

In late 2002, desperate for a solution to what most technicians perceived, and rightly so, a perpetual trend for the manufacturer to cut warranty costs at the expense of its dealers and the technicians, the group began to organize a class action against the Ford Motor Company.

Although many dealers have been very wary of Ford's continuing cost cutting endeavors, and many have wondered how much of its announced 20 percent reduction in warranty costs have been due to shifts in cost onto the backs of its dealer body, the logistics involved in filing a class action lawsuit against Ford Motor Company seemed insurmountable.

The issue came to a head during meetings in Dearborn in mid-June between Ford officials, dealers and technicians when Ford announced its plan to again institute broad changes in the labor time standards in October 2003. In addition, Ford announced that it was developing and testing faster repair processes for specific repairs intended to allow Ford to reimburse the dealers for fewer warranty hours.

Flatratetech Technicians Approach Union

The announcement prompted key people at Flatratetech to contact the International Association of Machinists and

Aerospace [IAM]. The IAM represents approximately 44,000 auto and truck technicians and is reported to be the largest industrial trade unions in North America. As reported in Automotive News, it already represents approximately 3,800 service technicians in 133 Ford and Lincoln-Mercury dealers in this country.

Late last month the IAM and Flatratetech met to discuss possible remedies to this ongoing problem. The IAM spent several days reviewing documents provided by Flatratetech and are encouraged by their findings concerning the outcome of a class action lawsuit. In return for the IAM's support of a class action, Flatratetech will help with an increase in IAM membership. A national media drive is imminent.

Ford Reacts to Technicians Organizing

There nothing like the threat of a class action lawsuit to get Ford's attention and that is exactly what has been accomplished by Flatratetech.

On August 29, 2003, Ford Motor Company announced it intended to set up a "Technician Review Panel" for the purpose of reviewing the revised repair procedures. On September 12th, you were provided with the details. To

recap: The "Technician Review Panel" will consist of 40 dealership technicians; two per region; selected from hundreds of volunteers following Ford's announcement. It should come as no surprise that those technicians responsible for initiating this action – the techs involved in Flatratetech -- *have not been selected to participate. Go figure.*

The "Panel" will be divided into two groups: Twenty existing Professional Technician Society Advisory Board tech-

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nicians serving two-year terms and twenty newly selected technicians serving one-year terms. A full list of those technicians participating is available on fmcdealer.com. The first two of these meetings have been scheduled. One took place on September 16, 2003, and the next will be held in December 2003. Results of these meetings will be posted via a Fordstar broadcast.

COMMENTS BY THE FORD DEALERS ALLIANCE

The purpose of our long introduction to the warranty issue is certainly not to bore you with a lot of history; however, it is to emphasize and demonstrate the enormous struggle and the incredible amount of time involved in achieving any kind of substantive change in our industry due to the tremendous leverage and pressure the manufacturers can apply in their resistance to change.

It has become a sad commentary that only threats of drastic action such as lawsuits have afforded us the manufacturer's attention. Thanks to the efforts of Flatratetech, we have Ford's attention, and it has agreed to reevaluate labor operation standards. What we do next is extremely important to our future.

Ford has chipped away, inch by inch, at our bottom line for years, until the negative cumulative impact has affected

many aspects of our business. Today we have an opportunity to reverse some of that damage. We cannot afford to blow this opportunity by becoming satisfied or even pacified by minor concessions Ford may be willing to make in order to appease us. We have to be steadfast and vocal in our opposition to continue subsidizing any part of Ford's warranty cost.

Our purpose is not to comment on the viability of unions one way or the other, but unless we are willing and able to take charge of this situation, Ford will have again taken away our ability to make our own decisions concerning the operation of our dealerships. We all need to stand up and support our technicians before it is too late.

Ed Mullane, our founder, always believed the Ford dealer body could accomplish anything, if we worked together

toward a common goal. He believed in the words of Edmund Burke, which he often quoted, "the only thing necessary for the triumph of evil is for good men to do nothing." Let us not be guilty of doing nothing.

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UPDATE ON COMPANY-TO- DEALER STANDARDS SURVEY

We would like to thank all the Ford and Lincoln-Mercury dealers who responded to our recent Company-to-Dealer Standards survey. The deadline for responding was August 31, 2003, although we continued to receive additional surveys through the first few two weeks of September and will be able to include these in our summary.

Please note it will take some time to calculate the results, but we anticipate being able to provide the survey results to you in late October or early November.

Again, thank you.



NEWSLETTER

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September 2003



It would seem that the battle for fair warranty reimbursement was waged almost since the inception of factory warranties when, in the late 1930's and early 1940's, 90 day or 4000 mile warranties were introduced. Although we cannot vouch that warranties became in issue between manufacturers and dealers from the beginning, as little, if any, documentation still exists, we can vouch that since 1960 and the extension of warranties to 12 months/12,000 miles, dealers have had difficulty being reimbursed fairly by the factories for warranty work performed, and the problem continues to this day.

BLUE OVAL LAWSUITS PROCEEDS INTO FEDERAL COURT

In a long awaited decision, it has been determined by the United States District Court that Ford Motor Company's motion to dismiss the Blue Oval lawsuit is denied. Based upon the merits of the case, the lawsuit will proceed into Federal Court with all nine counts intact.

Unfortunately, there remains significant confusion as to who will remain as part of the Complaint and, therefore, part of a potential class action. A Motion for Clarification of the judge's opinion has recently been filed. The Court's response to the Motion is anticipated shortly.

We will elaborate further on the status of the Blue Oval lawsuit as soon we get all the facts. In the meantime, we would like to thank those dealers who have been in the forefront of this battle. Their fortitude and perseverance is to be admired. Congratulations!

The Formation of the Ford Dealers Alliance

Over 35 years ago Ed Mullane, founder of the Ford Dealers Alliance, defined our role in performing warranty work as "remanufacturers of manufacturing defects at peanut wages." In the 1960's labor rates in the northeast were so low (approximately \$3.50 an hour at a time when Ford factory workers were making \$12.00 to \$18.00 an hour) that we were losing a tremendous amount of money performing warranty work (a 32 percent shortfall).

The unwillingness of manufacturers to reimburse us fairly for warranty work is the reason the Ford Dealers Alliance was founded in 1967. We were able to make progress by funding a Booz Allen & Hamilton study, testifying numerous times before the late Senator Hart's Anti-Trust Committee and having several meetings with the FTC. With the help of consumers putting pressure on the government, the labor rate moved to our current rate. A means for requesting labor rate increases was put in place by all manufacturers.

Of course, this action got the ball rolling, but it hardly resolved all of our warranty reimbursement issues.

For explanation of chart, see story top of page three.

The Ford Dealers Alliance Continues Battle and Initiates Warranty Study

In 1989, we again challenged the Ford Motor Company by initiating our own in-house study to determine whether warranty reimbursement was "Fair" and "Reasonable" as required by most state franchise laws. We discovered that warranty payments to dealers were only about two thirds of what the same work would have brought in at retail levels. In fact, the shortfall on parts and labor was so large that the dealers, instead of making

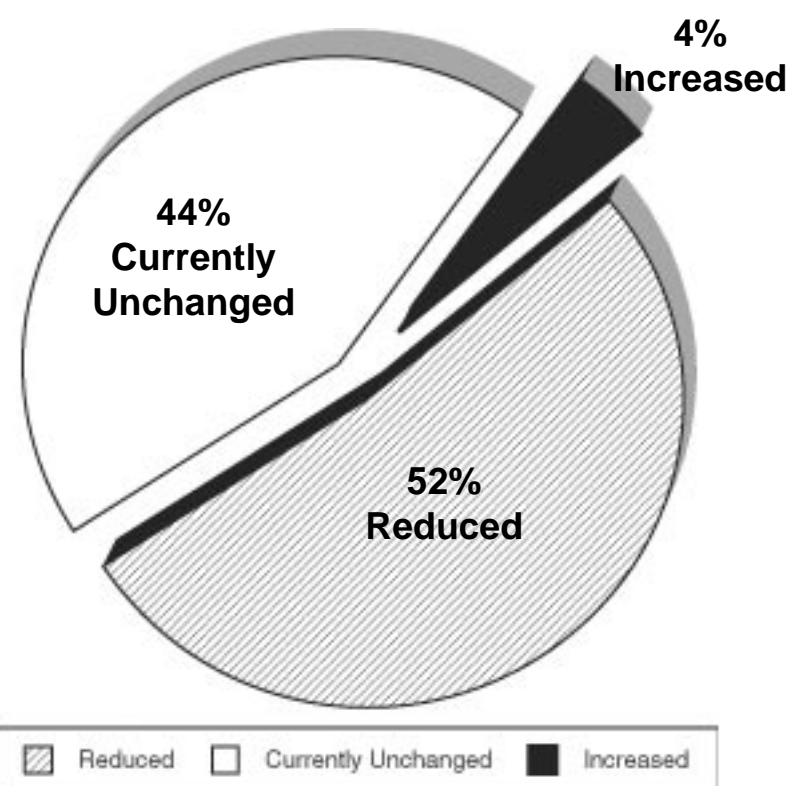
money, actually were losing money performing warranty work.

A year or so later the NADA echoed our findings by completing its own study. (It is important to note that the NADA study focused on warranty parts only.)

In 1992, the Ford Motor Company notified its dealers that the warranty parts markup would increase from 30 percent to 30, 35, and 40 percent depending on the model year.

Again, this action certainly continued the ball rolling, but hardly resolved all of our warranty reimbursement issues.

SUMMARY OF 973 LABOR OPERATION EXAMINED (TAURUS)



4% Increased

44% Currently Unchanged

52% Reduced

Reduced Currently Unchanged Increased

The Ford Dealers Alliance Surveys Across-the-Board Cuts in Service Labor Time Standard [SLTS]

In 1999, Ford introduced its new Labor Time Standards CD System, which allowed Ford to update the labor allowances monthly. The Ford Dealers Alliance, along with its warranty specialist, Brad Summers of Summers Dealers Services, Inc., took a close look at the changes that occurred from September 26, 1999, the final paper manual, and the November 1, 1999, CD system.

We soon discovered that there were too many changes for careful examination of all models; therefore, we focused on one model – the Taurus. To our astonishment, of the 973 examined, 504 or 52 percent were reduced. (see chart on page two)

We stated in our findings that labor cuts were across the board, seemingly without any consideration of the time required to perform the repair. We further stated, "It would appear that Ford has reduced the labor allowances without completing labor time studies." Ford's purported reason for the across the board reductions was the advent of air tools, although many of the labor cuts seemed to be aimed specifically at commonly used labor operations, including diagnostic procedures that do

not involve air tools in any way. The Ford and Lincoln-Mercury technicians took notice of the changes.

The Ford Dealers Alliance Resurveys Labor Time Standards Reductions [SLTS]

In 2001, the Ford Dealers Alliance, along with its warranty specialist, Brad Summers, took another close look at the warranty reimbursement changes involving the Taurus.

Unfortunately, the downward spiral had continued and of the 608 labor operations examined, (608 represents the elimination of approximately 365 labor operations converted to actual time [MT]), an additional 192 or 32 percent were reduced. What was more disconcerting is the growing of labor operations with a dramatic decrease in time allowance. When comparing labor operations reduced by more than one-half hour, 15 percent were observed in the 2001 versus only 2 percent in 1999.

The Ford Dealers Alliance warned, "This unfair practice is having a devastating affect on a dealer's service department. The financial toll incurred on the performance of warranty work is causing dealers to lose qualified technicians to other industries... We cannot wait until the problem escalates to the point that dealers

can no longer afford qualified technicians because we are absorbing so much of the cost of warranty. Worse yet, we cannot wait until warranty work becomes so unprofitable that no one wants the job. That is where we are headed."

Unfortunately, Ford Motor Company did not heed the warning of its dealers.

The Ford Dealers Alliance Supports Several State Lawsuits

Throughout the 70's and 80's, the Ford Dealers Alliance worked with many dealer groups around the country on a series of amendments intended to insure that dealers are treated fairly, especially in the arena of warranty provisions. Through incredible hard work and perseverance, over thirty states have adopted provisions on warranty reimbursement; many requiring factory reimbursement at retail levels.



Although enacting stronger franchise laws is a substantive first step in leveling the playing field, defending state franchise law when challenged by the manufacturers is equally as important. In those states where dealers have submitted and began receiving warranty reimbursement at retail levels, manufacturers challenged the warranty provision in their laws by applying a surcharge to each vehicle. Dealers sued the factory in Maine, Illinois, New Jersey and New York. The Ford Dealers Alliance made contributions to help defray their legal costs. To bring you up to date on a few of these cases:

In Maine, Ford Motor Company prevailed; however, the dealers recently revised their franchise law making surcharges illegal in the state. Ford has filed a lawsuit claiming the law is unconstitutional and requesting an injunction to continue surcharges until the lawsuit is resolved. The court denied Ford's request. Ford has recently announced that surcharges will stop. The fight continues.

In New Jersey, one dealer, Liberty Lincoln-Mercury prevailed in his lawsuit in 1998. Within a year, the warranty provision in the franchise law was further strengthened by establishing a procedure for determining the dealer's prevailing retail rate, which afforded many New Jersey dealers the ability to file for

parts reimbursement at retail levels.

In May 2002, Ford announced that effective June 1, 2002, a \$125 surcharge would be applied to all retail vehicles in the state of New Jersey. On September 4th, Ford was served with a lawsuit, which currently represents 47 dealers and is pending in the U.S. District Court. Discovery and depositions have been scheduled by year's end. Ford recently announced an increase in the surcharge to \$157.

The Ford Dealers Alliance Surveys Service Department

Earlier this year, the Ford Dealers Alliance and Summers Dealer Services, Inc., sent out a Service Survey to obtain feedback on how our service departments have been impacted by warranty changes over the past few years.

TECHS JOIN THE WARRANTY BATTLE

It has been about three years since co-founders Joe Young and Mark Ward created the web site flatratetech.com. It is not an accident that the timing of the insurgence of flatratetech.com coincides with Ford Motor Company's November 1999 across-the-board reductions in labor time standards. Joe Young, a 25-year technician at a Lincoln-Mercury dealership in California, saw his annual salary drop from \$67,000 in 1990 to \$39,000 in 1999. Within six months of Ford's warranty cuts, the web site was created -- a site intended to empower technicians to speak in one voice.

One major question asked was, "Has your technician's efficiency in warranty decreased since 1999? Results indicate that efficiencies have decreased by 19.88 percent.

Another major concern indicated by the surveys returned is that repairs having no corresponding labor operation and, therefore, submitted for actual time [MT], are being denied or reduced by assessors apparently arbitrarily. In addition, access time required to complete a repair due to the removal and installation of non-Ford parts, when allowed, is also being denied or reduced. Many who responded conveyed that labor time standards for many repairs are unrealistic and unobtainable.

Clearly, the survey results indicate that technician satisfaction is at an all time low. Shortfalls in warranty reimbursement are costing technicians thousands of dollars a year in lost income, which is also causing a reduction of new recruits into the profession.