



Ownership

Richard Sox, Esquire

Where's the Trust?

I had the pleasure of speaking at the AutoTeam America CFO Forum on Friday afternoon before the official opening of the NADA Convention. The event is always well attended by dealers of all brands along with their financial personnel. Based on the questions I received before, during and after the forum, I would describe the mood of dealers, in particular GM and Chrysler dealers, as one lacking any trust in their manufacturer.

General Motors

Going Forward Dealers

This attitude is not surprising considering that on the heels of going through a bankruptcy process that devastated its dealer body, not only terminated dealers but going-forward dealers as well, GM has the nerve to create an incentive program known as the Essential Brand Elements that forces dealers to provide exclusive and upgraded facilities in order to be eligible for bonus monies.

Of course, the trick bag GM created gives many dealers no real choice—if the dealer can't qualify for the bonus the dealer won't be competitive. After many GM dealers struggled to stay afloat due to the uncertainty, bad press and lack of direction resulting from GM's bankruptcy process, GM has the nerve to ask these surviving dealers to pony up precious capital to "upgrade" their facilities to a new image and remove any non-GM franchise from the facility.

GM representatives we speak to on behalf of our dealer clients who cannot financially justify providing exclusive facilities or major facility renovations act as if the GM bankruptcy never happened and dealers should be happy to do whatever GM asks of them. There is no recognition of GM's own failings which drove it into bankruptcy and certainly no appreciation for the dealers' ability to hang in there and continue to take care of their GM customers through that mess.

Another recent stunt GM has pulled involves Pontiac dealers who have another GM linemake that was terminated through the bankruptcy process. We have several

clients who are winding down their Pontiac operations but seeking reinstatement through arbitration of their other GM linemake. Despite the fact that GM is aware the dealer is seeking to stay in business, GM has put these Pontiac dealers on notice that their Pontiac customer list is going to be given to the local Buick and/or GMC dealer.

These are customers that rightfully belong to the dealer and which could very well remain with the dealer by way of a reinstatement of the dealer's other GM franchise. Amazingly, GM appears to be simply ignoring the real possibility that the dealer will remain in business as a GM dealer.

Wind-Down Dealers

There is a ray of hope, however, that GM has a soul. As of the date of writing of this article (March 8, 2010), GM has announced that approximately 660 wind-down dealers will be offered a Letter of Intent to reinstate their franchise. This announcement follows GM's outside legal counsel contact with attorneys at our firm asking for agreement to allow GM business personnel to speak directly with some of our GM dealers who have sought reinstatement through arbitration.

It is too early to tell whether GM will do the right thing for the terminated dealers who were otherwise good performers by reinstating them with no strings attached. However, we expect that GM will use this situation as an opportunity to obtain a commitment from terminated dealers for matters such as facility renovations, removal of non-GM franchises from their facility and the like. As always, the proverbial devil will be in the details.

Chrysler

Then there is Chrysler and its new management team. The lack of trust its dealers have for Chrysler is certainly warranted considering that even after Congress passed the law authorizing terminated Chrysler dealers to seek reinstatement Chrysler continued to award those terminated franchises to other dealers in the market. Fortunately, it has stopped that practice for a while.

Unlike GM, Chrysler has shown no interest

thus far in engaging in settlement discussions with dealers. Many of these dealers were good performing dealers, even though they didn't have all Chrysler linemakes under one roof, have more than sufficient working capital and a floorplan source through other non-Chrysler stores. The Chrysler dealers that fit this description have a very good chance of prevailing under the arbitration process laid out by Congress.

Toyota

Public Relations Fallout from Recalls

Looking upon their manufacturer with a suspicious eye is not limited to the domestic dealers. The lack of trust on behalf of Toyota dealers is at its lowest level in many years. Toyota dealers' concern is centered not so much on Toyota's past decisions, and more specifically, delays in owning up to the mechanical failures in the recall vehicles, but on questions as to whether Toyota understands what needs to be done and done fast from a public relations standpoint to stop the slide in customer confidence.

Dealers are concerned that Toyota management in Japan doesn't understand the need for swift action to reassure an American public growing more and more fearful of what defect may lurk around the corner in their Toyota vehicle.

Units in Operation and Image II Facility Guidelines

Toyota dealers have also been very frustrated with Toyota's unwillingness to re-examine the basis upon which it has assigned its dealers Image II facility program guidelines. Since the economic recession began, Toyota representatives have refused to acknowledge that dealers do not need the size showrooms, parking areas and service stalls originally demanded under the Image II requirements.

During the years prior to the decline in the overall U.S. economy when Toyota was increasing sales by huge percentages year over year, it calculated what the expected units-in-operation would be in a dealer's market in

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