THE ROAD AHEAD:

CANADA'S AUTOMOTIVE RETAIL EVOLUTION (CARE) STUDY

FINAL REPORT - JUNE 2025

RESEARCH PARTNER

Clarify

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OPENING REMARKS

The automotive retail business in Canada is full speed ahead on the highway of transformation. This report provides a comprehensive look into the changes on the horizon, and what the priorities should be for retailers. It is important to understand that while the core business of selling cars to Canadians will remain, the "how we sell" is going to undergo considerable change, as well as the "what we sell" as we continue to transition towards an ever-increasing ratio of zero-emission vehicles versus other modes of propulsion.

This report examines the most important issues that the automotive retail business faces in 2025, and forecasts what may transpire by 2035.

This report was created through multiple phases of research, including in-depth interviews with Canadian retailers and global auto industry experts, a Voice of the Dealer (VOD) opinion survey, and an extensive review of current publications and articles. It provides a detailed view of the current situation, emerging trends, and future challenges that the automotive retail sector will face.

This report also provides recommendations that can be used by Canadian automotive retailers to manage their business, workforce, improve employee and customer retention, and address the challenges of the evolving automotive industry. It is a starting point for further conversation, and not a conclusion. The findings are meant to inform, promote discussion and inspire action and future plans.

Finally, this report calls for a move away from a tactical approach to managing our businesses and towards more strategic thinking. It encourages leaders across the industry to develop longer-term plans to achieve their goals.

My sincere thanks to both the CADA Industry Relations and Clarify teams for their diligence in preparing this timely look to the future.

Sincerely,

Tim Reuss
President
Canadian Automobile Dealers Association

CADA

OPENING REMARKS

By any measure, these are challenging times for the automotive industry.

In the fall of 2024 when the CADA Industry Relations team commissioned *The Road Ahead: Canada's Automotive Retail Evolution Study*, we had a reasonably good sense of the larger trends that would influence the evolution of the industry to 2035.

However, when you fast forward to the spring of 2025 as we were putting the finishing touches on this study, so much has changed. In the interim seven months, we have seen dramatic changes in political leadership in the United States, Canada and Germany. Canada's automotive industry (and our economy at large) is now facing unprecedented chaos and uncertainty brought about by the economic and trade policies of the new U.S. administration. Even Canada's national sovereignty is being threatened.

As a wise mentor once said, focus your attention and effort on the things you can control. It is in this spirit that CADA Industry Relations is pleased to share with member dealerships from coast to coast to coast: *The Road Ahead: Canada's Automotive Retail Evolution Study*.

The objective of this effort is to provide dealers with a comprehensive assessment of the key trends and forces that will shape the evolution of our industry, and the retail sector in particular. Beyond the analysis, the larger goal of the report is to provide retail leaders with insights and recommendations to support your planning for a successful future, despite the chaos.

The project team is grateful to the Canadian dealer leaders who thoughtfully provided feedback during the research phase and to the many industry insiders — Canadian and global — who shared their 'crystal ball' view of the future.

As Canadian dealers have proven time and again, your entrepreneurial instincts and adaptability will drive the path forward to a successful future. Bring it on.

Kind regards,

Bruce Rosen
Executive Director, Industry Relations
Canadian Automobile Dealers Association

Darren Slind
President
Clarify Group Inc.

"The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty."

— Sir Winston Churchill

EXECUTIVE SUMMARY

This report analyzes the rapid transformation underway in the Canadian automotive retail sector in 2025, offering insights into what lies ahead to 2035. While the core mission of selling vehicles to Canadians will continue, the methods of selling and the types of vehicles sold—particularly with the shift towards zero-emission vehicles—are expected to undergo significant changes over the coming decade.

Strategic thinking and long-term planning are more critical than ever before for leaders across Canada's automotive retail sector. This report draws on extensive research, including interviews with Canadian dealers, global industry experts, OEM executives, a dealer leader opinion survey, and a comprehensive review of current industry publications and perspectives on the future of automotive retail.

Key findings include:

Consumer expectations and behaviour will continue to evolve.

- Canadian consumers will increasingly demand more convenient, enjoyable, and personalized sales and service experiences.
- Dealers will need to respond with seamless omnichannel communication, greater transparency in all transactions, and proactive anticipation of customer needs.
- Vehicle affordability is becoming a significant concern for Canadian consumers—OEMs and dealers will need to find creative ways of addressing this challenge.

The transition to New Energy Vehicles (NEVs) is inevitable, though the exact path and timeline remain highly uncertain.

- The deceleration in the pace of EV sales growth highlights consumer concerns related to pricing, range, cold weather performance, and charging infrastructure.
- Despite government mandates and various incentives, achieving a 100% zero-emission vehicle (ZEV) sales target by 2035 appears unachievable under current conditions.
- Policy adjustments are needed at the federal and provincial levels to better support Canadian consumers and the broader industry.

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Artificial Intelligence (AI) will have a transformative impact on dealership sales and service operations.

- While most retailers expect major changes from AI, many feel unprepared for its integration into their business.
- AI applications have the potential to improve dealership efficiency and profitability across all areas of the dealership: new and used sales, marketing, inventory management, fixed operations, and customer service.

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Like dealers, incumbent OEMs also face a challenging and hyper-competitive landscape over the next decade:

- Extreme margin pressures
- The need for substantial NEV investments
- The rise of Chinese OEMs across all vehicle dimensions: design, quality, performance and cost
- A volatile global regulatory and tariff environment

E

While the traditional franchised dealer model will endure in Canada, physical facilities are likely to shift toward smaller, more consumer-accessible footprints.

- For the foreseeable future, consumers will want the ability to visit a showroom, talk with a product advisor, see the vehicle, and drive it
- However, the location, size and format of showroom facilities will evolve to 'meet consumers where they are' including retail displays in malls and other high traffic areas, pop-up stores and mixed retail/ residential developments in urban markets
- The days of very large, multi-vehicle showrooms are likely coming to an end, in response to soaring real estate values

F

To sustain and grow profitability, Canadian dealers will need to develop new revenue streams:

- Vertical and horizontal integration (in-source)
  - Examples include tire and rim retail and storage services, valet service, vehicle personalization, EV charger retail and installation services etc.
- Capitalize on NEV and Software-Defined Vehicle (SDV) opportunities.
  - Negotiating revenue-sharing agreements with OEMs for SDV features and over-the-air (OTA) updates will be critical.

Talent management emerges as the top priority for Canadian retailers.

- The industry continues to grapple with perception issues and high turnover across all roles, and especially among technicians.
- Proactive recruitment, investments in training and professional development, and fostering a positive work culture are essential to attract and retain a skilled workforce.

The influence of politics, policy, and regulation on the automotive retail sector will intensify.

- Retailers must stay informed about legislative developments, prioritize transparency, implement strong data protection practices, and actively engage with their industry associations to ensure their voices are heard.

The report concludes with a comprehensive set of recommendations for Canadian dealers, organized around key themes, to help them navigate the evolving automotive landscape and secure their long-term success.

METHODOLOGY

The CADA Industry Relations team commissioned the automotive research and advisory firm Clarify Group Inc. to undertake this forward-looking study.

The research team conducted extensive interviews with Canadian dealer leaders as well as with industry experts domestically and across the globe.

This included a comprehensive Voice of the Dealer opinion survey to better understand the expectations and priorities of Canadian dealer leaders over the coming decade.

Finally, the team undertook an extensive review of relevant articles, research studies and expert opinions on the trends and forces shaping the evolution of our industry.

This report reflects the synthesis of this considerable research effort. Please see the Appendix for more detail on each research phase.

INTRODUCTION

In 1849, the French writer Jean-Baptiste Alphonse Karr wrote: ***"plus ça change, plus c'est la même chose"*** — the more things change, the more they remain the same. But, will that really be the case for automotive retail in Canada?

The essence of **Canadians successfully selling cars to Canadians** for transportation, business, and pleasure use is not expected to change in the next decade. What will change, for certain, is exactly how this will be accomplished, the experience the customer has buying vehicles, the rules that govern the process, and, of course, the types of products that will be sold.

Why study the future? As marketing guru Philip Kotler said: *"There are three types of organizations in business, those that* ***make*** *things happen, those that* ***watch*** *things happen and those that* ***wonder*** *what happened."*

Our intent at CADA is to help more Canadian automotive retailers **make things happen**.

To look forward, to plan for the future, is the essence of successful **human endeavour**. To be merely a spectator in the business of automotive will not bode well for any stakeholder, be they a retailer, supplier, investor or manufacturer.

One of the consistent themes that *The Road Ahead* research uncovered was the **need to become better at planning for the future**.

Is your organization effectively planning for the future?

- Do you have a five-year plan?
- How about a 10-year plan?
    - Why not start both today?
    - What are your weaknesses?
    - Where are your opportunities?
    - Do you have a robust succession plan?

The Road Ahead aims to help dealers understand the most important issues that the automotive retail business faces in 2025, and provide a forecast of what will transpire between now and 2035.

KEY THEME #1

Consumers

CONSUMERS

> ***"Dealers need to become almost anticipatory of customer wants/needs."***
>
> — Single Point Canadian Franchise Retailer, European brand

Consumers' expectations are perpetually in motion, and their desires are shifting to reflect not only their immediate needs, but what they "feel" the shopping experience should be.

Of course, a vehicle is the second largest purchase made by Canadian consumers. Fairly high consumer expectations are already in place today, and we fully **expect the bar to rise further during the next 10 years**.

Consumers' expectations about their automotive experience are increasingly informed by experiences with other brands and products. This could include everything from Amazon to a family-run bakery down the street to high end luxury hotels. A consistent and clear finding of our research was that the successful 2035 retailer will need to make the sales and service experience easier and more pleasant than ever before. For retailers who cannot make the sales and after-sales experience a zero friction one, their bottom line results will suffer.

Communication channels across all stages of the customer journey will be varied, complex and always seamless in delivery — customers will not tolerate any form of "channel amnesia" whereby they have to explain their vehicle needs and wants multiple times to a retailer's staff member. This extends to the handoff that takes place when a customer initiates their shopping on an OEM website, but then moves to a retailer website to finalize the details and complete the purchase.

The customer of 2035 will still want to evaluate their new purchase in person, so we expect that one-to-one showroom connection with a dealer will remain. Dealers need to adjust their online and in-person communication methods to meet different customer preferences. They also should consider how they inform customers on product features. Video conference calls before or after a showroom visit will become the expectation.

When we asked Canadian retailers how they foresee consumer expectations and behaviours will change in the next 10 years, the responses were very revealing.

Of the dealers surveyed,

58%

agree or strongly agree that customers will require more advice and guidance in the future.

Retailers feel that customer expectations will continue to rise further as we drive towards 2035. Consumers are seeking even greater transparency and personalized service.

The retailers surveyed are split on whether new vehicle prices will continue to be negotiated in the future, or if perhaps the industry will look to adopt something similar to Saturn's "no haggle" pricing approach from the 1990s.

Dealers surveyed also commented on the increasing expectation and opportunity for **valet, as well as pick-up and drop-off services for maintenance.**

Even with that future expectation, some Canadian retailers and even premium OEMs today still choose not to provide customers with a courtesy car for warranty work. This is an example of a practice that needs to evolve to a more consumer-oriented approach. By valuing customers' time, retailers will need to reinvent how they demonstrate, deliver and service their clients' vehicles, including how best to keep customers informed during service.

Our Canadian interviews highlighted that retailers expect a world of increased fragmentation of customer segments. Auto consumers will have an increased desire for more personalized service, and individually-oriented solutions. They may have an "off-the-rack" budget but are expecting a "made to measure" experience. Long gone will be the days that dealers will be expected to know their customer. Instead, the need to **anticipate client needs** far in advance will be the norm. Retailers will need to provide a series of tools to enable customers to make informed decisions, and, importantly, enhance the buying and service experience.

Looking ahead, vehicle affordability will be a key issue, not only in Canada but in many markets around the world. Vehicle price inflation will have a negative impact on consumer demand. Many consumers will be forced to delay their purchase, reduce their expectation of which brand and model they can afford, or switch to a pre-owned option.

"When we talk about 'Insight to Foresight,' we talk about a fundamental shift that dictates how in the 2030s it will no longer be enough to understand and respond to the moment, but instead there will be a mandate to get ahead of that understanding and act preemptively."

— Ad Agency Dentsu: *The Era of the Insight to Foresight Pivot*

dentsu

Vehicle prices have risen for several reasons. The addition of new features, fuel-saving technologies, and increasing manufacturing and material costs have all contributed to higher prices. Over time, many OEMs have also phased out lower-cost, and typically lower-margin, vehicles from their lineups.

Currently, the least expensive new car in Canada is the Nissan Versa, priced at $20,798—a substantial increase compared to the dramatic 2014 launch price of the Nissan Micra at $9,998, which was then the most affordable car in Canada.

THEN

2014 Nissan Micra
$9,998

NOW

2025 Nissan Versa
$20,798

At the same time, OEMs have focused on margins, raising prices to maintain profitability and to fund required investments in other areas. In response to consumer demand for more truck-based options and to various supply chain shocks over the last decade, many OEMs have eliminated subcompact and compact sedans from their lineups, replacing them with more costly, higher margin SUVs and crossovers. While it is true that consumers enjoy more functionality in their vehicles today, this strategy nevertheless puts affordability pressure on Canadian consumers.

Used car prices have followed a similar trend. According to Canadian Black Book, the average asking price for a used vehicle remained around $24,000 from January 2019 until the start of the pandemic. During the pandemic, prices surged to approximately $37,000 and have since settled at around $34,000, approximately $10,000 higher than the pre-pandemic average.

Despite recent interest rate reductions, rising costs of housing and food have exacerbated the financial strain on many Canadian households, making new vehicle price sensitivity a growing concern for the industry.

By 2035, customers will be even better informed than ever about their choice of new vehicles, using various online sources, review sites, blogs, as well as manufacturer configurators. This will make the sales conversation more varied and informed than ever before.

Retailers will need to work diligently to add incremental value, by helping to re-confirm the customer's decision and ensure the buying process is as effortless and enjoyable as possible.

For 2035, retailers will need to provide greater visibility and update all key parts of the customer journey, from tracking a new order to seeing their vehicle in the workshop. Giving more control to the customer helps improve their experience.

For several years, some OEMs —have allowed customers to remotely watch their vehicle being built. It is reasonable to expect that more OEMs, including mass market brands may also extend that feature to customers in an effort to build brand awareness, engagement and advocacy, and generate excitement for their products.

Certainly auto retail will exist both as an "online" and "offline" experience, but successful retailers will need to find a way to deliver a delightful experience with both methods.

For some customers, purchasing a vehicle will remain a transactional process, but for others there is a need for the retailer to connect, excite and rekindle the emotional delight of a new purchase. Striving to deliver a consistent outstanding customer experience is the challenge retailers face today and ever more so going forward — how that exceptional experience is delivered across an omnichannel presence remains unclear.

We fully expect that by 2035 some consumers won't actually be "real", but rather virtual AI agents that real human consumers have sent to shop digitally on their behalf.

Dealers will need to embrace AI to help service these virtual clients. The first contact, rather than via an email, or text could be a consumer's AI agent discussing their needs with the dealer's AI agent. That may include sharing inventory information, and determining a binding value for the customer's "real" trade in.

"Hey, Digital AI Dan! Please go shop for a new car for me, I know you understand my needs and driving habits. Let me know what you think this afternoon, as I want to take delivery next Sunday. I want to spend less than $700 per month."

The Canadian Consumer Demographic Changes by 2035

Canada's population and demographic profile continue to evolve. Key trends include:

CANADA IS AGING

TODAY 1 IN 5 CANADIANS (19%) ARE AT LEAST 65 YEARS OLD

BY 2035, STATISTICS CANADA PREDICTS NEARLY 1 IN 4 CANADIANS (23%) WILL BE IN THEIR SENIOR YEARS

Statistics Canada Statistique Canada

THE RATE OF CANADA'S POPULATION GROWTH IS SLOWING

DECLINING FERTILITY

IMMIGRATION IS SLOWING

This shift has significant implications for OEMs and dealers:

- Older consumers will need vehicles and retail services catered to declining levels of vision, hearing, mobility and dexterity.
- Older consumers will also place higher value on ease-of-doing business and convenience services like test drives at home, valet service appointments etc.
- Unlike younger Canadians, many of whom are struggling to pay rent and/or save for a downpayment, many Boomers and Gen X seniors have the financial means to pay for these convenience services.

Other demographic shifts influencing consumer behaviour:

- Canada is more multicultural than ever before.
- Growth is happening in the suburbs.
- Consumers are starting to rely on AI to help them shop.
- Affordability remains an issue, especially critical for younger consumers.
- Gen X and Millennials will drive political change.

KEY THEME #2

New Energy Vehicles

CADA

NEW ENERGY VEHICLES

"My grandfather worked with Thomas Edison on the electric car, and he sold electric cars at the 1900 World's Fair in Paris."

— Al Jardine

New Energy Vehicles (NEVs) have been with us since the late 1800s, and who exactly is credited with inventing the first one is the topic of some debate. What is not up for debate, is the certainty of our transition to an NEV future, in almost every global market.

What is highly uncertain, is the path to getting there, and exactly how long it will take. Despite the early successes of many NEV products, there is still a great amount of scepticism about the real and unsubsidized market for these vehicles.

For the most part, here in Canada, the sales have taken place in an environment that was greatly influenced by provincial and federal government incentives. The current government mandates are painfully at odds with the preference of consumers, their needs and their household budgets.

These EV incentives are rapidly evaporating, as witnessed with the recent announcements of the Quebec and the federal government to end them with very little notice. There are many regional differences in terms of the market interest in NEVs. These are influenced not only by consumer preference but by geography, climate, vehicle use patterns and the state of charging infrastructure.

The growth rate of EV sales is slowing, not only in North America but in other markets around the world. Government imposed EV mandates are starting to slip. Record sales numbers globally for NEVs are still rolling in, but the rate of consumer adoption is slower at around 26%, considerably less than the 103% growth back in 2021 (Bloomberg).

"...[it is] so very hard to convince Albertans that electric cars are the answer."

— Dealer Principal, Japanese brand, Alberta

OEMs are launching new models, but they are also postponing and pushing some debuts into the future for technical or investment risk-related reasons. Several OEMs who had publicly declared they were going to be ICE free in the not too distant future, are being forced to walk back those statements. No matter how you look at it, there is a great deal of uncertainty related to the timing of this long-hyped evolution.

In Deloitte's recent Global Consumer Study, a majority of Canadians (51%) still indicated they would prefer to purchase an ICE vehicle for their next acquisition. Only 8% indicated their preference was for a BEV, 9% PHEV, and 23% Hybrid.

CADA

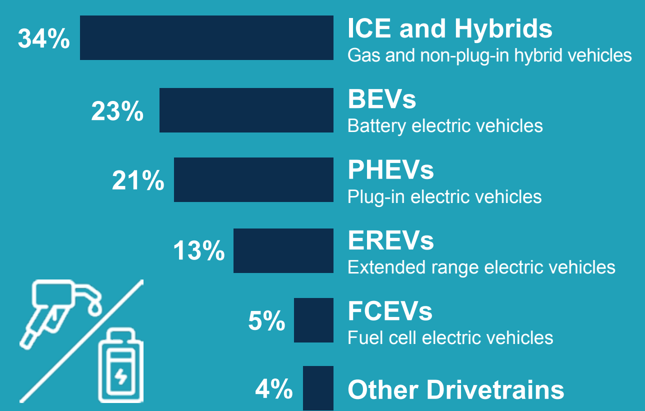
Top 3 Areas of Dealer Attention

Q: What would you say are the 3 areas that require the greatest attention in your business today?

1. **Workforce and talent (57%)**
2. **New Vehicle Sales (43%)**
3. **Used Vehicle Sales (37%)**
4. **Changing business models (31%)**
5. **Transition to electric (28%)**

Dealer Anticipated Powertrain Mix

Q: Based on your experience, what do you think will be the mix of drivetrains among new sales across your dealership by 2035?



Our survey of Canada retailers, in preparation for this report, ranked the matter of the transition to NEVs to be only the fifth most important issue facing retailers.

This lower priority of NEVs may surprise some. Our interpretation is that selling new cars successfully over the next 10 years will have a great deal to do with how successfully a retailer adapts to the challenges that the shift to NEVs present. That shift could be a quick one that is forced by legislation, or a much slower one driven by customer preference. Successful retailers will be the ones that work with the customer to understand, in this mixed market of multiple drivetrain technologies, which works best for them.

As of writing this report, the year 2024 ended with 15.7% zero-emission vehicles sold in Canada, according to StatCan. Next year, 2026, is the first year that there is an obligatory federal government target for ZEVs at 20%. With Quebec dropping their EV incentive as of the end of January 2025, however, and the federal government abruptly also ending their program in January, the probability of hitting the 20% mark in the first year is uncertain.

In our survey of Canadian retailers, the group estimated that only 57% of new vehicle sales would be plug-in electrics (BEV, PHEV and EREV), and ICE/Hybrids would still make up 33.5% of sales by 2035.

The group also estimated that 5.2% would be hydrogen fuel cells, which has proven to be a viable technology, but has been very slow to gain market acceptance in Canada. These numbers, which seem entirely plausible, are at odds with the policymakers here in Canada both at a federal and provincial level.

At this point, looking into the future, reaching 100% ZEV sales on new vehicles by 2035 is entirely unachievable.

With new governments recently installed in both Washington and Ottawa, it remains to be seen how much of the current ZEV regulatory framework — including both consumer and manufacturer incentives, as well as sales mandates — will be walked back.

Overall, it is expected that legislative pressure for EV adoption will be reduced.

This may also be influenced by other policy making decisions in other nations. There certainly will be great disputes regarding the rules and the applications of them. It is the hope for our retailers that more reasonable and attainable targets are put in place.

What is holding back consumers from embracing BEVs in larger numbers? Our analysis shows that the key factors are the price, value, convenience and functionality equation.

Today an EV costs approximately 20% more to acquire. The consumer must also contend with the inconvenience of charging, and public charging infrastructure that has grown very slowly. Over the life of the vehicle, depending on energy prices, most consumers will be further ahead financially with an EV, but in a business that is monthly payment driven, an extra $150 a month is a very, very big step.

In Deloitte's recent consumer study, that included Canadian consumers, the top concerns about all-battery-powered EVs, ranked in importance are:

- **Driving range (55%)**
- **Cold weather performance (54%)**
- **Cost/price premium (53%)**
- **Cost required to eventually replace the battery (49%)**
- **Time required to charge (46%)**

Deloitte.

According to a recent Gartner report, by 2027 the next-generation battery electric vehicles will be cheaper to produce than ICE cars due to innovations like centralized vehicle architecture, which significantly lower production costs and assembly time. Given the time horizon of this report, we do expect by 2035 BEVs to be a lot more affordable than today.

It is our expectation that by 2035 consumers will buy a particular vehicle not because it is a NEV or because it is a green choice, but because it is the best choice. We expect it will not be until 2050 that the NEV vehicles sold to consumers in Canada could be approaching the 100% share mark.

For further perspective on this topic:

A recent CADA special report, *Ambition Versus Reality: A Review of Canada's Electric Vehicle Availability Standard* examines Canada's 2023 Electric Vehicle Availability Standard (EVAS). This March 2025 report highlights significant gaps between government ambition and current realities, arguing that changes since the EVAS announcement actually endanger greenhouse gas emission reduction goals. CADA views the EVAS with significant concern, suggesting its underlying assumptions are no longer valid due to evolving market conditions, cancelled incentives, slow infrastructure development, consumer hesitancy, and grid transformation challenges.

The future of transportation will most certainly need to be a zero emission one to combat climate change and protect and preserve life on our planet for future generations.

What remains a mystery is how long it will take to get to 100% NEV sales. The best advice for retailers is to **learn** as much about vehicle electrification as possible. Not just for the leadership teams, but **everyone in your enterprise**. A solid foundation of knowledge will better equip your team to look after customers, manage operations and help to plan for the future.

Learn everything you can about EVs, and make sure everyone in the dealership learns it too, including your support and administration personnel. Work to have your staff driving EVs, as company demos or even take one for an overnight loan, even if they don't want to drive one. Make EV advocates out of everyone. What should be avoided is a customer asking an EV question to be met with "I don't know" no matter who the staff member is. An EV may not be right for all consumers, but the more your retail team learns about the technology and ownership the more valuable they are to you and your customers.

Many auto retailers are concerned that the focus and high investments by OEMs into NEVs is impacting their own business profitability.

"In Alberta, we have a lot of resistance to this electrification until the infrastructure is here.

At least if we could prove to our customers that if they wanted to drive from here to Edmonton, that they wouldn't have a problem when it was -40ºC to charge their vehicles if they needed to along the way."

— Dealer Principal, Alberta

KEY THEME #3

Dealership Sales and Service

CADA

DEALERSHIP SALES AND SERVICE

"If you always do what you've always done, you'll always get what you've always got."

— Henry Ford

In our Voice of the Dealer (VOD) survey, it was noteworthy that new and used vehicle sales were not the number one concern of Canadian retailers as they look forward to 2035, but rather it was people, who of course are key to making the sales happen.

In terms of importance to dealers, **new vehicle sales (42.9%) and used vehicle sales (37.4%) were the second and third highest ranked aspects of the business**. Parts and Service ranked seventh at 24.6%.

As the industry plans for 2035, what are the most important aspects of sales and service that we as an industry should be considering? After interviewing many industry experts, consulting with Canadian retail leaders, analysing our survey results and reviewing countless studies we can tell you the most important learning for dealers to remain successful over the next 10 years is that **retailers will need to continue to embrace change**. In particular, the impact of AI on sales and service operations is expected to be largest overall.

"Transitions are coming so rapidly that the pace is just dramatic for me. For 20 years nothing happened and now in the last five so much has happened."

— Dealer Principal

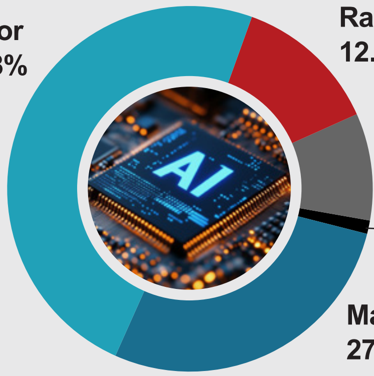
While dealing with multiple changes to process, technology, and the market, retailers should also be looking well **outside of the lines of their current business** to see how they can expand their offerings, grow their business and better pave their own road ahead to the future.

One of the key shifts in automotive sales and service, between now and 2035 will be the prevalent use of Artificial Intelligence (AI).

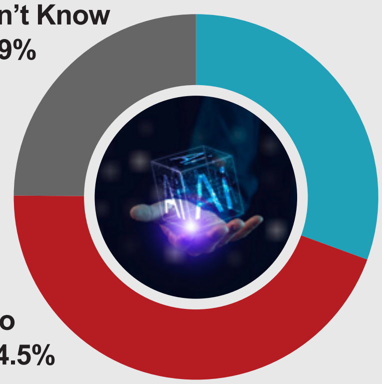
We expect the deployment of this innovative game changing technology will be similar to the rollout of dealer websites in the late 1990s. It will echo web commerce in its pace of growth, and also in the sense that some retailers may resist investigating how the technology can support their operations, while others will bravely embrace it. Today it seems like it is a distant science fiction solution, but the technology already merits careful consideration for your business. Presently the vehicle distribution model is digitally enabled; by 2035 our research indicates that it will transition to one that is almost exclusively digitally driven.

AI Impact & Readiness

Q: How do you see Artificial Intelligence (AI) tools impacting your business in the next 10 years?



Q: Do you feel your business is well prepared to integrate AI tools into your business today?



In our survey, a strong majority, 62% of retailers, agreed or strongly agreed that AI tools will radically change the business.

That said, 44.5% admitted that they did not feel well prepared for integrating AI into their business.

Digging a bit deeper, Canadian retailers also felt that digitalization and technology, including AI, would be an area they would be investing in. A significant 85% agreed or strongly agreed that would be the case.

In a recent **2024 study by a leading DMS provider**, 68% of U.S. dealerships reported that AI is already positively impacting their operations, including enhanced efficiency, improved customer satisfaction, and increased revenue.

Automotive retail operations and service present many opportunities for implementing and gaining benefit from AI:

- **Sales and Marketing:** Predicting and understanding customer buying habits, personalizing vehicle packages, F&I solutions recommendations, and generating leads;
- **Inventory Management:** Improving the dealer ordering process for new vehicles, and determining what used units to stock;
- **Fixed Operations:** Predictive service recommendations, problem diagnosis, parts inventory prediction, and service retention monitoring; and
- **Customer Service:** Using AI chat assistants for seamless communication and providing timely updates on service and parts.

"Either you are using AI, or you are competing against someone who is."

— David Carsley, Head of Industry, Google Canada

85%

of dealers expect to spend more on digitalization and technology in the future

Those in the industry know that automotive is a very different business. AI systems for our business need to be developed and supported by experts with deep automotive knowledge and experience. Any automotive AI solutions will need to be built in such a way they are fully accurate, highly relevant, and fully compliant with all the specific regulations that apply to the business.

Dealerships exploring how AI could help grow the business, should initially be looking at repetitive tasks as opportunities for AI. These include mining or cleaning customer databases, contacting and winning back service customers who have defected to the aftermarket, for example, and inventory management to name a few.

The simple web chat agents in use today will most likely all be replaced in fairly short order with AI chat bots with greater capabilities to provide information. As time progresses, the capabilities for AI agents to help customers will grow. Retailers not investigating this technology will risk being left behind.

From our own VOD study there are a number of key highlights:

- **Digitalization and AI:** 85% of dealers expect to spend more on digitalization and technology in the future;
- **Artificial intelligence (AI)** is expected by over 60% of retailers to have a major or radical impact on their business with only 31% feeling they are well-prepared to integrate AI solutions into their operations today.

Digital engagement providers are developing "copilots" to support the efforts of automotive sales teams. These types of products will proliferate and become commonplace within 3 years.

The typical sales copilot product aims to make the sales process more effective by using customer data to provide custom crafted personalized marketing messages to prospective customers. These copilot solutions will most likely integrate with retailers' CRM or DMS to add powerful AI capabilities to retailers' existing technologies.

AI-powered chatbots and copilots will also be helpful for the fixed ops aspect of operations. Several firms are working to develop chatbots specifically for auto dealership service centres. These bots will allow dealers to engage with more customers and improve the customer experience for vehicle maintenance. The belief is that an integrated chatbot can speed up customer approvals on repair orders, and boost customer satisfaction.

CADA has recently commissioned a series of in-depth interviews with retail leaders and technology managers at dealerships across Canada on the subject of auto retail technology, including the adoption of AI-tools across their business. The qualitative insights collected during these interviews will shape the structure of a more comprehensive study, the *Canadian Auto Retail Technology Study (CART)* to be released in late 2025. This study will examine how Canadian dealers think about technology, the areas of their 'tech stack' that cause the most frustration as well as those areas they feel deliver the most value, and in which areas they plan to focus their time and investment over the next decade. Insights from the *CADA CART Study* will help Canadian dealers navigate the path forward as well as provide OEMs and technology suppliers with valuable perspectives on what matters most to dealers.

Customers' expectations will grow. Sales and service consumers will expect a more personalized experience when working with retailers, putting pressure on retailers to deliver more than "just the transaction."

As we journey to 2035, **dealers will be expected to anticipate customer needs** further in advance, provide a series of tools to enable customers to make informed decisions, and, importantly, enhance the buying and service experience. The days of knowing your customer will be in the past — anticipating their needs comes next.

By valuing their customers' time, above all else, retailers will need to reinvent how they demonstrate, hand over and service new vehicles. Communication channels across all stages of the customer journey, even post sales, will be varied, complex and seamless in delivery — but customers won't tolerate any form of 'channel amnesia'. It's a good reminder to ensure retailers' technology solutions, and the OEM's tech stack, integrate seamlessly with each other at all touchpoints of the customer experience.

In recent years, not only in Canada but in many other markets there have been great discussion and concern regarding agency models of retail sales. From the interviews of retailers and industry experts that we spoke to for this project, the broad consensus is that **agency and direct-to-consumer models may only be successful for OEMs and retailers in some limited situations** — principally for brands without a proven network, which will only apply to a small minority of OEMs. **The future remains with the franchised model.**

A recent study commissioned by NADA and conducted by management consulting firm Oliver Wyman, investigated the cost of new vehicle distribution in the U.S. market. The study compared the traditional franchise dealer model to Direct-to-Consumer (DTC) and Hybrid (agency-like) models. Contrary to conventional wisdom, **the study found that the gross cost per vehicle sold for the franchised dealer channel is similar to DTC or Hybrid model approaches** when upstream strategies are held constant. The cost difference was found to be less than USD $400 per vehicle. Although the study examined the American reality, there is little reason to expect that similar results would not hold for the Canadian market.

The NADA report emphasises that the net cost of distribution, which accounts for the value each retail channel provides, is the crucial metric for comparing the effectiveness of different distribution models. The NADA study found that the franchised dealer channel has a lower net cost of distribution per vehicle than both DTC and Hybrid channels when operating at mass-market scale. This is largely due to the value generated by franchised dealers through customised transactions that create incremental sales. Franchised dealers have the tools and skills to "make a deal" that meets a specific customer's needs by offering more financing options, flexibility on the transaction price and the customer's trade-in. This often allows franchised dealers to capture incremental sales in comparison to Hybrid and DTC which typically offer fixed pricing, making it harder to structure a "deal" for a customer. The study concludes that there are no compelling economic reasons for incumbent OEMs to transform their dealer networks to a DTC model due to the narrow cost differences. Again, CADA believes the same conclusions apply in the Canadian market.

Customers still want to "see and feel" their new purchase and connect with a local dealer. This was recently confirmed by a global study by Deloitte, where 86% of those surveyed still indicated they wanted to physically interact with the vehicle before purchase. Only 47% indicated they had a preference to limit the need to visit a dealership in person.

Consumer interest in a different sales model does exist. However, only 35% of Canadians are interested in buying a vehicle directly from a manufacturer through an online process, according to Deloitte's *2025 Global Automotive Consumer Study*. A large majority (65%) of those surveyed prefer the conventional dealer driven shopping experience.

35%

of Canadians are interested in buying a vehicle directly from a manufacturer through an online process.

This number is lower than the U.S. market where 46% of consumers were interested in an online-only purchase experience.

Deloitte.

Our subject-matter-expert interviews also found that manufacturers have learned, or are learning, that vehicle distribution is both difficult and expensive. Agency models also seem to be successful in situations where supply is less than demand, and then the agent can essentially work as an order taker.

When vehicles are in short supply, then the agency retailer has little incentive to "work with" the consumer to strike a deal, knowing that the next shopper is likely only a few hours away.

Our research has led us to conclude that the agency model issue will be less of a concern for Canadian retailers as we progress towards 2035.

FACILITIES

The expectation for 2035 is that Canadian retailers will continue to showcase models in brick and mortar outlets, though most likely in smaller units, and nearer to their customers — shopping mall stores, pop-ups and downtown showrooms will become more popular approaches.

Pop up temporary locations appear to be a retail concept that has not fully been exploited in Canada. Intercepting potential consumers in their own environment in an unexpected way, at their local shopping centre, has advantages, especially for challenger brands or those brands with less awareness.

Our findings indicate that customers will still want to visit a showroom, see the vehicle and/or test drive before making a purchase; however the location and size of the typical facility, especially those being newly constructed, are expected to change by 2035. Our research also suggests that the days are numbered for very large showrooms for newly-constructed facilities, with smaller displays becoming more common.

This conclusion is based on interviews with retailers and the Subject Matter Experts (SMEs) contacted for this project.

More urban Canadian retailers by 2035 are expected to reengineer and reconstruct their premises to include mixed commercial and residential units in the same footprint, thereby extracting the greatest amount of business benefit from their costly land investments.

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Given the pressure on sales margins, along with the generally increasing cost of real estate, OEMs will need to reduce their capital investment requirements from franchisees. They will need to scale back some of their facility investment requirements, so that retailers can continue to be successful and financially viable.

In some cases, for example new incoming European and/or Chinese brands, they may expect minimal capital investment in the interest of getting the distribution network set up rapidly.

This conservative approach would greatly speed a new entrant's time to market. At a recent industry conference, a retailer that was participating in a panel discussion suggested that an automotive department store concept, with perhaps more than a dozen Chinese NEV brands each with their own boutique, might be quite a compelling retail operation. Particularly with a new brand, from China or elsewhere being unknown, this type of operation could be an interesting approach.

FIXED OPERATIONS

One of the most significant challenges that successful retailers will need to overcome over the next decade, is the reinvention of their fixed operations business to counter the growth of NEVs and the expected decreases in service revenues.

There is an opportunity at hand, so it is not all bad news. Service retention rates are expected to increase among NEV customers due to the technical complexity of the product. This will be fuelled, at least temporarily, by some risk aversion on the part of the customer when it comes to taking their new EV to an independent garage.

Retailers have a very large opportunity to win and keep owners of NEVs service business and prevent them from going to the aftermarket.

In some ways, this is the proverbial "once in a lifetime chance" to convince new EV owners not to explore the aftermarket for service, but instead to only come back to the dealer. There are ways to help facilitate this loyalty push. Selling affordably priced prepaid maintenance packages, including winter tire swaps is one such tactic. Offering valet service and at-home service is another.

It is expected that some retailers' service facilities may choose to relocate and handle multiple brands to improve margins and operating efficiency. Mobile service is expected to emerge as a growth opportunity for retailers, especially if NEVs embrace the design and manufacture of vehicles with much easier swappable modules. Some NEV vehicle manufacturers claim that a high percentage of their parts will be user serviceable. For a product like this not all owners would want to do the work, so the opportunity for an onsite technician to perform the work still exists.

KEY THEME #4

Changing OEM and Competitive Landscape

CHANGING OEM AND COMPETITIVE LANDSCAPE

"I have been up against tough competition all my life. I wouldn't know how to get along without it."

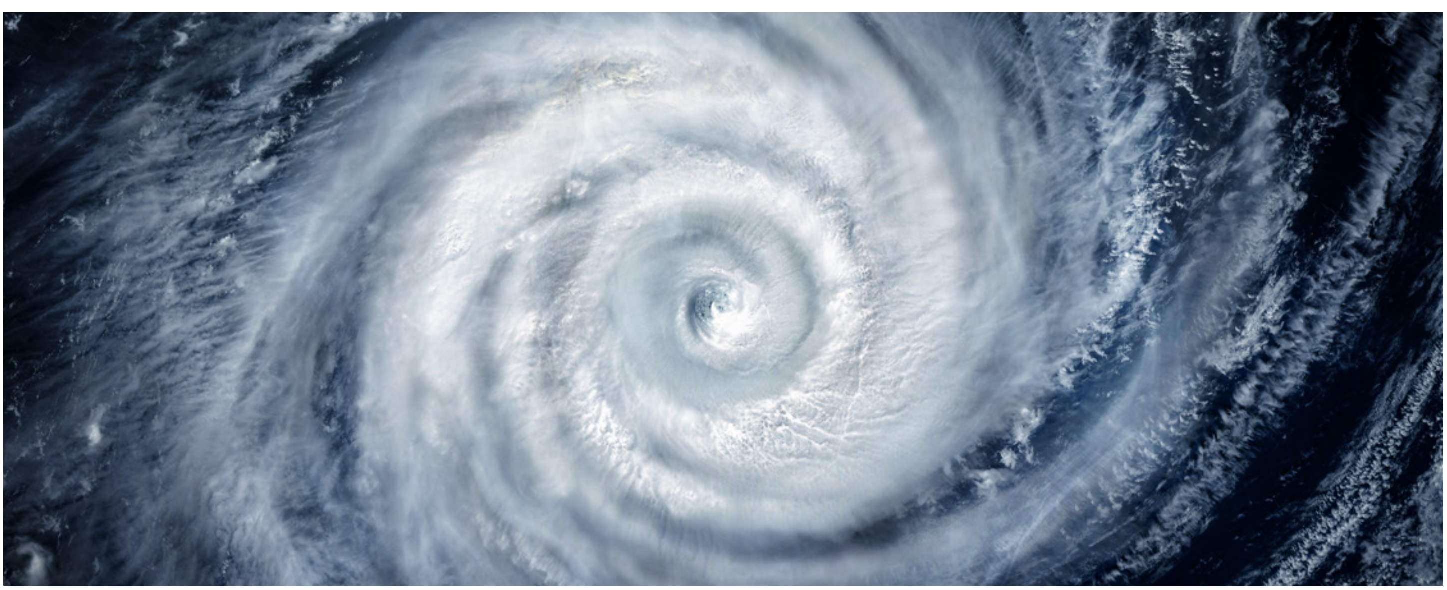
— Walt Disney

OEMs ARE IN A VERY BAD SPOT

As we look towards 2035, and what it means to Canadian auto retail, we must consider the precarious state of the global automotive business as it relates to OEMs, the retailers' partners in this shared enterprise.

One could argue that it is perhaps one of the worst times in history to be an OEM. To say there are headwinds and uncertainty would be a gross understatement. To forecast, using a weather metaphor, the industry is in a hurricane with the chance of a tornado touching down, and perhaps a cyclone.

Why do the OEMs, who only recently survived a global pandemic, find themselves facing such an uncertain future? There are a number of factors. Lead among them is the uncertainty created by the new tariff regime imposed through executive order by the U.S. administration, and compounded further by retaliatory tariffs applied by affected countries like Canada. The tariffs have the potential for significant negative profit impact in the short-term as consumers will be unlikely to absorb these increases. Additionally, the constant shifts and unpredictability of U.S. trade policy make long-term production planning and investment decisions for the OEMs extremely challenging.

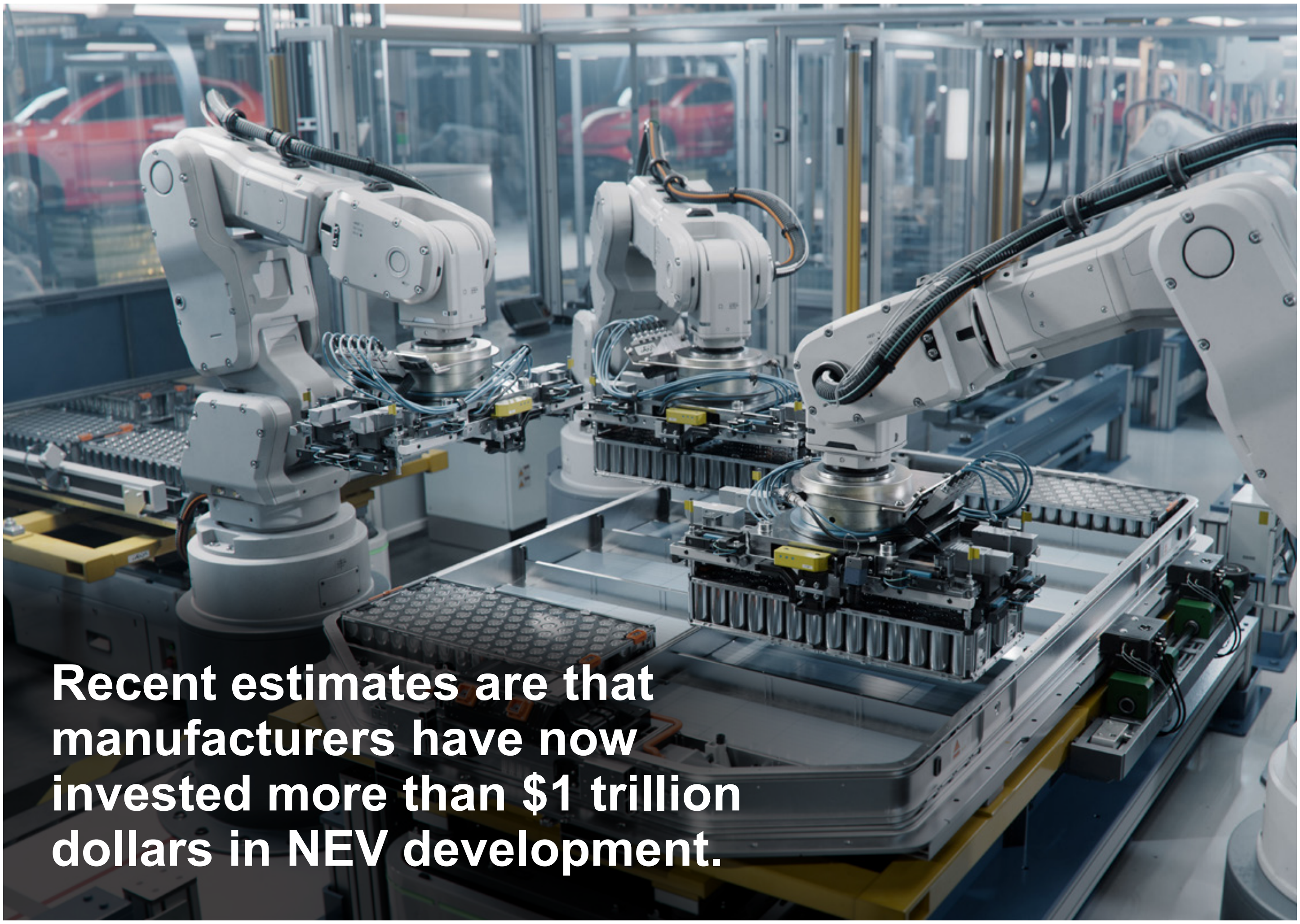


MARGIN PRESSURES

During COVID, margins for retailers and OEMs alike were at unprecedented high levels. The painful scarcity of product meant that incentive spending and discounting was at the bare minimum levels. There were few if any "deals" to be had and full gross each and every time was the mantra at retail. Without having to spend on incentives most OEMs were making record profits per unit.

Since that time, the financial reality for OEMs has shifted, and not just in Canada. This is now a global problem that will impact operations here in this country.

- As the market moves to NEVs, these vehicles will systematically replace ICE vehicles in the line up. NEVs will cost drastically more to build and develop, but will be sold at a premium that **<u>does not</u> fully cover the incremental cost — therefore profits are lower.**
- Many OEMs are losing money on a per unit basis for NEVs, even for products that are launching today.
- Margins and profits may not return for a very long time, perhaps not until ICE/NEV parity of price and functionality are achieved. When that will occur is a subject of great debate. The Gartner group predicts it will be by 2027, but our point of view is that it will be much later than that but it is expected before 2035.
- Some OEMs who have heavily invested in NEVs may now have to reinvest in hybrid, PHEV and ICE vehicles as many markets demand and regulatory focus changes.



MASSIVE EV INVESTMENT REQUIREMENTS

Reasons that EVs generate less profit, aside from material costs of building them, are the massive costs required to build the required specialized assembly facilities, both for the battery pack and the vehicle itself, and the research and development costs to develop the vehicle on all new platforms. Recent estimates are that manufacturers have now invested more than $1 trillion dollars in NEV development.

Vehicle manufacture (retooling)

- Stellantis is spending $3.6 billion to re-tool and modernize their Windsor and Brampton plans to produce flexible architecture vehicles.

Battery manufacture (building)

- The planned government subsidy portion alone of three battery plants planned for Canada is $43.6 billion dollars (VW, Northvolt, Stellantis LGES).

Vehicle Development

- Tesla invested $4B in R&D according to their own numbers.
- According to Honda, developing one EV model requires about USD $455 million, with batteries alone accounting for about 40–50% of the production cost. Converting production lines to cater to EVs costs about USD $73 million to USD $110 million per factory.

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CHINA

In this report you would expect to see China as a topic, but perhaps not as one of the OEM challenges. It is, however, a major threat for OEMs, perhaps the most urgent one. China was once a significant engine of profits for the many OEMs that were active in that market. That time is over. OEMs are fighting to survive in this once lucrative market. Some examples of some of the challenges include:

- Many luxury brands, previously very successful, have seen their sales in China fall sharply in 2024;
- GM has been hit particularly hard, reporting a $5 billion loss in its Chinese operations and seeing its market share drop from over 15% in 2015 to 6.8% in 2024;
- Volkswagen has sold its plant in Xinjiang, a region in northwestern China, a plant that had been sitting idle since 2019;
- Chinese domestic brands have been dramatically claiming market share:
    - A price war in China is underway. Government subsidies are in place to help stimulate the business for ICE and NEV products;
    - Retailers in China are reporting terrible losses due to high inventory levels;
    - Chinese brands now have about 70% of the share of sales.
- OEMs are experiencing intense competition from domestic Chinese manufacturers. This is due in part to the Chinese government's support for domestic EV makers, including providing them with low-cost loans and other incentives, which allows them to sell vehicles at highly competitive prices;

- With the dramatic collapse of the market for non-Chinese brands many OEMs are scrambling to find savings in their operations in other markets to help offset the loss of profits in China;
- China is expected to build considerable production capacity in the EU to localize production and skirt tariff barriers. Some estimate over 700,000 annual production by 2030;
- Ford estimates that Chinese brands are 10 years ahead in battery technology, the critical tech for the road to 2035;
- Another round of OEM consolidation of the over 150 vehicle brands was recently announced in China, so the global market can expect more change, larger more focused players and increased innovation and innovative design to emerge.

This means that here in Canada and for the next decade OEMs have less money to invest in marketing and product development for North America.

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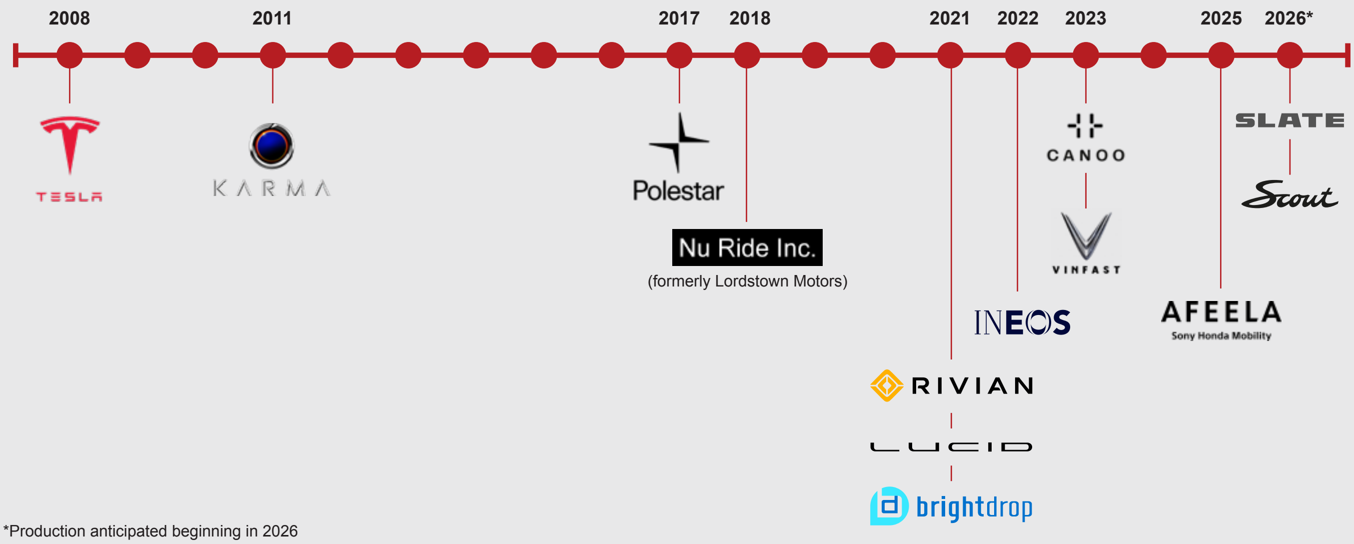
REGULATORY ENVIRONMENT

Elsewhere in this report we will discuss the regulatory environment as it relates to NEVs and also retailer operations. In general, as it relates to OEM headwinds, the main issue is that the global regulatory environment is highly unstable and makes it near impossible for manufacturers to effectively plan for the future:

- Planning, designing, testing and launching a vehicle product generally takes four to six years, depending on the complexity and similarity to other products the OEM is already producing;
- If various national and local or provincial/state governments are varying the legislation around electrification, emissions and safety, it makes it very difficult to successfully create new products for the market. It is a bit like playing a board game (with billions of dollars of real money) and the rules changing in mid-game;
- In addition to the standards the OEMs must comply with, the other uncertainty involves the incentives that exist in different markets, including Canada, for purchasers of electric vehicles. These incentives, which are subject to planned changes or changes driven by political agendas, can have great influence on consumer's interest in buying a NEV:
    - Ontario had an incentive at one time of $12,000;
    - Quebec's incentives, initially planning to decrease from $7,000 to $4,000 for 2025, were instead cancelled completely at the end of January 2025;
    - B.C. changed the qualification rules for their program in mid 2024 by recategorizing some vehicles and capping the price limit to qualify to $50,000, much lower than the previous $55,000; and
    - The newly-elected President in the U.S. has indicated he plans to stop all EV incentives which were part of their Inflation Reduction Act.
- There is also the perpetual risk of a lengthy trade war between the U.S., Canada and Mexico, which could easily escalate to include other nations:
    - Renegotiation of USMCA was not planned until 2026;
    - The President-elect has initiated 25% tariffs on all automobiles imported into the USA, which will greatly impact vehicles being imported into Canada as well as vehicle exports, especially now that Canada has retaliated with an equal amount of tariffs.

Intensifying competition



*Production anticipated beginning in 2026

NEW COMPETITORS

Generally the series of brands in the market in North America has been stable.

Very few significant brands have exited the market in recent history, with Suzuki, Daewoo and Fisker being the exceptions, but a large number of brands have joined the market, with varying degrees of success.

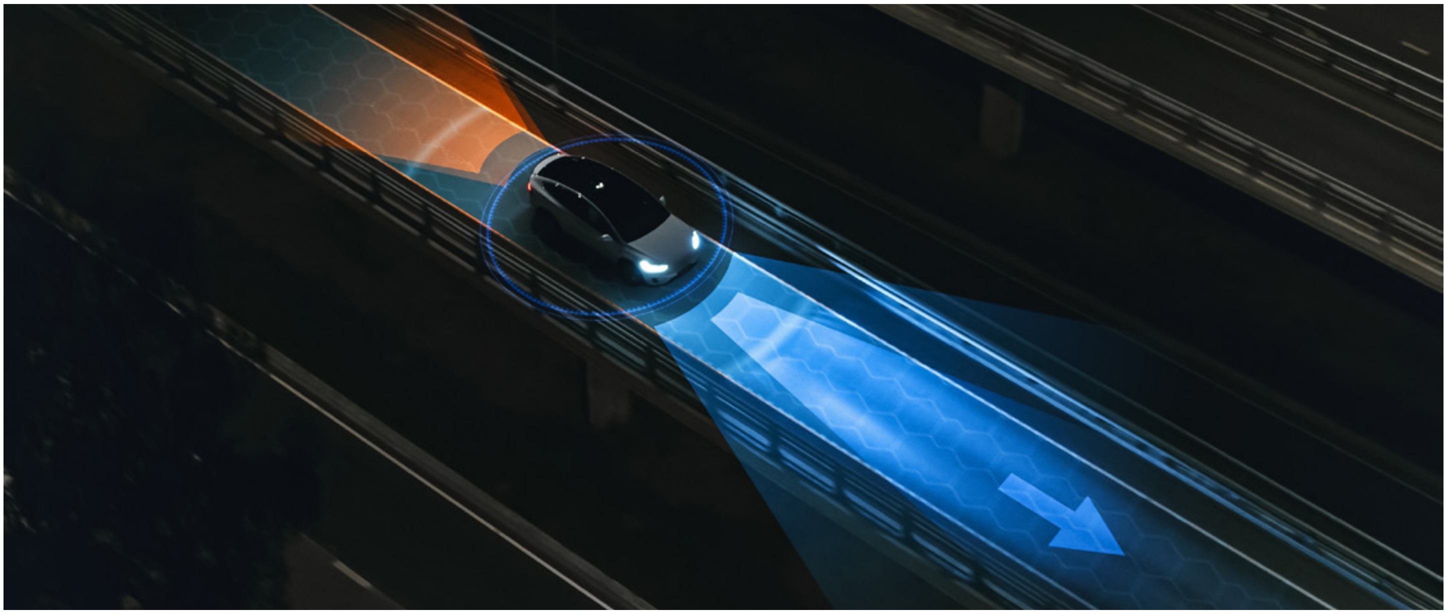
Each new entrant has a unique story, and Tesla's early success story in particular has driven many brands to try to duplicate their formula.

It is expected that in the coming decade several additional start-up brands will make an attempt at success in the U.S. market, with Canada as a side quest for additional sales. Many of these will not be successful and will exit the market in receivership. Yet several others may succeed either on their own or with a partnership with other brands in the market. In our opinion this is a significant opportunity for Canadian dealers. Retailers should be mindful of new brands coming to the market and consider each as investment opportunities — however not without risk.

Some competitors that arrive by 2035 could exist purely on the technology "skateboard" of another OEM, much like the **coachbuilders** of days gone by. A coachbuilder is a person or company that manufactures bodies for passenger vehicles. Coachwork refers to the body of vehicles like cars, buses, or carriages. It is our opinion that history could repeat itself in this regard.

Before unibody construction became popular in the 1960s, many independent coachbuilders made bodies for luxury or sports cars, often for manufacturers like Ferrari. These coachbuilders also created custom bodies for individual clients.

There is an opportunity to return to this way of doing business, perhaps drawing in non-traditional automotive brands. For example, Nike could buy, or licence a EV skateboard from an OEM (for example, perhaps General Motors) and the operating software and then build their own vehicle on top of that skateboard, using a supplier with outsource manufacturing skills like Magna. The vehicles could then be sold by GM through GM dealers. Given that some of Nike's rare sneakers cost more than some NEVs, this might not be an impossibility.



AUTONOMOUS FUTURE?

So far work in the area of autonomous vehicles (AV) has drained OEM's finances by requiring massive investment and **yielding very little in the way of business success**.

Nevertheless, many in this field continue their work on an autonomous vehicle future. Our research suggests that it is **unlikely** we will see commercial success and consumer acceptance within the next decade. Our interviews, surveys and research support this conclusion:

- General Motors announced late last year that it was pulling the plug on its Cruise robotaxi unit, after sinking $10 billion into it since 2016;
- Ford and Volkswagen exited their Argo AI joint autonomous vehicle business in 2021, after Ford invested $1 billion and Volkswagen $2.6 billion;
    - Argo AI was powered down as Ford indicated that it could not attract new investors, and that profitability remained elusive;
- Waymo, which was originally the Google Self-Driving Car Project, is one of the few still active. The company has been investing billions since they began in 2004, but are not yet profitable. They are backed by the parent company of Google, Alphabet, so funding is freely available.

For retailers, the marketplace and consumers, these large AV OEM spends mean product and marketing investments were forgone for these speculative enterprises. The technology can be modified for various driver's assistance products, but the investment certainly did not pay off.

We remain highly skeptical about the looming boom in autonomous vehicles that some have been heralding for some time.

The application of purely autonomous vehicles is likely to grow between today and 2035. How big a portion of the automotive business that occupies, however, remains to be seen. Given some of the technological limitations, specifically the lack of smart infrastructure, the use may be limited to specific urban delivery and taxi applications. There are certainly further concerns about product liability, which also may slow adoption of this type of technology for the mainstream consumers.

There is potential for Canadian retailers to profit from any growth in the popularity of AVs that does occur by 2035. Retailers have the locations, skilled staff and necessary expertise to sell, service and clean these vehicles. There could be opportunity, perhaps in the evening hours where the shop may not be in use for consumer vehicles to address the needs of AV fleets, large and small.

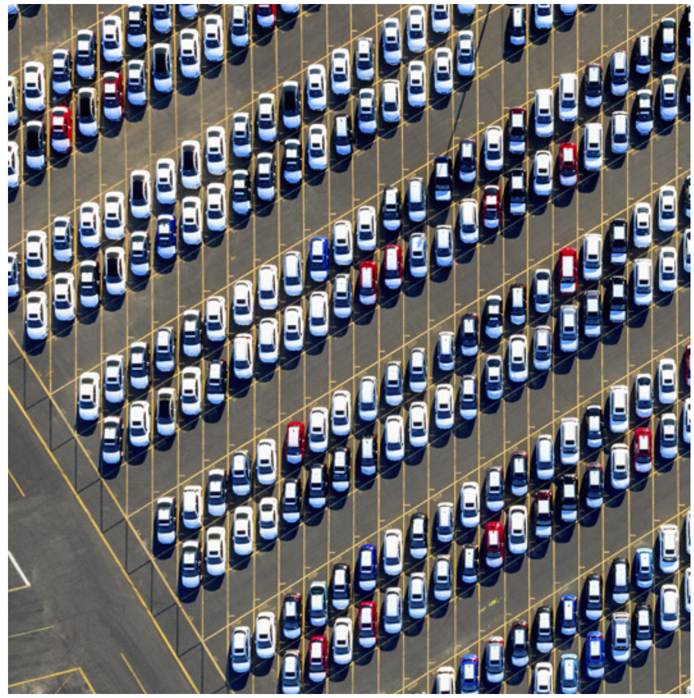
Ultimately, someone needs to sell these vehicles and deliver them. Retailers are ideally positioned to take advantage of these opportunities. Perhaps, in some instances, retailers could be the owners and operators of the fleet itself. Retailers should monitor this area for investment opportunities, but we do not consider it a high priority area and view it more as a post 2035 potential investment and revenue source. We urge caution to our members considering investment in this area between now and 2035.

OEM SURVIVAL IS NOT GUARANTEED

Given all the aforementioned headwinds, one might start to wonder if the survival of several brands are in jeopardy. While there have been some recent exits, the future exits of more brands, mergers and divestitures are a real possibility in the next decade.

For example, while this report was being written, the news broke that Honda, Nissan and Mitsubishi have signed a memorandum of understanding (MOU) to explore the possibility of a joint holding company, and then subsequently Nissan withdrew from the discussions. OEMs are looking at their future prospects of survival without being part of a larger consortium with large economies of scale, and realizing they are not in a sustainable position.

We also must remind ourselves that **Canada is a small market**. We are 9th in global vehicle sales, just behind France and ahead of Italy.



Our market is an expensive one to do business in. Canada has significant mandatory French language requirements, and other product requirements that do not always align with the larger U.S. market that is nine times the size. Another way to look at our market size is that California sells a similar number of cars as Canada. In fact, in 2024 the Canadian market was just 5.6% larger than California.

Some brands may cease to exist completely on a global basis, if they have failed to innovate, make smart investments or their financial and cost situation are no longer viable.

It is even possible that some brands may decide to selectively **exit Canada**, or at least specific provinces that have strict, difficult to comply with EV mandates like **BC and Québec**. This is a more likely outcome if a province becomes a "legislative island," by continuing to have NEV requirements that are significantly different than the rest of Canada. These kinds of regulatory differences across provinces resemble **interprovincial trade barriers** to some degree, by creating significantly different costs of doing business across the country.

> ***"For far too long, Canada has been beholden to the U.S.-defined environmental and safety standards for vehicles at the exclusion of all others…This means that Canadians only get those vehicles and brands that Americans consider attractive and affordable."***
>
> — Tim Reuss, president of CADA

In this scenario, some dealerships for brands that decide to exit specific provinces could remain open as service points. Alternatively, and more likely, **BC and Québec dealerships might offer a greatly scaled down lineup** as compared to other parts of Canada.

In 2035, for example, there may be 10 vehicles in an OEM's lineup in all provinces except for Québec, where only the three vehicles that fully comply with regulations are sold. It would be a challenge for a retailer to succeed with such a small lineup of vehicles. This could also be an issue nationally, if Canada's EV policy continues to diverge from the U.S. An OEM could offer 10 products in the U.S. but perhaps only three in Canada for compliance reasons, which would significantly undermine the business for both the brand and its Canadian retailers. Historically, if Canadian vehicle requirements did not closely mimic those of the United States, OEMs were reluctant to invest in unique Canadian products.

CADA recently announced a Five-Point Automotive Competitiveness Framework to address the tariff and affordability challenges facing the Canadian automotive industry. A key element of this plan calls for an **expansion of Canada's regulatory framework to allow the importation of vehicles that meet safety and emissions standards in the European Union, Japan and Korea.**

Under the current system, Canada relies exclusively on American defined environmental and safety standards for the vehicles we sell. While Canada is not a small market by global standards, we are not large enough to justify our own manufacturing standards for OEMs.

It is CADA's view that permanently opening the market to vehicles certified by other trusted countries will bring more brands into the country and with it, more affordable options like smaller hatchbacks. American consumers typically reject these kinds of smaller vehicles. As a result, they are not sold in Canada or in the U.S. because their sales volumes do not justify the costs of modifying manufacturing lines to meet U.S. regulations.

Another plank in the CADA Five-Point Framework is the need to **recalibrate ZEV mandates – nationally and provincially** – with a more practical and achievable set of targets. These recalibrated targets must align to real consumer demand for electrified vehicles and on a timeframe that is not punitive for OEMs.

MANUFACTURING

Supply chain

The pandemic exposed the vulnerability of the global automotive supply chain. We all learned that a lack of microchips equals a lack of cars. These vulnerabilities still exist. Automakers tend to not use the latest and greatest chip technology. Instead, they prefer to use older, proven and less expensive hardware. As a result, in many cases, the chipmakers prioritize other customers over automakers. There is certainly geopolitical risk in many places in the world, including Taiwan where the majority of chip making happens. It is our expectation that over the next 10 years, interruptions to supply chains are somewhat inevitable, but not likely as severely as we witnessed during the pandemic. It is reasonable to expect that some vehicles, and perhaps even brands will stop/start production due to supply chain challenges more frequently than what we have seen in the past. Beyond 2035 we expect greater supply chain stability as OEMs learn from past challenges.

Labour

OEMs are facing a shortage of skilled labour, particularly in Europe and the United States. This shortage is due in part to the retirement of baby boomers, and the lack of interest among younger generations in manufacturing jobs. The shortage of skilled labour is leading to longer production cycles and inflated costs. Generally, most manufacturing plants must be operated at around 80% capacity to be profitable, and many plants are challenged to achieve that number. In the post pandemic market many OEMs have not seen volumes return, which has resulted in OEMs closing plants. Volkswagen AG for example, recently announced plans to close three plants in Germany, the first time in their decades long history that this has occurred. Those plans were then subsequently paused. The 2023 strikes by the UAW in the U.S., resulted in general wage increases of 25% over the four-year contract. With the newly reinstated cost-of-living-adjustment (COLA) included, however, the gains are expected to be roughly 33%, a dramatic increase in the cost of labour per vehicle, which makes up 10-15% of the cost of a vehicle. All of this contributes to compressed margins for the OEMs. It is also our opinion that the price of vehicles, between now and 2035, is expected to continue to rise at a rate much greater than inflation due to some of the aforementioned factors.

CHINESE OEMS

Depending on who you ask, Chinese OEMs will either slowly gain niche market share in the global automotive industry, or completely and utterly dominate it. Domination would be similar to the way in which China's manufacturers have achieved it for other industries, such as consumer electronics and clothing.

Currently, there are about 150 active brands in the Chinese market. Among them are 97 Chinese domestic brands and 43 joint venture brands where a Chinese brand has partnered with a global OEM. The brands SAIC, Chery, Changan, Great Wall Motors, Geely, Dongfeng, BYD, and BAIC are all very active in the export business. In fact, by mid November 2024 Chery had already exported one million new vehicles for the year.

Chinese exports have rapidly grown since 2019, and now **China exports more vehicles than any other nation**. In 2024 Chinese brands shipped over 5.86 million new vehicles, with continued growth for 2025 expected.

Some analysts feel it will be a long and hard battle for Chinese OEMs trying to win market share in North America. This will include contending with tariffs put in place to deter the brands. A CEO of one international dealer group we spoke to on the topic of high tariffs stated: **"It will not be enough to stop them."**

Another potential outcome is that Chinese dominance will grow, leading to a scenario where, by 2035, Chinese OEMs will have won the race and other OEMs will not be able to catch up. With so many high paying jobs in the auto sector, as well as government support for those jobs, in the U.S. and Canada it is expected that there will be considerable pushback against the arrival of Chinese brands for the foreseeable future. When they do arrive, this represents a significant business opportunity for Canadian retailers.

150 ACTIVE BRANDS

97 DOMESTIC BRANDS

43 JOINT VENTURE

The potential for market dominance by China is driven by various factors, including:

- **Technological advancements:** Chinese OEMs benefit from embracing electric vehicles (EVs), software-defined vehicle (SDV) approaches, and artificial intelligence (AI);
- **Strong domestic market:** Although weakening recently, the Chinese market is almost larger than the U.S. and EU markets combined;
- **Government support and subsidies:** These play a crucial role in the growth of Chinese OEMs; and
- **Lower cost of labour:** Typically 10-20% of the cost of building a vehicle is labour, a very significant portion, and China has a large advantage here.

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SUMMARY

For OEMs to survive the next decade they will have to move much faster to aggressively innovate, and deepen their effective win/win partnership with their retailers. The pursuit of **total customer centricity**, enhancing the customer experience by collaborating with tech giants and innovative BEV players, including **partnering directly with Chinese brands**, will help pave the way to success.

In the same way that historically GM partnered with Toyota (New United Motor Manufacturing, Inc.) and Ford partnered with Mazda (Flat Rock Michigan assembly plant), Chinese OEMs may opt to use partnerships to make use of idle or underutilized North American plants. This approach would then also help to skirt onerous tariff barriers to block Chinese brands from the U.S. and Canadian markets.

OEMs collectively are rethinking their conventional business models, moving towards a software-defined vehicle (SDV) approach. This new way of business will also involve using customer and vehicle data for commercial gain. This approach will also allow OEMs to sell, or perhaps rent features to their owners after the initial purchase.

So far, some OEMs attempts at this, specifically with BMW, have been high profile failures. In 2023 BMW did propose charging $18 monthly for heated seats, and previously had offered a one-time $300 option and then later as an $80 a year fee access to Apple CarPlay.

Both initiatives were not successful and brought on considerable pushback from consumers. Through trial and error, OEMs will find a recipe that works for SDV features between now and 2035. What is problematic for retailers is that they have to avoid being excluded from these potential revenue streams that may be sold through a direct to consumer app or through the dashboard of the car.

For many years, one of the classic criticisms of the auto sector was their constant tendency to overproduce units and then sell them at greatly reduced margins or, in the worst case, at a loss. Right-sizing production permanently, and shifting focus from volume to per unit profitability are critical for OEMs over the next 10 years. After all, the manufacturers saw record high profitability during the pandemic, when supply levels were drastically lower. It did not take long, however, for OEMs to begin overproducing and rely on incentives to move vehicles. Many OEMs will also exit declining segments, or segments where they are just not profitable, and right-size production in some regions. The market will look quite a bit different in 2035, where a vehicle that is not a crossover or SUV will be a rarity. We expect that the width and breadth of many OEM lineups will shrink from where they are today as OEMs laser focus more clearly on profit per unit.

OEMs will also need to focus on accelerating their speed to market, for new vehicles, new variants and features. The apparent ability of Chinese OEMs to rapidly bring products to market will apply significant pressure to the legacy OEM brands to move faster. This will be good news for retailers!

It is too early to pick 2035's winners and losers, but all OEMs should consider themselves on notice of threat, and there will be both. **Retailers should be exceptionally mindful of the state of their OEM partner's business and consider that when making significant investments in retail operations here in Canada.**

KEY THEME #5

Profitability

CADA

PROFITABILITY

One of the noteworthy findings for this report was that dealerships have historically made about 2% net return on sales. This has been the case since the 1950s for the U.S. market. Our research indicates this is quite similar to the typical financial results here in Canada. What has changed over the past 75 years is the method by which they have earned that 2%. *(Glenn Mercer, GM Automotive LLC)*

We expect that retailers have the potential to continue their 2% current success, and, more importantly, to grow their margins. To do so, the expectation is that a portion of that revenue in 2035 will flow from enterprises that retailers have yet to start here in 2025. To prepare for 2035, the planning and exploration for new sources of revenue should not be deferred.

One of the avenues for retailer growth is through **integration**.

Vertical integration is the strategy of integrating a business with other businesses up or down the supply chain. The strategy is intended to exert greater control over the value chain for products delivered to customers.

Example: Retailer purchases the local body shop that does reconditioning for their used car operations.

Horizontal integration, or more correctly, horizontal expansion involves merging with companies that are in the same industry, and at the same stage of the supply chain. The targets for these activities can be competitors, suppliers, or companies in a similar business. In general more businesses choose this approach to increase market share, reduce competition, and achieve economies of scale.

Example: A dealer group acquiring another dealership for the group.

How does this **translate** for a Canadian automotive retailer?

Today, many retailers outsource activities to third-party suppliers, but they should consider **in-sourcing** and expanding into other related areas for some of the activities that could create additional revenue streams:

Areas for investigation

- Detailing services (launch a detailing center near the dealership)
- Accessories (sales and installation)
- Tinting/vinyl wraps
- Tires/rims
- Dedicated EV battery repair
- Used car operations (including export)
- Car rental (short and long term)
- Fleet services
- Prepaid maintenance F&I offerings
- Valet service for service customers
- Customer premise (home or office) service
- Insurance (partner with a licensed broker, have them onsite)
- Charging apps (could a larger dealer group strike a deal with FLO etc?)
- Event space rental
- Education (those bays are open at night — teach automotive classes?)
- OEM Certified Collision Repair Centre
- Events
    - Track day, driving school, ice racing, cooking school, car care clinics, second deliveries, travel, etc.

Partnerships for shared services

If you are a smaller dealership, consider partnering with another larger dealer, or more than one, in a different market, ideally that you do not compete in. This could allow you the ability to share some key services, parts inventory, information technology, marketing, new and used car inventory, accounting, payroll and training.

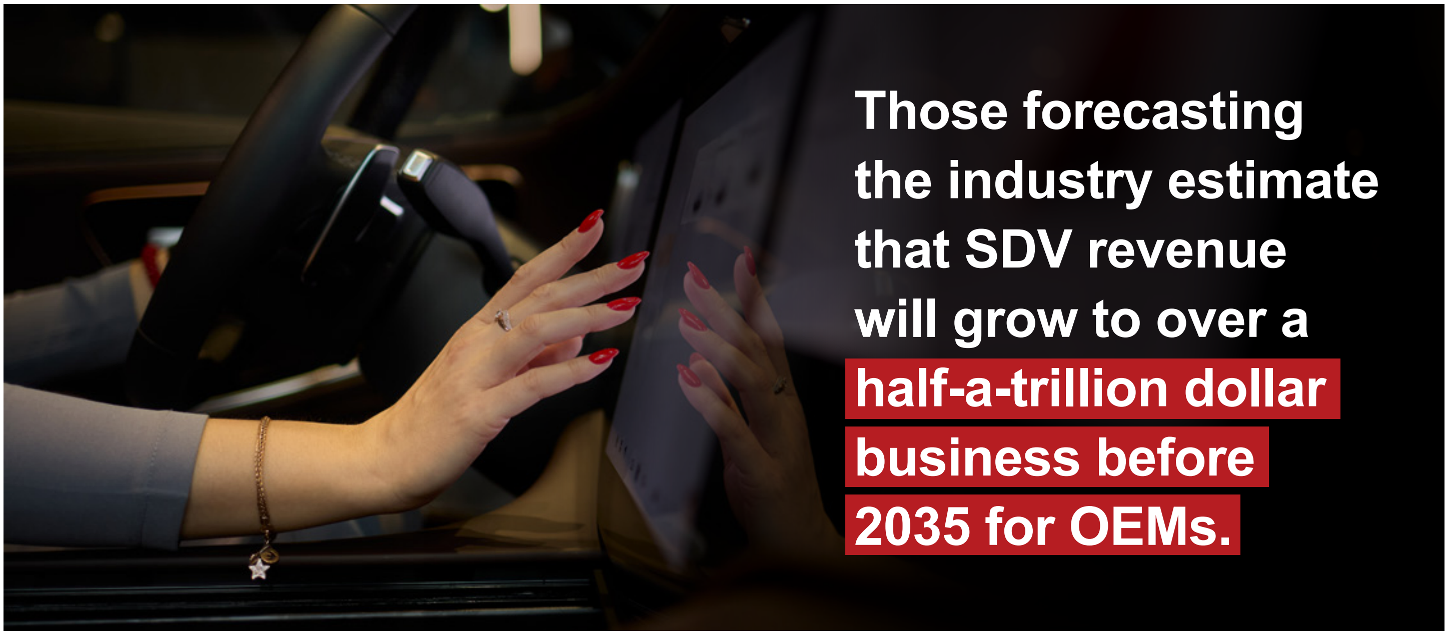
SOFTWARE DEFINED VEHICLES/OVER THE AIR UPDATES

A significant and fundamental technological shift in the auto industry will create additional future revenue opportunities for retailers, but only if managed correctly. These new income sources will likely require contractual negotiation with the OEM. Specifically, we are referring to Software-Defined Vehicle (SDV) features on a vehicle, and Over The Air (OTA) software updates. These should be both of great interest and concern for retailers. This area of our industry is expected to grow in value and importance in the next 10 years as the industry moves towards a fully SDV future.

A Software-Defined Vehicle (SDV) is a foundational shift to a new type of automotive architecture. With a SDV it is software, rather than hardware which determines the vehicle features, functions, performance, and the driver's experience. A SDV differs from vehicles today by using a centralized computing architecture, over-the-air (OTA) updates, and connectivity to the cloud to enable continuous improvements in safety, autonomy, and consumer personalization.

By separating vehicle software from hardware, SDVs facilitate faster innovation, software updates, real-time data processing, and enhanced cybersecurity. This will transform the vehicle into a dynamic, upgradable platform that continuously evolves throughout its lifecycle.

A SDV is a vehicle that has more and more smartphone-like characteristics. New features and vehicle functions can be easily added or deleted remotely at the request and payment by the customer. OTA updates are essentially maintenance work that may correct a customer issue, either reactively or proactively. They also may add new features to the vehicle, depending on the circumstances. In both cases, retailers should be concerned about revenue opportunities that they may be missing out on compensation for. In both cases, how and if the retailer is able to charge the customer and what revenue they will be able to earn must be defined with their OEM.



Specific to the SDV, OEMs view these types of subscription services as a huge profit opportunity. General Motors' 2023 research showed that consumers would be willing to pay as much as $135 per month for some subscription services. Those forecasting the industry estimate that SDV revenue **will grow to over a half-a-trillion dollar business** before 2035 for OEMs.

Consider: *A customer purchases an $80,000 SUV on Saturday, and the retailer's final commission is $1,600. But two days later the customer activates a $9,000 self-driving package through the vehicle or by contacting the OEM's customer service team directly, and the retailer's cut could be $0. Should it not be an additional $180? This small additional revenue would add up over the course of 12 months to a material amount.*

What if the OEM sells the customer a package, in the months following the sale, for prepaid charging of their vehicle? Should the retailer not get a share of that revenue? After all, their sale of the vehicle made it possible for the second transaction to take place.

Dealers have a key role in promoting and supporting SDV and OTA updates, especially those that deliver enhancements to the vehicle in exchange for revenue.

It is important for dealers and OEMs to distinguish between these two types of OTAs. It is important for OEMs to proactively inform dealers whenever OTAs are delivered to vehicle users to ensure they can effectively support and/or respond to their customers. Canadian retailers working in partnership with their OEMs to pursue SDV revenue opportunities that will enhance the customer experience and create win-win-win solutions for customers, OEMs and dealers is the ideal path.

As retailers renew their Dealer Sales and Service Agreements (DSSA), negotiation for participation in the revenues for this business should be part of the discussion.

Retailers should start to have these discussions with their own Dealer Councils and their OEMs today in 2025 and set the expectations for the future. Some form of win/win revenue participation is of interest and a high priority. Even if the OEM currently has no pay-per-use applications today it would be beneficial to plan for the future.

AGENCY MODEL

One of the most controversial topics in the auto retail space is the potential for OEMs to shift away from the traditional franchised dealer model Henry Ford introduced in 1914. In many respects, here in North America, it has been one of the most stable and secure parts of our industry.

Certainly in the U.S. market many states have specific legislation in place that prohibits OEMs from selling directly to consumers, whereas Canada lacks this legislation. South of the border, this convention has recently been challenged by many, including Tesla and more recently Volkswagen Group's new Scout brand.

As automakers experience margin compression and other challenges, as well as a desire to control the consumer experience, they are exploring changes in their traditional dealership models, moving toward an agency model. This model involves manufacturers selling cars directly to consumers, with dealers functioning as delivery and service centres while earning flat commissions. These shifts are causing uncertainty and concern among dealers globally.

Certainly, dealers fear losing control over customer relationships and revenue streams. Many in the industry stress the need for open communication and balanced agreements between manufacturers and dealers.

It is hoped that unilateral changes by OEMs can be avoided and instead collaboration, transparency, and win-win solutions will be the end goal. If transformations are the intention, very detailed, long-term business plans by both the OEM and the retailer will be required.

FUTURE OUTLOOK

While some manufacturers are pursuing agency models to compete with EV disruptor brands, like Tesla, others prioritize dealer relationships. Industry experts see these changes as evolutionary rather than revolutionary, driven by the need to adapt to a changing market. **We fully expect that dealers remain pivotal for customer engagement and service both today and in 2035**. In our VOD survey, only 12% of respondents felt that consumers would like to completely bypass the retailer and deal with the **OEM**.

"The OEM is already tinkering with direct-to-consumer models in other markets and using spin-off brands. The OEM cannot be trusted to be honest and transparent about the larger forces affecting vehicle supply and new model introductions."

—Canadian Retailer, European brand

MERGER AND ACQUISITION

Within our proprietary voice of dealer (VOD) survey, a resounding 93.6% of retailers felt the industry would continue to see consolidations. Our research strongly supports that assertion.

Furthermore, the study also revealed that **46% of dealers plan to sell their auto retail business in the next 10 years**.

Rural dealers showed an even higher interest, at 49% in divesting their business. These results are surprising, but are also an illustration of the challenges of automotive retail today and looking forward to 2035. This does not mean a given retail operation would close, but that it would change hands to new ownership.

We expect to see continued consolidation of retailers into much larger groups between now and 2035. We fully expect to see groups also merge or acquire other groups. As seen by the recent acquisition of Pfaff Automotive Partners by Lithia motors, this may include entities outside of Canada purchasing Canadian groups or forming dealer groups in this market.

The opportunity also exists for Canadian dealers to expand outside of Canada; for example, Holand Automotive Group, the owner of Ferrari Quebec, recently announced its expansion into Europe with the acquisition of Forza Rossa, Romania's only Ferrari dealership. **Exploration of opportunities outside of Canada should be considered as retailers consider their own plans for 2035**.

When retailers plan for the next decade, consideration of mergers, acquisition, and outright sales of existing operations will need to be fully explored although they may not be top of mind in your operations today.

KEY THEME #6

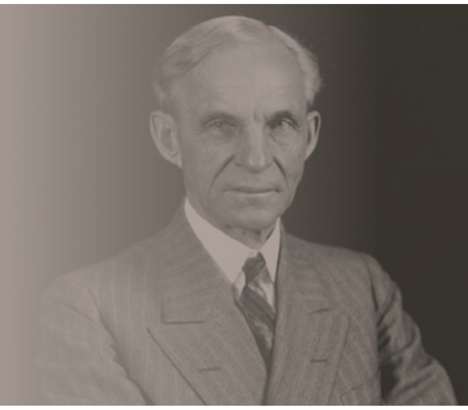
Search for Talent

CADA

SEARCH FOR TALENT

"The only thing worse than training your employees and having them leave is not training them and having them stay."

— Henry Ford



In our research, including interviews with Canadian retailers, and our Voice of the Dealer research survey, the topic of "people" clearly emerged as the number one priority with retailers.

During one interview, the interviewer could barely finish a question regarding priorities before the dealer principal exclaimed: ***"PEOPLE!"***

When asked to name the top three areas that require the greatest attention in your business today, 57.1% responded that Workforce and Talent were the most important.

Auto retail, being a people-centric business, relies on a large and often diverse group of individuals dedicated to delivering sales and service to customers. It is often said that a business's greatest assets are its employees — those who leave at the end of the day and hopefully do return the next morning. This sentiment holds especially true for the retail industry.

One of the critical challenges is that the industry has a perception issue. Working in automotive retail is often not highly regarded — it lacks respect from the general population. This is a public relations challenge for the whole industry. In a Canadian public opinion study, conducted by Maru Public Opinion in 2022, car salespeople ranked 28th out of 29 professions when it came to respect. Thankfully owners of social media platforms finished last. The negative image makes recruitment, or even having candidates consider automotive as an occupation more difficult. This is an area that needs our collective attention as an industry.

To address this perception challenge, the Corporation des Concessionnaires Automobiles du Québec (CCAQ) has initiated a comprehensive certification program designed to provide every customer with a transparent, professional experience. The ultimate goal of certification is to strengthen consumer trust in Québec dealerships.

CCAQ
CORPORATION DES CONCESSIONNAIRES AUTOMOBILES DU QUÉBEC

CADA

A core requirement of becoming certified as a dealership involves the appointment of three managerial roles across the business: one in general management, in sales and in fixed operations. These managers ensure compliance with certification standards, complete mandatory training, and ensure the dealership's compliance with the Code of Ethics which emphasizes a commitment to transparency, kindness, reliability, integrity, and expertise.

CCAQ certification training extends beyond managers to include sales associates and financial services managers, covering topics such as price transparency, professional ethics, and the protection of personal information.

As we look forward to 2035, dealers fully expect that their challenges managing their workforce will continue. Dealers can anticipate that their workforce and talent will require the greatest attention going forward, followed by new and used vehicle sales.

Technicians and mechanics will remain the hardest jobs to recruit, alongside other service roles. The results from our survey also suggest that the need for more personalized services will require at times a different staff mindset and skill set than what CADA members typically hire for today.

One of the challenges retailers face is that their operations require human resources professionals and the planning that goes with that function. It is typically only the larger operators and dealer groups, however, who can employ an HR team.

This leads to human resource practices in retail that are often much more reactive than proactive. For retailers to succeed, planning and executing the various aspects of a professional HR process is a requirement.

Does your retail enterprise have a plan for each of these ten elements?

1. Recruitment and Staffing
Job Posting and Advertising, Screening and Interviewing, Onboarding

2. Employee Relations
Conflict Resolution, Engagement Initiatives, Feedback Mechanisms, Retention Initiatives

3. Compensation and Benefits
Salary Administration, Benefits Management, Incentive Programs

4. Training and Development
Skills Development, Leadership Development, Performance Improvement

5. Compliance and Legal
Labour Law Adherence, Policy Development, Workplace Safety

6. Performance Management
Goal Setting and Appraisals, Performance Tracking, Recognition Programs

7. Workforce Planning
Succession Planning, Strategic Staffing

8. Employee Wellness and Support
Work-Life Balance Initiatives, Mental Health Support, Diversity, Equity, and Inclusion (DEI)

9. Technology and Data Management
HR Systems Management, Data Analysis

10. Change Management
Adaptation Support, Cultural Change Initiatives

The auto retail industry, regardless of the size of the operation, has a reputation for higher than normal levels of turnover. A recent *CADA National Workforce Study* found that employee turnover was 31% after one year and 52% after only three years. The research shows that **sales consultants, service advisors, and service technicians reach peak productivity after three years, but more than 50% of sales consultants and service advisors leave before reaching that point!**

Recently employee turnover dropped to 31% in 2023, down 4% since 2021. Turnover ranges from a low of 6% for general managers to a high of around 55% for positions such as quick lube technicians and lot attendants.

With all of that said, one of the retailers interviewed had a noteworthy story to tell. This particular retailer has many employees who have been with them more than 20 years, and in some cases there are second generation employees on staff. The explanation is that the particular retailer goes out of the way to cultivate a family and team culture and positive work atmosphere. For that reason, retention is exceptionally high. High retention then helps to lower other costs, such as recruiting, training as well as the lost time in efficiency when a new employee is getting up to speed.

> ***"You know, my whole philosophy is, if people aren't happy to wake up in the morning and come to work, then they shouldn't be here, as they spend more waking hours here than they do with their own family, and I want them to be happy to come to work every day. And we have never had a retention problem. We have very long term employees."***
>
> — Dealership Owner, Alberta

> ***"Everyone here is like my extended family, and that's how I feel about them. Like, I know the names of their kids, their dogs, and their mother-in-law. You know, it's that kind of a nurturing environment."***
>
> — Dealership Owner, Alberta

> ***"Many of the employees today, particularly I think younger ones, are looking for more work-life balance."***
>
> — Dealer Group President

There are other opportunities within the business to address staffing shortages. Embracing the hiring and advancement of women, for example, has great potential for the future. The Canadian retail automotive industry remains male-dominated, with women making up only 23% of the workforce in 2023 – which has remained unchanged since 2021. Currently, F&I managers have the highest ratio of women at 41%, followed by service advisors at 35%.

One of the most significant opportunities for retailers in the area of staffing and recruitment is to fully embrace the need for more diversity in the industry. Consider that your own workforce should, ideally, reflect the community that you serve. Hiring staff that speak multiple languages and understand multiple cultures can significantly strengthen a business.

There will continue to be challenges to adapt to the expectation of different generations of workers. The median age of all dealership employees was 39.2 in 2023. Millennials and Gen Z now represent 59% of the workforce, and Gen Z made up 42% of all new hires in 2023. It is worth noting that Gen Z employee turnover dropped to 56% but is still significantly higher than other generations, suggesting issues with career paths, pay plans, and working hours.

Certainly there are opportunities to replace some staff with technology such as AI, and perhaps robotics or automation for some service functions, but between now and 2035 the business will remain a people-centric enterprise.

One of the most pressing topics is the shortage of automotive technicians. The problem is not a new one; it has been with the industry for over a generation. In our VOD study, 62.9% of respondents indicated that technicians were the hardest roles to recruit for. In general, across all roles, 58.8% of respondents expect that recruitment will be even more difficult in the future.

> ***"I think the biggest challenge we face in that respect is the lack of diversification of our employee base and our decision makers relative to our customer base."***
>
> — OEM President

There are national shortages of automotive technicians in Canada, and strategies for recruitment and retention are critical. A recent study by the Motor Vehicle Retailers of Ontario (MVRO) found that there are 3,000 open automotive technician jobs in Ontario alone. This would suggest that nationally, if the labour market is similar, there are some 7,500+ open technician jobs in Canada.

Some of the research suggests that the shortage is worsening. The shortfall in skilled technicians is attributed to an aging workforce, declining enrolment in apprenticeship programs, and competition from other industries. The shortage is impacting the financial sustainability of dealerships, with significant revenue lost due to unfilled positions. It also impacts customer satisfaction as consumers will have to book far in advance for service appointments, and emergency services may take much longer to address.

For a retailer, to be short a technician for 12 months can mean a revenue shortfall of between $429,600 and $644,400 according to a study conducted by MNP for the Motor Vehicle Retailers of Ontario in 2023.

Many retailers have been using the Temporary Foreign Workers (TFW) program to fill vacant positions. It can often take between 12 and 16 months, however, to fill a position through the TFW program. This is partly due to a requirement to demonstrate that there is a lack of workers available locally through a Labour Market Impact Assessment (LMIA). Recruiting TFWs costs between $20,000 and $30,000 per recruit. Of this, between 20 percent and 30 percent of the costs are associated with the LMIA process. The MVRO has recently been advocating for a waiver of the Labour Market Impact Assessment (LMIA) requirement for the auto sector to expedite the hiring of foreign workers.

Our research suggests that there is a need for greater investment in training and apprenticeship programs to address the long-term workforce shortage.

The prevalent national shortage of technicians deserves special attention from a recruiting standpoint. We recommend proactively focusing on employee retention, especially with technicians to avoid creating more vacancies. This goes above and beyond just offering competitive salaries and benefits. Creating a positive work environment and investing in training and development for existing staff, especially with the ongoing push to electrification, are key.

Our research did uncover some helpful considerations for recruiting. When it comes to recruiting efforts, the ongoing use of social media with special attention to being helpful and likeable to attract potential candidates is strongly recommended. Consider recruiting from the military, which offers mechanics programs and employs large numbers of mechanics. Long-term partnerships with technical schools, even those distant from your dealership locations, can be highly beneficial.

Constantly evaluate and update pay plans as well as shop technology to attract talent. Consider investing in more automated machinery to do difficult or physically strenuous tasks that technicians don't like, like automated quick tire change and wheel balancing machines. Next generation service bays can be equipped with automated tools that check the tires and alignment of every vehicle entering the dealership, which saves time and reduces menial and repetitive tasks that technology can quickly perform. Any advanced technology that helps boost tech productivity will pay dividends. The technology you equip your shop with signals the respect you have for the time and expertise of your technicians. Consider offering signing and retention bonuses for technicians and even apprentice level roles.

Use a multi-faceted recruitment strategy, leveraging both mainstream and industry-specific job boards, social media platforms, and networking opportunities.

Establish connections with local community colleges and high schools to develop a pipeline of potential technicians. Consider rewarding current staff with referral incentives if someone they refer is hired. One of the retailers interviewed for this project indicated they have been targeting local high schools for a number of years as a source of technician recruits and it is paying dividends for them.

Overall, there is a need for greater emphasis on skilled trades education to encourage young people to consider careers in the automotive repair industry. There are also significant hurdles to overcome with respect to the general public opinion regarding careers in automotive retail.

KEY THEME #7

Politics, Policies and Rules

POLITICS, POLICIES AND RULES

"Actual lasting change is independent of law and policy. Change reliant on policy has a very short life-expectancy."

— Abhijit Naskar, Neuroscientist and Best Selling Author

The vehicle manufacturers face a vast set of rules and regulations for the vehicles they produce, and for the factories in which they are produced. There are safety and environment rules put in place to protect the consumer and the planet. Retailers face regulations from provincial and local licensing authorities, as well as regulations around financial and insurance products that they sell.

Projecting ahead to the next decade, we expect that there will be a larger set of regulations that will impact the automotive retail sector to a greater degree to what we see today. There is very little to suggest that the automotive sector should expect decreased regulation in the coming decade.

Québec recently enacted Lemon Laws (Bill 29) for the protection of consumers. This legislation protects vehicle owners from unrepairable defects which appear when the automobile has been driven less than 60,000 km, and for less than three years from its first sale or lease.

If three unsuccessful attempts have been made to repair the same defect, or if one or two unsuccessful attempts have been made for the same defect where the retailer or OEM has had the automobile in its possession for more than 30 days, the consumer may petition the

court to cancel the sales contract or reduce the price paid. The customer may then also claim damages and punitive damages. The vehicle would then also be declared a lemon or a "seriously defective automobile" which must be disclosed to any future potential purchasers.

It is reasonable to expect if this new law does prove to be successful at protection for consumers in Québec, that similar legislation may also appear in other provinces. Various U.S. states have had Lemon Laws since the mid-1970s, in fact it is surprising that such legislation has not been introduced in Canada despite the existence of the CAMVAP process.

Given the general direction towards more rules and regulations, dealerships may need to hire a compliance officer, particularly if a group of dealerships operates in more than one provincial jurisdiction. There are the prospects of fines for non-compliance, but more importantly reputational damage from negative publicity could adversely affect the business.

Here in Canada, recently OMVIC (Ontario Motor Vehicle Industry Council) in Ontario requested comments on a proposed number of changes to the legislation governing vehicle sales. The highlights were as follows:

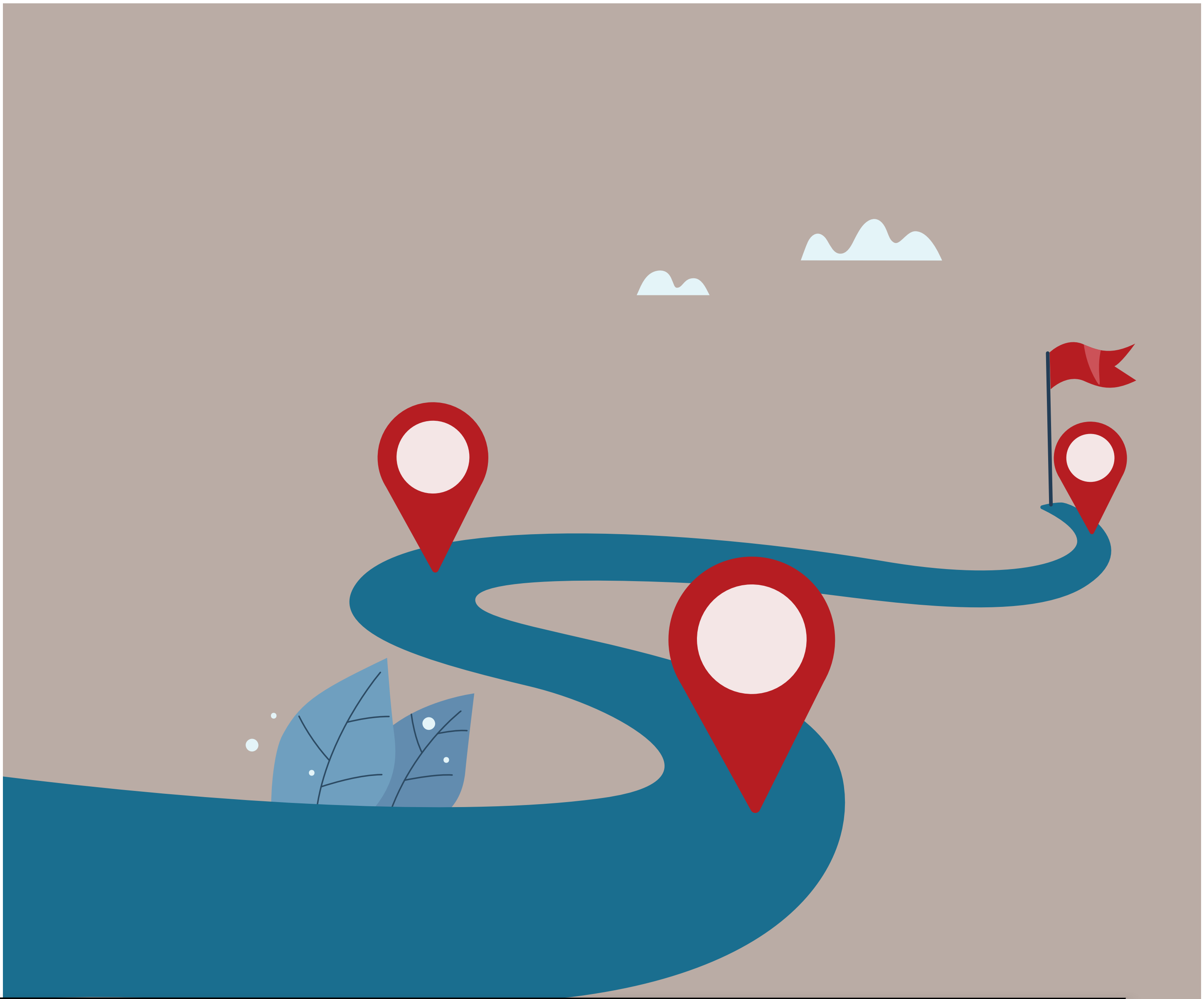
- Requiring a two-day cooling-off period on all transactions before the consumer takes possession of the motor vehicle;
- Requiring OMVIC to develop an information guide for consumers and for registrants to provide a copy to consumers;
- Allowing trade outside a dealer's place of business when the consumer has initiated contact with the registrant and requested a trade outside of the place of business;
- Limiting the ability of dealers to require consumers to purchase add-on goods and services in a motor vehicle sale; and
- Limiting the sale of "as-is" vehicles.

The proposed regulations were not adopted at this time, but it does provide insight into some of the regulatory directions being considered that would impact dealership operations.

Looking outside of Canada, in the fall of 2024 UK consumers won a landmark car finance case, which could force lenders to pay billions of pounds in compensation to auto finance borrowers. UK judges ruled in favour of a group of borrowers, stating that it was unlawful for lenders to pay commissions to car dealers without the borrowers' knowledge. This illustrates that the consumer's ongoing appetite for transparency continues to be strong and is expected to grow on the road ahead to 2035. We can expect the push for more transparency and regulator scrutiny of business office and financing practices to accelerate in the next decade.

Consumers will also continue to be concerned about how their private information that they share with the dealer is being used; legislators will remain very interested in the topic as well. Retailers will need to be exceptionally vigilant about how they manage consumer data and how this data is protected. It is reasonable to expect that additional regulations will come into effect related to privacy and consumer information. Retailers will need to be aware of the regulations and ensure they comply. Quebec Bill 64/Law 25 which came into effect in September 2023 has significant penalties for violation, with fines running into the millions of dollars for violators.

We expect that retailers will face increased legislative pressures by 2035. Regrettably, although well intentioned, some of the types of rule changes will add additional cost to the selling process through staff time and documentation requirements. Retailers working proactively and diligently with regulators wherever possible, through the CADA and other industry groups, will ensure the dealer's voice is heard and considered in lawmaking.



Recommendations for Canadian Dealers

Based on analysis of the trends influencing the evolution of the automotive industry, and the retail sector in particular, here are recommendations for Canadian dealers seeking to maintain and ideally grow their businesses in the coming decade. The recommendations are organized around the key themes in this report:

1. CONSUMERS

Anticipate consumer needs: Proactively understand and act on customer needs, rather than just reacting. The days of simply knowing your customer are over. The shift for the next decade is to anticipate customer needs.

Ensure a seamless experience: Offer a consistent and easy-to-do-business-with experience across all online and offline customer touch points. Be sure to eliminate "channel amnesia" where customers have to repeat themselves and describe their requirements more than once. This applies not only to the retailer but also the bridges between the consumer, OEM and retailer.

Personalize interactions: Provide tailored service and solutions, creating a "made to measure" feel of the interactions with your dealership in sales and aftersales.

Enhance communication: Know and respect each customer's preferred communication method. Keep your customers informed using technology such as video streaming and online service tracking tools.

Guarantee transparency and control: Give customers visibility and full control over their purchase and service journey including pricing.

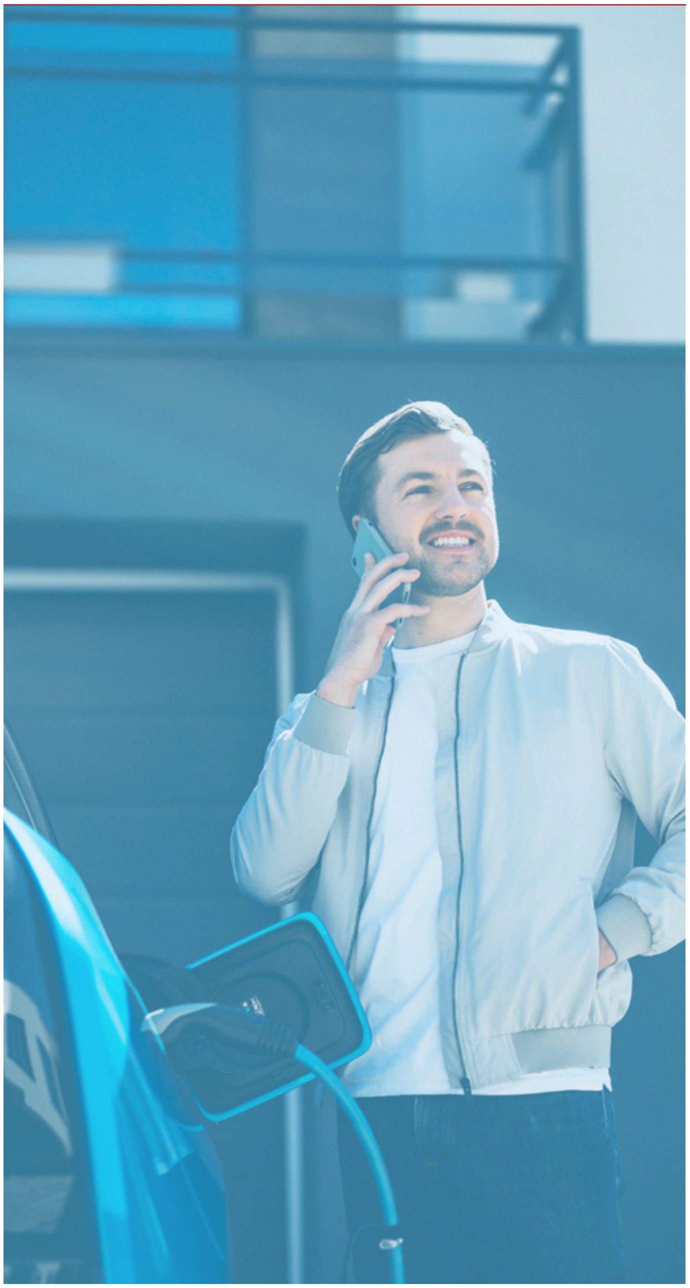
Deliver effortless processes: Ensure the buying and service processes respect the customer's time and are "friction-free". Avoid giving your customers a job to do, when you can do it for them — e.g. bring the vehicle to the service drive-through instead of pointing to the lot to indicate "your vehicle is over there somewhere."

Offer convenience: Provide valet, pick-up, and drop-off services and courtesy cars for maintenance appointments. Given the aging of the Canadian population, these convenience services will be in greater demand. In many cases, your customers will have both the means and the willingness to pay for the added convenience. The days of sitting and waiting in the service lounge are in the past.

Embrace AI: Be ready to interact with virtual AI agents representing real customers. It may seem like science fiction but it will arrive shortly.

Address affordability: Recognize and adapt to customer affordability concerns. As new vehicle prices continue to rise, offering high quality pre-owned (including brand certified) vehicles will become even more important. Help customers understand more clearly the cost of ownership advantages of NEVs, despite their current MSRP premium to comparable ICE models.

2. NEW ENERGY VEHICLES



Acknowledge market uncertainty: As you plan for the future, recognize that the transition to NEVs will not be straightforward, and be prepared to support various powertrain options. The full transition to a 100% ZEV market will take place well beyond 2035. Dealerships need to be flexible and competent across various ICE and NEV technologies in sales, service and parts departments.

Understand customer needs: As vehicle technologies become more complex, the more customers are looking for a trusted advisor. Invest the time to really understand individual customer needs and preferences. Avoid assumptions. Address customer questions regarding the realities and advantages of electrified vehicles including charging, range, and even battery replacement. The more your staff understand customer needs, preferences and concerns, the more likely their recommendations will be embraced.

Proactively support the customer's transition to NEV: Offer Level 2 chargers for sale. Provide home charger installation services on the bill of sale so your customer enjoys a "one stop shop" experience. Some European dealer groups have already established this new revenue stream. If not yet practical, recommend trustworthy, licensed/ certified electricians to your customers at the time of sale to make their experience as easy as possible.

Highlight long-term value: Emphasize the potential long-term financial benefits of EV ownership, especially related to cost of ownership, despite higher upfront costs.

Thoroughly train all staff: Ensure all staff are knowledgeable about NEVs and can confidently address customer queries. Encourage staff to be EV advocates. Keep training current as new models and technologies are introduced. Provide staff with opportunities to drive the various NEV models they are selling and servicing for extended periods so they can credibly 'walk in their customer's shoes'.

Adapt to changing conditions: Monitor and be prepared to adapt to multiple shifts in government policy and incentives.

3. DEALERSHIP SALES AND SERVICE

Expect and embrace change: Retailers must continually adapt to change in the market, technology and processes as it relates to sales and service.

Invest in digitalization and AI: This is already a high priority for Canadian dealers: 85% expect to spend more on digitalization and technology over the next decade.

Seek tech and AI tools that will positively impact your business: Nearly two-thirds of Canadian dealers (62%) anticipate that AI will have a major, and even radical, impact on their business. Yet only one-third (31%) of dealers currently feel confident they are ready to embrace this technology. Talk to your technology providers and to other dealers to fully understand the opportunities and benefits of adopting AI across your variable and fixed operations.

Implement AI strategically: Take a crawl, walk, run approach. Don't try to boil the ocean all at once. Look initially for opportunities to automate repetitive manual tasks e.g. document signing. Then progress step-by-step to transform other aspects of your business including but not limited to:

- Clean, update and use customer records/CRM tools to better understand customer needs and preferences to facilitate more tailored "know me" experiences in sales and aftersales.
- Use predictive tools to identify current owners with equity in their vehicle.
- Use predictive tools to win back lost service customers and to ensure the retention of existing customers.
- Automate the customer service booking process.
- Use software to optimize inventory management (what to order, turn velocity etc.) in new, used and parts operations.
- Leverage AI-powered chat assistants for customer service and AI "co-pilots" for your sales teams.

Adapt to changing showroom needs: Be prepared for smaller showrooms and consider alternative locations in high pedestrian traffic areas like shopping malls, pop-up stores and even at popular events. The days of very large showrooms are likely to be numbered.

Invest in fixed operations: Two-thirds (67%) of Canadian dealers intend to increase their level of investment in fixed operations over the coming decade. The majority of dealers (80%) also expect fixed operations to be their main profit driver, ahead of both new and used vehicle sales. While the transition to NEVs has the potential to lower maintenance and repair revenues over time, dealers have a large, once in a lifetime opportunity to retain these NEV customers for service given the inherent advantages that franchise dealers have over aftermarket service providers.

Offer more convenient service options: Younger customers (under 55) are extremely time-sensitive and crave convenience. Older demographics (55+) also seek convenience due to advancing age and this group may be the most willing and able to pay for it (note: Statistics Canada forecasts the percentage of Canadians age 65 and older will increase to 23% by 2035 from 19% today). Dealers should offer options such as mobile service, valet service, at-home service, and prepaid maintenance and vehicle detailing packages to optimize customer convenience.

Prioritize training: Ensure all staff are well-trained and knowledgeable about new technologies, especially NEVs and how to leverage AI tools to increase their own productivity and success.

4. CHANGING OEM AND COMPETITIVE LANDSCAPE

Embrace new technologies: OEMs are moving rapidly towards software-defined vehicles (SDV) and using customer and vehicle data for commercial gain. Dealers must adapt to this trend and be prepared to fully engage with these new technologies including becoming proficient at selling (or renting) enhanced vehicle features to customers after the initial purchase and how to integrate with direct-to-consumer mobile apps. There is an urgent need for retailers, through their Dealer Councils, to negotiate with OEMs for a fair share of these emerging SDV revenue streams.

Focus on customer centricity: The successful OEMs and retailers of the future will pursue total customer centricity. Given relatively consistent levels of product quality across brands, customer experience excellence becomes the true differentiator across brands and dealerships. A customer-centric mindset and capability builds trust and loyalty.

Be prepared for lineup changes: The breadth and depth of OEM lineups will likely shrink as manufacturers focus on profit per unit. Dealers should be prepared for a more limited range of vehicles and will need to adjust sales and inventory strategies accordingly.

Adapt to a changing market: This research conducted in the writing of this report suggests the market will look very different in 2035. Dealers should be aware of the potential for brand exits, mergers, and divestitures, and should be prepared to adapt to these changes. Some brands may even exit specific provinces, or the Canadian market altogether. This could lead to dealerships being forced to operate as service points only, or having a significantly reduced line-up of vehicles for sale. Retailers should consider how financially solid their OEM partners are before making significant new investments for a given brand.

Consider partnerships: Just as some legacy OEMs may ultimately partner with Chinese brands, dealers should also be open to partnerships and/or collaborations to help them remain competitive. These partnerships could be with other dealerships, with other service providers, and/or with new OEMs.

Be aware of supply chain issues: Given current trade uncertainties, the vulnerability of the global automotive supply chain is expected to remain over the next decade. Dealers should expect interruptions to supply chains from time to time, and will need to adjust their operations accordingly.

Be flexible and fast: Dealers will need to be more flexible to keep up with the changing market and adapt quickly to new products, features and market conditions.

Prepare for increased prices: With rising costs for OEMs, dealers should also anticipate that vehicle prices will rise at a greater rate than inflation. This will impact the demand for certain vehicles and could require dealers to adapt their own pricing and vehicle ordering strategies.

Explore opportunities with autonomous vehicles (AVs): While the research remains skeptical about the predicted boom in autonomous vehicles, there is potential for growth in this area. Dealers should monitor this space for opportunities, such as servicing AV fleets, or leasing/creating their own fleet. This may be more of a post-2035 opportunity but dealers should stay informed on progress.

5. PROFITABILITY

Maintain profitability: Historically, dealerships have made around a 2% net return on sales. A majority of Canadian dealers (65%) express concern regarding their ability to maintain profitability as the NEV transition progresses. To maintain and grow profitability, dealers need to explore new revenue streams and keep a close eye on expenses.

Investigate new revenue streams: Over half of all Canadian dealers (55%) express the need to reinvent the way they currently do business. Nearly a third of Canadian dealers (32%) intend to pursue new revenue streams.

Dealers should consider vertical and/or horizontal integration to increase control over the value chain, to capture market share, and to achieve economies of scale. Dealers can also explore in-sourcing opportunities to capture revenue that is presently outsourced. Potential new revenue opportunities include:

- Battery health checks, certification and repair
- Comprehensive tire services: sale, installation and repair
- Extended warranty and protection products
- Participation in public charging stations
- Home charger sales and installation
- Vehicle detailing
- Vehicle personalization e.g. vinyl wraps, PPF, accessories etc.

While there are several examples of these kinds of activities in other markets, they are not yet widespread and proven in Canada. Dealers must do their homework, pick options carefully that play to their strengths, and pilot prior to full investment and launch. Success at building meaningful new revenue streams will require significant dealer attention and commitment.

Consider partnerships: For smaller dealerships, partnering with larger dealerships in non-competing markets could create efficiencies in parts inventory and shared services such as IT, Human Resources, Marketing and Training.

International opportunities: Sources of growth and prosperity could lie outside of Canadian borders. Consider looking internationally for opportunities to grow your retail operations, or to partner with other like-minded retailers.

Negotiate for SDV revenue: As Software Defined Vehicles (SDV) become more prevalent, dealers must negotiate with OEMs to participate in new revenue streams from features, applications, and over-the-air updates.

Prepare for consolidation: The industry will continue to consolidate with nearly all Canadian dealers (94%) agreeing on its likelihood. Nearly half (46%) of dealers expect to sell their business at some point in the next decade. Dealers are wise to consider mergers, acquisitions, and the sale of existing operations as part of an overall business strategy.

Differentiate through customer experience: Provide a seamless, effortless, and personalized experience, both online and offline. Offer transparency and control over the customer journey. Customers whose expectations are met and ideally exceeded are far more likely to recommend your dealership to others, to return for service beyond warranty expiry and to re-purchase again. In a mature Canadian vehicle market of between 1.6 and 2.0 million vehicles annually, customer retention will be a key driver of dealership profitability.

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6. TALENT

Prioritize your people: Your employees are your greatest asset. Automotive retail is a people-centric business. Recruiting and retaining talent is the number one priority area of Canadian dealers in the next decade, ahead of new and used vehicle sales and changing business models.

Address the industry's perception problem: Continue efforts in local communities to improve the professional image of automotive retailers. These proactive efforts can take many forms including charitable sponsorships, volunteer activities, and by partnering with local schools to create awareness and opportunities for students to consider an automotive sales, service, marketing or technical career path.

Anticipate the need for evolving skills: The majority of Canadian dealers (81%) already recognize that the skills and competencies required for success are evolving and will change significantly over the next decade. For example, battery, electrical and diagnostic skills for technicians as vehicles become more complex and software based. Identify where you have skill set gaps and focus recruitment and training efforts accordingly.

Embrace diversity: Recognize the potential for growth by hiring and advancing women and underrepresented groups. The industry is still Caucasian male-dominated, and there is a large opportunity to bring more women and visible minorities into the workforce. Given Canada's multicultural heritage, when retail sales and aftersales teams reflect the diversity of the customers they are serving, success follows.

Recruit proactively: Utilise a multi-faceted recruitment strategy, using social media, job boards, networking, and employee referrals. Consider recruiting from non-traditional sources of talent including the military, hospitality and technology sectors. Establish partnerships with technical schools to promote the skilled trades as a meaningful and lucrative career path. Consider signing and retention bonuses for hard-to-recruit technicians.

Develop professional HR policies and procedures: Implement human resource policies and procedures consistent with leading employers in your community. Hire trained and experienced HR professionals to support your business. Part-time and outsourced HR professionals can make this an affordable option for single point dealers and smaller groups. Establish an ongoing talent planning process that includes the identification of high potential team members, career and development pathways for key team members and succession plans for key positions across the business.

Pay attention to retention: Automotive retail suffers from high turnover. Employee retention is critical for dealers as sales and service staff only reach peak productivity after three years in their roles. Reducing turnover delivers many benefits including lower recruitment costs and the opportunity to build strong, profitable customer relationships over time instead of single, lower profit transactions. Maximizing employee retention is a multi-faceted effort that includes the need to:

- **Cultivate a positive work environment:** Create a family-team culture and positive work atmosphere to improve retention. When employees are happy to come to work, retention is improved and the bottom line enhanced. Positive word of mouth will also make recruiting new staff easier.

- **Adapt to generational differences:** Today's workforce is increasingly composed of Millennials and Gen Z, who often have different expectations than older Gen X and Boomer team members. Younger employees place high importance on training, clear career paths, working hours and pay and benefit plans. While many long-tenured dealership owners and department managers may not understand this desire for greater work-life balance and flexibility, failure to respond to these expectations will only perpetuate the turnover challenge.

- **Invest in training:** The majority of Canadian dealers (72%) intend to increase their investment in recruitment and training over the next decade. For younger employees, apprenticeship and ongoing training programs will support their desire for professional development and contribute to retention. Ongoing training will also be necessary for the business to keep pace with technology evolution in the business—both in the vehicles we sell and service and in the tools we use to run the business.

- **Bring innovation to compensation:** The recent CADA Workforce Study confirms that many dealers already pay at or above market norms. For many employees, especially Gen Z and Millennials, the structure of their compensation package matters as much or more than the total amount paid. Examples include the ratio of guaranteed versus variable income, vacation allowance, fitness subsidies, comprehensive health, wellness and dental coverage and retirement savings plans. HR leaders need to continuously monitor compensation trends and best practices to keep pace with leading employers in the community. Compensation management must be proactive not reactive in order to maximize retention.

7. POLITICS, POLICIES AND RULES

Stay informed: Given the trend towards increased regulation, dealers should closely monitor legislative changes at the municipal, provincial and federal levels. This includes keeping abreast of specific automotive legislation, as well as consumer privacy laws.

Prioritize transparency in all transactions: With consumers demanding transparency, dealers must ensure that all pricing, financing, and add-on information is clear, consistent and easily understandable.

Implement robust data protection practices: Given the increased focus on the privacy of consumer information, dealerships must be vigilant about how they manage and protect consumer data.

Consider hiring a compliance officer: If dealerships operate in multiple jurisdictions, they should consider hiring a compliance officer to help manage the complexities across regulatory landscapes.

Engage with industry groups: Work closely with the Canadian Automobile Dealers Association (CADA) and your Provincial Associations to ensure your voice is heard and that the needs of dealers are proactively considered by policymakers across the country.

VOICE OF DEALER OPINION SURVEY

The Road Ahead: Canada's Automotive Evolution voice of the dealer survey was conducted among leaders of franchised dealerships in Canada between December 4-16, 2024. The 422 responses collected cover a diverse range of retailers from single-roof outlets from BC to Newfoundland & Labrador, to major dealer groups operating multiple stores across provinces. The results provide valuable insights into how dealers view the next 10 years in respect to consumer, product and operational changes coming their way and identify to manufacturers and suppliers alike what is important to dealers as they prepare for the road ahead.

Please click here to access the findings of this important opinion survey of dealer leaders across Canada.

APPENDIX

METHODOLOGY

The research for this report was conducted in several phases over a six month period by the Clarify Group's consulting team. We thank the many Canadian retailers who supported and participated in the research component of the study. A summary of the methods employed is presented here in the appendix.

IN-DEPTH INTERVIEWS

The research team conducted sixteen in-depth interviews of Canadian retailers and eleven auto industry subject matter experts (SMEs) in the 4th quarter of 2024. Each hour-long interview was scheduled in advance and took place via Zoom. Each interview was recorded and transcribed. A discussion guide was created in advance for each interview type, one for retailers and one for SMEs. Interviews were conducted by a senior Clarify consultant using the discussion guide to facilitate the conversation on up to ten topics related to the anticipated evolution of the industry.

After the interviews were completed, the research team reviewed the transcripts to identify key themes across respondents as well as to spot new themes for further research. CADA sincerely thanks all retailers and SMEs who participated and supported this project with your valuable time and insights.

CANADIAN RETAILERS: 16 INTERVIEWS

The retailers interviewed were carefully selected to ensure representation across provinces, and from operations of varying size and diverse OEM brands.

The **Canadian** retailers interviewed were typically the owners, or significant investors, in one or more new car franchised dealer operations.

Of the sixteen retailer interviews four (25%) were conducted in French; the remainder were conducted in English.

The key topics of discussion with retailers:

- Today's Situation and Emerging Trends
- Evolving Customer Expectations
- Advances in Sales and Marketing
- Rethinking After-Sales and Fixed Operations
- New and Evolving Business Models
- Transition to New Energy Vehicles (NEV) and Sustainability Requirements
- Talent Acquisition and Retention
- Other Areas of Interest / Suggestions

AUTO INDUSTRY SUBJECT MATTER EXPERTS: 11 INTERVIEWS

Industry experts from Canada, the U.S., Australia and Great Britain were interviewed. The SME group included leaders of consultancies and other advisory firms to the industry, journalists, as well as leaders of OEMs and industry trade associations.

The key topics of discussion with SMEs :

- Today's Automotive Landscape
- Evolving Customer Expectations
- Technology and Digitalization
- Talent Acquisition and Retention
- New Business Models
- Other Areas of Interest / Suggestions

VOICE OF DEALER (VOD) OPINION RESEARCH

As the saying goes: ***"Don't let anyone who hasn't been in your shoes tell you how to tie the laces."***

To capture the perspectives of Canadian retailers about the current state of auto retail in Canada, as well as their expectations and priorities for the future, all Canadian dealership leaders (those with equity stake and/or investment decision-making authority in their business) were invited to share their feedback through **a comprehensive online survey in December 2024.**

The questionnaire consisted of three screener questions to confirm the respondent's eligibility, and thirty-eight questions covering the main topics of interest to this report.

The survey was fielded between December 4 and 20, 2024. Average survey completion time was approximately 15 minutes; 422 senior retail leaders responded. The findings of the Voice of the Dealer Opinion research are woven into many aspects and recommendations of this report. A presentation of the findings can be found in the **Voice of Dealer Opinion Survey** section of this document.

DESK RESEARCH

Desk research, often referred to as "secondary research," is the process of collecting and analyzing data that has already been gathered by third parties for other purposes. The data collected for this report was derived from a wide range of sources, including books, government statistics, articles, reports, surveys, conferences, videos, podcasts and webinars. The team carefully synthesised these resources to gain valuable perspectives and insights on specific topics and research questions.

The desk research phase was conducted by two senior Clarify consultants with focus on these topics of interest:

- Evolving Customer Expectations
- The Journey to Electrification
- The Regulatory and Political Environment
- Retailer Talent Acquisition and Retention
- Digital Sales and Marketing, Including AI Integration
- The Changing OEM Landscape
- Growing Population of EVs: Impact on Used Market and After-Sales

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