



## ***Weekly Car Dealers Newsletter***

**December 12, 2008**

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This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

**Week of December 15, 2008**

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### **WHAT'S THE "BLUE SKY" VALUE OF A BANKRUPT DEALERSHIP?**

When privately owned companies like car dealerships change hands, the financial details of the transaction generally remain confidential. Not so when the dealerships being sold are under the watchful eyes of a federal bankruptcy court judge. As the various bankrupt Bill Heard stores are being sold off, the numbers are hitting the papers.

For instance, the *Columbus Ledger-Enquirer* reports that Emanuel Jones made a bid just shy of \$25 million for the Bill Heard Chevrolet-Saab-Cadillac store in Columbus, Georgia. The U.S. Bankruptcy Court approved the bid. The new dealership is holding a job fair and is looking to hire about 100 people with experience in sales, service and repair, Mr. Jones said. The deal breaks down as \$11.5 million for the dealership real estate; \$3.5 million for the parts inventory (more than \$1 million of those parts eligible for return to GM). Mr. Jones' Legacy Automotive Group agreed to pay \$8 million for the new and used car inventory, as well as \$1 million for furniture and fixtures.

No Blue Sky for the franchises.

And a report in the *Memphis Daily News* indicates that the Bill Heard Chevrolet dealership in Collierville, TN, was sold for \$10 million. Sunrise Buick Pontiac GMC was the buyer.

Sunrise Buick was able to arrange a \$10 million loan from GMAC Bank in conjunction with the sale. The loan has a maturity date of Jan. 1, 2014. No other details on the parts or vehicle inventory were reported. Again it looks like no Blue Sky for the franchise. –  
*Source: Dealersedge.com*

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### **FORD BENEFITS FROM CEO'S TURN TO ROAD LESS TRAVELED**

DEARBORN, Mich. — On this rainy, cold, miserable Tuesday in December, Alan Mulally sits in his office at Ford Motor's headquarters, beaming. With Ford's sales down 19.5% this year, the economy showing no sign of recovery, and Congress and the White House working on loans to help the domestic auto industry survive, you'd think Mulally would have very little to smile about. But he's perfectly chipper, showing off a 1903 Indian head penny sent to him by a Ford dealer's son. For luck. "Isn't that great?" he says, peeling it out of its protective wrapper. "I'm going to keep that in my pocket." Compared with the other two domestic automakers, Ford looks like it's already been blessed. The automaker has \$18.9 billion in cash and \$10.7 billion in untapped credit, which Mulally says has his company positioned to survive the market falloff. Jeffrey Sonnenfeld, an associate dean at the Yale School of Management, says Mulally's ability to move quickly and not let ego get in the way have helped the company achieve much more than many expected. "He's had the courage to say he's largely accelerating a given plan, and he's fortified the top lieutenants around him. He's done a great job working with people who know what he doesn't know about the industry." - *Source: [USA TODAY](#)*

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### **CALLS FOR WAGONER TO “MOVE ON” - THE WASHINGTON BLAME GAME**

Wagoner may deserve to be fired for not getting his financial house in better order, as did Ford's Mulally – but that should be the GM Board's call. That Sen. Chris Dodd from Connecticut has any business perspective or moral standing for such a call is pure political hubris.

I've got a good question for our self-promoting politicians in Washington. If current auto execs should be forced out for the financial bind they find themselves in, then shouldn't the likes of Senator Dodd and Representative Barney Frank be forced to resign their congressional seats for the collapse of the credit and housing markets?

I don't know about you, but I'm getting sick of watching our Washington politicians, eager to take center stage in front of the television lights, moralize about what is wrong with the auto business.

That there are problems to be solved is obvious. Suggesting that the current chief execs are solely to blame just does not put the problem in its full and proper perspective.

**The case for and against Wagoner:** CEOs are responsible for making a profit and protecting stockholder equity. In recent years Wagoner's report card on those two key measures has not been good. Maybe that is good enough reason to give him his walking papers. But that is, and should be, a decision of the company's board of directors and not a condition of government-backed loans.

Last year, when the Wagoner-led GM was successful in negotiating a labor agreement that reversed past decades of lopsided UAW contracts, we thought that Wagoner, with that win, had secured his future place in the Automotive Hall of Fame. The changes embodied in that agreement were true game changers and were on track to bring the labor costs of the Big 3 in line with their transplant competitors operating largely in low-labor-cost southern states.

New product already in the pipeline, even if not fully accepted yet by the car-buying public, demonstrated that GM was making headway in producing high-mileage, high-quality vehicles. Before the focus changed to economic and energy issues, the car enthusiasts were noticeably excited about the new Malibu – an excitement that GM has not earned in decades.

All this happened on Wagoner's watch. So his report card is mixed at best. But we believe that it is also true that if it were not for the rapid change in consumer demand brought on by \$4 gasoline last spring, and then the collapse of the credit markets in September, the car business would not be in its current crisis.

So this begs the question – If gasoline did not rise to the \$4 level, and if the credit markets had remained stable, would we be having this conversation? We think not.

It also begs another question - If Wagoner and the other Detroit execs should not be blamed for the collapse of the new car market, is there someone else we can point the finger at?

How about Senator Dodd and Representative Frank? Their roles in the debacle of Fannie Mae and Freddie Mac at least contributed to the collapse of the credit markets in September. The role of these mortgage-backing, quasi-government entities in pumping up the housing bubble is well-documented. So if Dodd and Frank actively sought and promoted policies that helped create the current credit crisis, one could easily argue that they are the ones that should be forced to walk the plank.

What about \$4 gasoline? Are they to blame here as well? We think that here the blame game is a little harder to play. But Dodd and Frank are long-time leaders of congress, and one could argue that a lack of an effective national energy policy can at least be partially placed at their feet. It seems that our national energy policy has been to protect cheap gasoline at the pump as a basic right of U.S. citizenship.

But if we cannot blame the politicians for \$4 gasoline, neither should they be blaming Detroit CEOs for what it did to the new car market earlier this year.

On one level you have to admire the politician's ability to change the subject and to cast blame on someone other than themselves. They turned the harsh lights of criticism on the big, bad, tone-deaf Detroit execs and off of themselves. In the process, they demonstrated their power to make the captains of industry grovel at their feet for favors, question business decisions that they themselves would not have a clue of how to even approach, and then maneuver them into accepting \$1 per year salaries. And after cooperating with that public wood shed visit, they are then told that they should lose their jobs.

So if successful in getting Wagoner and possibly others fired, who then even wants their jobs? Can they find another CEO willing to work for \$1? – *Source: Dealersedge.com*

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## **WITH REPOS UP, CAR DEALERS TURN TO GPS TO TRACK VEHICLES**

Repo men say they have seen an average rise of 15-20 percent in the number of vehicles repossessed daily. Luxury cars are reportedly being repossessed in large numbers in upscale areas like Florida and Southern California. With the economic downturn forcing more dealers to reach into their own pockets to provide financing for customers, some are turning to technology to protect their assets.

The GPS locator units are usually installed somewhere under the hood or dash. However, dealerships are not willing to give the exact location or appearance because some people may be tempted to disable them, notes station KDVR in Medford, Oregon.

"There are no laws saying you must disclose the presence of the GPS tracking devices, as long as the car is still owned by the dealer. However, most do choose to disclose the presence of the device," says Brett Wells with [www.gpsrightnow.com](http://www.gpsrightnow.com). The company that sells GPS units says their hope is that the devices will enable more people to get cars.

Rocky Mountain Tracking offers Smart Track, a discreet GPS anti-theft device installed in vehicles, and it pays for itself. The dealer pays only if the vehicle actually needs to be tracked.

A company spokesman says, "In the event that a customer defaults on payment or a vehicle is stolen, you can pay a few dollars to recover the vehicle. The car tracking web-based software will provide the vehicle's current location and the vehicle's starter can be disabled."

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## **PRESSING ITS INVESTORS, GMAC SAYS IT LACKS THE CAPITAL TO BE A BANK**

As lawmakers debated a bailout package for Detroit's big automobile companies, the future of an important piece of the industry was being negotiated on a parallel track in New York on Wednesday. Cerberus Capital Management, the private investment firm that controls GMAC and owns Chrysler, raised the specter of bankruptcy to apply pressure to GMAC's bondholders to go along with a bond-exchange plan that many of them have been resisting. Whether bondholders agree will not be known for at least a few days. But whatever happens at GMAC will ripple through the auto industry. The financing company provides loans to consumers for cars and to dealers for their inventories. General Motors, which retains a large stake in the financing company, said in its latest turnaround plan to Congress that it was counting on GMAC's viability. Otherwise, G.M.'s financial problems, and its need for government assistance, could grow. Without that money, GMAC could indeed be forced to file for bankruptcy by year-end, industry experts said. For G.M., any additional problems at the financing company would bring more pain for its dealers, who have long depended on GMAC to provide consumer financing and to carry its inventory. The automaker set up the unit in 1919 to help customers buy its cars. "How serious is this on a scale of one to 10?" asked Michael Martin, chairman of the G.M. Industry Relations Committee at the National Automobile Dealers Association. "It's a 10." - Source: [The New York Times](#)

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## **CHRYSLER DROPS PLANS TO CREATE SMALL CAR WITH CHINA'S CHERY**

By [BRADFORD WERNLE, AUTOMOTIVE NEWS](#)

Chrysler LLC, seeking U.S. government loans to stay solvent, said it has canceled plans to develop a small car with China's Chery Automobile Co.

Executives from both companies announced Monday that they were ending the venture. They cited changes in strategy and external market conditions since the agreement was signed in July 2007, a month before Cerberus Capital Management LP bought 80.1 percent of Chrysler.



"The economic situation and market environments around the world have changed significantly since the agreement was signed," said Michael Manley, Chrysler executive vice president of international sales and marketing, in a statement.

The cancellation leaves Chrysler with one Asian partner in its small-car strategy: Nissan

Motor Co. Chrysler plans to introduce a Nissan-designed small car in North America in 2010. Chrysler began selling the Nissan-built Dodge Trazo in Latin America this year.

Chrysler, which is in danger of running out of cash this year, is applying for a \$7 billion U.S. loan as part of the Detroit 3 bailout plan. CEO Bob Nardelli told Congress last week that he would welcome an alliance with another automaker to ensure Chrysler's survival. The company's U.S. sales have plunged 27.7 percent this year.

Chrysler and Chery had planned to introduce a Chery-made vehicle in Mexico and other Latin American countries.

Chrysler also has a venture with a second Chinese partner, Great Wall Motor Co. In June the companies agreed to explore shared distribution agreements and swapping and purchasing parts from each other.

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## **WITH GMAC ON THE ROPES, CREDIT UNIONS ARE RUSHING IN TO FILL THE VOID**

Some 1,600 credit unions in four states have joined together with GM to offer \$10B in available car loan funds coupled with a "supplier discount" that according to an *AP* article is worth five percent of the suggested retail for the vehicle. All other discounts, incentive and rebates also apply.

The bridge loans being slowly churned out in Washington will provide the lifeline that will keep the underlying engine of the auto business in business for the near future. The long-term recovery of the retail auto sector is dependent on consumer confidence and the availability of credit. The government loans will keep the cars and trucks coming, but it is in the minds of the consumers where the true recovery of this industry will take place.

Let's face it. The car buyer is in a funk. It can be justifiably argued that their funk and unwillingness to go out and buy a new car goes far beyond their fear of any of the Big 3 going under. But we think it is also true that any good news coming out of the auto industry can provide some basis for increased confidence.

GMAC is unable, and somewhat unwilling, to provide the type of credit leadership needed to help move some iron. The stepping up of the credit unions may signal an interesting change in how car purchases are financed, at least in the near future.

The "supplier discount" deal cooked up by the credit unions and GM along with car loan rates of 4.5 and 5.5 percent will provide an interesting incentive to the credit union members in Michigan, Ohio, Indiana and Illinois.

How many credit union members are there? In Michigan alone there are 4 million!

**MCLARTY & CO**

*Value Beyond Service*

The program runs through June 30 and will be watched carefully. If successful, a nationwide rollout is planned. Also the deal offers an additional \$250 cash bonus for purchases through January 5<sup>th</sup>. - *Source: Dealersedge.com*

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