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Retail panel pushes dealer-factory teamwork

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DETROIT — Ford Motor Co. has eliminated about 400 dealerships in the past two years, a top U.S. sales executive said.

"The progress has been better than I anticipated," said Randy Ortiz, general manager for Ford, Lincoln and Mercury sales. He made his comments here last week during a panel discussion at the Automotive News World Congress.

Panelists focused on ways that dealers and manufacturers can work together to improve auto retailing in an uncertain economic climate.

Shrinking network

Ford must shrink its dealership count to the point that the sales network can provide a strong profit for the automaker and its remaining stores, Ortiz said.

He declined to give a target for the number of stores that ultimately could close. At one point, Ford executives said they wanted to eliminate around 600 dealerships. Later, they said the total might be more.

"I don't know what the right number is," Ortiz said. "It's a combination of where volume is going to end up and, ultimately, your throughput" or sales per store.

Panel member Dale Willey, chairman of the National Automobile Dealers Association, said that although some manufacturers say their dealer count is too high, the real problem is dealers' profits are too low. NADA needs to teach dealers how to be profitable, he said.

Part of that starts with dealers accepting customers' increased use of the Internet.

Willey also called for manufacturers to treat all dealers fairly when providing incentives. He said that if manufacturers let some dealers offer better buys than others, the result is customer confusion.

"Confusion can corrode the brand," he said.

As the retail industry consolidates, automakers must cooperate with and even cultivate private equity sources willing to buy megadealerships that are hard to unload, said panelist Sheldon Sandler. He is CEO of Bel Air Partners LLC, an investment bank that arranges dealership sales.

Hard to sell

Since 2001 it has become increasingly difficult to sell dealerships with five or more stores, Sandler said. Public dealership groups had been buying these larger dealership groups, but that interest has dried up, he said.

As a result, automakers must accept or even partner with middle-sized private equity sources in the \$2 billion-to-\$4 billion range, Sandler said.

"They have been looking to and trying to get into the industry," he said, "but they haven't received a warm welcome from the manufacturers."

Hyundai Motor America's Priority program is an example of manufacturers and dealers working together, said Dave Zuchowski, Hyundai vice president of national sales. The program aims to help Hyundai dealerships better relate to customers and employees.

Priority is being tested this year in five dealerships in San Diego and five in Minneapolis. By September, Hyundai will extend the program to one market in each of its four remaining U.S. sales regions, Zuchowski said.

The program is voluntary, he said. It focuses on individual dealership priorities, not factory mandates.

The program begins with extensive customer surveys and employee interviews. That information identifies where specific store practices are breaking down, Zuchowski said.

Overhauling store practices will take time, "but this will provide us and our dealers with a key differentiation in the marketplace," Zuchowski said.

Penske Corp.'s Walter Czarnecki said dealers face several industry challenges, including an uncertain economy, factory-mandated facility upgrades, stricter federal regulations, and an unfair vehicle distribution system.

Forced to improve

Czarnecki, executive vice president of Penske, said shrinking new-vehicle margins forced Penske Automotive Group to become more adept at auto retailing. Penske Automotive is the second-largest publicly traded dealership group in the United States.

Czarnecki said Penske Automotive derives 31 percent of gross profits from new-vehicle sales and 41 percent from service and parts. That has led the company to be mindful of the entire dealership operation

and not overlook opportunities in areas such as finance and insurance, service and parts and used cars.

So far, Penske has not been hurt by the subprime mortgage mess, Czarnecki said. That is partly because many of the company's dealerships sell luxury import brands that have not suffered the effects of the weakening economy as much as more mainstream brands.

But Czarnecki said: "Over time, we think that if it continues, individuals may not be able to come into the marketplace to buy a car."

Amy Wilson, Ralph Kisiel, Jamie LaReau and Mary Connelly contributed to this report

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