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AUTO SHOW

CATA Bulletin

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Lawmakers on verge of budget; CAFE on hold

State representatives on Aug. 9 voted 99-9 to pass a $27.8 billion Illinois operating budget that the Senate was to consider later that day, just after this newsletter's deadline.

If the measure reaches Gov. Rod Blagojevich, it is unclear whether he would approve or veto it, or sit on it for up to 60 days, when it would become law without his signature. He has said he would not approve any budget that does not include his spending priorities for universal health care and a large increase in education spending.

The $2.1 billion increase over last year would be funded through natural tax revenue growth and eliminating about $125 million in tax breaks, legislative budget negotiators said.

Blagojevich's proposal last spring, to raise $7.6 billion from a gross-receipts tax was trounced in the House 107-0. The GRT could have bankrupted hundreds of Illinois dealers, and they and many other industry groups rose against the GRT.

Illinois lawmakers had slogged through an overtime session that by early August reached a record 10 weeks without a state budget.

Meanwhile, the U.S. House recessed Aug. 6 without debating two vehicle fuel economy bills proposed by representatives. Some speculate the plan is to avoid a House struggle and enact a Senate-passed measure that would raise the combined car-truck standard to 35

SEE **CAFE**, PAGE 4

DOC fee bill to be decided in days; final push by dealers urged

Illinois Gov. Rod Blagojevich has until about Aug. 19 to act on legislation to increase to $150 the state's maximum permissible documentary service fee. Dealers are urged to contact the governor's office to solicit his support for House Bill 1657.

Calls can be directed to 312-814-2121 in Chicago or 217-782-6830 in Springfield. Or, letters can be sent to the following addresses:

The Honorable Rod Blagojevich
Governor of Illinois
207 Statehouse
Springfield, IL 62706

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Sun-Times rehashes debate on buying cars with a credit card

Consumers chasing bonus awards

Dealers should dust off the merchant agreements they hold with credit card agents to confirm when and where they permit customers to purchase goods and services using plastic.

Stephanie Zimmerman, author of a Chicago Sun-Times column called "The Fixer," on Aug. 6 responded to a reader who wants to buy a vehicle using most or all of his credit card's $42,000 spending limit. He said one dealership said its policy capped such credit spending at $2,000.

Zimmerman responded that consumers can buy a new vehicle with a credit card, and dealers can't set a maximum limit. Both statements are true, sort of, and dealers should make sure their merchant agreements suit them.

Dealers can elect not to accept credit cards in their showrooms and they can appeal to limit the dollar amount paid by credit card for a vehicle, but both matters must be part of their agreement. MasterCard, for one, won't permit retailers to impose artificial maximum acceptance values.

Consumers are increasingly interested in purchasing vehicles using their personal credit cards, to reap the cards' bonus awards. The GM Flexible Earnings Card, for instance, provides for 1 percent cash back on every credit card purchase and up to 3 percent toward a new GM car, truck or SUV.

Zimmerman wrote that dealers try to dissuade vehicle purchases by credit card because of hefty merchant fees. Creditors forbid merchants from adding a

SEE **CREDIT CARD**, PAGE 4

Dealers still Detroit 3's most valuable asset; don't view them as 'expense'

By Dale Willey
NADA Chairman

Forget overdealering. It's a dead-end debate. It's almost impossible to find two people who agree on what is the right number of dealers in any given market. The market itself determines the correct number.

And it should be up to the individual dealer, as an independent business owner, to decide if and when it's time to get out of the business.

Nevertheless, an extraordinary amount of media attention has been focused recently on the number of dealers who sell General Motors, Ford and Chrysler brands. There's nothing wrong with that—except when assertions are made based on inaccurate studies.

Consider this. The Detroit Free Press cited a CNW Marketing Research study, which has not been made public, that claims the cost of "excess dealers" to the Detroit Three is nearly $4 billion. Now that's a number that gets your attention. But is it right? It certainly doesn't appear to be.

For example, the first item identified as an additional expense for the manufacturer is "the cost of delivery of the vehicle to the dealership." Dealers everywhere must have shaken their heads in disbelief when they read that, as must have and everyone else who knows this business.

The Dealer Pays

I've been a dealer for more than 30 years and I've paid the delivery costs for every vehicle delivered to me. Every vehicle. So has every other dealer in this country. And we're not talking about a small amount; the average freight charge per vehicle these days is about $700.

Let's look at some of the other costs that the dealer pays:

• Delivery of parts
• Communications
• Training
• Special tools and diagnostic equipment
• Land, showrooms, service bays, dealer lots, etc.
• Advertising. Dealers contribute hundreds of millions of dollars each year toward advertising controlled by the manufacturer.

I could go on and on. Dealers, for example, often use a manufacturer's captive finance company for floor plan loans and retail customer credit; both are profitable enterprises for the manufacturer.

And let's not forget that it is the dealer who buys the vehicles from the manufacturer in the first place. Without the revenue that dealers provide to the manufacturer, the factories' assembly lines would fall silent.

This is why manufacturers describe their dealer networks as their most valuable asset. Each dealer location that a manufacturer loses could also result in a loss of market share. That's what happened to GM when it eliminated Oldsmobile and more than 2,700 Olds dealers. So, the real question is whether the Detroit Three will drastically lose market share if they drastically reduce the number of their dealers.

Jobs, safety, civic service

Dealers are the entrepreneurs, the risk-takers. They provide good jobs to 1.3 million Americans, the kind of jobs that can't be outsourced overseas. They are at the forefront of child passenger safety and are active in almost every charitable endeavor.

The value dealers bring to their manufacturers and to their communities is priceless. And some dealer families have been at it for more than 100 years.

The current U.S. automotive retail distribution network is the most efficient the world has ever seen. It provides competition and convenience, which benefit millions of car buyers every year. Given the fact that the dealer pays for just about everything he or she gets from the manufacturer, it's easy to see why the cost to the manufacturer for its retail dealer network is minimal.

Indeed, research at GM found that a dealership only needs to sell 10 new vehicles a year to pay for the cost of supporting that dealership.

The NADA represents more than 93 percent of the dealers in the country, both domestic and import. Anti-trust laws impose restrictions on trade associations advocating actions that would reduce competition, so it is inappropriate for the NADA to take sides in the debate over dealer numbers.

What's important is to take the long view. The industry is inevitably and notoriously cyclical; the manufacturer that's up today can be down tomorrow.

It's not just the number of dealerships that counts; it's whether a dealership is profitable. And that's where our focus is: making dealers more profitable, so they can survive the good and bad times and be in a stronger position to service the customer that much better.

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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**

NADA-backed CAFE alternative gains in Congress; dealer help urged

By Ray Scarpelli Sr.
METRO CHICAGO NADA DIRECTOR

More than 110 House members have agreed to cosponsor the Hill-Terry CAFE alternative, House Resolution 2927, thanks to the efforts of dealers from across the country. At this writing, the legislation needs about 40 more co-sponsors to reach the 150 required for it to be considered a viable alternative to more aggressive fuel economy bills, such as H.R. 1506, sponsored by Rep. Edward Markey (D-Mass.) and the Senate Energy bill, H.R. 6.

More than 100 dealers were in the nation's capital in July to meet with key House members, urging them to co-sponsor and support the Hill-Terry bill, which sets rigorous but reasonable fuel economy increases while complementing, rather than contradicting, consumer demand.

With a House CAFE vote expected soon, the NADA strongly urges dealers to contact their representatives immediately to encourage them to co-sponsor H.R. 2927, the Hill-Terry CAFE alternative. In this area, Democratic Reps. Melissa Bean (Barrington), Danny Davis (Chicago) and Bobby Rush (Chicago) have signaled support of H.R. 2927.

More information can be found at www.NADA.org/CAFE.

In NADA News . . .

NADA's IR Meets With Chrysler

NADA's Industry Relations Chrysler team, led by Chairman Chuck Eddy, met recently with Chrysler Group leaders, including CEO Tom LaSorda, Executive Vice President Steven Landry and Sales Vice President Darrell Jackson.

LaSorda said many joint projects between Daimler and Chrysler in vehicle design and engine technology will continue under the new owner Cerberus Capital Management, L.P. He also reaffirmed his commitment to rebuilding the relationship between Chrysler and its dealers. The recent inventory problems will not happen again, LaSorda said, and Chrysler plans to help boost dealership profitability with such moves as better aligning its mix of vehicles with consumer demand and simplifying vehicle incentives.

Eddy is a Chrysler-Jeep-Dodge dealer in Ohio.

NADA President Addresses SkillsUSA Gathering

At the SkillsUSA competition this summer in Kansas City, Mo., NADA President Phil Brady participated in a panel discussion with educators and business leaders on workforce development.

"Dealers have a significant need for talented young men and women to enter the automotive technology profession," said Brady, citing a recent Harris poll that found 108,800 job openings at new-car dealerships across the country. "One solution is Automotive Youth Educational Systems."

Brady, who is AYES chairman, highlighted the mentoring program's benefit to automotive technology students. SkillsUSA, which has 285,000 members nationwide, holds an annual competition in 88 career and technology education areas.

Lyboldt Named NADA's Vice President of Dealer Services

John R. Lyboldt is NADA's new vice president of dealer services, replacing Carl Ragsdale, who retired after nine years. Lyboldt directs NADA's Management Education, 20 Group, Dealer Academy, Membership, and Conventions programs. He was president of the Rochester (N.Y.) Automobile Dealers Association for the last 17 years.

In 2005, Lyboldt was president of the Automotive Trade Association Executives, which represents 112 state and metropolitan dealer associations in the U.S. and Canada. Lyboldt has been actively involved in NADA through the years, serving on many of the association's committees.

NADA Promotes 'Green' Initiative to Help Consumers Lower Fuel Costs

The NADA has produced a brochure, "It's Easy to Be Green: 8 Simple Steps to Lower Your Fuel Costs," to help consumers lower fuel costs by driving more efficiently. NADA's AutoExec magazine also published its first "Green Issue" in July, offering dealers advice on how to run more energy-efficient and cost-effective businesses.

The "Green Issue" looks at solar dealerships, recycling tips, the best ways to sell alternate-fueled vehicles, how to cut lighting costs, and where to buy green products for the dealership. A copy of the "It's Easy to Be Green" brochure is included in the magazine, and dealers who want free copies to hand out to consumers can order brochures online at www.nada.org/green-brochure.

Contact me any time at Raymond Chevrolet, 847-395-3600, to discuss your views.

CAFE

Continued from Page 1

mpg by 2020.

Automakers and dealer groups support House Resolution 2927, the so-called Hill-Terry CAFE alternative, whose goal is a car-truck standard of 32-25 mpg by 2022.

A rival, more aggressive House bill proposed by Rep. Ed Markey (D-Mass.) would require automakers to hit 35 miles per gallon by 2018.

Congress is in recess until after Labor Day, for lawmakers to meet with constituents in their home districts. Dealers are encouraged to enlist their representatives' support of Hill-Terry, which 163 House members endorse.

Credit card

Continued from Page 1

surcharge to the price of a product or service paid for with a credit card, or forcing the cardholder to pay any part of the transaction processing fee.

But dealers, more than most retailers, can be damaged by credit card customers who invoke their right to rescind a contract during the first 90 days after vehicle delivery. Also, American Express merchant agreements state that a dealer must provide full warranty for at least one year or 12,000 miles on new and used vehicles.

Most dealerships accept credit card payments for repair work and deposits on vehicles. However, their merchant agreements can permit them to limit card acceptance to the service department, as creditors effectively recognize dealerships as two businesses in one. A growing number of dealers, hence, have amended their agreements to limit credit card use to one line of business, namely, parts and service.

Dealers who do not welcome Visa and MasterCard in their showrooms must not display those decals on their showroom windows, but they can in the service department.

If a credit card company does agree—in writing—to limit the credit card amount in vehicle purchases, dealers should develop a customer disclosure explaining the store's policy. The disclosure should be posted by the cashier's window in areas that accept payment by credit card.

A disclosure sign, but not a window decal, also should be prominently posted in all areas, so everyone knows the dealership's policy on credit card transactions.

DOC fee

Continued from Page 1

Or, mail a letter to him at:
100 W. Randolph St.
Chicago, IL 60601

The General Assembly delivered HB 1657 to the governor's desk June 20, when the 60-day countdown began for him to sign or veto the bill. The current maximum DOC fee is $58.48. If Blagojevich approves, the $150 maximum would take effect Jan. 1, 2008.

The base DOC fee in Illinois was 40 when it was established in 1992. Annual adjustments tied to the Consumer Price Index have increased the maximum charged allowed to complete necessary paperwork and provide copies to customers.

But the array of federal and state regulations with which dealers must comply when selling vehicles has escalated more than the CPI, and dealers in at least 30 states reportedly are permitted to charge $400 to $90 in DOC fees.

Since 2001, for instance, new federal regulations that dealers must adhere to include the Privacy Act and the related Safeguards Rule, the Patriot Act, and the Federal Communication Commission's National Do-Not-Call or -Fax Registries.

Congratulations!

Michael Gillespie and **Curtis Pascarella** are 2006 recipients of the GM Dealer of the Year honor, the Jack Smith Leadership Award. Gillespie's GM store is **Gillespie Pontiac** in Chicago, and Pascarella operates **Phillips Chevrolet** in Frankfort.

Mitsubishi Motors bestowed its Diamond Chapter of Excellence Award, which recognizes outstanding sales and customer service, on seven area dealers: **Biggers Mitsubishi** (Elgin), **Libertyville Mitsubishi**, **Max Madsen Mitsubishi** (Downers Grove), **Max Madsen's Countryside Mitsubishi**, **Max Madsen's Aurora Mitsubishi**, **Schaumburg Mitsubishi**, and **South Holland Mitsubishi**.

Charles Frank, president of Z Frank Chevrolet and Kia in Chicago, was inducted Aug. 6 to the 2007 Hall of Fame Heritage Society, an endowment fund of the Jewish Community Centers of Chicago.

Marketplace

Warranty Administrator 20 years' dealership experience, specializing in Ford, Lincoln-Mercury warranty work. Strong background with warranty accounts receivable schedules, booking, ticket invoicing. ADP, Reynolds and Reynolds. Dean Michals, 847-299-5464.

Résumé on file at the CATA.