



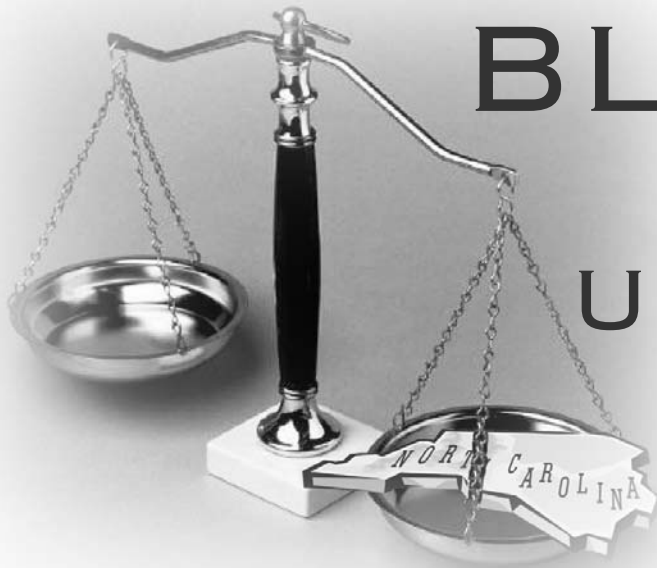
NEWSLETTER

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February 2003



BLUE OVAL DECLARED UNLAWFUL IN NORTH CAROLINA!

Due to the heroic efforts of one courageous dealer in the State of North Carolina -- Della Freeman of Freeman Ford -- the Blue Oval Program has been declared unlawful in North Carolina by the Commissioner of the Division of Motor Vehicles!

On March 28, 2001, Ms. Freeman filed an administrative proceeding seeking a hearing and asking the Commissioner to determine whether Blue Oval violates North Carolina Franchise Law. The ruling, handed down on January 8, 2003, is a complete victory for not

only Ford and Lincoln-Mercury dealers in the State of North Carolina, but also sends a message to all manufacturers who may be considering a similar incentive-based program. The conclusion of the Commissioner in North Carolina is as follows:

1. Ford increased the wholesale price charged to all its dealers on most vehicles to partially fund the Blue Oval Program.
2. All Ford dealers were charged 1 percent wholesale price but not all dealers received the monies because of Blue Oval certification.
3. The payments made to certified dealers caused a variance in the price of new motor vehicles.
4. The variance in the price is based on training programs, sponsored, endorsed, or recommended by Ford.
5. The variance in the price is tied to certain purchases such as tools, equipment or other merchandise such as the DealerConnection web site.
6. The variance in the price is determined by qualifying facility requirements, which may entail relocation, remodeling, repair, or renovation of existing dealerships or construction of new facilities.
7. The payments made to certified dealers are determined on a per vehicle basis.
8. The Blue Oval Program does not constitute a sales contest or promotion, and therefore,
9. The Blue Oval Program violates North Carolina Franchise Law.

The Commissioner has thereby ordered Ford Motor Company to “immediately discontinue the Blue Oval Program and reinstate the one percent margin to North Carolina Ford dealers.” In addition, “the costs of this action are taxed against the Ford Motor Company.”

Ford Responds to Decision

Within weeks of the North Carolina decision, Ford responded by announcing that it would stop paying the 1.25 percent reimbursement to North Carolina dealers, but in an act of defiance and continued aggression towards its dealers, refused to obey the Commissioner’s order to reinstate the 1 percent margins, calling the North Carolina ruling “ambiguous” when interviewed by Automotive News.

Eliminating the 1.25 percent return, has been used repeatedly by Ford as a divisive measure to divide the Ford dealers

Ford’s decision to hold the dealers’ money hostage while it appeals the decision is no doubt in reprisal of Ms. Freeman’s refusal, along with the support of the North Carolina State Association, to withdraw the formal objection to the Program. Ford had made this request immediately following its December 16, 2002, announcement that it planned to discontinue the 1.25 percent reimburse-

ment to dealers’ and reinstate the 1 percent margins effective April 2005. The strategy of threatening to withhold dealers’ money, all while eliminating the 1.25 percent return, has been used repeatedly by Ford as a divisive measure to divide the Ford dealers. Fortunately, clearer minds prevailed and the objection to the Program filed with the North Carolina Division of Motor Vehicles was not withdrawn.

Although the North Carolina State Association has indicated that it is willing to sit down with Ford Motor Company and discuss a possible remedy, it is important to note that it is the Commissioner’s decision that gives North Carolina dealers the leverage to do so.

Ms. Freeman is owed a great debt of gratitude by the dealers in her state. Her strength of conviction and endurance in challenging Ford’s Blue Oval Program has afforded the dealers in North Carolina the one thing the rest of us do not currently have and that is peace of mind. Her efforts and the Commissioner’s decision assures the dealers in North Carolina that Ford or any other manufacturer cannot employ similar tactics in implementing programs that emasculate the state franchise laws that afford dealers protection against factory abuse.

The Ford Dealers Alliance Position

Although we are relieved at Ford’s announcement on the

December 16, 2002, Fordstar broadcast that its current position was to terminate the 1.25 percent payments to its dealers and reinstate the 1 percent margins effective April 2005, we remain **cautiously** optimistic.

Over the past few years, Ford has certainly demonstrated a lack of continuity in its direction and its business decisions. None of us can be sure if Ford will again “change its mind.” It has become a prerogative Ford has utilized often since the introduction of its Blue Oval, Premier, and Advantage Programs.

Of one thing we can be sure; unless we are able to achieve a legal decision declaring the Blue Oval Program unlawful, as did North Carolina, we will continue to be open to the possibility of Ford’s again “changing its mind” or open to the possibility of the resurrection of another similar program in the future that will again put us all at risk. We continue to look for a permanent solution so, like North Carolina, we can all have peace of mind.

Therefore, the lawsuit will continue to go forward seeking class action certification as a means of protection especially for those of us who have been unable to certify or those who have or will lose certification over the next two years. As indicated by Steve Lyons on the November 14 Fordstar broadcast, the number of certified dealers is likely to drop substantially as the VOC targets continue to rise over the next two years.

For those of us who somehow feel untouchable to decertification or hopelessly addicted to the "hidden" money, we want to remind you that we cannot throw the inherent protections under our franchise system, our franchise laws and our Sales and Service Agreement under the bus simply because Ford has waived money in our face. The price we will have to pay is too high.

We recently read a post on an e-mail site intended to remind us of the dangers of becoming shortsighted on serious dealer issues – issues that threaten our very survival. The post is in the form of a humorous story, which goes as follows:

"Years ago, a pair of old-time

cowpunchers went hunting Navajos who had left the reservation. They hoped to earn a government bounty of \$10 per Native American.

After three days of no luck, one cowpuncher heard noises outside the tent. He went out and saw a thousand heavily armed Navajos warriors surrounding the camp and advancing.

'Wake up, Slim,' he called to his partner. 'Wake up! We're rich!'"

The Blue Oval Lawsuit Update

On November 22, 2002, a motion to file an amended Complaint was submitted to Federal Court. The amended Complaint not only

reiterates our original legal action but also adds that many of the predictions made as to how Ford Motor Company might misuse the Program had materialized as presented in the November and December Fordstar broadcasts. Ford objected.

The Federal Court denied Ford's objection to our amending the Complaint, therefore, the amended Complaint was filed on January 3, 2003. Ford's response was to again file a Motion to Dismiss, as well as a Motion to Strike. Our response to Ford's motion has been filed and oral argument is scheduled on March 24, 2003.

We will keep you posted as the lawsuit progresses.



WARRANTY COST SHIFTS CONTINUE TO GROW!

Are we becoming more selective as to the type of warranty we are willing to perform due to the fear of audits, the fear of bad scores that will cause us to lose Blue Oval certification, the overly cumbersome warranty policies and procedures and the ever growing expense that has been shifted to the dealer body by our manufacturer? Is our manufacturer expecting us to help defray its costs by shifting some of the financial burden of warranty onto its dealers?

In cooperation with Brad Summers of Summers Dealer Services, Inc., a warranty specialist working closely with the Ford Dealers Alliance, we have prepared a summary of the warranty issues that continue to plague the Ford dealer body.

It is no secret that Ford Motor Company's financial situation is bleak and it intends to cut its costs. Warranty reimbursement is certainly an area in which Ford has overwhelming control. It can deny payment to a dealer. It can delay payment to a dealer by perpetually rejecting a dealer's claim. It can audit a dealer. It can chargeback a dealer.

Our only viable means of combating this imbalance of power is to form a united front on these issues. We ask that you help us present that united front on the warranty issue.

We have enclosed a survey, which we ask that you forward to your service manager so that we might track a potential pattern in those warranty repairs that Ford has repeatedly refused to pay in full. We hope that you will take the time to do so. Your participation is crucial in obtaining reliable and accurate information. Your individual survey will remain confidential.

Watch Your Warranty Payments

Over the past year, a disturbing new trend has surfaced on warranty repair orders submitted with actual time. More and more, warranty claims assessors are either returning claims unpaid or refusing requested actual time and paying claims short. Often, this high level of scrutiny is unjustified. The assessors are overlooking information that has already been provided, incorrectly interpreting policy or asking for information that cannot be provided. These arbitrary actions seem to happen most often on high dollar warranty repairs where no published labor time standards exist. Ford's warranty assessors are taking it upon themselves to second-guess submitted actual time and make adjustments to the claim with no apparent justification. Now, more than ever, you need to review every paid claim for proper payment.

As we are now all familiar, claiming actual time is no longer a "highly unusual repair situation" as stated by the Ford Warranty and Policy Manual (3-14). Many old labor operations have disappeared completely and labor operations for new vehicle models and years often take months to become established, if ever. Ford's only requirement for claiming actual time is that the technicians have both valid time punching and adequate comments to support the time. But now, it appears that actual time

must also be approved by a warranty claims assessor who has the ultimate authority to adjust or refuse labor on a repair that he/she has never seen. Ford certified service technicians and service managers, who oversee the repairs and approve actual time, have little say and almost no recourse in appealing decisions made by a claims representative sitting at a desk 1000 plus miles away.

Here are some recent examples of Ford's warranty claims assessors over scrutinizing repairs and taking it upon themselves to adjust or refuse actual time.

EXAMPLE 1

A senior master technician calls the engine prior approval line for a replacement engine on a 2001 Expedition 4x4 with a 5.4L engine. Despite his diagnosis and recommendation, the replacement engine was denied, and he was told to perform an engine overhaul. Due to severe metal contamination throughout the engine, all internal engine parts had to be removed and either replaced or cleaned individually. Since no labor operation exists for an engine overhaul, actual time was used. Assessors took none of this provided information into account and paid the claim over eight hours short. Although the dealership provided the proper labor operations on the claim, improper labor operations were added by the assessors and actual time was completely refused. The extra time has been appealed for repeatedly and still remains unpaid at the time this article was written.

EXAMPLE 2

A transmission replacement had to be performed, by hotline request, on a F250 4x4 with the new 6.0L diesel engine. The claim was submitted and the assessor rejected it for two reasons. First, it was requested that we use available Ford Labor Time Standards instead of actual time for the repair. The only problem is that beyond transmission diagnostics (7000F), there are no labor operations for this repair procedure. Second, the dealership was questioned as to why a new transmission assembly was used instead of a no-cost exchange unit. Since the transmission was not listed on the current exchange sheet for plant contact, there was no information available for acquiring a no-cost exchange. This repair was ultimately paid as originally submitted, but not without spending extra needless time addressing assessor questions that never should have been asked.

The above examples are not uncommon. Any high labor repair is at risk of excessive scrutiny from the warranty claims assessor. Wiring repairs, transmissions, and engines appear to be the type of claims that are most often improperly questioned or adjusted.

**The dealership
and the technician
are penalized by
Ford's attempts to
save money**

Why is this happening? Two reasons are immediately apparent. It is obvious that the warranty claims assessors are poorly trained. They lack mechanical training. Further, they lack adequate training in both policy and procedure to provide the dealership with proper assessments of the submitted claims. How much time and money have you spent, or just written off because of claims that were improperly scrutinized or adjusted? The other obvious reason for these problems is Ford's bottom line. Once again, it is the dealership and the technician that are penalized by Ford's attempts to save money.

Ford's warranty claims assessors should never take it upon themselves to reduce submitted actual time, and then allow the repair to get paid. It is deceptive and unethical. At the very least, the claim should be returned unpaid with the request to provide better support through either ACES II, fax or direct phone contact. But, unfortunately, actual time labor reductions are becoming another tool that Ford uses to protect the bottom line, solely at your expense.

Remember that you only have 120 days to appeal a paid line through the Aces II process. Protect yourself by watching your warranty payments closely. Do not let the warranty claims assessors win. Stay informed and use existing Ford policy to challenge all of its unfair decisions.

Reduction of Warranty Costs at Dealers Expense!

If you talk with any Ford representative, they will tell you that warranty will be reduced by 10 to 15 percent this year. According to Ford, the reason for this reduction is due to better quality built vehicles. From the dealers' perspective, however, it is apparent that some of the warranty savings are being taken straight out the dealers' pockets and, worst of all, out of the highly trained technician's wallet.

Since we began looking at the issue in 1999, we have observed the progressive reduction of the Ford Labor Time Standards. Every month we receive the CD for LTS and notice some reduction in labor time and/or the removal of a common labor operation. Most recently, these reductions have been extended to the Technical Service Bulletins [TSB] and Customer Satisfaction Programs [CSP].

One example of a cost transfer to the dealer body due to a poor quality issue is the DPFE sensors. Prior to the quality problem, the completed repair paid 0.5 hours using the LTS to diagnose and replace the DPFE sensor (see example below). A few months

ago we discovered the labor operation 12650D9 was reduced to 0.1 hours almost across the board. Under the new TSB 03-2-2 and Customer Satisfaction Program 02M01, the time has been reduced to 0.3 hours. There is no valid explanation as to why a CSP program or a TSB would cut the time to repair the vehicle by 0.2 hours or 40 percent from just a few months ago, if not intended as a cost savings to Ford Motor Company.

In addition, EEC test (12650D 0.2) and retest (12650DX1 0.1) has been 0.3 for many years. How can a technician obtain the part, replace the part and then return it to the parts department with no additional time above the diagnosis? I guess Ford believes that elves magically come and complete this step of the repair – certified elves, of course.

The cost of replacing parts due to poor quality should not be placed on the shoulders of the dealer body or the technicians who repair the vehicles. This is an issue that the manufacturer and the suppliers should address together. The dealership only sells the vehicles and repairs

<u>Using the Labor Time Standards</u>			<u>TSB 03-2-2</u>	
12650D	0.2	EEC Self Test	VS.	030202A 0.3
12650DX1	0.1	EEC Retest		CSP 02M01
<u>12650D9</u>	<u>0.2</u>	R & R DPFE Sensor		02M01B 0.3
Total	0.5	Labor op's from a few months ago		

defects in material or workmanship. They do not control the quality of the vehicles from engineering, to model launch, to customer use.

The technician is invaluable in keeping the vehicles on the road. Ford should not short and, therefore, penalize the technician due to a poor quality issue. It is a very short-sighted perspective.

It appears that technician morale is at an all time low, and it is unlikely many technicians are encouraging new recruits. Undoubtedly, in about ten years there will be a real shortage of technicians. Unless Ford stops cutting warranty costs at the dealers' and the technicians' expense, Ford is headed for much bigger problems than the high cost of warranty.

Another Cost Savings for Ford!

The administration allowance of 0.1 hours will be eliminated on any recall introduced after January 17, 2003. Ford's reasoning for this reduction is not fully supported. It is still necessary to produce a hard copy of affected vehicles and create post cards to contact the customers. It is still a requirement to obtain an Oasis on every vehicle that comes into the dealership. Performing these steps is necessary and takes time.

While 0.1 hours of administration dollars may not seem like much, it is fair compensation to the dealer for the "behind the scenes" actions that Ford still requires to be performed. There is a cost to the dealership in both labor and materials. The United States government monitors Ford and their safety / emissions recall completion rate. Ford, in turn, puts the heat on dealerships to perform recalls promptly.

The elimination of the administration fee is yet another example of Ford expecting the dealer body to pick up a proportion of the warranty costs – costs that are Ford's responsibility. Ford, on the other hand, is going to reap benefits in the millions of dollars saved at your expense.

Ford's justifications for this action are not warranted and the Ford Dealer Council should work to have Ford reinstate the administration allowance.

□Notice: Wiper blades are now covered for only 12 months, regardless of mileage, for a defect in materials or workmanship. Normal wear is not considered a defect. Lincoln (QCL) vehicles are still covered 2001 to present, for 36 months or 36,000 miles. Please provide this information to your service department.

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**Wiper blades are now covered for
only 12 months!**