



Weekly Car Dealers Newsletter

May 25, 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 May 25, 2009

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FORD CONSOLIDATING DEALERS

(More than 670 have closed in the U.S. since end of 2005)

As General Motors Corp. and Chrysler LLC move to close hundreds of dealerships around the country, Ford Motor Co. executives say they already have made substantial progress on consolidating their own dealer network. More than 670 Ford and Lincoln-Mercury dealerships have closed in the United States since the company began consolidating franchises in major metropolitan markets at the end of 2005 -- a 16 percent reduction, leaving Ford with 3,723 stores. "We've been working on that for the last three years," CEO Alan Mulally told reporters at the company's annual meeting in Delaware on Thursday, adding that the company still has too many in some cities. "They're very interested in right-sizing also, and we're supporting that." He stressed that dealers are independent businesses and said there is only so much Ford can do to influence them.

Ford's approach appears to be working as evidenced by comparing the average number of vehicles sold annually by each manufacturer's dealerships. According to a report by CSM Worldwide, Chrysler dealers averaged 207 sales last year, while GM stores averaged 222. Ford dealers averaged 322 sales -- 45 percent more than GM and nearly 56 percent more than Chrysler, but still way behind the whopping 1,380 sales Toyota dealers average each year. But some inside Ford do worry privately that GM and Chrysler could gain an advantage over Ford with their proposed cuts.

CSM analyst Michael Robinet said Ford's efforts to encourage dealer consolidation may actually be helped by the cuts being made by its competitors. "Certainly, their dealers see what is happening at GM and Chrysler," he said. "They may be more willing to discuss some sort of

accommodation." Ford also has benefitted from its sale of its foreign luxury brands, which cut the number of brands in its portfolio in half. "Ford doesn't have the same level of brand issues that GM has," Robinet said. – *Source: The Detroit News*

GMAC BANK RE-BRANDS ITSELF AS ALLY BANK

The banking arm of ailing auto finance company GMAC is taking on a new name, hoping to smooth its image and entice new customers as it works to drive deposit growth. As of Friday, GMAC Bank has become Ally Bank, which will offer a variety of savings products, including no-penalty certificates of deposits, online savings accounts and money market accounts. "We are launching a new brand with a new approach of treating customers with total transparency," said GMAC Chief Executive Al de Molina.

The company settled on the name Ally after extensive interviews with customers. "The name Ally aptly fit the character of the brand," said Sanjay Gupta, chief marketing officer. The company has launched a new website, allybank.com, where customers can open accounts. The re-branding of the bank, a unit of GMAC Financial Services, is a clear effort to distance itself from its troubled parent, GMAC LLC. GMAC is jointly owned by automaker General Motors and an investor group led by private equity firm Cerberus Capital Management LP. GMAC was one of 10 financial firms recently ordered by the government to raise more capital. The company needs \$11.5 billion, and the most likely source is the government itself. Treasury Secretary Timothy Geithner said last week his department is poised to offer GMAC more help. The company, which provides financing for both GM dealers and customers, has struggled amid the collapse of the housing and auto markets. Late last year, GMAC became a bank holding company, which enabled it to receive a \$5 billion bailout loan from the federal government. Under terms of the bailout, GM and Cerberus both agreed to reduce their stakes in GMAC. GMAC has since been trying to expand its consumer banking offerings to offset sharp declines in new vehicle loan and home mortgage originations.

The auto industry has struggled amid the global recession, with rising unemployment and dissipating personal wealth leading to sharp declines in auto sales. Chrysler is already in bankruptcy and has announced the closure of a quarter of its dealers. Meanwhile, GM faces a June 1 deadline to complete a restructuring plan to try and avoid winding up in bankruptcy as well. The carmaker is in the midst of notifying 1,100 U.S. dealers that their franchise agreements will not be renewed.

Earlier this week, a bankruptcy judge ruled that GMAC Financial Services can become Chrysler's preferred lender, potentially sending a slew of new business GMAC's way.

GMAC lost \$675 million in the first quarter because of the bad economy and losses related to older auto and mortgage loans. – *Source: Associated Press*

FORD'S FARLEY: "GM & CHRYSLER PLANS WILL ORPHAN 4,000,000 CUSTOMERS"

Ford's refusal to follow suit belies claims that closures were not at the direction of the White House
(5/19/2009)

In a *New York Times* article this morning, Ford's director of North American sales, Jim Farley speaking of Chrysler's letter of last week, "It seems very abrupt and unplanned. You don't orphan four million customers overnight without some fallout." Ford is laying down plans to adopt the customers left in the lurch.

Ford's creation of a very different plan to address the issue of over-dealering raises questions about the origination of the actions taken by Chrysler and GM last week. Was this something that the White House's Automotive Task Force set down as a necessary part of the government-mandated viability plans? Or, as GM's Mark LaNeve suggested in an *Automotive News* article yesterday, was this something that GM and Chrysler came up with on their own?

We think the answer is "YES." Yes, it certainly appears that the Feds insisted on more aggressive dealership closings. And, yes, the specific dealerships and mode of closing appears to come from the carmakers themselves- albeit under pressure from the government.

When both LaNeve and the Automotive Task Force were quoted about the origin of the plans, they seemed to be engaged in the traditional Washington "non-denial – denial." No one seems ready to say that the reductions were being forced on the automakers from Washington, but neither are they willing to say definitively that they were not. Simply saying that you did not pick the dealerships to be eliminated is not answering the question.

But now we have Ford, in a public fashion, indicating that they think it's all a bad idea and that they see opportunity in the abrupt closing of so many points. Let's see, they didn't need to take government money and they are not following the same path – you just have to follow the dotted line. – *Source: Dealersedge.com*

CAR MAKERS EXPECT TO HIT FUEL GOALS

More hybrid vehicles and diesel-powered cars. Lighter models made with aluminum parts. Small cars imported from China and Italy. Those are some of the ways auto makers say they will respond to new fuel-economy standards announced Tuesday. In a significant shift, car makers embraced the tougher rules announced by the Obama administration, expressing confidence they can hit the targets despite the additional costs and technological challenges they will face. In the past, most car makers, especially Detroit's Big Three, strenuously opposed higher fuel-efficiency rules, saying they would cost them billions of dollars while hurting sales of the trucks and sport-utility vehicles that generate big profits. But the new policy will give the industry one target to hit by 2016, instead of different requirements for fuel economy and emissions they currently face from at least two federal agencies, as well as stricter standards imposed by California and some other states. "We were dealing with three different sets of rules," [Ford Motor](#) Co. Chief Executive Alan Mulally said on the sidelines of the White House announcement by President Barack Obama. "We now have a really clear path."

The new rules would require passenger cars sold in the U.S. to get, on average, 39 miles per gallon by 2016. Light trucks would have to average 30 mpg. That's a dramatic rise from current averages -- 27.5 mpg for cars, 23 mpg for trucks -- and would bring the overall average of vehicles to 35.5 mpg by 2016 -- four years earlier than current federal law requires.

The technology required to meet the standards could add \$1,300 to the average vehicle cost at a time when [General Motors](#) Corp., Chrysler LLC and Ford are losing billions of dollars a year.

President Obama said the extra cost will be offset by savings at the pump. He estimated a more fuel-efficient vehicle will pay off in three years, and that over the vehicle's life the typical driver would save around \$2,800. In the past, American consumers have shown a willingness to pay higher prices for fuel-efficient vehicles only when gasoline prices soar. Since gas has fallen from \$4 a gallon about a year ago, sales of hybrids and small cars have plunged. "At the end of the day, we can develop the best technology in the world but if the consumer can't afford it, it's not going to make a difference," said Paul Najt, group manager of powertrain research at GM.

The administration expects gas prices to rise as global economic growth resumes and oil consumption increases. But some in the car industry say higher gas taxes are needed to push consumers to buy small cars. The administration would support giving consumers additional incentives to buy fuel-efficient vehicles, such as tax credits, a White House official said Tuesday. Most auto makers have already started to work on a range of vehicles that will move them closer to meeting the Obama administration's goals. On Tuesday, Ford began full production of its EcoBoost engines that it expects to boost fuel economy by 10% to 20% and lower greenhouse gas emissions by about 15%. Within three years, Ford expects to sell 750,000 EcoBoost-equipped vehicles a year in North America. Earlier this year it launched a Ford Fusion hybrid that gets more than 40 mpg and it is working on battery-powered vehicles. "We think we have the flexibility to meet the standards, but we know it's going to be a challenge," said Sue Cischke, Ford's group vice president for sustainability. GM's Chevrolet Cruze compact due next April will get up to 40 mpg, while its Chevy Spark subcompact, made in China and set for 2012, will get 40 to 50 mpg, the company says. And the Chevy Volt, due in November, will run on batteries for the first 40 miles. Chrysler through its planned alliance with Fiat SpA, expects to sell a Fiat subcompact that gets 40 mpg by 2015. For [BMW](#) AG, the German maker of high-powered luxury cars, meeting the target "will be a big challenge," particularly if the U.S. doesn't offer more incentives to encourage consumers to buy diesel vehicles, said Friedrich Eichiner, BMW's chief financial officer. "Consumers don't want to step back" and drive smaller vehicles, he said.

The new rules allow for slightly different targets, depending on each vehicle's size and the mix of cars and trucks each company offers -- a measure of flexibility auto makers hailed.

The different targets mean companies that produce many fuel-efficient vehicles like small cars will have to aim higher than others that sell lots of trucks and SUVs. For example, [Honda Motor Co.](#) estimates that based on its current vehicles sold in the U.S. it will have to hit fuel economy two miles per gallon above the new average. - *Source: The Wall street Journal*

EX-DURACELL CHAIRMAN TO LEAD NEW CHRYSLER

Chrysler, the automaker reorganizing under court protection, said on Wednesday that C. Robert Kidder, the former chairman of Duracell International and Borden Chemical, would become chairman of the restructured company after it begins its alliance with Fiat. Mr. Kidder ... will succeed Robert L. Nardelli, the former Home Depot chief who has been running Chrysler since August 2007. - *Source: [The New York Times](#)*

GMAC GETS \$7.5 BILLION FROM FEDS

The U.S. Treasury announced late Thursday it is investing another \$7.5 billion in GMAC LLC and the government has named two members of GMAC's board of directors, but the government won't exercise its right to take a majority stake in the Detroit-based financing company. "Over the past several months, the contraction of credit in the auto finance markets has helped drive our auto industry into a historic crisis. This new arrangement with GMAC will help provide a reliable source of financing to both auto dealers and customers seeking to buy cars," said Treasury Secretary Tim Geithner. A "recapitalized GMAC," he said, "will offer strong credit opportunities, help stabilize our auto financing market, and contribute to the overall economic recovery." Of the infusion, \$4 billion is to support GMAC's anticipated growth in Chrysler dealer and retail loans. ...\$3.5 billion will go to meeting the stress test capital requirements. - Source: [The Detroit News](#)
