



Weekly Car Dealers Newsletter

January 26, 2009

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 January 26, 2009

Live from NADA! For the past three days I have been in New Orleans at the 92nd NADA Conference. I have been in the Auto Team America (ATA) CFO/CEO Forum, at a special meeting of the ATA firm lead partners, touring the Exhibit floor, and meeting with ADP and Quorum to hear their plans for 2009 and beyond. What follows is what I heard and observed.

GENERAL COMMENTS:

- The special NADA addition of *Automotive News* referred to the current position of the Detroit Three and the dealership body as a catastrophic situation and this was echoed by Presenters at the ATA event as well as by many people I spoke to on the Exhibition floor.
- On the Exhibition floor there was a significant decline in the number of exhibitors. The convention centre had temporary walls erected decreasing the size of the floor space and, for the first time in my recollection, there were large seating areas available between the exhibits.
- Automotive groups that didn't exhibit at all this year included Audi, Infiniti/Nissan, Lexus (and Toyota's display included only a special-purpose van to transport people in wheelchairs as well as several other vehicles promoting their certified used car programs).
- Again, this year Chrysler and Ford had large displays focusing on both upcoming vehicles and fixed operations.
- For the first time in many years, General Motors actually had a display of upcoming new production vehicles. The display included the Chevy Volt, Cruse, Camaro, the new Cadillac SRX, and the Buick LaCrosse.
- The last count of attendees that I heard had 2,800 dealers and general managers registered, and less than 19,000 registrants in total. Both these numbers are significant decreases from San Francisco.

AUTO TEAM AMERICA CFO/CEO FORUM

Surprisingly this year our attendance, before including those who participated by way of the webinar, was higher than last year, We believe this was as a result of both the proximity to the east coast and the later starter time that allowed participants to travel Friday morning and still take in the session. The subject matter of the session was also very appropriate considering the

current state of the industry. The subject of the meeting was “Rebuilding the Modern Dealership”. What follows below are comments by the presenters during the Round Table as well as comments made during the Comerica Bank reception that followed the forum. All the presenters took time to talk to individual dealers and the Auto Team members at that reception.

- Accept it is a struggle. You can't do business the way you did last year.
- Keep trying new things; it is okay to experiment if you make one change at a time.
- Get used inventory in line with both selling rates and available financing. Sell “Certified” used vehicles. It differentiates you with other dealers and provides work for your Service Department.
- Refuse to “help out” the manufacturer. Don't take vehicles that are not selling.
- Make the hard personnel decisions; do not put them off.
- Seek benefit concessions from employees; ask for reduced holidays and whatever other steps are appropriate in your market.
- Do not upgrade new or used inventory with accessories such as running boards, wheels, striping, etc. The cost may only be \$100 per vehicle but, when multiplied over 300 vehicles, it is a huge reduction in available cash.
- Create a used car reserve when the unit is brought into inventory, not after 30 days.
- Do not go out of trust; going out of trust provides the manufacturer with a reason to terminate your franchise.
- Do not lose your floor planning source. Don't make emotional decisions; losing your floor plan source is also grounds for termination of your franchise by the manufacturer.
- Avoid accepting any assistance for premises from the manufacturer unless it is clearly without any conditions. Exclusive-use clauses should be avoided at any cost.
- Find any way to delay and minimize the cost of “imaging” your premises.
- Do not add personal capital to an operation that is losing money.
- Do not provide personal guarantees to a floor plan lender or your manufacturer.
- Build a management team that has the same values and objectives as you.
- Have three business plans being:
 - Plan A which forecasts a recovery in 2011;
 - Plan B which forecasts a recover after 2012; and
 - Plan C your Doomsday Plan.
- Upgrade staff; struggling dealers are terminating good people. Make the hard personnel decisions and upgrade your team.
- Build up the Service Department. One hundred per cent absorption is the minimum.
- Wine, dine and sweet talk your lenders regularly. Keep them apprised of your operations and your plans.
- Develop and use “what if” spreadsheets.
- Avoid long-term contracts for IT equipment, consulting, and any other service you can.
- Monitor advertising; experiment with advertising; find the type that works best for your market and the vehicles you are stocking.
- Review DMS bills; make sure you are using everything you are being billed for.
- When identifying costs to be cut, cut more than you think will be necessary.
- Cut back to the basic website, one that provides contact information and promotes the services, operations and allows for making appointments in your Service Department.

The final bit of news presented by each of the presenters was their estimate for new light vehicle sales in the United States in 2009. Not one presenter exceeded 10 million units!

RUMOURS AND PREDICTIONS

The following are things I heard in various meetings and while wandering the Exhibit Floor and going to several training sessions:

- General Motors is considering putting Saturn Distribution Corp. into bankruptcy. They cannot find a purchaser and this would fill one of the obligations to cut lines by March 31st. Saturn dealers that I spoke with denied this was the case but I heard this comment from several sources.
- New vehicle sales volume in the United States will stay flat at 10 million units for 2009, 2010, 2011.
- The industry will lose 3,000 to 4,000 dealers in the United States in the next two years. The irony of this is that, while the Detroit Three are intending to cut a very large number of dealers, the dealers that will be closing do not, in many cases, match the profile or location of the stores the manufacturer wanted to close. In many cases, the dealers closing will be new dealers with extremely expensive new premises or dealers that have added multiple new locations in the past several years and that paid significant “blue sky” for those additional locations.
- There will be bargains for those with cash to acquire both Toyota and Honda stores that are over-leveraged and under-financed due to overstated “blue sky” on their balance sheets.
- Used-car-dependent stores will be valued at significantly lower levels for the next several years.
- Dealerships that survive beyond 2010 will be better organized, better structured, better financed and far more productive.
- At 13 million annual units and a reduced dealer count, dealerships will be more profitable than they were in the past five years.
- CFOs of dealerships will have to move into an internal auditor role or seek that service from outside professionals. Reducing staff and combining job descriptions means less than ideal job segregation and division of duties.
- Reynolds and Reynolds is embarking on a strategy similar to that used in the United States by UCS in which marginal dealers were dropped and the fees for dealers retained increased dramatically. Reynolds and Reynolds can do this because other DMS suppliers in the market are, in most cases, operating at capacity when it comes to former Reynolds and Reynolds users to their systems.
- It's becoming more and more common with dealers in the United States to have an Extended Warranty sales person in the Service Department. The sale takes place during the first service visit or when the customer makes the decision to have repairs done to extend the life of the vehicle beyond their historical ownership period.
- It was predicted by presenters at the J D Power meeting that the Big Seven will, by 2010, grab more market share in the United States. Their predictions are shown in the table below.

BRAND	2008 SHARE	2010 SHARE
Toyota	14.0	14.7
Chevrolet	13.5	13.0
Ford	12.6	13.1
Honda	9.7	10.2
Nissan	6.4	5.6
Dodge	6.0	6.0
Hyundai	3.0	3.4

Auto Team America is trying to have a CD recording of the Friday Form available to its member firms. If the recording worked, it should be available by February 15th. If you would like to receive a copy, please let me know and our office will make a copy of our master and forward it to you.