FORD DEALERS FDA ALLIANCE

NEWSLETTER

www.dealersalliance.org

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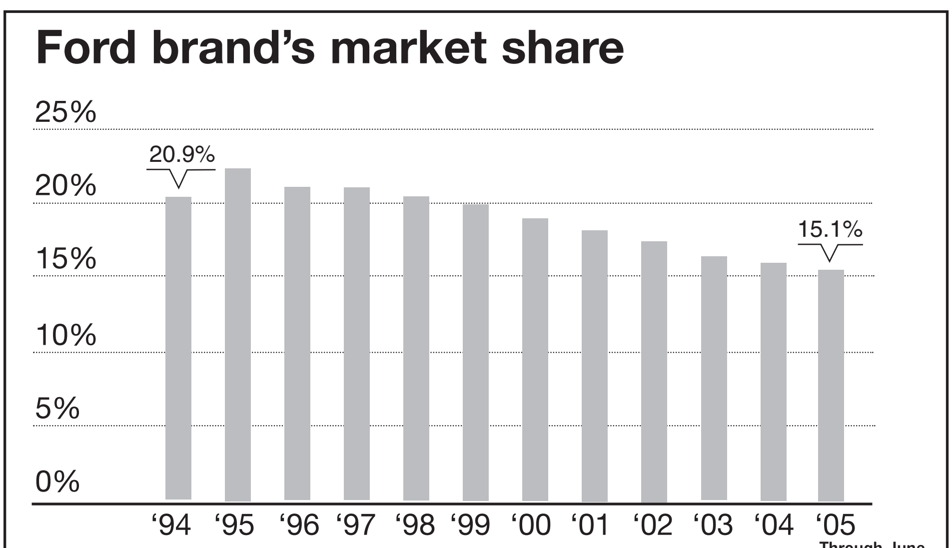
A MESSAGE TO THE FORD MOTOR COMPANY

Ford did the right thing by ridding itself of Jacques Nasser. He devastated the Company by causing it to lose its focus, and he devastated the Company financially.

After Jacques Nasser's departure, we were told Ford would return to the core business. Its focus would be on product by building new, exciting and innovative models.

The result, instead, has been a continuing erosion of market share and profitability for both Ford and its dealers.

Please note the Chart below represents an almost eleven-year trend. Any adjustment due to the Ford Family Plan is obviously temporary.



Source: The Detroit News and Reuters

WHAT WENT WRONG?

We need to face reality. The styling of the new product, i.e., the Five Hundred, the Freestyle, and the Freestar, when compared to the competition, has not produced the volume of sales required to turn the Company around. The success of the Mustang has not produced a large enough volume to make a significant difference. Besides, whatever benefit we may have gained from the introduction of the newly designed Mustang was diminished by Ford's lack of foresight in building the proper mix of standard Mustangs vs. Mustang GTs.

About four years ago, a knowledgeable group of dealers were asked by the Ford Motor Company to review those models prior to their launch. Many of those dealers criticized the bland styling; yet, none of the decision makers at Ford listened. Instead, the dealers were told they were wrong. According to Ford, this is the kind of styling the public wants. Obviously, it is not the dealers who were mistaken; it is whoever made the styling decision, because sales have not come close to reaching their expected targets.

Recently, dealers again had been asked to review, in advance, future products. Again, these upcoming models have not engendered much enthusiasm by the dealers due to the continuing lack of exciting and innovative styling. And again, dealers have been given the Company line that marketing studies indicate that this is the styling the public wants. In other words, the dealers are wrong and the product will not be changed.

Unfortunately, if we do not get competitive with the kinds of products other successful manufacturers are turning out, we will continue to be left behind. We realize there are no quick fixes to these problems; however, unless Ford reestablishes focus on innovative product, a solution is nowhere in sight.

The current thinking in Dearborn is not getting the job done, and it is past time the Company begins rethinking its policies on how to achieve success in our industry. You cannot only cut costs to reach profitability. It is the "product stupid." As one dealer stated, "If you don't bend the metal right, it won't sell."

We recently read in Automotive News a letter to the editor written by an individual who had worked for Ford 30 years and is now retired. He writes, "Please let me know when Ford Motor Co. gets down to one-salaried employee. (Ford has been on a cost-reduction program ever since I joined the Company in 1963.)

"In the meantime, Ford might more profitably look to the quality of management rather than the quantity for a solution to its problems. Quality products, competitive one-on-one with Toyota, Audi, etc., would help too."

IS IT IGNORANCE OR ARROGRANCE?

Frankly, we have to point the finger at the leadership of the North American Division. It has lost about a billion dollars this past quarter and continues to lose market share. When you review the results of the decisions being made by top management regarding, not only styling, but also marketing and advertising, you have to conclude that they are less than stellar and, yet, the arrogance persists.

Both the people from within the Company, as well as dealers who have attended meetings – meetings that are intended to collect viable input from the participants — have experienced arrogant intransigence from the top management attending these meetings. Everyone is cautious about their comments because it is most likely, if they take a different viewpoint, they will be insulted and berated. Incidentally, we understand that most decisions made by top management are in direct opposition to the beliefs of the great majority from within the Company itself.

In addition to the issue of the mediocrity of design, dealers have also expressed serious concerns about the effects on dealer margins due to the Ford Family Plan and Ford's recent announcement on Fordstar of its intention to further reduce gross margins through its proposed "value pricing" initiative.

Management's response to dealer concerns about our lack of profitability has appalled a great majority of the dealer body. As we previously pointed out in our most recent newsletter, the Company's manipulation and control of dealer grosses has already put us in a position that makes it virtually impossible for dealers to turn a profit in the new vehicle department.

When one dealer expressed his concern about profitability on the recent Fordstar broadcast, one Ford leader responded with the standard Company line that Ford would evaluate the effects as they went along.

WE CANNOT AFFORD TO WAIT!

Ford's policies have been so wrong for so long that they have seriously eroded our profitability and continuing the erosion with this "wait and see" mentality will only exacerbate an already unacceptable situation.

Another Ford leader recently stated in Automotive News, "I fail to see how margin changes affect dealer profitability. Margin changes have nothing to do with profitability. Dealers sell from cost. We changed the MSRP." He has obviously never retailed a vehicle to a customer; otherwise, he would know consumers are motivated by the monthly payment and by the allowances for their trades. Ford's policy decisions directly impact our ability to meet those consumer's expectations and remain profitable.

In reference to the recent Fordstar broadcast, we caution the Company not to be deluded by the compliments from a few sycophants, who may have a personal agenda. The great majority of dealers know we cannot survive by continuing down this path.

Is it ignorance or arrogance? We are not sure. What we do know is Ford's direction over the past few years has been troubling and destructive to its survival, as well as our own survival and we, as dealers, are fed up. Its direction has resulted in a continuing loss of market share, a continuing loss of profitability for both the Company and its dealers, and, consequently, the continuing destruction of the value of a Ford franchise.

HOW CAN WE MAKE IT RIGHT?

We urge Bill Ford, Jr., Jim Padilla and the Ford Board of Directors to find new leadership with the kind of foresight and people skills to move the Company in the right direction. The current attitude of "you are either with me or against me" is not getting the job done.

Ford must have leadership that is innovative and on the cutting edge in styling, marketing, and advertising. Both Ford Motor Company and its dealers can no longer afford to have leadership that simply reacts and follows other noncompetitive manufacturers. **WE NEED TRUE LEADERSHIP, AND WE NEED IT NOW!**

THE CRITICAL POINT IS HERE… NOW!

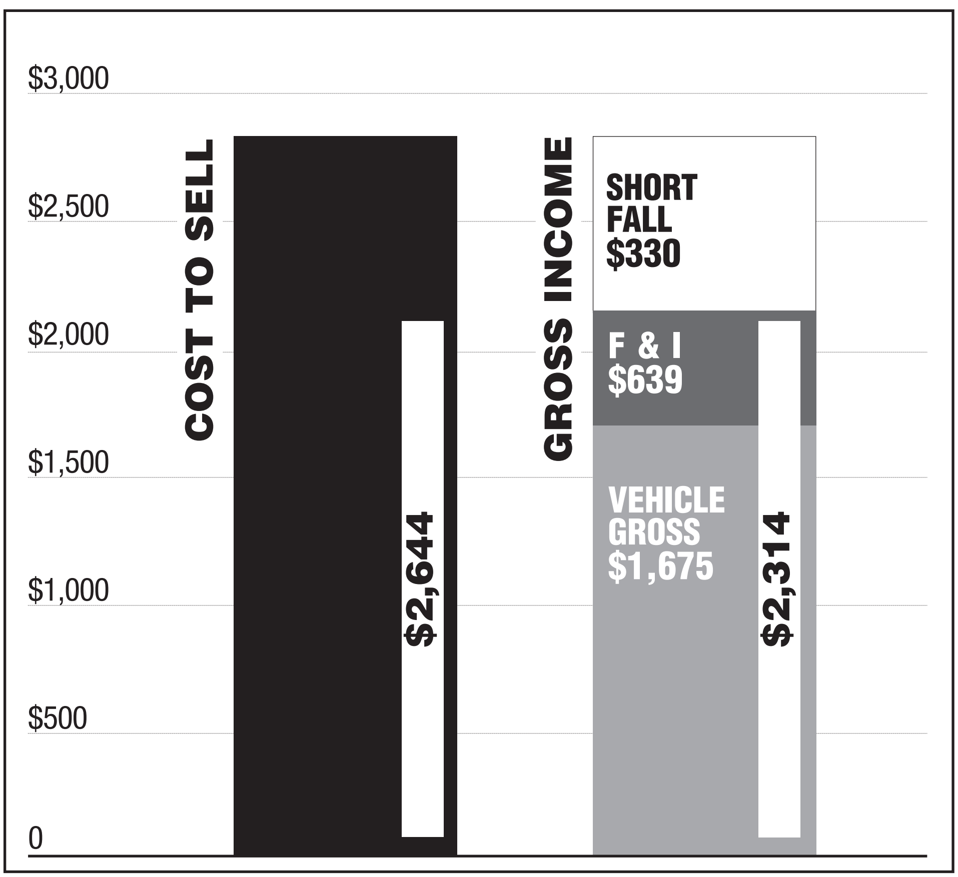
Although we suspected that the average dealer has been losing money in the New Vehicle Department, the breadth and degree of the loss is more devastating than we had ever imagined.

Figures compiled from Ford dealers across the country participating in the NADA 20 Groups reveal that the average new car and truck gross, including holdback, is $1,675. The average F & I gross income from new vehicles is $639 – a total of $2,314 per vehicle.

Unfortunately, the same group has a "cost to sell," which includes all selling, fixed and dealer salary expenses applied to the New Vehicle Department, of $2,644 per vehicle.

Therefore, those generally successful and knowledgeable Ford dealers in NADA 20 Groups are losing an average of $330 per new vehicle sold. *(See Chart below)*

In short, a dealer selling 500 new vehicles per year effectively is **subsidizing Ford Motor Company by $165,000 for the year.** A dealer selling 1,000 new vehicles per year would **lose $330,000 a year.**



A dealer must try to overcome this loss by making up the difference from the Used Vehicle Department and Parts and Service Departments. This is difficult, if not impossible, to accomplish. At this rate, it is only a matter of time before we will be forced out of business.

It is imperative that each of us takes the time to figure our own numbers. We have included the *Cost to Sell Chart* so that you may calculate your own cost to sell accurately. *(See Chart on page 4)*

FORDS' ROAD TO DESTRUCTION CONTINUES

We have shown, in recent newsletters, how Ford has created this intolerable situation.

Ford's response to our diminishing grosses has been to further expand its alphabet programs (A, Z, X and D Plans), introduce Ford Family Plan, and reduce our gross margins on 2006 models. This will only exacerbate the problem.

In a recent article by Robert C. Walberg, financial analyst and writer and a regular guest on CNN's Moneyline, he blasts domestic manufacturers for their recent strategy

FIGURE YOUR COST TO SELL

Use YTD Figures, Page 2 of your financial statement, from the NEW VEHICLE DEPARTMENT OF OPERATING SUMMARY Column,

TOTAL SELLING EXPENSE: Line 6, YTD	$	____________
*TOTAL FIXED EXPENSE: Line 10, YTD	+ $	____________
*DEALER SALARY: Line 12, YTD	+ $	____________
EQUALS TOTAL NEW VEHICLE EXPENSE:	$	____________
DIVIDE BY TOTAL NEW VEHICLES SOLD Page 3, Line 55		____________

The result is:

YOUR COST TO SELL PER NEW VEHICLE:	**$**	____________

behind employee-discount programs. He states that this current strategy, "substitutes short-term gains for long-term profitability…No doubt the employee discount program has created a car-buying frenzy among consumers, but the hopes it'll set up the new model year for success is folly. Instead [the program] is only stealing sales from the future."

When referring to Ford and GM's plan to lower 2006 sticker prices below 2005 prices, he states, "The sticker prices for 2006, while lower, are still higher than the price the companies were receiving on the 2005 models, less rebates… Unfortunately, with the consumers conditioned to wait for incentives before they pull the trigger, Ford and GM run the risk of having to add promotions to already reduced prices, resulting in even lower margins and lower profits than in 2005."

FORD MUST STOP THE MADNESS

It is time the Ford Board of Directors confront the leadership as to their long-range plan. Some speculate that driving the dealers out of business is by design. Others speculate there is no long-range plan at all.

In any case, the result of destroying its own distribution system will prove to be even more devastating to Ford's shrinking market share and diminishing profits. Someone has to realistically evaluate the cost of rebuilding the distribution system's infrastructure including real estate, buildings, inventories, personnel, training, etc., etc. Ford Motor Company has been down that road before on a much smaller scale…**AND FAILED**.

We believe neither Ford nor its dealers can survive without the other; however, Ford's efforts to return to profitability are only focused on Ford. We dealers will not survive this unsustainable trend. We must be included in Ford's pursuit of returning to profotability.