



Weekly Car Dealers Newsletter

January 12, 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.

Weeks of January 5 and 12, 2009

**IT'S NOT THE NUMBER OF DEALERS
AUTOMAKERS FEAR A NEW NORMAL OF LOW SALES
GM, FORD GAIN IN RELIABILITY
NADA USED CAR GUIDE: LARGER SEGMENTS ON PRICE UPSWING
IS CHRYSLER A LOST CAUSE?
FORD'S MULALLY SUGGESTS CASH-BURN RATE IS SLOWING**

IT'S NOT THE NUMBER OF DEALERS (THAT BRINGS GM, FORD AND CHRYSLER TO THE BRINK)

Let's for a minute forget that negotiating givebacks with some 10,000+ individual business men and women in 50 states with differing franchise laws is just impractical and unlikely. Instead let's just focus on the faulty perception that has been communicated about how much dealers have contributed to the problems at the Detroit automakers. The perception is that the number of dealers is a major factor in the unprofitable operations at the Big 3.

If you listen too much to the news and commentary about the struggles of the domestic automakers, sometimes you just have to scratch your head and ask yourself - "What are they talking about?" Somehow in all that has been said, the public has been left with the idea that one of the major reasons that the Detroit automakers are in the tank is that they have too many dealers.

The public's perception – and let's face it, in public discourse perception is very much reality – is that GM has over 6,000 dealers while Toyota has less than 25 percent of that number and this contributes significantly to GM's profit and loss problems.

Can someone explain to us how this is the case? Just what are we missing?

Let's see, dealers invest their own capital to be able to sell new cars and trucks? The new vehicles the dealer has on the lot are paid for almost as soon as they hit the ground. They purchase parts and used vehicle inventory to keep their shelves full to service a public that can rightly be described as the automaker's customers as well as customers of the dealership. They hire and train employees to serve and care for these customers. So far we have identified a lot of dealer costs - many resulting in automaker revenues. In what meaningful way does having more dealerships harm or cost the automaker?

A Member of the MacKay Network

And just recently GM unilaterally decided to make their dealers wait an extra two weeks for sales incentive payments. It sounds like rather than being part of the problem, GM's dealers have become part of the solution to the automaker's cash problems. Dealers should just try and delay their monthly statement payments to aid their cash flow – yeah – that would work!

We fully understand that there are too many dealers and that a thinning of the herd will be a good thing overall. But to place blame for the problems in the Detroit on the dealer count seems to us to be a gross misdirection.

To be sure, dealer attrition is inevitable. It is also true that those left standing after 2009 will be stronger, more stable and more profitable. However, in cases like this, there are always winners and losers. Many family businesses based on the selling and servicing of domestic brands will be forced out of business; some losing all they have worked decades to create. But will having fewer dealers actually help the bottom lines at the Detroit 3?

GM spokespersons have commented that a smaller, but stronger dealer body will be able to better represent GM brands in the marketplace. We can see the logic in that position, but still fail to see where that can be pointed at as a major contributor to GM's problems. A small part, maybe – worthy of including dealers as one of the stakeholders that should expect to negotiate givebacks? – hardly.

The only possible exception that we can see to our argument would be in those cases where GM brands are discontinued. If GM were to dump the Pontiac brand for instance, this under normal circumstances could be a very expensive maneuver for GM. Remember how unexpectedly expensive it was for them to eliminate Oldsmobile.

But again, as some have already pointed out, there is no single, central negotiating arm for the thousands of dealers involved. Just how is GM expected to get a couple thousand Pontiac dealers (if that brand was cut loose) to agree on a single settlement formula? It is beyond reasonable expectations.

GM has long wanted to trim its dealer body down into a leaner and stronger retailing machine. But the methods open to them to accomplish that goal were both expensive and difficult to carry out. The current economic storm is collaterally offering them an opportunity to see at least part of their goal achieved without it costing them anything extra. As the car business slumps, more and more dealerships are simply closing their doors and walking away.

Hopefully, both Detroit and Washington can eventually realize that natural economic attrition will bring about a reduction in the number of franchises in the marketplace. But also hopefully, all will realize and publically admit that the dealers did not cause Detroit's current problems.

Both the automakers and the policy-makers would better spending their time helping to rekindle the trust of the American consumer. We should all remember that if the dual plagues of \$4 per gallon gasoline and the frozen credit markets had not struck in 2008, we would not be having this conversation. There is nothing economically wrong with the car business that cannot be solved by selling a few more cars. - *Source: The Dealersedge.com*

AUTOMAKERS FEAR A NEW NORMAL OF LOW SALES

The historic collapse of the new-car market dragged on in December, raising questions of whether the auto industry will ever again have sales levels [of] a few years ago. The across-the-board decline of 35 percent, reported by auto companies on Monday, is certain to put more pressure on the fragile finances of several manufacturers, particularly General Motors and Chrysler. But unless consumers change course and return to vehicle showrooms, the entire industry will be forced to make sweeping adjustments to cope with declining demand. After several years of sales topping 16 million vehicles, the United States market plummeted to 13.2 million cars and trucks sold in 2008. Analysts expect another sizable decrease this year and do not predict a year with 15 million in sales until 2012 or later. "After an era of excess indulgence, we're now entering a prolonged period of conservation," said John A. Casesa of the consulting firm Casesa Shapiro Group. "Trading in a car every three years is a luxury that the average American can no longer afford." - Source: [The New York Times](#)

GM, FORD GAIN IN RELIABILITY

Consumer Reports magazine said several Detroit-made vehicles top foreign competitors. A new analysis by Consumer Reports magazine shows that two of Detroit's automakers -- Ford Motor Co. and General Motors Corp. -- are making "real progress" against foreign rivals while Chrysler LLC continues to lag behind the rest of the industry. The report, which is featured in the magazine's February issue, shows that Ford now offers several cars with reliability "on par with Japanese models" and says it is now "in front of the class." Newer GM models also have performed well in Consumer Reports' testing... "Detroit has been lagging behind leading foreign automakers like Honda and Toyota for a long time, but forward-thinking leadership, better design and improved quality would do much to drive the recovery that we are all hoping for," said Rik Paul, automotive editor for Consumer Reports. - Source: [The Detroit News](#)

NADA USED CAR GUIDE: LARGER SEGMENTS ON PRICE UPSWING

As gas prices subsided at the close of 2008, two segments, in particular, continued to gain ground in the wholesale market. According to the latest Guidelines industry update from NADA Used Car Guide, the AuctionNet prices of pickups and SUVs each climbed more than 1 percent in the first week of December compared to their November levels. Meanwhile, the average wholesale price of cars fell roughly 1.5 percent in the same time frame, according to NADA Used Car Guide, while crossovers declined just over 0.5 percent and vans also dipped roughly 0.5 percent. These trends were somewhat similar to month-over-month price changes in November, where cars dropped just more than 6 percent in value compared to October. Their decline was second only to vans, which declined between 6 and 7 percent. Meanwhile, pickup trucks and SUVs appeared to have fared the best, as each fell less than 2 percent compared to October, officials noted. Crossovers, meanwhile, dropped in price by just more than 5 percent. That said, cars were down less than 15 percent year-over-year in November and CUVs fell just under 20 percent, according to NADA Used Car Guide. Meanwhile, pickups, SUVs and vans were all off at least 20 percent compared to the prior year. - Source: [Auto Remarketing](#)

IS CHRYSLER A LOST CAUSE?

Even by the standards of battered automakers, Chrysler is in dire shape. Its sales in December were down a stunning 53 percent, far worse than Ford or General Motors, and analysts say it probably won't survive the year as an independent company -- despite \$4 billion in government loans and the possibility of more. Things were so bad last year that a single Toyota model, the Camry/Solara midsize car, outsold the entire fleet of Chrysler LLC's passenger cars. Chrysler will not comment on speculation about its future, spokeswoman Shawn Morgan said Wednesday. "We are completely focused on our plans to ensure the future viability of our company," she said. U.S. sales of Chrysler, Dodge and Jeep brand vehicles fell 30 percent last year, the worst decline of any major automaker. It lost more market share than any of its peers, down to 11 percent. Chrysler Chief Executive Robert Nardelli, in a presentation to the Senate Banking Committee last month, said the company could stay alive in the long term with reasonable concessions, a \$7 billion bridge loan and \$6 billion more out of the \$25 billion Congress allocated to develop new fuel-efficient technology. Nardelli said Chrysler will improve fuel economy on 19 models this year, about three-quarters of its product line. Besides the electric car, it also has a deal with Nissan to produce a Chrysler subcompact in 2010. - Source: [Associated Press](#)

FORD'S MULALLY SUGGESTS CASH-BURN RATE IS SLOWING

Ford Motor Co., the only U.S. automaker operating without federal loans, has about \$15 billion on hand, CEO Alan Mulally said [Thursday] -- suggesting the company has slowed the rate at which it's burning through its cash reserves. Ford ended the third quarter with \$18.9 billion in cash after seeing its supply shrink by \$7.7 billion during the period, or about \$2.57 billion each month. Starting 2009 with \$15 billion indicates that Ford limited the monthly erosion to about \$1.3 billion while U.S. auto sales plunged to their lowest levels in a quarter century. Mulally said in November and again last month that he expected the burn rate to slow in the fourth quarter. "We're very conscious of cash," Mulally told [the] Fox [Business Network.] "... we're working very closely with our suppliers and our payables, and we are managing that cash -- because cash right now is so important to finance this transformation." - Source: [Automotive News](#)
