



NEWSLETTER

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October 2002

The Emperor's New Clothes



Most of us remember the fairy tale by Hans Christian Anderson that told the story of an Emperor so arrogant and vain and so in love with his own appearance that he became willingly deceived by two con-men who promised to weave him the most beautiful suit of clothing upon which he had ever laid his eyes. The suit would be made with the finest of silk and the costliest of gold. The rogues were able to convince him that the fabric was of such wonderful quality that it became invisible to any one who was unfit or stupid.

Of course, the sham was that there was no suit. The con men spent weeks pretending to weave and sew and when the suit was "completed," the Emperor, too arrogant and embarrassed to admit he could not see the suit, pretended to put it on and went out for his daily walk through the streets of his village to show off his beautiful new clothes, which by now had become the talk of the town.

All his royal disciples, as well as all the towns people, also too embarrassed and fearful to admit

they could not see the clothes, exclaimed in wonder at the beauty of the fabric and the fit of the suit...until....one small boy cried out, "But he has nothing on!" And at that moment, everyone, including the Emperor, had to admit that the little boy was right.

Does this remind you of anyone?
Ford Motor Company and its misguided determination to go forward with its ill-conceived Blue Oval, Premier and Advantage Programs, beyond any rational

thought, comes to our mind. We suggest Ford Motor Company put on some clothes, if only a thinking cap.

Blue Oval VOC— The Fairy Tale

Over fifteen years ago, upon the introduction of Ford's first CSI program called QC-P, the Ford Dealers Alliance published its first newsletter on what we perceived was the potential dangers of such a program, including our manufacturer's possible misuse of CSI ratings, despite **Ford's assurance this program was intended only as an informative, helpful tool for the dealer body and would never be used as a hammer against us.**

In one of those newsletters, we included this statement:

"Some manufacturers are confusing high CSI scores with satisfying customers...Some manufacturers are placing too much emphasis in high CSI scores, and some dealers are concentrating more on improving scores than on pleasing customers."

Ironically, the author of that statement was not anyone associated with the Ford Dealers Alliance. It came from a statement made in Automotive News by no other than J. David Power,

president of J.D. Power and Associates.

Apparently, someone at Ford was not listening. Over a decade later Ford devised the entire Blue Oval, Premier and Advantage Programs based on a fairy tale called VOC and partnered with the very Company who panned CSI scores as a means of measuring customer satisfaction. Go figure.

The reality is that the very problems we identified fifteen years ago still exist today. There are still real concerns about the statistical validity of these surveys. There continues to be a problem with the fact that consumers cannot differentiate between the product and the services dealerships provide and the fact that the survey questions are not structured to accurately identify the root of a customer's dissatisfaction. In short, the customer who has experienced a product problem, whether it is quality, product availability, parts availability, etc., will rate the dealership poorly, and poorly is defined as anything less than a "completely satisfied" response.

Ford should realize that its improved scores are not due to the success of the Blue Oval, Premier, or Advantage Programs. Rather, it is due to the dealer's proficiency in getting these surveys returned with the correct answers.

Blue Oval Profit— The Fairy Tale

All dealers are in a very competitive market; some to a greater degree than others.

The reality is in order to be profitable in the new vehicle department, a dealer has to achieve a total gross per vehicle in excess of his or her expenses; in other words, his or her cost to sell. In January 2001, NADA calculated the national average dealer's cost to sell as \$1,747 per new vehicle.

*Although NADA no longer provides us with this calculation in its dealer profile, we have included a Chart at the end of this section so that you may calculate and monitor your cost to sell.

Prior to Blue Oval, a dealer achieved profitability by a combination of an up-front gross above net invoice and an F & I gross, at a reasonable amount above the dealer's cost to sell.

Unfortunately, since Blue Oval, a new dimension of the 1.25% has been added to the equation. A dealer now must have a combination of an up-front gross above net invoice, an F & I gross **and an applicable portion of Blue Oval money** per vehicle to reach an acceptable gross above his or her cost to sell to be profitable. Of course, your cost to administer the Blue Oval Program should be factored not only into your cost to sell in the new vehicle department

but, for most dealers, Blue Oval money should be apportioned to every department that has undoubtedly incurred additional expenses due to the Program.

The bottom line is that the dealer's up-front grosses are not holding up. In order to stay competitive, dealers have lowered

their up-front gross, using the Blue Oval money, to compensate for the smaller gross. In addition, now we have to jump through ever-changing hoops in order for Ford to return our own money. Do not forget that Ford has added 1 percent to our invoice without raising the list price. Ford has increased our cost per vehicle in

order to cover the cost of the program and returning it to us—but only if we behave.

To be deluded into thinking that Blue Oval money is something extra is a fairy tale.

THERE IS NO EXTRA MONEY!

Instead, we dealers have become burdened with considerable new expenses. Ford should be creating an environment where entrepreneurship can flourish rather than obstruct us with an inefficient, bureaucratic process, which increases considerably our compliance and administrative costs.

Isn't this the way Ford tried to run its own Auto Collections, which proved to be disastrous?

Blue Oval Success— The Fairy Tale

Ford lost market share with the principles behind its Auto Collections and is continuing to lose market share nationally. As you can see by the Chart on the right, when Blue Oval was launched in April 2000, the Ford brand controlled 21.8 percent of the U.S. car and truck market. As of August 2002, Ford market share dropped to 17.4 percent. Each percentage point represents

FIGURE YOUR COST TO SELL

Use YTD Figures, Page 2 of your financial statement,
FROM NEW VEHICLE DEPARTMENT OPERATING SUMMARY.

TOTAL SELLING EXPENSE: \$ _____
Line 6, YTD

*TOTAL FIXED EXPENSE: \$ _____
Line 10, YTD

*DEALER SALARY: \$ _____
Line 12, YTD

ADD TOTAL NEW VEHICLE EXPENSE: \$ _____

DIVIDE BY TOTAL NEW UNITS SOLD _____
Page 3, Line 53

The result is:

YOUR COST OF SELL
PER NEW VEHICLE: \$ _____

*If your statement does not have these broken out,
use 35 percent of Total Fixed Expense and Dealer Salary—
Page 6, Lines 23 and 24, YTD.

170,000 cars and trucks. That is a loss of 748,000 units!

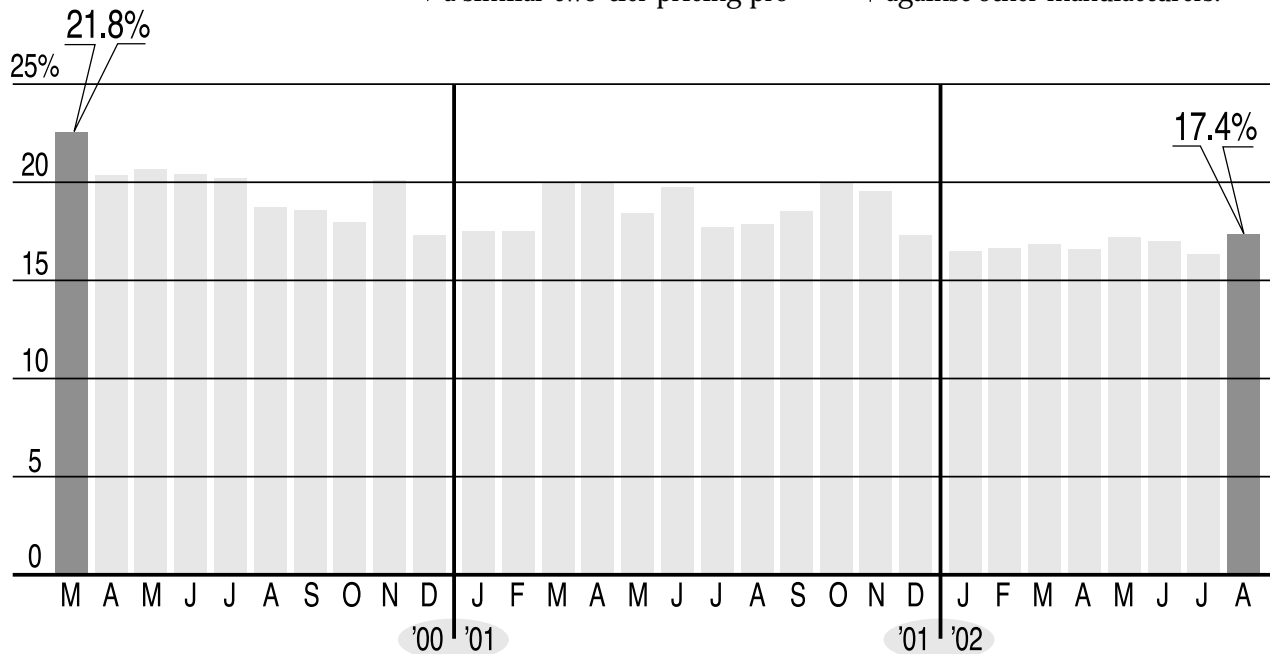
For Ford to trumpet improving customer satisfaction scores as the basis for continuing these flawed programs is a fairy tale. It does not translate into more sales, judging by the decrease in market

share. In fact, it proves our previous point. The reality is dealers have simply become more adept at pressuring customers into submitting "completely satisfied" surveys.

It is interesting to note that Volvo, Ford's other franchise with a similar two-tier pricing pro-

gram, is also losing sales and market share.

All Ford has accomplished is to pit its own dealers against each other, forcing uncertified dealers out of business, and ultimately distracting us from what the focus should be—selling cars and trucks against other manufacturers.



Source: Autodata

The Detroit News

The Ford National dealer Council — Promotes the Fairy Tale

In the past, we have been reluctant to criticize the Ford Dealer Council because we believe their intentions are generally sincere. However, we cannot ignore that the majority of the Ford Dealer Council members are doing their fellow dealers a disservice by continuing to endorse the Blue Oval Program.

- Last month, the Ford Dealer Council released its 2002 Annual Report. Unfortunately, this report seems to be more about spin concerning improved trust and communication with Ford and less about the true state of affairs.
- What the Council does not reveal

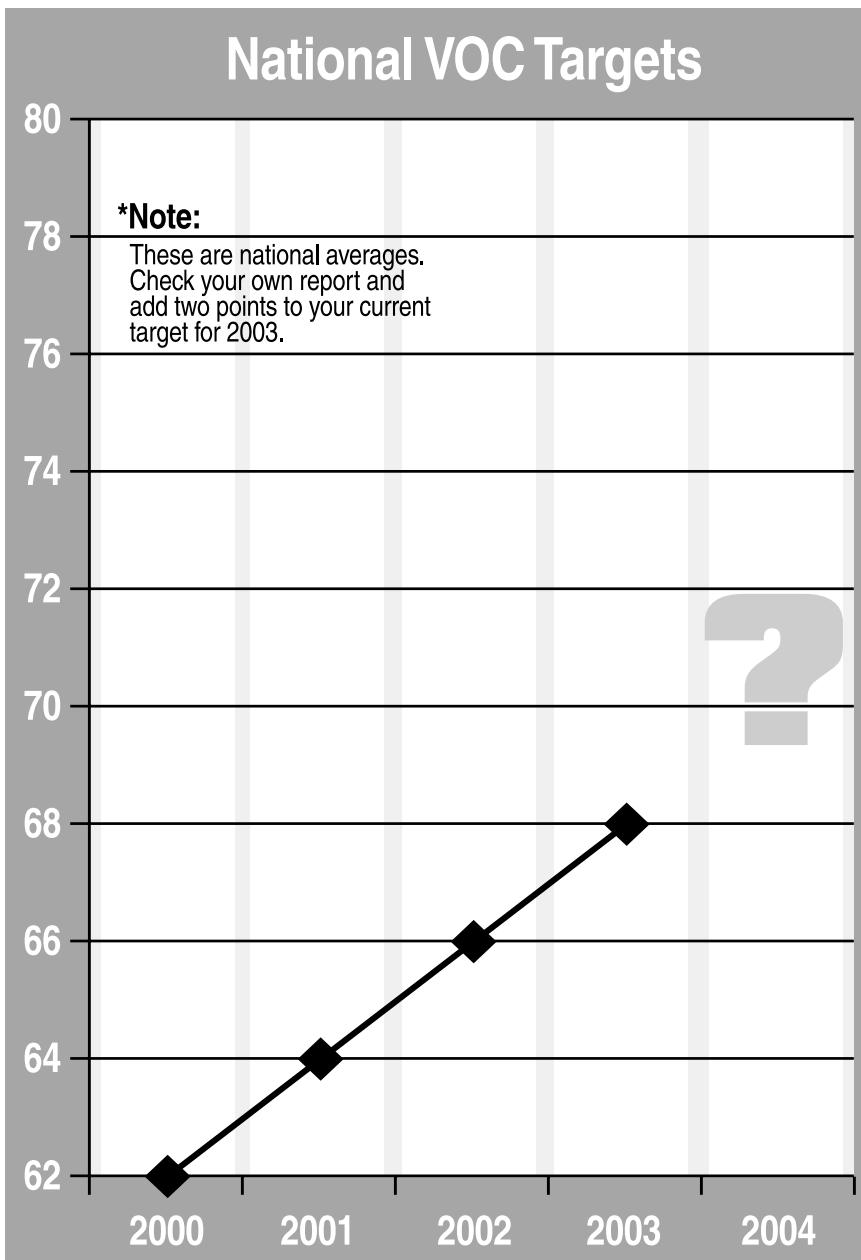
- in this report is that it recently voted 25 to 6 to approve an increase in VOC scores another two points in 2003; a total increase of six points over the past three years. That is an average increase in excess of 11 percent over a three-year period.
- Although we commend those

six dealers that voted against the increase and expressing the wishes of the majority of the dealers, we are becoming increasingly concerned about a Council that continues to tacitly approve Ford's flawed policies, along with the Council's very public endorsement of Ford programs in the trade and public press, particularly of the

Blue Oval Program. It has been argued by several members of the press that their perception is an endorsement by the Ford Dealer Council represents an endorsement by the Ford dealer body. Frankly, we have a real problem with the concept that the Council's vote endorsing a Ford

program represents our individual vote as a Ford dealer. That is simply not accurate, as verified when the Council votes contrary to the wishes of the majority of its dealers. Ford has purposely structured the Dealer Council process so that the Council has no power to make substantive change. Although we concede the Ford Dealer Council provides its dealers with a service as a means of informing Ford of the dealer's point of view and, to a limited degree, negotiating certain aspects of Ford programs and policies, it is far too big a leap to then empower them to vote to endorse any program they have little or no control over. Frankly, it plays into Ford's hands and gives Ford undeserved credibility. In fact, Ford has manipulated the Council into thinking that it is accomplishing something by spinning its wheels trying to tweak a Program that is so flawed it should not even exist.

In the meantime, as we predicted, Ford keeps turning up the heat. Currently, 94 percent of the dealer body is certified. With the VOC changes, it is predicted the qualifying dealers could drop to 90 percent. Those numbers may sound impressive to those dealers who are currently certified, however, to the 300 to 400 dealers who will lose certification or who were never able to certify, it is a matter of life and death. It is only



a matter of time before the two-tier pricing aspect of the Program puts them out of business—and that is intolerable.

We are aware of Ford's responses to Dealer Council recommendations over many years. Frankly, we are sick and tired of responses such as, "we'll study it," "we'll research it," "competition forces us," etc.

It is time for the Dealer Council to represent the majority of the dealer body and say ENOUGH. This Program is no d*** good. Scrap it and return our money!

Ford Motor Company's New Clothes

So let us summarize ... Ford raised the price of vehicles to its dealers to fund a program that causes its dealers to focus on an expensive, inefficient program rather than our core business—retailing vehicles—all while losing market share. In short, Ford continues to embrace the fairy tale called Blue Oval, Premier, and Advantage.

That is bad economics and a very poor business model. It is no wonder Ford stock values have plummeted from over \$32.60 in October 1999 to a low of \$6.90 thus far in October 2002.

UBS Warburg, a leading global investment banking and securities firm, recently surveyed dealers as to their attitude toward their manufacturers. The results of that survey were released in a 39-page report in mid-September. The very first sentence of that report reads as follows:

"We [UBS Warburg] believe the automotive retail distribution network is key to the execution of auto manufacturer strategies."

Apparently, Ford does not share that sentiment and the dealers know it. In fact, one of the bullets on the cover of the report best summarizes the dealers' attitude towards Ford Motor Company:

• "Ford took home the booby

prize. Ford's U.S. brands took each of the bottom-three slots on our UBSW Dealer Index..."

We can now add those results to the recent NADA Dealer Attitude Survey, which again rates Ford, Lincoln and Mercury at the bottom of the list.

Frankly, it took too long for the Board of Directors to act on ridding the Company of Jacques Nasser's devastatingly destructive policies. The Board must now recognize that Ford's foolish attempts at micro-managing its dealers is causing irreparable harm to its distribution system and negatively impacting its relationship with its dealers.

Ford, belatedly, is responding to some of its shortcomings such as product; however, it continues to pursue its destructive policies regarding dealers. The Board of Directors must stop accepting Ford's fairy tale that all is improving on the dealer front and confront Ford management to act to get rid of Blue Oval and its sister programs NOW!

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