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Dealers must coalesce if OEs go bankrupt

Six panelists at a CATA presentation April 28 about how dealers should prepare for bankruptcy filings by General Motors or Chrysler agreed on one thing: the Chapter 11 filings are inevitable.

The national dealer councils (NDC) of both Chrysler and GM, with the NADA's assistance, have retained separate legal counsel with expertise in corporate restructuring and bankruptcy matters to advocate the collective interests of dealers. Separate legal representation would be required for individual dealer issues and claims and for dealers with conflicting issues.

The NADA mailed information about the counsel on April 24 to all affected dealers.

For example, the NDCs will seek to address dealers' rights with respect to amounts owed to them by an automaker for things like incentive and warranty payments, holdback, floorplan assistance payments and dealer advertising.

The CATA panelists agreed that retaining the NDC counsel is a cost effective way for local dealers "to have eyes and ears into what's going on."

Some dealers may find themselves subject to termination that may be permitted by a bankruptcy court. However, it is not practical for a manufacturer to eliminate a majority of dealers if the manufacturer is to emerge as a healthy company from bankruptcy that can continue to sell vehicles. Also, a manufacturer may have to justify why it is seeking to terminate some dealers and not others.

Bankruptcy attorney Bruce Wald, a panelist at the CATA seminar, " 'What if' GM and Chrysler enter Chapter 11," said Chapter 11 protection trumps any

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Chrysler files Chapter 11 bankruptcy papers

Chrysler LLC filed for bankruptcy protection Thursday in federal court in New York, after some of the company's smaller lenders refused a Treasury Department demand to reduce the amount of money the troubled automaker owes them.

But a deal was reached to combine the company with Fiat, which will allow Chrysler to stay in business, and Chrysler will continue to make cars and honor its warranties while under Chapter 11 protection.

An unspecified number of Chrysler's 3,300 dealerships which now sell the

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You are being rated

By Mark Bilek
CATA Internet Director

As more and more people turn to the Web for information, it's important that new-car dealers embrace and maintain a positive presence on this maturing media.

While there's a lot to be said for growing your business one satisfied buyer at a time, the Internet speaks to thousands of people in your community each day. So it's very likely that a potential customer is going to hear about your store on the Web *before* he visits your dealership.

Online ratings are as old as the Internet itself, and the current trend is away from authoritative "expert" reviews and toward real-life "consumer" experiences. This movement has been heightened by Web sites that focus on concentrating consumer feedback.

Sites like epinions.com, ratings.net and bizrate.com allow consumers to create and read reviews of products and businesses in an open and, often, unmediated, forum. As you might expect, there are sites that cater directly to the needs of the new-car shopper and service customers in the consumers' hunt for information about local dealerships.

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Contact your rep to support SB 1417

Stronger motor vehicle franchise act progressing in Springfield

A state bill to protect dealers if a manufacturer eliminates a line should be brought before the Illinois House by May 8. Senate Bill 1417 passed the Senate unanimously April 2.

Under the legislation, dealers would have added protection against what constitutes good cause for a manufacturer to cancel or fail to renew a franchise or selling agreement.

Among other things, SB1417 would force manufacturers that discontinue a brand to prove good cause before the Illinois Motor Vehicle Review Board before terminating any dealers. Also, such a manufacturer must buy back new vehicles, parts and equipment from franchised dealers.

Senate Bill 1417 also would make it a violation for a manufacturer to require or coerce a dealer to underutilize the dealer's facilities by blocking the dealer from selling or servicing any vehicles that fall under another manufacturer's franchise agreement. And, the bill provides an itemized list of what is considered reasonable compensation to a dealer for the value of the franchise and business premises, as well as a payment scheme for such compensation.

The legislation also winnows the audit period for dealer incentives and reimbursement claims, from 18 months to 12 months, to coincide with the audit period for warranty claims. Also, it prohibits manufacturers from denying access to certain dealers when selling factory pre-owned vehicles, and it amends the definition of "motor vehicle" to include truck engines, transmissions and rear axles for trucks that weigh more than 16,000 pounds.

Dealers are urged to contact their House representatives, to encourage a "yes" vote on SB 1417. The Illinois State Board of Elections provides a search tool on its Web site that enables individuals to search for legislators using three criteria: by District, by Official, or by Address. Follow the link on the CATA Web site, at http://cata.drivechicago.com/menu_Who_is_my_Legislator_3448.

Congratulations!

Ford Motor Credit Co. named five area dealers among winners of its 2008 Partners in Quality award: **Rod Baker Ford Sales** in Plainfield, **Golf Mill Ford** in Niles, **Highland Park Ford-Lincoln-Mercury**, **River Oaks Ford Sales** in Calumet City (Masters Award winner), and **Van Drunen Ford Co.** in Homewood (Masters Award winner).

Ford dealers throughout the country compete annually for the automaker's highest award, but only 327 of the more than 4,000 Ford and Lincoln-Mercury dealerships in the U.S. received the 2008 President's Award, including **Arlington Heights Ford**, **Bredemann Ford in Glenview**, **Buss Ford Sales** (McHenry), **Ogden Lincoln-Mercury** (Westmont), **River Oaks Ford** (Calumet City), **Joe Rizza Ford** (Orland Park), **Terry's Ford-Lincoln-Mercury of Peotone**, **Terry's Lincoln-Mercury** (Orland Park), and **Wickstrom Ford-Lincoln-Mercury** (Barrington).

Acura Financial Services awarded **Acura of Libertyville** (three-time winner); and **Muller's Woodfield Acura** in Hoffman Estates and **Joe Rizza Acura** of Orland Park (both four-time winners) with the 2008 Council of Excellence status.

Carrs Honda Center (Chicago), **Bill Kay Honda** (Bradley) and **Valley Honda** (Aurora) all were named three-time winners of Honda Financial Services' Council of Excellence Award.

Chrysler

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Chrysler, Dodge and Jeep brands will be closed under the bankruptcy, although a senior Obama administration official said that many of those closings will take place after the company emerges from bankruptcy.

Between them, the 3,300 dealerships employ about 140,000 people.

Members of the president's special auto task force were unsure the company could be viable for the long term without the use of what has been called a "surgical bankruptcy," to be executed in as little as 60 days.

As the talks with Fiat and the lenders entered the final hours, members of the United Automobile Workers union approved a historic deal in which the union would take a 55 percent stake in Chrysler. The stake would finance half of a new trust to administer retiree health care costs.

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Review past editions dating to 1998 or search by subject at http://cata.drivechicago.com.

Jerry H. Cizek III **President, Publisher**
Erik K. Higgins **Editor, Director of Dealer Affairs**

Latest GM restructuring plan eliminates 42% of dealers by 2010

The federal government and a United Auto Workers health care trust would own 89 percent of General Motors stock, with the government holding more than a 50 percent stake, under a massive restructuring plan laid out April 27 by the automaker.

The plan also would phase out the Pontiac brand by the end of 2010, cut 21,000 factory jobs by next year, and purge GM's dealership ranks by 42 percent from 2008 to 2010, cutting them from 6,246 to 3,605.

GM will start May 11 to notify the dealerships it plans to eliminate, the company told dealers Tuesday.

In a videoconference with dealers, GM officials said 1,000 to 1,200 underperforming dealers will be reviewed for closure, and the company plans to cut 450 stores with the elimination of Saturn, Hummer and Saab brands, said GM spokeswoman Susan Garontakos. She also expects attrition and consolidation to force additional closures.

Mark LaNeve, vice president of North American sales and marketing, said GM is considering a dealership's sales, customer satisfaction scores, amount of working capital, facility standards rating and whether the dealership is dualed with an unapproved brand.

The latest plan lowers GM's break-even point in North America to an annual U.S. sales volume of 10 million vehicles. That slightly exceeds the current sales rate, but most economists expect an uptick later this year.

"This lower break-even point better positions GM to generate positive cash flow and earn an adequate return on capital over the course of a normal business cycle, a requirement set forth by the U.S. Treasury," GM said in a statement.

Bankruptcy

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state dealer franchise act, even as Illinois races to strengthen its act.

Attorney Mark Lyman, another panelist, said dealers should review all their contracts, "from your computer vendor all the way down to the janitorial service." He said dealers should avoid any long-term contracts, such as a newer Red Flags Rule compliance agreement that could grant either party a 60-day right to terminate.

"You need the flexibility in these times," Lyman said.

Tom McDonald is the managing director in the Chicago office of Macquarie Capital, a global investment bank specializing in restructuring and mergers and acquisitions. McDonald said dealers must act now to ensure their interests are protected in the OEM restructurings.

"Have that sense of paranoia and looking over your shoulder at all times, because you're going to need that," he said.

Government intervention, said McDonald, has enabled GM and Chrysler "to live another day. But restructuring outside of bankruptcy ain't gonna happen. Analysts say GM will need $20 billion more *after* restructuring."

Gaurav Malhotra, also with Macquarie, said forecasts for aggressive sales growth for GM lead to positive operating cash flow beginning in 2012, but ongoing liabilities like pension obligations would keep GM mired in a negative net cash flow.

Ken Stevens of Crowe Horwath advised dealers to examine cost cutting to maintain their cash and equity positions; and to talk to their lenders because they still would be bound to contracts with the lenders.

Look at everything and go as deep as possible, Stevens said. Obtain concessions from vendors and focus on the company's two largest expense areas: compensation and advertising.

Bankruptcy attorney Steven Towbin encouraged affected dealers to join the National Dealer Committees. But he said dealers whose franchise agreements are rejected don't have many options.

"There really isn't much of a defense," Towbin said. "It is what's in the best interests of the debtor that's more important to the judge. But if you can persuade the judge, as a group, that the damages (of closed points) are so great, you could challenge it. But you've got to get organized to have any chance of conditioning this."

Among questions by the nearly 125 dealers in attendance: If a dealership is forced to close, would the automaker accept returned inventory? Towbin said he wasn't certain, but it probably wouldn't have to because its contract with the dealer will have been broken. Subsequent negotiations might lead to the dealer remaining in business long enough to sell any remaining inventory. Others:

• Pontiac dealers should not be optimistic about being compensated for the brand scheduled to be phased out.

• During the course of the bankruptcy, retained dealers will get payments they are due from the manufacturer. Payments might be delayed by bankruptcy red tape, but the payments would be respected.

The goal for a court in dealing with a reorganization bankruptcy is to allow a company to rehabilitate itself so that it can emerge from the bankruptcy. That can't happen if the manufacturer damages its equity by effectively ceasing business and its dealers fail because the manufacturer does not pay ongoing obligations.

But on the prospect of a UAW/government-owned automobile company, Towbin said, "If you like the way the post office works, if you like the way Fannie Mae works, . . ."

Web ratings

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"The Internet has become an invaluable resource for dealers looking to improve sales and promote service. Unfortunately, the wealth of information available on the Internet can also be a detriment to dealerships, as there are Web sites that post consumer ratings of dealerships," says DriveChicago.com committee chairman and CATA board member Kurt Schiele.

"Thankfully, there is a way to make lemonade out of lemons by working with customers to resolve disputes and advising good customers to go to various rating Web sites to post positive feedback. Remember, a flurry of bad reviews on informational site like Google.com or Edmunds.com will turn customers away in droves."

There are three basic types of sites dealers should be aware of when monitoring their online ratings.

1. Third-party rating sites

The most popular is DealerRater.com, which started more than six years ago. These third-party sites allow consumers to freely post comments about experiences at dealerships. Comments can be good or bad and are only filtered for language and graphic content.

Dealers also should be aware of the growing presence of the BBB online, as visitors can browse bbb.org and read how customer complaints were handled at local dealerships.

2. Automotive portals

The most popular is Edmunds.com, which has its own dealer ratings application. Sites like Edmunds are often visited by consumers who are more than three weeks out and looking at several different vehicles. If, during the course of that visit, the consumer finds a highly rated dealership, he is likely to send future leads in that dealership's direction.

3. Search engines

Sites like Yahoo.com and Google.com provide direct links to customer ratings next to your natural dealership listing—not your paid listing. This is the link that most consumers will scan to when searching for your dealership, and if the link to read customer reviews is close by, it's likely they will click on it.

On the Internet, unfortunately, one bad apple can spoil the whole bushel. With each negative comment or review, dealers can literally lose thousands of potential customers. It therefore is very important that new-car dealers take steps to make sure they are portrayed in a positive light.

What can dealers do?

While you can't submit a self- review (because the rating Web sites cross reference the IP address of the submission with that of your dealership) there are a couple of things that dealerships can do to help improve their online ratings. In some cases, you can completely flip the switch from a negative to a positive.

Ask satisfied customers to write a review. This is the most effective online marketing tool you can utilize because it's both free and genuine. Getting actual customers to write positive reviews lets future customers know that your dealership is honest and trustworthy.

The best way to do this is to send happy consumers a follow-up e-mail that includes a link directly to the online rating services. Encourage the customer by telling him it only takes a few minutes and that he can remain 100 percent anonymous.

Respond to negative reviews with love. The saying goes, "You can catch more flies with honey than vinegar." Reach out and contact that unhappy consumer who posted an unsavory review and try one more time to make nice.

If you can satisfy them, ask them to update their online review. By doing so, you'll be telling potential customers that your dealership cares about all of its customers. (It's interesting to note that even if you can't fully satisfy the customer, he might return to the rating Web site and "update" his comments to include the fact that the dealership tried to make things right.)

Change the game

As a dealership, the last thing you want to do is engage in a shouting match with someone who's posting a negative review. The customer has more time than you do, and now has an outlet to release anger. Even if your dealership is completely in the right, it's likely that potential buyers will side with the offended consumer over the dealership.

Obviously, there are some rotten eggs that you can't make happy no matter what you do. In most cases, it is best to avoid trying to resolve those disputes in an online and public fashion. Usually, once a customer has written the negative review, he feels that he has voiced his opinion. In most cases, it is best to cut your losses. Remember, one negative review will easily get lost in a sea of positives.

While no dealer wants to read negative or hurtful comments from customers, it is important to consider that the Internet is an open forum for dialog and that you can participate in that conversation.

It is best to think of these online rating sites as a form of gorilla marketing. First, it's free. Second, you have the power to change the game. Having satisfied customers writing reviews for you costs you nothing. Working with unhappy customers to resolve disputes is likely to generate additional future sales.

It's easy to get distracted by cynical or false comments, but the beauty of the Internet is that you have the ability to turn those negatives into positives and win over future customers. In the end you want to make the online rating sites work for you, not against you.

CATA golf outing

Get full details on the June 8 event at http://cata.drivechicago.com/menu_Annual_Meeting__Golf_Outing_3431.

New NADA Webinars to help dealers tackle latest challenges

Profitability is more of a necessity to new- and used-vehicle operations than ever before. Priorities in the automotive industry are changing, and in response to these changes, NADA Management Education is offering new, specialized webinars presented by industry leaders.

The NADA's May and June Webinars cover issues related to every department in the dealership, including sales management, service and parts management, Internet sales, phone leads, and warranties.

Several Webinars deal specifically with the problems that dealers are facing in the changing economy, including Decreasing Revenues, Rising Costs, and Shrinking Margins (May 27, 12–2 p.m. CDT).

Jodi Kippe, a CPA working with Crowe Horwath's Retail Dealer Group, will help participants determine how to reduce their expenses and get more value from the dollars they must spend in their ongoing operations.

Also of particular value in today's economy is Dealer Survival: Improving Your Cash Flow in Tough Times (June 18, 12–2 p.m. CDT). NADA Dealer Academy Instructor Steve Lane will teach participants how to measure and reduce their frozen capital and free up cash in the dealership.

The NADA also will guide dealers and managers through the necessary steps to complying with changes to the Family and Medical Leave Act (FMLA) in a new Webinar on June 23, 12-2 p.m. CDT. Christopher Hoffman, regional managing partner of Fisher & Phillips LLP, will cover the changes in detail and provide a checklist for better compliance.

Also by popular demand, the NADA once again will join with AutoTrader.com to present a timely Webinar series on dealership survival in June. The series, Maximize Your Business in a Challenging Environment, will be divided into three sessions on June 4, 11, and 18. The sessions will cost $199 per computer connection—the regular NADA price—if purchased separately. Participants can also register for all three sessions for just $448, a savings of nearly $150. The series will be presented by Howard Polirer, director of industry relations for AutoTrader.com.

Through this Webinar training, you can learn, listen, and participate all from your own computer. And with many topics available, you can select the right training to help you approach the challenges you face at your dealership every day.

For more information on upcoming Webinars, visit www.nada.org/seminars or call NADA Management Education at 800-252-6232 ext. 2.

AIADA takes umbrage with Obama's 'buy American' reference

ALEXANDRIA, Va. (April 30) – The American International Automobile Dealers Association responded to a speech today in which President Barack Obama asked Americans to buy "American" vehicles as part of our economic recovery.

"(The) AIADA objects to President Obama's 'buy American' solution for the auto sector," said AIADA President Cody Lusk. "In today's globalized economy, 'buying American' can mean anything from buying a Chevy Avalanche built by Mexican workers in Silao, Mexico to buying a Toyota Camry built by Americans in Georgetown, Ky."

"The real issue is that every car purchased in America today is a shot in the arm for our economy; a boost for car dealers, who are the cornerstones of communities all across this country; and a win for American consumers who have the opportunity to choose the vehicles that best meet their driving needs.

"President Obama must recognize that protectionist policies and statements like "buy American" have no place in America's economic recovery."

The AIADA, established in 1970, represents 11,000 U.S. automobile franchises that sell and service import brands.

In a speech about Chrysler's bankruptcy, Obama said, "If you are considering buying a car, I hope it will be an American car."

Obama described Chrysler's bankruptcy filing not as a sign of weakness but as a signpost on the path to revival. He said bankruptcy gives Chrysler "a new lease on life."

Marketplace

GM/GSM Highly motivated, experienced, accomplished in 20+ years successful dealership management. Extensive knowledge of all facets of retail automotive industry. Responsibilities have ranged from personnel recruitment/development to process evaluation and design; business plan development, forecasting and budgeting to marketing and advertising; inventory control to customer and employee relations. James Borchers, 847-846-2652.

Administrative/Clerical Experienced, proficient in accounting tasks including payables, receivables, petty cash. Also qualified in many customer service aspects, administrative assistant duties, automotive inventory purchasing. Quick, eager learner acclimated to fast-paced settings. Faith Ficarra, 847-642-6590.

Parts Manager 23 years dealership experience, 12 years as manager. Solid background in all areas of Chrysler parts department operations including inventory control, customer service, staff supervision and training. Star Parts, Snap-On, UCS and ADP. Rob Davis, 224-522-6956.