

# An open letter to the President's Auto Industry Task Force:

We are alarmed and puzzled by the announcement of dealership cutbacks as part of the "solution" to problems facing the auto industry. Recently, we listened to General Motors President Fritz Henderson express a stated goal of reducing dealer count at GM from 6,246 dealers to 3,605 dealers by 2010.

Now part of Chrysler's plan to emerge from bankruptcy includes cutting several hundred more dealers. On the surface these cuts sound impressive, but will dealer cutbacks do anything to save these companies? The simple answer is no.

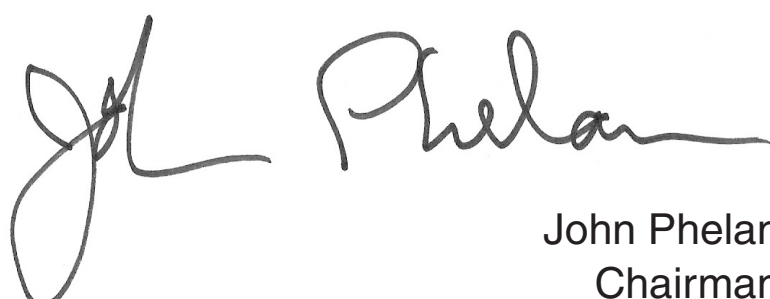
The most important question is not the number of dealers but whether the dealers represent a cost problem to their respective manufacturers. Clearly they do not. A recent study by the Casesa Shapiro Group found that auto dealers provide a vast distribution channel "at virtually no cost" to their manufacturers. The costs for inventory, employees, real estate and equipment for their service departments are all borne by the dealer. They even pay for the manufacturer's logo on the front of the building!

Dealers generate revenue to manufacturers, not costs. They represent more than 90 percent of manufacturer revenue. A rapid reduction in dealer numbers would further cut manufacturer revenue and market share and do nothing to improve the manufacturer's viability in the short term. Even GM acknowledges it takes 18 months to regain market share after a dealership closes. And that's a best case scenario.

In metropolitan Chicago, there are about 230 GM and Chrysler dealerships that employ more than 12,500 people. These dealerships represented \$6.6 billion in gross sales and generated more than \$350 million in state sales tax in 2007, before the devastating effects of the crisis caused by the banking industry. The state will be a loser, but the effects are most devastating on local communities. When just one dealer goes out of business, it can leave a six-figure hole in the budget of a local town or village.

Trying to eliminate dealerships beyond thoughtful brand consolidation and those that cannot survive in this difficult economic environment is bad business. It will only serve to hurt the hardworking employees of those dealerships and their families, the numerous communities that rely on the taxes generated by those dealerships, and the numerous charitable organizations that benefit from dealers' support - not to mention dealerships' loyal customers! When a dealership closes, the loss to the community is real and immediate.

We do not argue that automakers need to make significant cuts to survive in this very difficult economic climate. But eliminating dealerships, a source of revenue rather than cost, is the wrong place to cut.



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