Is Bloom at the End of Gloom?

By Don Ray
Ward's Dealer Business, Nov 1, 2008 12:00 PM

I was at Bel Air Partners' Elite Dealer Summit XI. The topic was “Navigating Troubled Times.” Many are predicting U.S. light- vehicle sales of less than 14 million after years in the high 16 million to low 17 million units. Unemployment is up. Consumer confidence is down as are new housing starts and house sales. And we are in a full-blown credit crisis that's limiting finance options for shoppers wanting to buy cars and for dealers trying to floor plan their inventory. Is there any bloom at the end of this gloom?

One presenter asked not to be quoted, but gave hope as he outlined dramatic cost improvements by the Big 3:

- GM has reduced its U.S. hourly workforce by more than 40,000 from a 2004 headcount of 120,000.
- GM will further reduce hourly employees by 19,000 and salaried employees by 5,000.
- GM structural costs will decline by $13 billion between 2005 and 2010.
- Ford has reduced its U.S. hourly workforce by more than 25,000 from a 2004 headcount of 80,000.
- Ford will further reduce hourly employees by more than 4,000 and salaried employees by 15%.
- Ford structural costs have declined by $5.6 billion between 2005 and the 2nd quarter 2008 and it is anticipated an additional $6.2 billion in cuts by 2010.
- Since February 2007, Chrysler has announced the elimination of 33,000 jobs and 1.1 million units of capacity.

Sounds great, but this same presenter says that since 2005 the Detroit 3 have lost 10 points of market share (5 points for GM, 2.8 for Ford and 2.3 for Chrysler) which equates to $11.2 billion of lower profits. With all that work in the garden, the Detroit 3 still aren't blooming.

Car dealers sure aren't getting the help they would like from their retail lending sources. While some lenders may contend they are like fertilizer to the car business, many dealers simply feel pooped on, not fertilized. Take a look at the results of an April survey of bank loan officers:

- 41% of banks who finance auto loans widened the spread between cost of funds and loan rates.
- 37% are demanding higher consumer credit scores.
- 35% reported increases in turndown rates.
- 27% required larger down payments.
- 9% lowered the maximum term of their loans.

One analyst, who also asked not to be named, shared intriguing thoughts about the future. Here are some of his views:

- The American dealership system as we know it seems likely to stay intact for the foreseeable future.
- Build to order cars remain incredibly appealing but also incredibly improbable.
- If structural change is unlikely, emphasis will be on making the system more efficient (doing things better) and effective (doing different things). Opinions on how to do this will differ, so expect continued contentious factory/dealer relations.
- With significant structural change unlikely, a dramatic recovery of reduced profits seems unlikely as well.
- There is always room for a wild card. Think about the Chinese.

Perhaps the bottom line was best summed up by Jerry York, CEO of the private investment firm Harwinton Capital LLC, (who is probably better known as a key adviser to billionaire investor Kirk Kerkorian, and also as the former CFO of Chrysler Corp.).

York said, “The winners will be those companies that can change their output from larger to smaller and more fuel-efficient vehicles and that can improve their efficiency to make substantial profits on a less-rich mix of products sold.”

Thanks to Bel Air and Sheldon Sandler for assembling a great event with insightful speakers who may not have had a lot of rosy things to say; nevertheless I have faith in our country and the car business. I pray I am not simply looking through rose colored glasses.

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