



## COVID-19 IMPACT ON AUTOMOTIVE DEALERSHIPS

We are writing to express our opinion on how we foresee the impact of COVID-19, or coronavirus, on automotive dealerships. We have been monitoring our client base for impact since late January when offshore mitigation activities to contain the virus started at scale. Additionally, we have been actively monitoring capital markets for business impact indicators. Clearly, the volatility in public equity and debt markets this month have been considerable. This leads us to our thesis that short-term sales volume and general consumer behavior will affect dealers in areas where COVID-19 cases are being confirmed.

We will discuss potential changes in consumer behavior, government intervention options, media coverage, and our recommendations to manage marketing operations.

### Consumer Behavior

As discussed previously the spread of COVID-19 is known to be dependent on person-to-person proximity and contact. We believe traditional consumer engagement with retail sales professionals will be negatively impacted based on fear of transmission, regardless of industry.

Retail automotive has a somewhat heightened exposure to changes in consumer behavior because the onsite customer journey is lengthy and personal. Historically, dealerships have leveraged branding to highlight lavish showrooms with top of the line accommodations. These amenities, combined with the brand experience, facilitate comfort while waiting. Highlighting kids play areas, movie theaters, and condensed kiosk-style information centers will likely not be seen as a benefit to consumers.

Additionally, any perception of high levels of personal contact and lengthy onsite transaction cycles will likely negatively affect customer engagement.

### Government Intervention Options

The tool set for how the government may intervene on the public health issue is a bit unusual. With the exception of borders, the federal government and the Center for Disease Control and Prevention are not in charge.

So containment authority is largely at the behest of the state, local, and tribal public-health departments estimated at 2,684. Each one is responsible for monitoring people within its jurisdiction, imposing isolation or quarantine as needed. CDC officials are working to prepare a national response to COVID-19 but operational execution will be at the state and local health department level.

A fair assessment would be that varying levels of containment discretion will be utilized because state and local authorities may respond differently.

### Media Impact

As we have seen in virtually all elements of recent public discourse a heightened media response to COVID-19 has occurred and will likely increase greatly in the weeks to come. We expect this presidential election cycle will politicize many facets of the government's response to COVID-19.

As this election is forecasted to be the most expensive in US history, standard media coverage on COVID-19 will likely be bolstered by paid advertising campaigns to identify the perceived success or failure of each political party's response. We note above an expectation of heightened near-term media coverage because the availability of COVID-19 test kits only became widely available last week. This week a second larger distribution of test kits will become available to our greater health system. Access to these kits will almost certainly increase the number of confirmed cases and lead to larger percentage-based increases in confirmed cases.

We believe this combination of political expediency and test kit availability will raise public awareness and concern which we believe will impact

consumer behavior in the short-term.

## Dealer Teamwork Recommendations

Until we receive confirmation that COVID-19 is controlled globally we are advising dealers to think about contingency planning around business continuity if their location were to be impacted by COVID-19. Specifically, we are focusing on the previously discussed changes in consumer behavior should your location be impacted.

We believe a dealership should have a tactical rebranding and client experience plan tailored to adjusted consumer behaviors.

Planning items we are focusing on are reducing client time onsite, branding, and variable expense management.

### *Dealership Branding*

Dealers should focus short term branding on efficiency, reputation, and ease of use. Dealers that rely on tradition brand identification such as welcoming family spaces, friendly sales staff shaking hands with clients, or #1 volume dealer all signal a troublesome person-to-person contact environments.

### *Client time onsite*

Dedicating internal resources and optimizing the off-site transaction processing will be critical to reducing in-store time. A dedicated transaction processing page with a thoughtful, organized layout is helpful for usability and competition; select vehicle, value trade, financing link, etc.

### *Cleanliness of Dealership*

Dedicate additional resources to keeping your dealership clean and professional. Disinfect all hard surfaces frequently and adopt a policy of keeping sick workers at home. Then communicate this message to your clients so they are aware your dealership is working proactively to make their experience safe.

### *Variable Advertising Expense Management*

We are also advising dealers that advertising (variable) investment should be monitored very closely during this unsettled time. Understanding your media investment and relative performance should allow an orderly cost reduction to eliminate

variable cost from least effective to most effective as local conditions dictate. Be wary of providers dependent on spend based media fees as their interests may not be aligned with your variable expense management strategy.

We are recommending impacted dealers to reduce or eliminate mid-funnel prospecting and focus on known low funnel campaigns for paid media. Additionally, any rebranding strategy previously mentioned should be social media first as many people in market will be spending more time on social media; seeing if friends are impacted, news, and extra time from employer work-at-home policies.

### *Elasticity of Demand*

The elasticity of demand is an economic concept that quantifies the relationship between price and demand. In retail automotive, under normal circumstances, demand increases as product price decreases. We believe impacted dealers will not be operating under normal conditions concerning COVID-19. Our expectation is pricing will be a secondary factor in the short term. Consumers will be more likely to engage dealers if they believe they are going to be subject to dealership experiences limiting time-on-site and providing for a safe experience.

## Closing Thoughts

Regarding observable indicators, we believe floor traffic is the leading indicator of changing consumer behavior. If you identify decreases in floor traffic or if you would like to preemptively change course, please contact your Dealer Teamwork Account Manager, so we can make tactical changes to your strategy.

Concerning the longer-term impacts of COVID-19, we expect to see some material element of deferred demand released after the virus is contained. This pent-up demand will likely be helped by historically low-interest rates and aggressive OEM incentives to move older inventory. That said, we do support a dry powder strategy of deferring expensive, mid-funnel paid media campaigns for more advertising in future periods with higher demand.

While we don't have specific guidance on a timeline, we do expect a short-term ramp-up

of COVID-19 cases based on access to test kits, followed by an acceleration of already heightened media coverage.

While we hope that these contingency ideas are not necessary for your dealership, we wanted to make you aware of our thoughts and strategy options should your dealership become impacted.

Sincerely,

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CEO & Co-founder



**Gary Cootes**  
President



**Joe Skar**  
COO & CFO



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