Sedan	23.29%
Van	22.24%
SUV	26.68%
Truck	22.34%
Hybrid	20.63%
Canadian Built	21.53%

MSRP's are based on the exchange rate and prior to the second half of 2007, the Canadian and US dollars had not been close to parity for years. By the second quarter of 2008, however, manufactures had responded and MSRP's in Canada had started to come down. In the last quarter of 2008, however, the US dollar has risen in value which may affect MSRP's.

3.2.8 Cross Border Shopping

The number of vehicles being imported into British Columbia from the US, increased substantially between 2006 and 2007. While Desrosiers reported that 2007 MSRP differentials were actually quite small for all but luxury vehicles there was a considerable increase in the import of US vehicles into BC. With the significant depreciation of the Canadian dollar in September-October 2008, it s expected that cross-border vehicle purchases will decline in 2009.

Figure 3-4
Vehicle Imports from US to BC



²⁵ ibid

3.3 Impact of the Internet on Sales and Dealerships

According to the latest *Canadian Internet Use Survey*, while rates of Internet use among Canadians increased in every province between 2005 and 2007, the rate in British Columbia was higher than the national average of 73%. This was attributed to high Internet usage rates in major census metropolitan areas in the Province. In Victoria for example, 83% of people aged 16 and over used the Internet and 78% of people aged 16 and over in Vancouver use the Internet²⁶. According to the recent Canadian Internet Project report from the second phase of a study on Canadian Internet habits, Canadians continue to be among the heaviest Internet users when compared to other countries. The study found that Internet penetration increased by 6% between 2004 and 2008 from 72% to 78%. The average number of hours spent online also increased during this period from 13 hours per week in 2004 to 17 hours per week in 2008. Canada ranks number one for Internet use by its eldest citizens with more than half of Canadians over 60 using the Internet regularly²⁷. Internet use in the US is similar with a reported 72.5% of Americans using the Internet as of June 2008²⁸.

The Internet has had a significant impact on how Canadians shop for both new and used vehicles. Many new car shoppers read car reviews, view photos, and price cars before ever entering a dealership²⁹. Overall, manufacturer and dealer Internet sources are the most widely used sources on the internet for new car buyers³⁰. Used car shoppers are also spending more time online but tend to concentrate more on independent websites³¹.

Consumers who use the internet are better informed when they first visit a dealership. For new car buyers, online research has largely supplanted time spent at dealerships, time spent negotiating, and the use of third party sources of information such as Consumer Reports. However, the *overall* time buyers spend searching for a car has increased with internet research.

According to one study, buyers who used the Internet, spent an average of 80 minutes less at dealerships during the course of their search for a car and spent 25 minutes less negotiating prices and on test drives. However, use of the Internet did not seem to have an impact on the extent to which buyers turn to friends and family for information when buying a car³².

Among late-model used vehicle buyers, the Internet has surpassed all other shopping methods as the source for locating the vehicle a buyer ultimately purchases. In 2007, 23% of buyers of late-model used vehicles used an Internet vehicle locator or online

²⁶ Statistics Canada, The Daily June 12, 2008.

²⁷ CNW Group <www.newswire.ca/en/releases/archive/September2008/24/c7832.html>

²⁸ Internet World Statistics <www.internetworldstats.com>

²⁹ Edmunds <<http://www.edmunds.com>>

³⁰ Ratchford, Brian T., Talukdar, Debabrata and Myung-Soo Lee (2007). The Impact of the Internet on Consumers' Use of Information Sources for Automobiles: A Re-Inquiry. *Journal of Consumer Research*, v. 34, no. 1, pp. 111-119. Chicago: University of Chicago Press.

³¹ Road and Travel. <roadandtravel.com>

³² Ratchford, Brian T., Talukdar, Debabrata and Myung-Soo Lee (2007). The Impact of the Internet on Consumers' Use of Information Sources for Automobiles: A Re-Inquiry. *Journal of Consumer Research*, v. 34, no. 1, pp. 111-119. Chicago: University of Chicago Press.

classified ad service to find the vehicle they ultimately purchased. This is a 44% increase since 2006. In fact, 2007 was the first year that Internet use surpassed all other shopping methods for finding the used vehicle that the buyer ultimately purchased³³.

The proportion of used-vehicle buyers who use the Internet in the shopping process and who ultimately found the vehicle they purchased via that method is 10 percentage points higher than the number of shoppers who found their vehicle by visiting dealer lots, the second most popular method for finding a used vehicle³⁴.

The number of websites specializing in the used vehicle market continues to grow and use of video, photos and improved dealers inventory management tools proliferates, it is expected that consumer use of the internet for used-vehicle shopping and for actually finding a desired vehicle online will continue to increase.

The importance of consumer generated content (CGC) to those shopping for an automobile has also increased with 72% of used-vehicle buyers who used the Internet relying on CGC on the Internet while shopping for their vehicle or after they have purchased it. The most popular types of CGC are consumer ratings and reviews. Two-thirds of used-vehicle shoppers who use the internet access CGC and of these 94% reported that the information is "somewhat helpful" or "very helpful"³⁵.

3.4 Motor Vehicle Technology and Trends

Automotive technology continues to change rapidly due to a number of factors. Consumers are demanding the latest technologies and latest vehicle designs, climate change and the environmental agenda are having a large impact on vehicle design and the pace of new technologies has accelerated (Industry Canada). An annual global survey by KPMG LLP found that automotive industry executives worldwide believe that finding alternative fuel sources is the number one trend facing the industry. When asked to rate the importance of automotive technology initiatives over the next five years, 78% of respondents said hybrid systems, 78% said fuel technology and 67% said safety innovations³⁶. Outlined in the sub-sections below are key highlights of technology-related initiatives and trends which are expected to impact the automotive retail sector in Canada and BC.

3.2.1 Government Initiatives

In September 2008, the National Research Council of Canada (NRC) mapped out a comprehensive automotive R & D strategy focused primarily on increasingly fuel efficiency and reducing emissions. NRC has engaged with the automotive sector in several key areas to develop unique solutions and capabilities. The strategy is based on identification of the need to help the Canadian automotive industry develop solutions to the challenges of today's global marketplace. NRC is thought to be ideally positioned to help the industry benefit from strategic technological growth and capture a greater share of the international market.

³³ Used Autosopper Study (2007). JD Power.

³⁴ ibid.

³⁵ Used Autosopper Study (2007). JD Power

³⁶ DirectoryM <<http://articles.directorym.net>>

The NRC automotive strategy will focus primarily on increasingly fuel efficiency and reducing emissions. Several NRC institutes will work on developing lightweight materials and structures, aerodynamic enhancements, alternative propulsion vehicles including plug-in hybrids, and the integration of information technology in vehicles.

Through the automotive strategy, over the next five years, NRC will be investing \$30 million in automotive R&D making NRC one of five major players in industry Canada's fiver year, \$145 million Automotive R&D Partnership Initiative to help the automotive sector address its innovation, productivity and competitiveness challenges³⁷.

3.2.2 Fuel Efficiency

Two recent initiatives to try to improve fuel-efficiency include the use of low-rolling resistance tires which have been used on hybrid vehicles and are now starting to be used in non-hybrid applications and advanced technology to improve the aerodynamics of vehicles. Engineers now use computer simulation to determine the best streamlined shapes for a vehicle.

3.2.3 Alternative Fuels

The US alliance of automotive manufacturers (AAM) reports that by the end of 2008, about 2 million of the 17 million vehicles sold in the US will be alternative fuel vehicles. This would represent 12% of total sales. Alternative fuel vehicles are growing in popularity in fleet markets as well³⁸.

3.2.4 Hybrid Vehicles

BC is a hotbed for gas-electric hybrid vehicle sales. Twenty-five percent of all hybrids sold in Canada are sold in BC. Overall in Canada, hybrid vehicle sales have increased 130% in the past 3 years³⁹. Automakers continue to introduce new hybrids and with rising fuel costs, interest in these vehicles is expected to continue to grow.⁴⁰

Sales of hybrid cars and trucks in Canada rose more than 60% from 2006 to 2007.⁴¹ The Camry remains the best selling hybrid in Canada. In 2007, 21% of all Camry sales were hybrids.

According to research by Experian Automotive⁴², when it comes to the make of a vehicle, hybrid car owners are most loyal with 47% purchasing a vehicle of the same make compared with 35% of consumer loyalty to all vehicle classes combined.

³⁷ A Technology Boost for Canada's Automotive Industry, National Research Council, September 2008 <http://www.nrc-cnrc.gc.ca/highlights/2008/0809auto_e.html>

³⁸ auto-facts.org

³⁹ Mississauga News

⁴⁰ kanetix.ca

⁴¹ JD Power

⁴² Mississauga News

3.2.5 Electric Car

The Chevy-Volt is expected to be the first rechargeable car and was introduced as a concept car at the 2007 Detroit Auto Show. GM reports that it is on track to start selling the Chevy Volt in 2010. Toyota is also pushing to get a plug-in electric vehicle to market in 2010 and Ford reports it is five years from producing a plug-in electric car in significant numbers.⁴³

3.5 Industry Staff Turnover

In the foreseeable future, the most significant challenge faced by the retail automobile industry will be attracting and retaining the right people. The population is aging and the smaller work force following them will have the luxury of choice of jobs as boomers retire in increasing numbers. Industries and companies within industries will more than ever compete for talent.

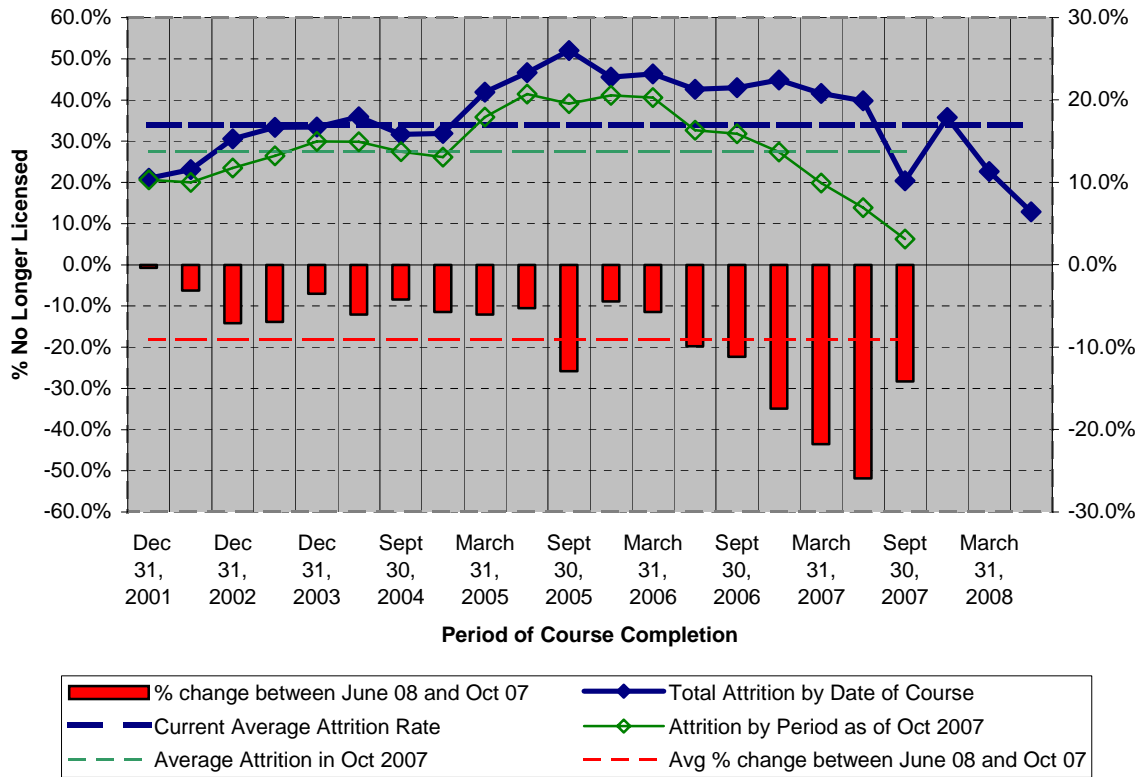
Changing the image of the automotive sales profession and the desirability to work within it is both a shorter and longer term proposition. In the longer term, setting industry standards for professional behaviour will go a long way.

Historically, the retail automotive sector has been financially successful without significant focus on its human resources. Decisions surrounding its people have centered largely on filling an immediate need and are often made hastily, without planning or relevant expertise. Only a small minority of dealerships has even the HR basics in place. It would be the rare dealership that employed any of the standard HR tools such as an HRM strategy integrated into the business strategy (in fact, most have no overall business strategy), job descriptions, candidate selection tests, sound interviewing techniques, employee evaluations, career mapping and development, etc. Even at the senior level, many managers have little or no expertise in fundamental HR concepts such as organizational behaviour, job satisfaction, organizational commitment, communication skills, change management, organizational development, team building, etc.

Changes in demographics paint a compelling picture for workforce planning because there are 70 million baby boomers and only 40 million Generations X-ers behind them. Clearly, a major talent and successor crisis looms.

⁴³ Autonet.ca (Aug 14, 2008)

**Figure 3-5
Loss of Licensed Salespeople by Period Of Certification as of September 1, 2008**



Between Oct 2007 and June 2008, the industry saw a nine percent loss in licenced salespeople averaged across all periods of course completion (see red dash line in Figure). The largest percentage change in attrition took place for those who took the certification course on June 30, 2007 (-25.9%; see red bar in Figure).

The average rate of loss of licenced salespeople in the industry over the last 10 months was 16.6%. It is estimated that the annual rate of loss for FY 2007/2008 will be 8-9%. However, the rate of loss for those who took the certification course in the 2007 calendar year was 35% which is four times higher than the average and 5 to 6 times higher than salespeople licenced before June 2004.

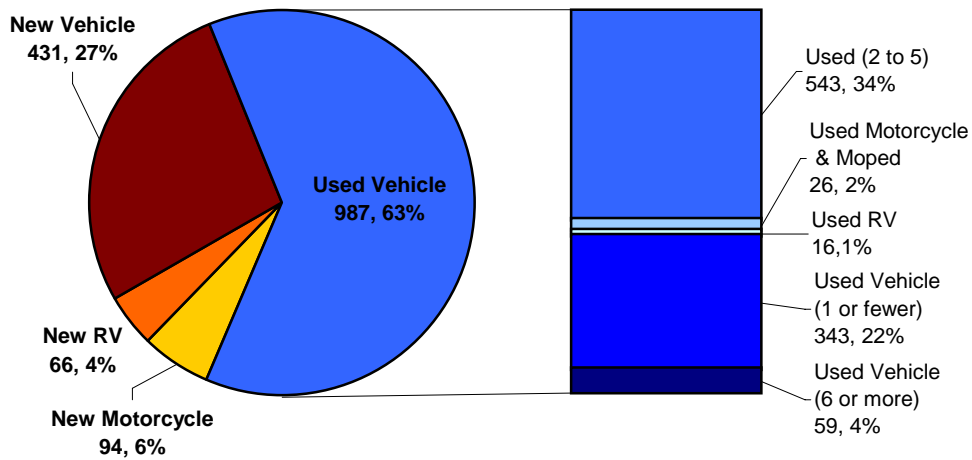
The rate of staff who took the course prior to June 2004 leaving the industry, declined from 10% to 5-6% while the rate of attrition in the first year among those who took the course after June 2004, remained steady at 35%.

SECTION 4: VSA LICENCE DATA

4.1 Dealer Licences

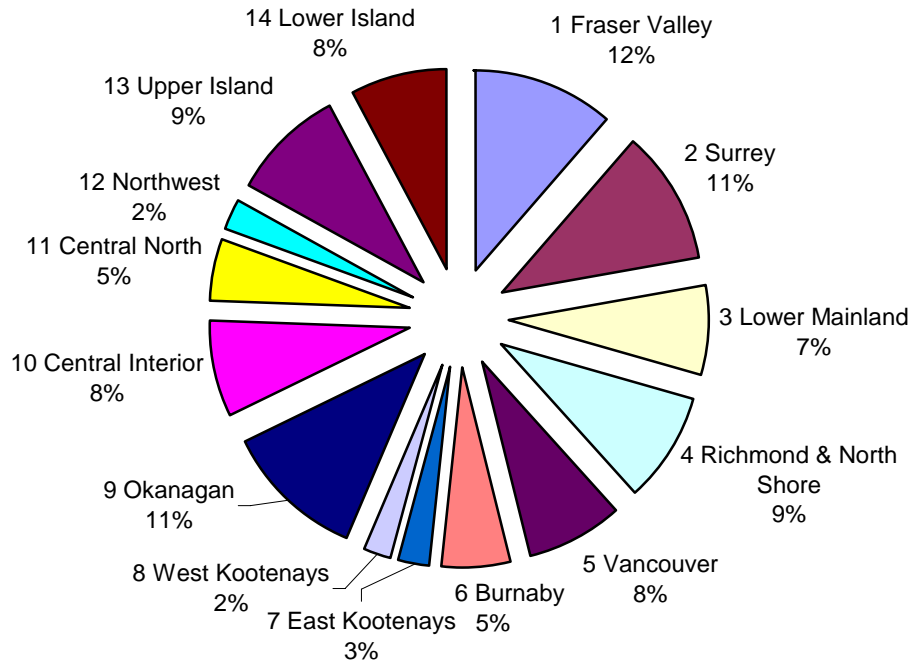
As of August 28, 2008, there were 1,578 active dealer licences. This was down slightly from the 1,590 licences reported back in February and October 2007. The majority of these licences are held by independent car dealers (63%). New vehicles dealers comprise of 27% of all dealers.

Figure 4-1
VSA Dealer Licences by Types - August 2008



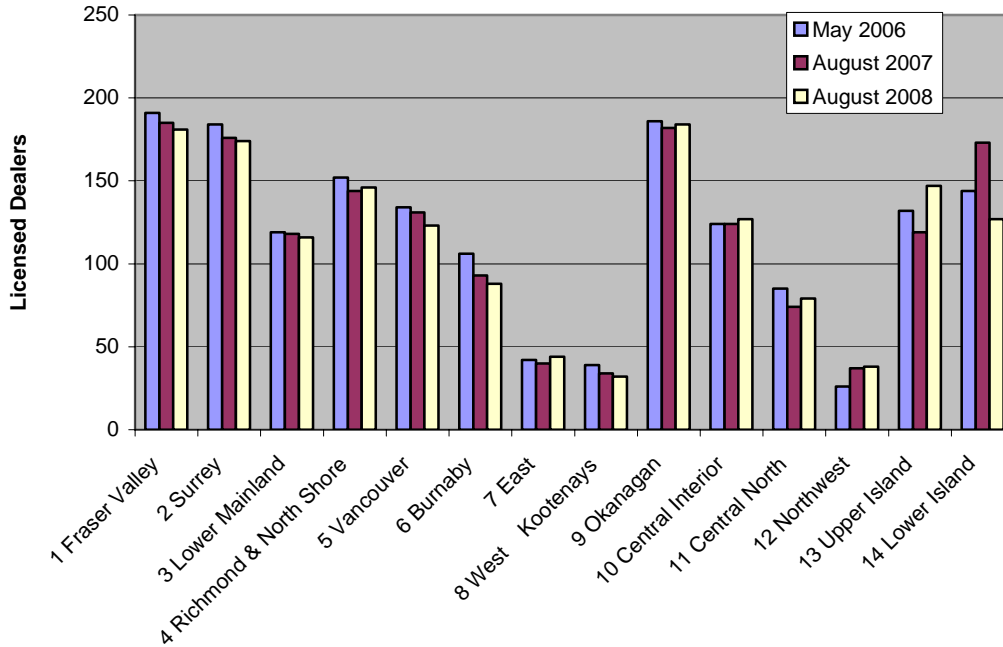
Forty-percent of the dealers are in the Lower Mainland, 17% are on Vancouver Island and the remaining 43% are in the rest of the province.

**Figure 4-2
Licensed Dealerships by Region (August 2008)**



With the exception of the Lower Island region, where we see a noticeable decrease in the number of licenced dealerships (due to postal code changes), the number of dealers in each region remained relatively stable from May 2006 to August 2008.

**Figure 4-3
Change in Dealerships by Region**



4.2 Salesperson Licences

Since June 2004, over 12,000 salespeople have been entered in the database, though not everyone has received a licence. A total of 6,712 salesperson licences were issued and renewed from the beginning of FY 2007/2008 until August 28, 2008. As of August 28, 2008, 467 conditional licences had been issued for a total of 7,275 licences. This represents a modest increase of 1.5% from the 7,165 active salesperson licences reported back in October 2007.

Salespeople were distributed across the 14 regions similarly to the distribution of dealerships. Forty-five percent of the salespeople were in the Lower Mainland, 17% are on Vancouver Island, and the remaining 38% are in the rest of the province.

Figure 4-4
Licensed Salespeople by Region (August 2008)

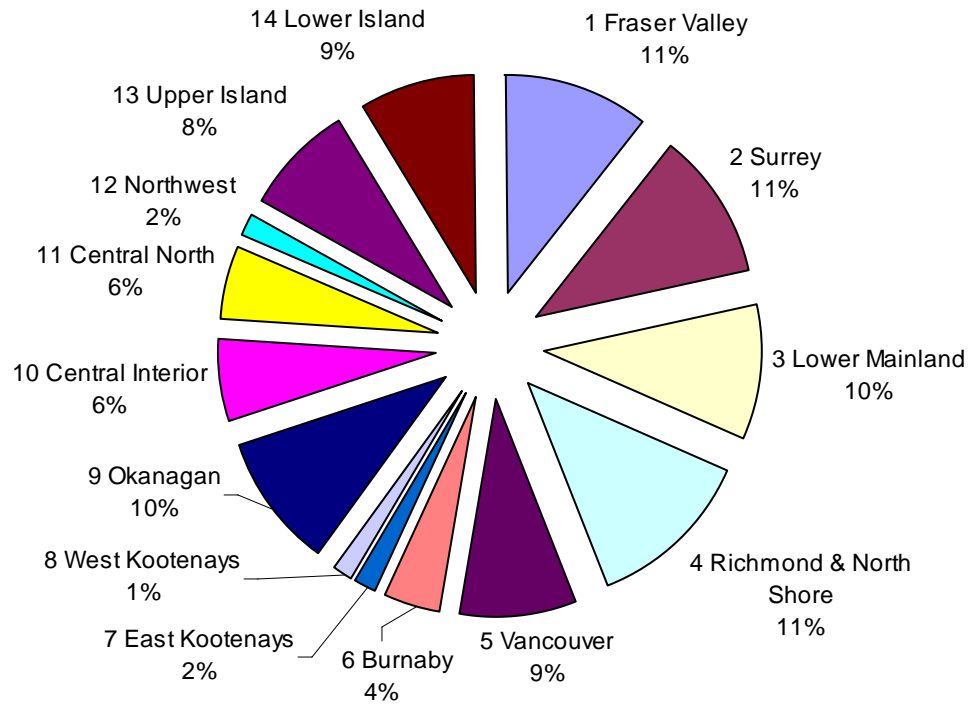
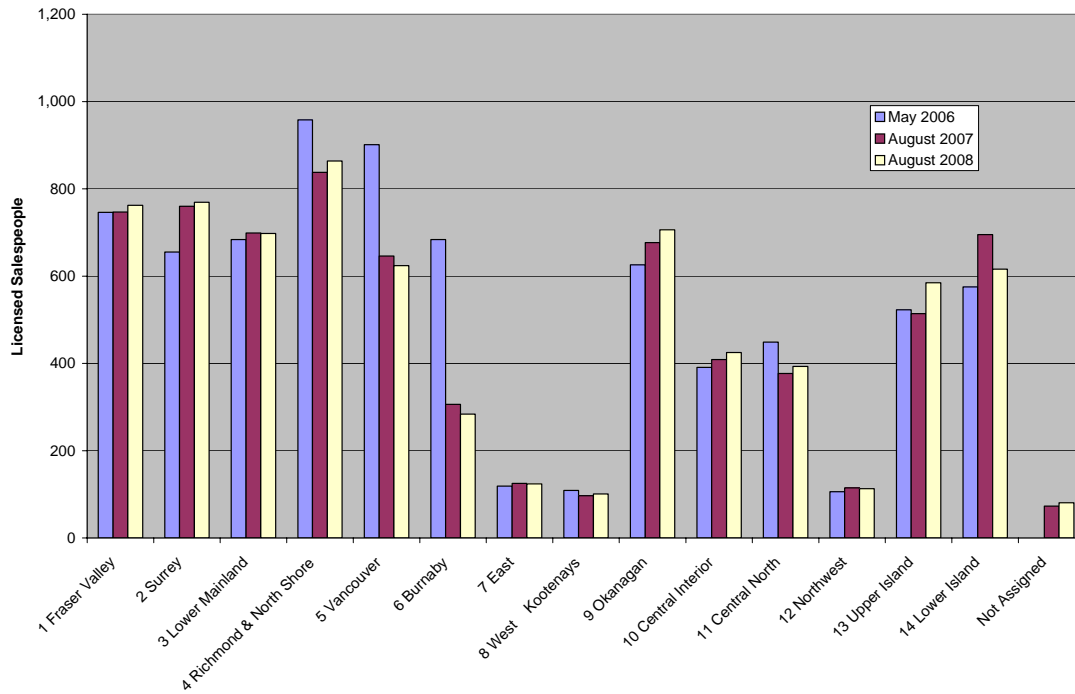


Figure 4-5
Change in Salespeople by Region

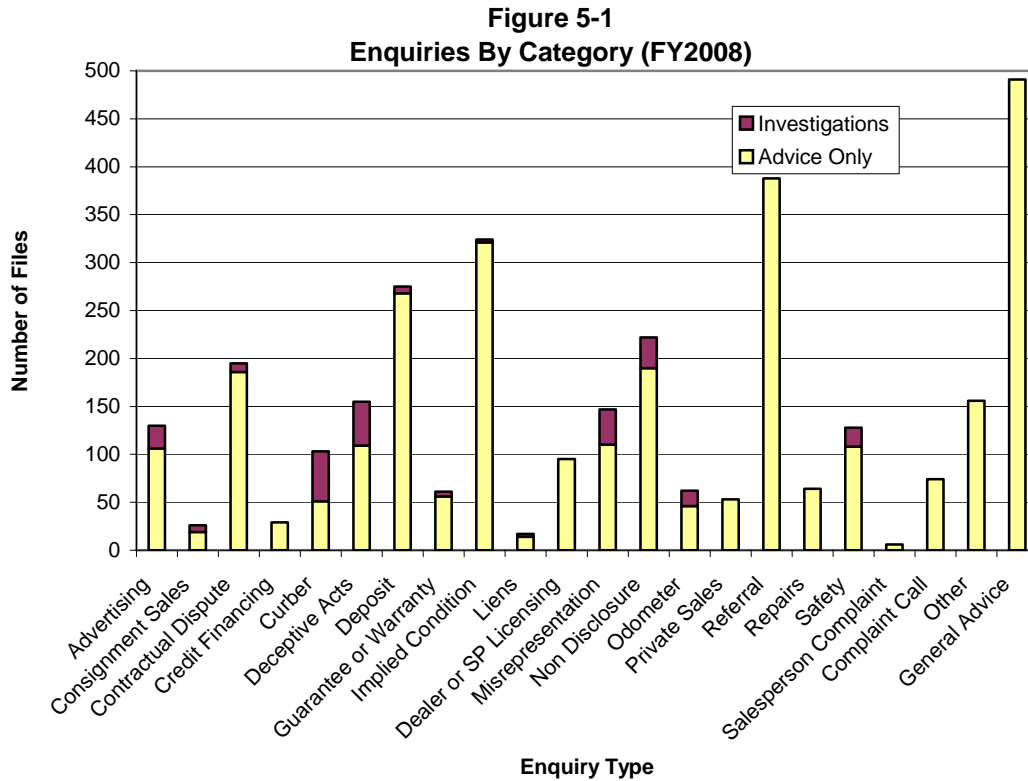


The number of licenced salespeople in each region remained relatively stable from May 2006 to August 2008. Of note, between May 2006 and August 2007, the Burnaby region saw a sharp decrease in the number of licenced salespeople. In May 2006, Burnaby reported 684 licenced salespeople, whereas in August 2007, this number dropped to 306, and was further reduced to 284 licenced salespeople as of August 2008. This was despite the fact the number of licenced dealerships remained similar for the same period.

Note: Salesperson region assignment is by postal code of the home or mailing address and may not accurately the region of employment in the lower mainland.

SECTION 5: VSA Consumer Enquiry and Compliance Data

5.1 Fiscal Year 2008 Inquiries, Inspections and Investigations



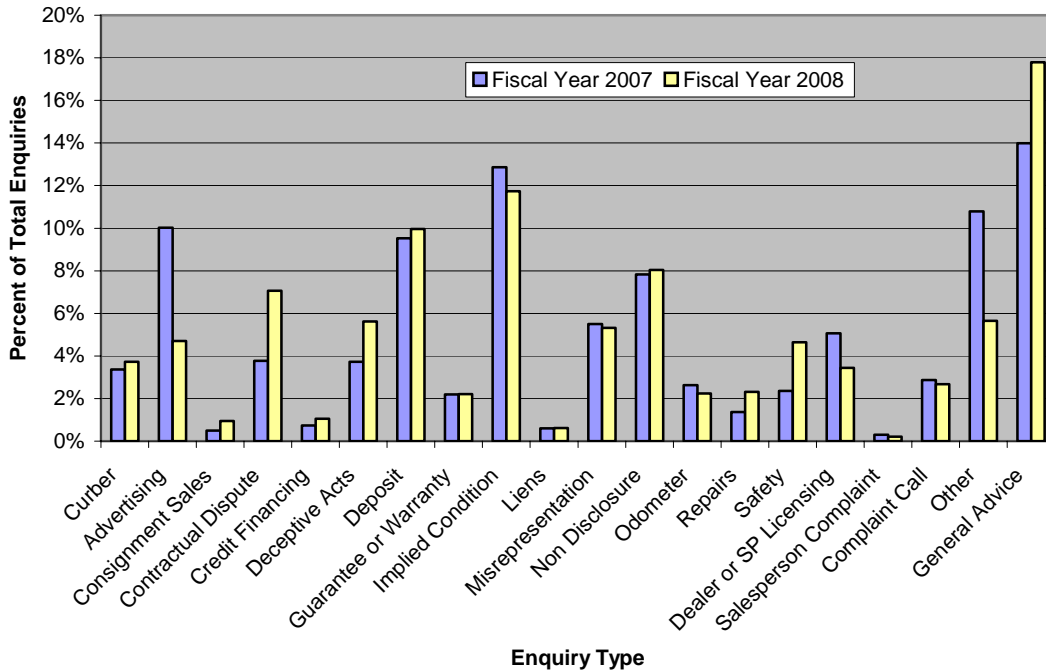
The 2008 Fiscal Year (April 1 2007 to Mar 31 2008) was a busy year for MVSA of BC in terms of inspections and compliances. The enquiry officer received 2,315 calls, with an average of 193 calls per month. An additional 1,252 incoming calls were received directly by the investigators. Figure 5-1 shows that the majority of these enquiries did not result in an investigation, though a higher percentage of enquiry related to curber resulted in an investigation. VSA inspectors conducted 1,271 inspections of dealerships. This was down from the 1,597 inspections done in the last fiscal year although this change can largely be attributed to a change in inspection policy.

As a result of these inspections, a number of actions were carried out. This included the 19 tickets related to infractions, 171 warning letters (including 52 concerning advertising), and 347 verbal warnings (including 74 concerning advertising) our authority issued to dealers. MVSA of BC held 76 hearings on dealers. Of these hearings, 8 licences were suspended, 3 licences were cancelled, 12 dealers were levied administrative fines, and 53 cases were adjourned. With respect to salesperson, 31 hearings were held. Of these hearings, 4 licences were suspended, 3 licences were cancelled, 1 licence was granted, 7 applications were denied, 1 decision was reversed, and 15 cases adjourned.

Compared to last fiscal year, fewer investigative files were opened (798 vs. 1,049), 864 of these files were closed compared to 997. Of these files, 89 were related to the Motor Dealer Customer Compensation Fund. On average, 279 files were active each month; this was down from the 387 files for the last fiscal year. As a result of VSA intervention, \$374,200 was recovered for consumers.

For the most part, the distribution of enquiries by type was similar between the 2008 and 2007 fiscal year, though advertising enquiries were down by half from 10% to 5% of all enquiries during this period. A higher proportion of the enquiries were about general advices for the 2008 fiscal year, 18%, up from 14% during the 2007 fiscal year.

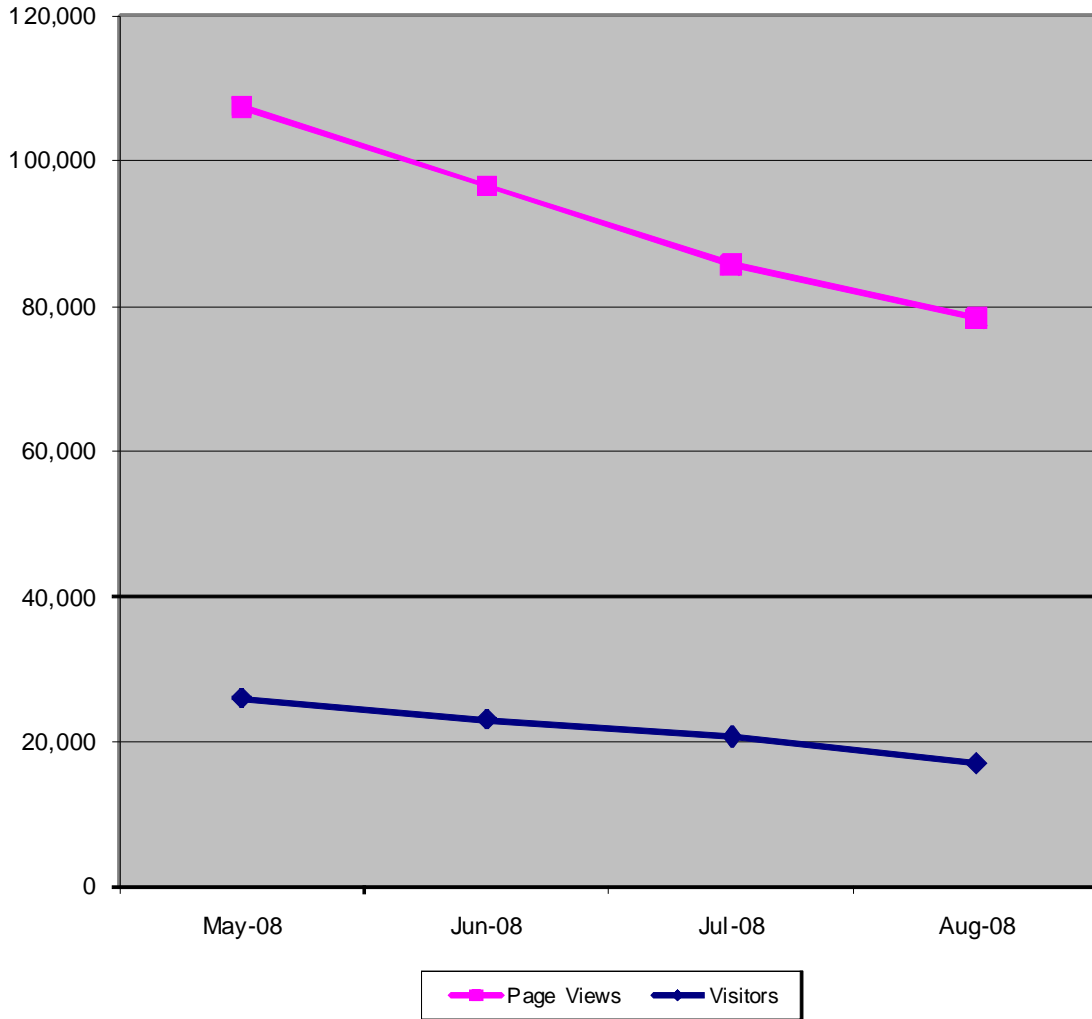
Figure 5-2
Fiscal Year 2007 & 2008 Enquiries In Percent By Category



5.2 Website

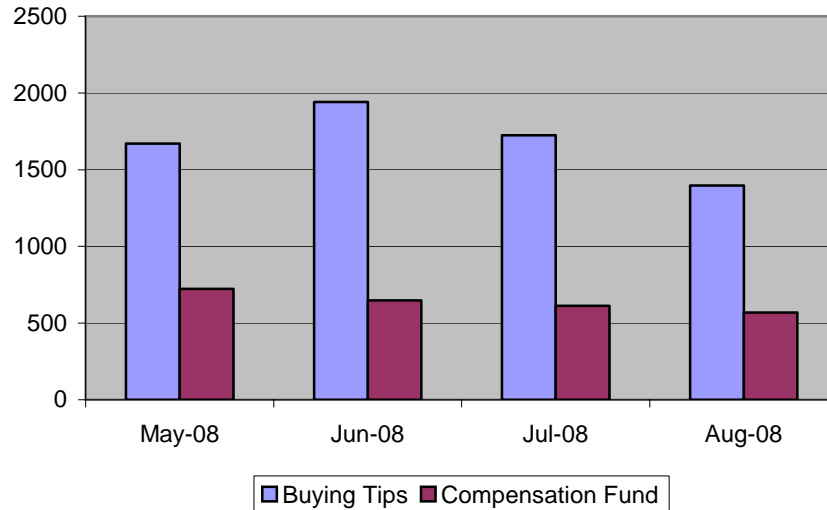
Overall, the total number of pages viewed and the total number of visitors were both down significantly compared to the numbers reported in the 2007 report. Although a direct comparison is not possible due to changes made to the website in July 2007, as outlined in Figure 5-3, the numbers have been steadily declined between May and August 2008 with the number of visitors was down 35% and the numbers of pages viewed was down 27%.

Figure 5-3
Number of visitors and page views for www.vehiclesalesauthority.com
May 2008 - August 2008



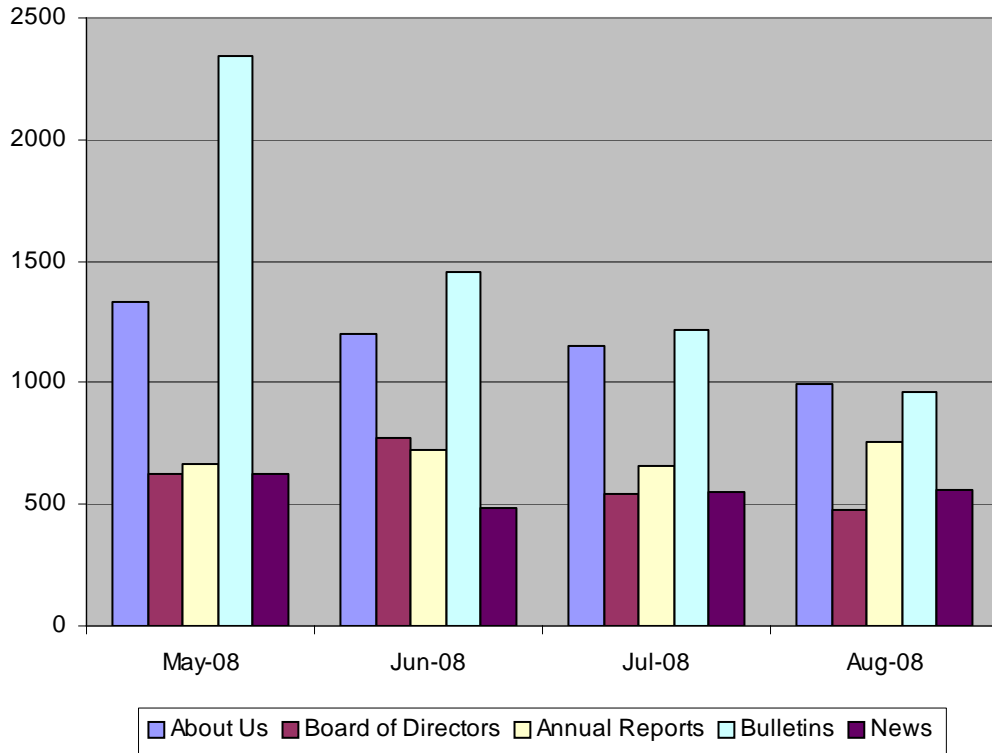
For the consumer section of the website (see Figure 5-4), there were 6,733 hits (average = 1683) to the consumer buying advice pages and 2554 hits (average = 639) to the compensation fund pages between May and August 2008.

Figure 5-4
Consumer Page Views for
www.vehiclesalesauthority.com
May 2008 - August 2008



With respect to the “General Interest” section of the website, the bulletins pages received a high volume of hits in May 2008, though the number of pages viewed has since fallen in-line with other sub-sections. The average number of pages viewed for the bulletins was 1,497 per month. The “About Us” pages had the second highest number of page views, averaging 1,171 hits per month. Visits to the annual reports and news pages remained relatively stable during this period.

Figure 5-5
General Interest Page Views for www.vehiclesalesauthority.com
May 2008 - August 2008



Among the pages related to the auto industry, the salesperson information pages were viewed the most between May and August 2008, averaging 2,250 hits per month. Similar to the overall decline of number of separate visitors to the website and the number of pages views by visitors, we see a substantial drop in traffic to these pages (62% drop between May and August 2008). The number of hits to other industry related pages, however, were stable for the same period.

Figure 5-6
Industry Page Views for www.vehiclesalesauthority.com May 2008 - August 2008

