

By: Samuel Harrison Chorches, Esq.\*  
Former Time Magazine Award Dealer  
Former NADA Director

## **THE DEALERS' PLIGHT: 2008**

With the commencement of a new year, each of us has expectations, dreams and countless thoughts for the forthcoming year which will impact our lives, and hopefully, make it better. The retail auto dealers are no different. This article will discuss salient issues that impact DEALERS, concerns that they must consciously be apprised of and react accordingly. This article will consider three (3) intertwined areas of concern: auto manufacturers, the ultimate consumer and DEALERS themselves.

### **AUTO MANUFACTURERS:**

It finally appears that auto manufacturers, specifically domestic manufacturers, have come to the realization that past methods of operations, failure to provide products of consumer acceptance and too much blinded reliance on SUV's and pickup trucks to achieve corporate profitability were wrong paths to travel. While auto manufacturers did not totally conceive their problems themselves, market and economic forces compelled them to acquire new directions if survival was a reality. They have begun to recognize that their companies were founded on the retailing of cars. And if, they do not return to the selling of cars with attractiveness and vastly improved gas mileage, other auto manufacturers would not only overwhelmingly absorb the balance of their business but would regrettably put them out of business. GM's new Malibu is a positive demonstration of rekindled corporate thinking. Of course, new mandated CAFÉ standards, \$100 oil and the incipient stages of the "greening of America" have likewise impacted Detroit's thought processes. While distribution networks are subject to constant transformation, auto manufacturers more readily realize that they must help the DEALERS survive if they themselves are to survive. For example, the recent announcement by GM to expand floor plan assistance, and the continual necessity to improve rebates to help the DEALERS to eventually sell all the "difficult" inventory currently on DEALERS' lots without the imposition of any additional restrictive covenants are likewise positive steps. The auto manufacturers are no longer inflexible to change, and their previous avariciousness must not continue to engulf an inordinate

number of DEALERS who have dedicated their livelihoods, in one way or another, to the survival of auto manufacturers.

### **THE ULTIMATE CONSUMER:**

Previously, after oil often spiked and receded, the consumer returned to SUV's and pickup trucks in record numbers. With \$100 oil, the consumer is now more cognizant of gas mileage and more hesitant to buy "Hemi" engines, SUV's and pickup trucks. While gasoline prices are substantially more than last year with no foreseeable substantial price reductions, the consumer is now beginning to feel strangled by other economic and financial forces. For example, the sub-prime mortgage debacle has most definitely decreased most consumer's home valuation thereby making the consumer feel less affluent and possibly somewhat uncomfortable. Credit card debt, although malleable because of minimum payments, will make the consumer public consider more seriously whether it wants to undertake more casual debt obligations or restrict further usage to more vital necessities. This past holiday season was witness to the fact that more spending was concentrated on less expensive sale items of more practical usage. The consumer public is very mindful, absorbs economic news and knows full-well that heating of its home and food are top priority expenses for many Americans.

### **THE DEALERS:**

The DEALERS have the most difficulty. They have to survive currently in order to prepare for the turn-around in the auto industry. In today's business scenario, the consumer is emphatically worshipped. As previously discussed, the high price of heating fuel in most cold latitudes, increases in credit card defaults (and bankruptcy) and naturally with the decline in home values, the consumer is reluctant to commit to additional increased debt expenditures unless vitally necessary. As Bob Dylan recorded: "The Times They Are A-Changin'". Dealerships, for example, have always been dependent on their repair facilities to help them absorb their monthly dealership expenses, especially when vehicle sales were slow. Now, however, new car dealerships, and independent repair garages, are both experiencing rather slow times. Inherently, this means that the consumer is driving longer between repairs. Possibly, this might well be interpreted as having less disposable income to spend on repairs, a willingness to drive and risk any further vehicle damage and as well as potential life-threatening personal injury to others. The conclusion is that DEALERS no longer have that former security net. Furthermore, DEALERS who previously purchased vehicles currently deemed "difficult" to sell must somehow become more creative to move "the iron". Also, with a new president to be elected next year, new candidates outside "the Beltway" with different perspectives and thinking, the consumer public might be considered uneasy to take additional obligations. Furthermore, employment, although rising only nominally, has become more of a growing concern.

### **SUMMATION:**

This issue evaluates what DEALERS have to contend with in the forthcoming year. There is much they have no control over except the operational aspects of their dealerships. Many dealership costs are fixed, and others are difficult to control. However, DEALERS must be prudent, creative and clairvoyant to survive now. Oftentimes, attempts to gain consumers like free oil changes, loaner vehicles and gas for specific periods of time come back to haunt dealerships. The DEALERS previous operational environment has changed and will doubtfully never return. The customer is currently in a very advantageous position. The DEALERS must contend with this changed scenario and be more vigilant than ever to respond appropriately. The DEALERS must become sensitive to the entire changing environment that impacts them. The auto manufacturers are finally adroit to the change. The DEALERS must likewise adjust if they are to survive and represent the next generation of vehicles.

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Attorney, Arbitrator/Mediator