



Weekly Car Dealers Newsletter

July 12, 2010

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources.

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**USED-CAR PRICES KICK INTO HIGHER GEAR
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NEW GM ON STEADY TRACK TO IPO AS OLD GM FADES OUT**

USED-CAR PRICES KICK INTO HIGHER GEAR

(Edmunds study identifies 41 models that were cheaper new than their year-old counterparts)

Used-car prices in the United States are soaring, creating a wacky situation for many models in which buying new costs about the same or even cheaper than buying used. Credit the prolonged recession with prompting more Americans to buy used, sending the average price of a 3-year-old car up 11.1 percent from last year and triple the usual annual increase, according to Edmunds.com, an auto research site. Combine that with the fact that automakers continue to offer cash back and financing as low as zero percent, and shopping on the showroom floor comes out about the same or even less than visiting a used-car lot, according to a new study by Edmunds. "The lesson is definitely do research," said Jessica Caldwell, senior analyst at Edmunds.com. "Just because you want to buy a car and don't want to pay that much, don't necessarily assume that used is cheaper. You have to really do the math."

Edmunds' study identified 41 vehicle models that were cheaper to buy new compared with a year-old vehicle, if both were financed for five years. It found 73 more models that cost about the

same new or used. Examples include a premium version of the Audi S4, which was \$3,780 cheaper new over the term of the loan; Cadillac CTS, which was \$3,180 cheaper; and Volkswagen Beetle, \$3,000 cheaper. Edmunds also identified 93 models that were cheaper or about the same new as buying a year-old "certified pre-owned" version, which comes with a manufacturer warranty. The small gap between new- and used-car prices — steadily narrowing for about 18 months — is likely to continue for "at least another year," said Paul Taylor, chief economist of the National Automobile Dealers Association. That's particularly true of truck-based SUVs, which have surged in the used-car market, he said. While other automobile price experts are seeing the price difference shrink between new and used vehicles, they don't see it as pervasive as the Edmunds study suggests.

For example, Kelley Blue Book has noted a rise in used-car prices, but not to the point where they're surpassing new-car prices, said Juan Flores, director of vehicle valuation for Kelley. "I'm sure there are opportunities out there or instances (where it's true), but I'm comfortable saying it's probably going to be the exception rather than the norm," he said. Reliable, high-demand vehicles such as the Toyota Tacoma, Chevrolet Camaro SS, Mini Cooper and Dodge Challenger are among those whose new and late-model prices might be close, he said. A vehicle with a lower price new than used would be an anomaly, Taylor said. The real question for consumers is whether there's enough price difference to justify buying used. "Typically, a used car would be less, but maybe it's not enough less," he said. This isn't the first time new- and used-car prices have converged. During the July 4 weekend a year ago, Consumer Reports found deals on Honda Accords and Odysseys that made new models less expensive than year-old used ones.

It's important to note that the Edmunds report assumed auto financing for five years, which is typical, and no down payment. Customers who pay cash will almost always find used cars less expensive, and those who finance used cars will generally find the interest rates to be higher. The study also compares prices of new cars with only year-old counterparts. Buying a 2- or 3-year-old vehicle is far more likely to be cheaper than buying new. And the study considered monthly payments only and did not include typical repair and maintenance costs, which are generally lower on new vehicles.

It's also important to note that prices and incentives vary by region and even among nearby dealerships. Source: The Chicago Tribune

McLAREN NAMES SIX OF 10 NORTH AMERICAN DEALERSHIPS

McLaren Automotive has set up a North American operation and named six of the 10 dealers it will use to sell the MP4-12C sports car.

McLaren's North American headquarters will be based in New York City.

The six dealers named to get McLaren franchises are:

- The Auto Gallery, Beverly Hills, Calif.
- Lake Forest Sportscars, Chicago
- Park Place, Dallas
- Miller Motorcars, Greenwich, Conn.
- Price Family Dealerships, San Francisco
- Dew Luxury Motor Cars, Tampa Bay, Florida



McLaren says it plans to name dealers in Miami, Orange County, Calif., Philadelphia and **Toronto** within the next several months.

The automaker says it expects North America to account for 30 percent of global sales of the MP4-12C, which gets its first North American showing during the Pebble Beach Concours d'Elegance in early August.

U.S. sales of the 592-hp, two-seat sports car are set to begin in summer 2011, with a base price between \$225,000 to \$250,000. "I know how demanding North American customers can be," said Antony Sheriff, McLaren Automotive managing director. "The ownership experience must be just as revolutionary as the car." *Source: Autoweek.com*

CHRYSLER DEALERS WARY OF FIAT FRANCHISES

Chrysler Group LLC dealers expressed caution Tuesday about adding Fiat franchises, concerned whether they'll sell enough small cars to warrant the cost of a separate dealership. Chrysler wants to locate 200 stand-alone Fiat dealerships in 125 mostly metropolitan markets in time for the December sale of the tiny Fiat 500. It's looking at markets with high small-car registrations and strong growth potential in the next five years. Metro Detroit is expected to land franchises, and at least two dealers are interested. "I have a couple Saturn stores that would fit the bill, said Carl Galeana, vice president of Van Dyke Dodge Inc. in Warren and who also has franchises in Florida and South Carolina. "We sold Saturns, so we know how to sell small cars."

But Galeana expressed skepticism: "We have to see what the investment is and if it is just for the 500, it depends on volume."

Projected Fiat volumes are small. Chrysler's plant in Toluca, Mexico, will build 120,000 500s annually; half for South America. The 500 will be followed by a 500 convertible next year and electric and performance Abarth versions in 2012.

Investment in a Fiat franchise comes as Chrysler dealers are being asked to upgrade their facilities to create brand salons with new signs and electronic kiosks to better differentiate the Chrysler, Jeep, Dodge Car and Ram truck brands that the automaker wants under one roof.

Fiat SpA has a 20 percent ownership stake in Chrysler, and Sergio Marchionne, chief executive for both automakers, is working to grow their fortunes by using Chrysler's plants and dealerships to distribute Fiat brands in North America. In the next two weeks, U.S. dealers will receive a detailed application guide for a Fiat franchise, spelling out physical and financial requirements, including separate signs and a building with a showroom, parts and service department, accessories and staff trained in Fiat sales methods and customer service. Spokesman Ralph Kisiel said it is not contradictory to expect a separate building for Fiat while pushing for all Chrysler brands under one roof.

Fiat offers "a totally different new vehicle that requires its own separate showroom and sales team," he said. The expectation is Fiat also will attract a totally different buyer. Bill Golling, owner of Golling Chrysler Jeep Dodge in Bloomfield Hills, also wants more information about the Fiat program. "If it works out, I'd like to have one," Golling said. Securing financing, however, could be a hurdle for some dealers. Golling worries about the tight timeline. "Plans, permits and construction of a new building can take six months to a year to complete," he said. Kisiel said Chrysler believes "there is ample time to build the necessary facilities." A standalone dealership could cost \$1 million, said Sheldon Sandler, CEO of Bel Air Partners of Skillman, N.J., which provides financial services to dealers. "As an investment proposition, it's worrisome," Sandler said. "It will be a real test of fortitude to take that kind of risk in this economic climate," Sandler said, especially because the Fiat 500 is not a mainstream vehicle and dealers could be sitting with mortgages for some time before the investment pays off.

Dealers who submit proposals will learn more at a meeting in Auburn Hills in early August, Kisiel said. Chrysler plans to announce the Fiat dealer network in September. "We believe they can be successful in these markets," Kisiel said. *Source: The Detroit News*

NEW GM ON STEADY TRACK TO IPO AS OLD GM FADES OUT

This weekend, a year since General Motors' split into old GM and new GM, the new GM is barreling toward an IPO, while the old GM languishes in bankruptcy court. The new GM is a healthier company, one with a manageable cost structure, less debt, fewer brands and lower pension and health care obligations. "We are a new and much different company than we were 12 months ago," CEO Ed Whitacre said recently. The company he joined last year was "shell-shocked," he said, and overly complicated. He's worked to give executives more responsibility for decision-making so things work faster.

The old GM is winding down, selling off parts and dealing with the legal morass that sucks in companies involved in complex bankruptcies. There was fear that GM's bankruptcy would scare off customers, killing any chance of a profitable future for the new GM. Some customers have

been turned off by the bankruptcy and the government's majority ownership stake in GM: About 32% of people surveyed by Cars.com recently said they wouldn't consider a GM vehicle. But, for the most part, GM has weathered the year fairly well. Even with four fewer brands, its sales are up 14.3% year to date, just off the overall industry increase of 16.7%. While the auto market rebound is slower than hoped, GM says it can turn a profit if industry sales are 11 million this year. June sales were at an 11.08 million annual pace, according to Autodata.

Credit the bankruptcy reorganization for getting GM's break-even point to a manageable level, says Edmunds.com CEO Jeremy Anwyl. "They got stuck," says Anwyl. "They couldn't get past a certain point, and there was no way they were going to accomplish something in the order of magnitude that was needed without bankruptcy." Now, GM is gearing up for a public stock offering that would let the government begin recouping money lent to save it. Of more than \$50 billion in loans, more than \$40 billion was converted to a 60.1% stake in GM.

The company could file as early as August its application to register an initial public offering with the Securities and Exchange Commission. That could allow the IPO before the November midterm elections. Is it too soon for a successful IPO? "I can think of several reasons why they should wait, and not one reason why they should rush," Anwyl says. *Source: USA Today*
