

SURVIVING...



Patrick Henry, speaking before the Virginia Legislature on the eve of the Revolution, had this to say about hope: "It is natural for man to indulge in the illusions of hope. We are apt to shut our eyes against a painful truth and listen to the song of that siren till she transforms us into beasts. Is this the part of wise men, engaged in a great and arduous struggle? Are we disposed to be those...who having eyes, see not the things that so nearly concern their temporal salvation? For my part, whatever anguish of spirit it may cost, I am willing to know the whole truth, to know the worst...and to provide for it."

To be willing to know the worst and to provide for it: this, I think is the only way we dealers can survive.

To know the worst, we have to face the facts squarely...

Forget the Good Old Days

The automobile industry will continue to turn because the country runs on cars and trucks. But it will not come back in the traditional "Big Three" configuration, where Ford can count on 25 percent of the U.S. market. In 1965, only 30,000 Japanese imports were sold in the U.S. Today Japan has replaced us as the automotive capital of the world. Where was our vaunted American leadership during this period? Asleep like Rip Van Winkle?

Provide for Survival

We need to sever the psychological support lines that Ford is using to drag us down with them. Once you have severed this line between you and Ford, you are on your way to survival. You are not only in the Ford business; you are in the service business, the parts business, the daily rental business and leasing business. You are in the used car business, as well, and the grosses are a lot better.

Look to Ourselves

We cannot look to the factory for our salvation. We must look to ourselves. In my opinion current Ford management has turned its back on its dealers. They must realize that the first step to salvation is to reverse this attitude and regard the dealers as a vital asset. We, in turn, have no alternative but to judge them, not by what they say but by what they do.

All we need from Ford is a straight business relationship where Ford...

- 1) Levels with us;
- 2) Offers competitive product;
- 3) Provides the technical assistance to keep our service current;
- 4) Allows us economic opportunity without overcrowding.

That is all we need. No Favors. No controls. Let Ford stay out of our end of the business and concentrate on its own end of the business. We will get our job done and make money doing it. We will survive...despite Ford.

It may come as a surprise to those of you reading this article that these words were published by the Ford Dealers Alliance almost twenty-five years ago. Many dealers heeded the warning and were successful in building profitable parts and service departments, as well as successful used car departments. The Alliance spent the next ten years working with dealer groups across the country promoting stronger state franchise laws to insure dealers were protected from unfair practices imposed by our manufacturers.

Ford Motor Company spent the next twenty-five years devising ways of squeezing profits out of every dealership department.

SQUEEZING THE PARTS AND SERVICE DEPARTMENTS

Many of the programs instituted by Ford Motor Company have cut into our profits in the service department. Several programs have included reductions in:

- Labor time standards;
- Restricted warranty repair allowances, such as handling fees in the case of assemblies;
- Parts discounts;
- Parts pricing initiatives that have reduced gross margins and negatively impacted our parts wholesale business;
- Parts pricing reductions, as in the case of recalls;
- Out of warranty allowances;
- Loaner car programs

Concurrently, many programs have caused an increase in our expenses, such as:

- Technician certification requirements;
- The cost of operating Fordstar Value Package and Maintenance;
- Equipment requirements such as New Generation Star Tester, which replaced SBDS, and CPD [Computerized Parts Display];
- Tool requirements, including special investments in tools limited to the use in the case of a specific recall

SQUEEZING THE SALES DEPARTMENT

In addition, Ford Motor Company has continued its assault against our new vehicle department by imposing sales programs that fix, as well as reduce our gross margins such as its ever-increasing alphabet programs [A, X, Z and D Plans], its Family Plan program, and most recently, its "Keep it Simple" pricing program. Of course, this is all while imposing ever-increasing demands on us in order to maintain our dealership or by shifting costs to us—expenses that were traditionally Ford's responsibility.

The lack of profitability amongst dealer ranks has become so prevalent that even individuals outside of the franchise systems have taken notice of the dire situation caused by domestic manufacturers.

In a recent article in Businessweek.com, Ed Wallace, a journalist and host of the talk show *Wheels Saturdays*, states: "Heavy discounting and added costs by U. S. automakers are bleeding its dealer bodies."

"Most auto industry observers think they know what is wrong with Detroit. As General Motors weighs a possible alliance with Renault and Nissan, and Ford hands out pink slips and slashes its dividends, the Greek chorus of critics has its favorite targets of what to fix first: expensive labor contracts, poor understanding of the market, mediocre designs and quality, resistance to hybrid technology and an ossified bureaucracy that is out of touch with reality."

"Yet, the sharp-eyed will have noticed that progress is being made in all these areas. Labor contracts are being renegotiated, Ford, General Motors and DaimlerChrysler, Chrysler division are coming out with some of their best cars ever, hybrids and alternate fuel vehicles are being fast-tracked, and management is being shook up."

"But there is one fundamental problem that is largely ignored – and unaddressed: Detroit's manufacturers are slowly killing their dealer bodies."

"It's ominously like the way they managed to bankrupt so many of their automotive parts suppliers. Why is this so important? Well, if your parts supplier goes out of business, there are always others who want your business, usually from cheaper overseas manufacturers. But when you bleed the financial life out of your dealers, who's going to sell your automobiles?"

"MANAGEMENT 101: 'YOU'RE NOT SALES.' Detroit's demise will stem from one faulty premise: That auto makers know anything about how to actually sell a car. Not one senior executive is a former successful salesman; yet they consistently ignore their dealers, preferring to base their business model on consumer surveys. "One of the car business' greatest contradictions is that on surveys people demand non-negotiable pricing, but in real life usually negotiate like their lives depend on it. As further proof, during last year's Employee Discounts for Everyone at GM dealerships—which frequently included additional cash rebates—hundreds of individuals e-mailed me asking how much they could get off these Employee Prices. That's right, the biggest 'gift horsepower' Detroit has ever given retail consumers, and some buyers looked it right in the mouth and wanted to negotiate."

DESPITE FORD



SQUEEZING THE DEALER COUNT

Ford has recently announced that one of its solutions to restoring a profitable dealer body will be to reduce the number of dealers by encouraging consolidation in certain key markets such as Chicago, Boston, and New York. Although Ford assures us that these consolidations will be made through collaboration rather than strong-arming, we are always wary of these types of programs and how they will play out. Furthermore, a manufacturer designating a point for consolidation may create a real problem for a dealer looking for an exit strategy. In other words, if a dealer were slated for consolidation, the manufacturer may exercise its right to close the point permanently and make it very difficult for the dealer to sell to another party.

It is always difficult to control inequities perpetuated by a manufacturer. Strengthening state franchise laws is a great beginning; however, insuring a manufacturer obeys the state statute when it is determined to circumvent the law, is much more difficult.

FORCING MANUFACTURERS TO OBEY FRANCHISE LAW

The Ford Dealers Alliance has been very active in supporting several lawsuits intended to force manufacturers to obey existing franchise laws. Progress has been slow, but progress has been achieved in a few of these endeavors. In both Maine and New Jersey, Ford Motor Company has been forced to reimburse its dealers for parts used in warranty at a dealer's "prevailing retail rate," as dictated by state law. In addition, Ford has been ordered by the court to stop applying a surcharge to each vehicle—the Company's attempt to offset the

higher rate of warranty reimbursement in these two states. It is important to note that almost thirty states currently have similar provisions in their state statute.

FORCING MANUFACTURERS TO VIEW DEALERS AS AN ASSET

Obviously, we will never be able to force our manufacturer to recognize its dealer body as a great asset and a terrific resource for information. We have hoped with each new regime that the corporate culture would evolve into a structure that would become more receptive and less rigid – less arrogant. What many of us could not foresee was the onset of a regime so far removed from its core business of building saleable product that it not only devastated its dealer body but also devastated the Ford Motor Company so completely that it will take years to regain its footing in the automobile industry.

It has been a few years since the removal of that regime, and current management has been on repara-

tion mode ever since. The new regime continues to give lip service to changing corporate culture, but lip service is not going to get the job done. Thus far, Ford is failing at its own restructuring plan because it is unwilling to admit that it has no business interfering in the retail automobile industry. It neither has the skill nor the knowledge – it is only exacerbating the problem by perpetually introducing programs that reduce our margins and interfere with what should remain solely our responsibility – selling and servicing Ford, Lincoln, and Mercury products.

We offer this challenge to the Ford Motor Company. Recognize your dealer body as a great resource for information pertaining to the retail end of the business. Work with us. Listen to us. Learn from us. We are your greatest asset. Perhaps an evolution into a more cooperative corporate culture might just be the "Bold Move" we all need to survive. You have tried everything else.



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