

Half Of Automotive Advertising To Shift To Digital

For decades, car and truck ads have swollen newspapers, screamed from radio stations and transformed local car dealers into TV celebrities. If any single ad category were responsible for reshaping the face of local media, it would be automotive, says the 2014-2015 Automotive Advertising Outlook from Borrell.

But no longer, says the report. This year, for the first time, **more than half of those dollars will be spent on digital media**. The local newspaper's auto advertising bonanza is long gone. Radio's has only recently disappeared. Local TV stations may be next on the chopping block, observes the report.

At \$35.5 billion, automotive is the second-largest advertising category, behind general merchandise stores. Car sales are up 5% this year and ad budgets are up 17%. Online media accounts for 95% of this year's increase.

While new-car sales slowly climb back to pre-recession levels, the euphoria won't be enjoyed by the more than 3,500 franchised dealerships and five major car brands (Mercury, Plymouth, Oldsmobile, Hummer and Saturn) that have disappeared in the past decade. What's left is a smaller, more efficient, and digitally-focused marketplace.

All signs point to sales of 16.3 million new cars and light trucks this year, a return to levels the industry has not seen since before the Great Recession. Aided by improvement in the national economy, declining oil prices, abating unemployment, and consumers' need to replace an aging vehicle population, dealers are once again emptying their lots of new cars and light trucks more quickly than last year's forecasts had predicted. Sales are up 5% over last year.

The recovering and re-formed car industry has attracted the attention of the nation's most successful investor, Warren Buffett, who recently purchased the nation's fifth-largest new-car dealer, renamed Berkshire Hathaway Automotive, the new company plans to buy more dealerships. Buffett observed that the business enjoys high sales volume and comparatively low capital investment, allowing "substantial" profits even though margins can be low.

At the industry's peak in 1991 there were 23,500 franchised dealerships and 48,050 used-car dealers; today there are 5,800 fewer franchised dealers and 20,700 fewer used-car dealers. In the past five years alone, the industry has lost 750 franchised dealers and 7,050 used-car dealers.

U.S. Total New Car/Light Truck Sales, 2007-2019 (Millions Of Units)

Year	2007	2008	2009	2014	2015	2016	2017	2018	2019
MM Units	16.1	13.2	10.4	16.3	16.3	15.6	15.9	16.3	16.6

Sources: NADA/Borrell, November 2014

Total Auto Dealerships (Thousands) Since 1991 And Forecast To 2015

Year	Used Car Dealers	Franchised Dealers
2001	39.4	21.8
2007	37.48	20.77
2011	30.82	17.54
2014	27.64	17.71
2015 (Est)	27.35	17.70

Sources: NADA/Borrell, November 2014

... though rising sales means a good thing for auto advertising, the declining number of dealerships tempers that optimism. Times were much better for ad agencies and media companies when 20 dealers competed for sales in one market. Since 2004, the average number of franchised dealers has dropped 18% while the average number of new vehicles sold per dealership has increased 18%. That odd inversion has led to a market efficiency that bodes well for dealers but not for media companies.

The average amount spent to advertise a new vehicle today is \$522, down 21% from five years ago. The per-vehicle expenditure on digital media has increased to the point that it has surpassed that of traditional media this year: \$295 per vehicle in digital marketing expense versus \$227 in legacy media. The per-vehicle amount spent on traditional media has been decreasing for five years.

Year	Media	
	Digital	Traditional
2005	\$52	\$404
2008	147	432
2010	231	383
2012	230	319
2014e	295	227

Sources: NADA/Borrell, November 2014:

Gone are the days when half of the people who walked into a dealership left without buying a new car, perhaps settling instead for a used car. The “fall through” rate, the percentage of people planning to buy a new car who never wind up buying one, has slipped from a high of 56% in 2009 to 25% last year. This year the rate is forecast to be 19%, dropping to 15% next year. Every walk-in seems ready to buy, and often more educated than the sales rep about options and pricing.

Against the backdrop of rising sales, dealership consolidation, empowered buyers, the emerging importance of used cars, and a new generation less enamored with automobiles, the report says “... this is where automotive advertising is headed... “

- At \$35.5 billion, automotive is the second-largest advertising category in the U.S., behind general merchandise stores. While it represents 12% of total ad spending, at the local level it’s been the lifeblood of broadcast and print media, accounting for as much as 35% of all ad revenue for some.
- This year, total auto advertising is forecast to grow 17%. Online media will account for 95% of that increase. It’s a landmark year for digital advertising. For the first time, more than half of all automotive ad dollars will be spent on digital media. While it’s clearly come at the expense of radio and newspaper budgets, the next phase of erosion will likely affect TV the most.
- For the purposes of this report, we separate ad spending into four categories: The amount spent by manufacturers, up 12.2% this year, to \$12.3 billion The amount spent by dealers, both franchised and independents, up 21.8%, to \$21.2 billion The amount spent by dealer associations, up 1.1%, to \$1.3 billion The amount spent by private parties, up 9.5%, to \$577 million

Manufacturers - New car advertising has historically maintained a delicate balance between dealers, dealer associations, and manufacturers. The balance will be largely maintained this year and next, but will be strained by the shift from higher priced traditional media toward less expensive digital venues. Manufacturers are continuing to decrease their dependence on broadcast TV and newspapers, while at the same time growing their usage of digital media.

Dealers - When co-op is included, auto dealers are projected to spend \$21.2 billion on advertising to support both new and used vehicle sales this year. That's a 21.8% increase over last year's levels. Online, growing at 39%, isn't the only big gainer. Cinema, direct mail, telemarketing and directory advertising are showing relatively large gains in the automotive category this year.