

## Life Boat Is Getting Crowded

By Phil Villegas

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As domestic auto makers and banks position for seats on the life boat, dealers don't even have a lifeline.

American auto companies don't believe their survival is through its current dealer network. Each of them thinks its long-term success is based on a greatly reduced domestic dealer body.

Rather than focusing on tax and confidence measures to incentivize consumers into the showrooms (an effort that would have the broadest economic effect), auto makers and banks seek only their own short-term survival via a bailout.

We are all aware of what got us here. The troubling part is no one seems to know how or when we will get out. Whenever that is, the American auto dealer will never be the same.

While the dealer franchise system is not perfect, it's the most successful in the world for consumers, banks and manufacturers alike (although some European manufacturers may choose to disagree).

Go to just about any country outside the U.S. and Canada and try to conclude the purchase transaction within the same day. It's almost unheard of.

Dealerships outside the U.S. and Canada are typically store fronts with a few models on display. And the purchase takes weeks.

The standard argument for this disparity in purchase patterns has been that Americans seek instant-gratification purchases, unlike the rest of the world which is more patient.

However this has been disproved in recent years as consumers have flooded dealerships in China where the U.S. franchise system has been emulated.

Behind the different consumer purchase patterns is credit, both consumer and commercial. In the U.S., the customer visits the dealership and gets the car he or she wants, financed on the spot, from the dealer that carries a large stock of a manufacturer's inventory.

Without credit, it's virtually impossible to build and sustain a viable dealer network. And the credit that has facilitated the growth of the U.S. auto industry over the last 40 years can be directly attributed to the role of the auto makers' "captive" financing subsidiaries.

However, now some of them are anything but captive. This risks eroding the foundation that propelled us to annual vehicles sales in excess of 16 million.

The absence of true captives that facilitate quick and convenient credit for dealers and consumers will precipitate the decline of domestic auto dealers unless another mechanism is quickly developed to carry out the same function.

Here are 5 steps to a worst-case scenario for an American auto dealer:

- No quick and accessible financing leads to low-volume vehicle sales.
- Low-volume vehicle sales leads to no floor plan.
- No floor plan leads to no inventory.
- No inventory leads to the decline of dealers.
- Decline of dealers leads to manufacturer control of retail points.

Manufacturers face competitive pressures from many fronts. A manufacturer's ability to make a profit has become ever more challenging. With extensive products available to consumers, volume production is no longer a viable profit solution for manufactures. The success of

modern manufacturers is in their flexibility, not volume.

So where will their future profits come from? The domestics have already fully embraced globalization and outsourcing of manufacturing and labor as a cost-saving effort. They have already squeezed their vendors to the point of bankruptcy.

Based on the current infrastructure of the domestic manufacturers, their only true remaining profit center rests with the dealers. Dealers realistically represent the last profit center that manufacturers have left to tap.

What troubles me the most about the current economic environment is not our ability to weather the storm, but rather on what unknown shore we will wash up on.

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