



OutFront

## The Chevy's in the Levee

Joann Muller, 12.26.05

**Add this to the list of problems for Detroit automakers: Some of their best dealers are throwing in the towel.**

Last summer New Jersey car dealer Donald Toresco gave up his 23-year Ford franchise on a busy commercial strip 20 miles west of Manhattan to devote more space to his Toyota dealership. In Wilmington, Del. Frank Ursomarso did the same thing, replacing his underperforming Ford dealership with an expanded Honda store. "You've got to follow the market," he says. "I've got to go where the customers are going."

The domestic carmakers have plenty of problems these days. Now you can add dealer defections, a trend that if sustained could make it even harder for General Motors and Ford Motor to bounce back. Lately, amid seismic shifts toward imports in U.S. market share, those once sturdy networks of loyal dealers have shown signs of splintering.

Today's car dealers typically own multiple franchises of different brands--Ford, Honda, Nissan, etc. (This results, ironically, from GM's insistence decades ago that its dealers not compete with themselves by owning multiple GM shops.) So some dealers, whether private entrepreneurs or large, publicly traded companies like AutoNation, are putting more capital into the businesses that offer the best returns--and that typically means imports.

### Following the Money

The number of domestic dealerships has been dropping, partly by design of the automakers. But some dealers are quitting on their own to invest more capital in their faster-growing import-brand stores.

	Jan. 2004	Jan. 2005
<b>GM</b>	7,462	7,342
<b>Ford</b>	4,459	4,436
<b>Chrysler</b>	4,110	3,997

Toyota and Honda dealers outsell their domestic counterparts, who must contend with too many dealers and declining U.S. market share.

### 2004 vehicle sales per dealership

<b>Toyota</b>	1,464
<b>Honda</b>	1,185
<b>Ford</b>	728
<b>Chevrolet</b>	664
<b>Saturn</b>	483
<b>GMC</b>	260
<b>Pontiac</b>	170
<b>Cadillac</b>	157

"They're just shopkeepers," says Sheldon Sandler, president of Bel Air Partners, a financial consultant and broker who specializes in car dealerships. "The dealers will sell what sells." This difference is reflected in selling prices of dealerships. A Toyota dealer is fetching at least five times pretax earnings, says Sandler, a solid Ford store maybe three times. The average dealer in 2004, import and domestic, had a pretax net of \$560,000, according to the National Automobile Dealers Association.

Ursomarso had been selling Hondas since 1976, adding Fords in 1999, when SUVs were hot. Last year he sold an average 78 Hondas a month, to 26 Fords. His Honda store generated close to \$1 million in profit last year, while his Ford store, 100 feet away--one of five in the Wilmington area--merely broke even. Honda promised him more hot-selling models if he invested \$2.5 million to expand and upgrade his store with prominent signs and other amenities. With real estate at a premium, he knew he could devote more space to Honda sales and service (and to his BMW dealership four blocks away) if he unloaded the Ford franchise. He found a buyer, but Ford decided the new location was less desirable and nixed the deal. So Ursomarso simply gave up the franchise.

Eventually, says Ursomarso, "the manufacturers will wake up and say, 'What happened? We lost our dealers.' It will be a rude awakening."

"They're going to lose position in certain markets where they need to be," says automotive analyst Maryann Keller. "They don't understand that they have lost the loyalty of their dealers."

The carmakers insist they've got plenty of entrepreneurs lined up to take over open franchises. "For every dealership that becomes available, I've got five dealers standing in the wings ready to take it over," says Joseph Chrzanowski, GM's executive director of dealer network planning and investments.

Still, the danger for the Big Three is that the best dealers--the most talented entrepreneurs--will leave them, along with the best salespeople. A salesperson goes where the commissions are best, and those aren't on a Ford Explorer or a Chevy Silverado that can be unloaded only with rebates and haggling. Better to be selling Toyota Priuses, which leave the lot at a price above the sticker.

If the manufacturers had a completely free hand, they would shrink their dealer

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Source: Automotive News.

networks by forcing badly run stores into the hands of strong ones and closing down the weakest locations altogether. That would boost the number of cars sold per store. At the moment the average Toyota store moves 122 vehicles a month, double the Ford and Chevrolet figures. It'll be no surprise if Toyota dealerships

get more of the multimillion-dollar upgrades.

But culling the herd is slow and difficult, partly because state franchise laws protect the country's 21,640 car dealers (who exert much political power in state legislatures). Another problem is that many dealerships are family-run enterprises. The next generation may want to cling to a franchise, even if it's not making much money for the dealer or for the manufacturer.