Closing dealers saves no money

By CARL WOODWARD

Guest Opinion

I am a CPA whose firm serves more than 200 new vehicle dealerships all over the United States and has for more than 30 years. I have also been an owner of new vehicle dealerships. Below are some of my thoughts, observations, opinions and comments, including opinions from others in the industry, about the restructuring of GM and Chrysler.

As we all know in the retail automotive industry, several thousand GM and Chrysler dealerships have had their franchise agreements terminated. It appears the current presidential administration is running things. The administration decided to encourage these two manufacturers to terminate thousands of dealers with tens of thousands of employees without the administration having any material automotive experience.

Who leads the White House Auto Task Force that oversaw these actions? First Steve Ratner, an investment banker, and more recently, Ron Bloom, who for the last 12 years was the special assistant to the president of the United Steel Workers of America. Before that he was also an investment banker.

As far as I can tell they do not have an hour of experience in the automotive industry between them. How can we allow someone to restructure an industry where the two parties involved, government and current management, have no material experience and a proven record of failure in operating their business? It is obvious these government employees should not be involved. It is also obvious that most of the current upper management has failed. Why not let those with a successful management record and automotive experience make the recommendations and decisions.

What are the consequences of terminating several hundred small volume (100 new retail units per year or less) dealers selling, as an example, Cadillacs? I believe that in many of these markets, since other luxury franchises are not close by, the market share for Cadillac is more than it would otherwise be. If the Cadillac franchise is terminated, I would expect that GM would sell fewer Cadillacs than it otherwise would.

The reason for this is that the customers, in many cases, have loyalty to the dealer, not the brand, and will not drive many extra miles to buy from another dealer.

Some customers will now have to drive to other towns to buy a Cadillac and might now decide since they have to leave town to buy a luxury vehicle, they may not be as committed to GM. In some cases these customers, because of the inconvenience, will not buy GM products again but will buy other makes locally. I do not see how GM benefits from terminating the smaller dealers — particularly in rural markets.

Another reason we hear for eliminating these dealers is the manufacturers will be saving money — including on distribution. It is interesting that we have not seen any rationale for these claims.

Based upon my experience in the industry, I believe there will be no material savings directly associated with eliminating most of these dealerships. The incremental cost to the manufacturer is minimal when it comes to having one less dealer.

We hear that reinstating some of the terminated GM and Chrysler dealerships could threaten the turnaround of the automakers. I do not know anyone knowledgeable that believes this is true.

This is especially true for those dealers in rural areas where the local economy, customers and dealership employees are being penalized. How can reversing the termination of most of these dealers have any material negative impact or threaten the turnaround of the automakers?

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