



Weekly Car Dealers Newsletter

February 18, 2008

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

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NADA WRAP UP

- Jay Leno opened the event with a speech that poked fun at everyone. One of the lines was "Not a week goes by that I don't find a Toyota Corolla in the grill of my 1955 Buick Roadmaster"
 - Slight more than ½ of the Nissan dealers in the USA have signed up to sell the new GT-R supercar, but there is a cost. New tools alone will cost more than \$20,000 and then there is the alignment machine (some dealers already have this) and the certification (5 days at a special school) of a master technician
 - GMAC Insurance is adding products to attract non-GM dealers
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JURY FINDS FLORIDA DEALER GUILTY The former owner of Big Oaks Buick Pontiac GMC Inc. in Bartow, Florida, was found guilty by a federal jury in Tampa on 11 counts of wire fraud, 11 counts of bank fraud and one count of conspiracy to commit both, reports the *Lakeland Ledger*. John Giovanetti, was charged with the theft of \$2.5 million by having employees file fake documents to receive financing from SunTrust bank. Mr. Giovanetti now faces up to five years in prison for conspiracy and up to 30 years for each count of the wire and bank fraud counts. He also faces a fine of \$2.25 million. The former dealer was convicted of conspiring with two former employees, the dealership controller and the general manager, to obtain funding from SunTrust to purchase vehicle inventory in 2004, according to the indictment. During several months in 2004, at least 12 fraudulent documents were submitted by the dealership to SunTrust, listing at least 44 vehicles for purchase that had already been sold. The money obtained from the bank was used in "the day-to-day operations of the dealership and to support the owner's lifestyle," the indictment read.

Before the trial, the dealership controller and the general manager both agreed to plead guilty to one count of conspiracy to commit bank fraud and testified against their boss. Their plea

agreements stipulated that the controller would forfeit \$56,500 and the general manager \$85,000, their respective total salaries for 2004 which represent "the minimum amount of proceeds obtained by the defendant as a result of the offense."

The Pontiac-Buick-GMC store was eventually bought at auction by Michael Holley. Mr. Holley paid \$3.6 million for the GM franchise and its assets.

GM'S "TURNAROUND" ON ICE AFTER BIG LOSS? General Motors executives hope a combination of employee buyouts, cost-cutting and new products will reignite the company's automotive business in North American and Europe after the company posted a huge loss for 2007.

Fritz Henderson, GM's chief financial officer, acknowledged in a conference call that results in North America and Europe, despite extensive restructuring, were still below par after GM reported a net loss of \$38.7 billion loss for 2007. The loss is the largest annual loss ever for an automotive company. The losses resulted from a change in charges for tax credits the company had accumulated on its books and had no hope of ever using, Henderson said. The results, which included losses from GMAC, GM's once profitable mortgage business, cast a pall over the talks of GM's comeback. The talk had picked up some momentum in past couple of months after GM did better than rivals in North America and beat back Toyota's challenge to the title of being the world's top automaker.

As the 2007 results were announced, GM officials said they had reached a consensus with the United Auto Workers on a new round of buyouts that will extend to all of the 74,000 blue-collar employees. The buyouts include special retirement incentives of \$45,000 for production employees or \$62,500 for employees in skilled trades with more than 30 years' service. GM also offered new guidance, saying it "remains confident in the 2010-2011 opportunities to further improve earnings and cash flow. Most notable is the potential to realize the full impact of the GM-UAW labor agreement which is expected to provide significantly greater flexibility and yield additional savings of \$4 billion to \$5 billion." GM officials also noted that if the U.S. market returns to strong sales volumes in 2009 and after, the company could see an additional \$1 billion to \$1.5 billion in income. Nevertheless for the fourth quarter of 2007, GM's automotive operations had an adjusted loss before tax of \$803 million, compared to adjusted earnings before tax of \$8 million in the year-ago quarter.

General Motors North America had an adjusted loss before tax of \$1.1 billion in the fourth quarter, compared to an adjusted loss before tax of \$129 million in the fourth quarter 2006.

Henderson said the for the year by GMNA were largely attributed to a softer U.S. market, and the strategic decision to reduce dealer inventory by approximately 150,000 units and lower sales of daily rental vehicles by about 110,000 vehicles in the U.S. For the third consecutive year, a majority of the company's sales—almost 60 percent—were outside of the U.S. Record sales performance was achieved in key growth markets throughout Eastern Europe, Latin America and the Asia Pacific, Henderson said.

In addition, GM's core automotive business generated record revenue of \$178 billion in 2007, a \$7 billion improvement over 2006 thanks to the growth in emerging markets and the favorable foreign exchange against a weaker U.S. dollar, the company said.—Joseph Szczesny The Car Connection.com

2011 CHRYSLER 300 STICKS WITH REAR-DRIVE New fuel-economy regulations are threatening to kill off a whole generation of new, rear-drive vehicles planned by a handful of manufacturers. But at one company, the mainstay rear-drive sedan is sticking around—mainly because there’s no budget to change its orientation.

TheCarConnection.com has learned that Chrysler’s plans for its large 300/Charger sedans include a major makeover for the 2011 model year. But while Chrysler’s new managers have been dropping hints about [the future of the HEMI engine](#), there’s not much they can do about the rear-drive layout of the big sedans.

A switch to front-wheel drive could improve the fuel economy of the sedans, but reports to TCC say that there’s no money set aside to make the switch to front-wheel drive. The Canadian plant where the 300/Charger and [new Challenger](#) are built formerly was outfitted to build front-drive sedans, back when the plant produced the Chrysler “LH” cars in the early 2000s. The revamp in the works for the early part of the next decade will be fairly substantial. Chrysler is said to have decided that a bold styling statement is critical to the lineup’s sales success—but certain features of the car, like its low roofline, will change to give the cars a more updated look.

FLINT: WHY DETROIT LOSES MONEY What’s difficult to understand is why Detroit’s automakers lose billions of dollars making cars and trucks here, while competitors like Toyota, Honda, BMW and Mercedes, who build them here too, make a fortune at it. They’re all building new plants or expanding production at the old ones while Detroit is shutting factories. General Motors, for example, reported a loss of \$39 billion for last year, and my guess is that Toyota will have an operating profit approaching \$20 billion for its March 31 fiscal year, with the North American operations the greatest contributor to that.

Here’s my explanation:

Rebates. Detroit has to pay buyers to take its products. If you pay \$3,000 to \$5,000 in rebates or other bribes to customers to take your cars and trucks, there goes the profit. For example. If GM sells 4 million cars and trucks and spends \$3,000 in giveaways on each, that’s \$12 billion in lost profit. Toyota and Honda give away a few hundred.

Efficiency. The brands I mentioned are building at capacity, while the Detroit companies aren’t. A great cost in this business is the tooling, the factory, the overhead. When you build a capacity you lower the cost of all this per vehicle. When you aren’t building at capacity, these costs per vehicle go up. And Detroit is continually cutting back, closing factories, paying off workers. Any money in Detroit seems to go into these payoffs to get workers to quit and go away, or now, in billions to dollars to be paid to the union to take over medical care costs.

Legacy costs. Those heritage costs, meaning the cost of supporting former workers who aren’t needed, or the army of retirees. If the Detroit companies were running full blast, these burdens wouldn’t be as heavy, but since they are always cutting back, the burdens grow except when they pay out huge sums to get workers to go away. The foreign companies have younger people on the payrolls, practically no one retired on pension, and better medical care systems because their employees are mainly non-union and it’s easier to dictate than to bargain.

Is there any answer to this? So far there hasn’t been but we can always hope. Even the three problems mentioned above are just symptoms of the real problem. The car business still is a

product-oriented business. The customers turned against Detroit's product. After all, if the product is right, the producer needn't pay the customers to take its cars and trucks. Production levels will rise and the producer will operate at capacity. And the heritage costs won't grow because the company will be hiring instead of pushing workers out.

For years the main recovery action in Detroit was cutting costs. But it is difficult to make cost cutting the route to prosperity. Instead, it became an endless cycle of cost cutting, even killing brands: Oldsmobile at GM, Plymouth at Chrysler, Aston sold at Ford, Jaguar and Land Rover to go, and [Mercury seems doomed](#) (this is the US, Mercury was long gone many years ago here in Canada) unless a member of the Ford family steps forward to save it. And, of course, assets get sold off, as GM sold half of GMAC, or put up as collateral as at Ford.

But finally, some good news: the product has come out into the spotlight. Every Detroit carmaker talks about improving the product, and there are signs that they actually mean it for a change. We do see signs of great improvement at General Motors. I personally feel that GM will be gaining market share this year, not much, but enough to show that the turn is underway. At Ford and Chrysler, as they say, "the issue is still in doubt."

And it takes more than just building a better car and truck. The buyers aren't angry at Toyota, Honda, BMW or Mercedes. They like the cars they bought from the foreigners, so getting our people to switch back is almost impossible, or a long, year-after-year process, winning customers among the newer generations who don't carry a grudge going back 20 years. So winning them back will take a decade or more, so it means continual improvement of the product and the marketing, too.

GM, and Ford are doing better overseas, making profits in Europe, in Brazil, in China. But they aren't enough. The new contracts with the union will reduce the heritage costs, and even the wage costs as new lower-paid workers are brought in to replace the veterans. That will no longer be an excuse for the failure here in the U.S.

We'll see if these Detroit executives understand that it is the attractiveness of the cars and trucks that will determine whether their companies live or die, and if they have the talent to create such vehicles.—*Jerry Flint The CarConnection.com*
