FEWER, NEWER STORES

Dealers look for loans; no thanks, say the banks

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Ed Voyles Automotive Group plans to spend $2.5 million to expand and spiff up its suburban Atlanta dealerships this year — five times what it spent in 2010. But no lender is involved.

All the money will come from the dealership group's cash reserves, COO Bill Brantley said.

With its strong balance sheet and record profits for 2010, borrowing would have been an option for Voyles, Brantley said. Though the pre-recession "crazy money" from lenders no longer is available, he said, strong creditworthy dealers still can get loans.

But not everyone is as well positioned as Voyles. Though sales continue to improve and dealership survivors are getting healthier, many dealers still are in no position to borrow large amounts to fund facility projects.

While manufacturers have increased pressure for such upgrades, many dealerships are sitting on a lot of debt and don't qualify for loans to pay for the work.

"We lost a lot of dealers due to market conditions and attrition, so that does not translate into robust balance sheets," said Ed Tonkin, a multibrand Oregon dealer and outgoing chairman of the National Automobile Dealers Association. "Credit is coming back, but most dealers are not in a position to spend millions on facility upgrades."

Ed Tonkin: For many, no money

Even if dealers are willing, lenders often aren't, said Stephen Wade, a Utah dealer and incoming NADA chairman.

"They want to do a 50 to 65 percent loan-to-value" ratio, Wade said, meaning that banks, seeing dealerships as high-risk borrowers, will only lend 50 to 65 percent of the amount needed to complete a facilities project. "That just doesn't cut it. And the manufacturers are somewhat insensitive to that."

Ken Czubay: Trying to help

One solution? Manufacturers' captive lending arms should step up with expanded commercial credit to finance such projects, dealers said.

Bob Carter, general manager of Toyota Division, says Toyota Financial Services is doing just that with "wonderful" financing packages for dealerships that are being asked to make upgrades.

Ken Czubay, Ford Motor Co.'s vice president of U.S. marketing, sales and service, says Ford Credit also is stepping in where banks are staying out.

"We know of situations where dealers are successful in the Ford business but had a hard time getting funds to help with facilities actions," Czubay said. "Ford Credit is always very helpful. They have money available for creditworthy people."

But captives also have their restrictions. One dealer responding to an informal *Automotive News* survey about facility requirements said that since the recession Ford Credit is looking for more security and personal guarantees for such loans. Dealers often are uncomfortable with such demands.

The commercial credit restrictions have been tougher on smaller dealerships. Public groups and large privately held retailers with strong balance sheets still have access to capital, dealer advisers say. The ability of the big groups to borrow is keeping the facility pressure on for all, said Mark Johnson, a Seattle dealership consultant specializing in mergers and acquisitions.

Said Johnson: "Now all dealers are finding themselves under the facility gun with significantly less assets and access to cheap capital." AN

Donna Harris and Mark Rechtin contributed to this report

Attachment D

PROJECTS VS. PROFITS

Pressed to invest, car dealers ask: Is it worth it?

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SAN FRANCISCO — Dealer Tommy Mansfield risks losing $40,000 a year in incentive money from General Motors Co. if he doesn't make some dust.

Last week Mansfield trekked from Kentucky to the National Automobile Dealers Association convention here to scout contractors for a $300,000 to $500,000 overhaul of his Chevrolet and Buick store in Russellville, Ky.

"Here I've got my dealership back on track, almost debt-free," Mansfield said on the convention floor last week. "Now all of the sudden I have to borrow money to make my store — quote — 'better.' I don't like it."

Ford's Farley: Let's discuss facilities.

Chatter from the convention underscored the growing tension between dealers and automakers over facility overhauls. Many dealers say financing remains tight and they won't get a loan on the terms they want — if they can get one at all. Others are leery of loading on debt in a still-fragile economy.

But manufacturers, who eased up on dealer standards during the downturn, are seeking an edge as competition heats up. They say dealers' renewed profits will help pay for renovations.

"It's allowed us to have more opportunities to discuss with the dealers a transition for how their facility looks," said Jim Farley, Ford Motor Co.'s group vice president of global marketing, sales and service.

People vs. paint

Some dealers say adding staff is more important than, say, an eye-catching archway right now.

"We will begin this year looking at bricks and mortar, but we're really

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RENOVATE

For some, it's tough to write that check

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in the process of trying to recruit people," said Mitchell Dale, owner of McRee Ford in Dickinson, Texas, which sold 1,350 new vehicles in 2010. He hopes to add about six employees this year.

Stephen Kaiser, president of Fairfield Auto Group in Muncy, Pa., says Chrysler Group is putting "light pressure" on him to add a $75,000 arch at the front of his store. He hopes to stall for at least six months.

"I can understand their point," Kaiser said. "I just wish they had offered a little help."

Spokesman Ralph Kisiel said Chrysler does pay dealers for facility improvements through a dealer-standards program.

Many automakers do offer to help. GM and Mazda, for example, pay dealers a per-vehicle bonus for facilities improvements. Toyota juices the allocation for dealers who sign up for its image program.

"That's a nice carrot when you're coming into this kind of market," said Leonard Northcutt, a dealer who plans to begin a $200,000 renovation of his Toyota store in Enid, Okla., this spring. He says better allocation will help him stock more high-demand Tundra trucks, for example.

About 468 Toyota stores, or 38 percent of Toyota's dealer body, have completed image makeovers, said Ernest Bastien, Toyota's vice president of retail market development.

Like many manufacturers, Toyota wields a stick, too: It sometimes makes store acquisitions contingent on meeting image standards.

Good color, wrong pattern

Some dealers gripe that they're being asked to tear up showrooms they only recently finished paying off.

Mansfield spent $200,000 in 2000 to comply with GM's last big facilities campaign. Much of that wallpaper, furniture and flooring will have to go — including tile that GM's rep says is the right color but has an off-putting pattern.

GM is working with dealers case by case to work out details, said Don Johnson, vice president of U.S. sales. It expects more than 3,000 of its 4,500 dealers to have completed or enrolled in the program by the end of 2011.

"It's important that they remain profitable," Johnson said at the convention. "But it's also important that we get the face of our dealerships across the country up to a contemporary look."

Since September, Ally Financial Inc. has been offering loans of up to $2 million for GM dealers to overhaul their stores, Ally spokesman Tony Sapienza said.

Some retailers, especially large ones, say store overhauls are the price of doing business. Lithia Motors in Medford, Ore., has redone six of its eight Toyota stores under the image program.

Said Lithia Vice Chairman Dick Heimann: "A customer doesn't want to sit in lousy furniture in a crummy lounge with a coffee machine that doesn't work." AN

Jamie LaReau, Arlena Sawyers and Mark Rechtin contributed to this report

FEWER, NEWER STORES

PUSHED TO UPGRADE

Factories go on the muscle; some dealers don't like the math

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ragesser Ford of Ross, Ohio, survived the Great Depression, World War II and all the other ups and downs of the past 95 years.

But after making it through the past three years and one of the worst downturns to hit the auto industry, the Tragesser family is bowing out of the new-car business — just as the industry appears poised for a profitable revival.

Dealers ready to build: banks hesitant to lend
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Ford Motor Co. came calling Dec. 10 and asked the Tragessers to overhaul their existing facility to the tune of up to $1 million. Their other option: Resign the franchise in exchange for some buyout cash.

"It would be foolish money spent, in our opinion," said David Tragesser, who runs the store 20 miles from Cincinnati with brother Mike and their 90-year-old father, Vernon. "So we elected to take their offer and take the buyout."

Tragesser Ford, circa 1917

NICK DAGGY

The recession couldn't kill Vernon Tragesser's 95-year-old Ohio Ford dealership. But his family weighed the debt burden of a major store upgrade and decided it was time to call it quits.

Call the dealership a victim of renewed pressure being applied across the retail front. Even as some dealerships still struggle to get back on firm financial footing, manufacturers are pushing them to invest in pricey facility upgrades and meet tightened standards in other areas such as sales performance. It's an about-face from the worst days of the downturn, when the automakers were preoccupied with their own survival and many backed away from their demands on dealers.

In an informal *Automotive News* survey of dealers across the country, more than half of the approximately 330 respondents said there is increased pressure to comply with

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DEMANDS

Pressure increases for store upgrades

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factory standards. Almost three-quarters identified facility improvements as a pressure point. Some complained about factory bullying. Customer-satisfaction scores and vehicle ordering are other areas where demands are high, respondents said.

Ed Tonkin, a multibrand Oregon dealer and outgoing chairman of the National Automobile Dealers Association, says the standards are too tough. Many dealerships are still recovering and don't have the robust balance sheets to support big investments.

"Certainly it's the dealer's desire to have nice facilities that are clean and up-to-date, but you can't squeeze blood from a turnip," Tonkin said. "Manufacturers are becoming very demanding at a time when the dealers can't afford them to be."

Factories want growth

Renewed pressure is coming from a broad range of brands, according to dealers, dealership lawyers and advisers. They identified Ford, Toyota, General Motors and Mercedes-Benz as some of the most demanding companies.

For the factories, tougher standards after a period of laxness are a way to position dealers for the sales bounceback, said Randy Berlin, director of global practice at Urban Science in Detroit, a consulting firm that performs several services for manufacturers, including helping to plan market representation.

During the slump, Berlin said, factories "let their foot off the gas."

Ken Czubay, Ford's vice president of U.S. marketing, sales and service, acknowledges that Ford wants new or upgraded facilities "as appropriate." And he understands that business conditions remain tough.

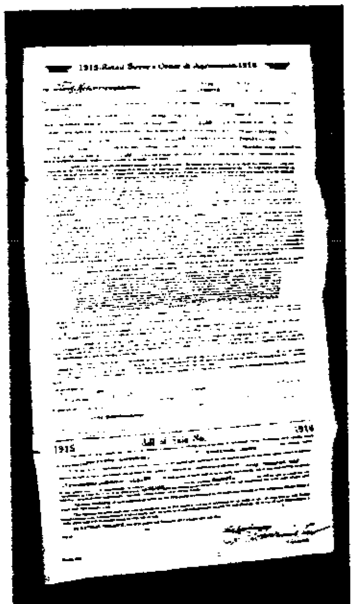
"We always take a judicious one-on-one approach with our dealers to help maximize sales and service and profitability," Czubay said. "We're not pushing for pushing's sake."

With Lincoln dealers, the automaker has laid down expectations for major upgrades. Lincoln plans to eliminate at least 200 franchises in the top 130 U.S. markets. Dealers who want to stay must agree to facility improvements and other changes.

Bob Carter, general manager of Toyota Division, says Toyota has slowed down the rollout of its Image II program. About 40 percent of dealerships are complete, and another 30 percent are in the pipeline. The company's focus is on upgrading service departments in an effort to build that business.

"It's case by case," Carter said. "Usually the dealers are with us and take a reasonable approach to the market."

After putting construction on hold three years ago, Mark Templin, gen-



NICK DAGGY

This customer's contract with the Tragesser store is from 1915.

eral manager of Lexus Division, said the brand once again is looking for new stores, particularly companion locations to existing dealerships. Like Toyota, Lexus aims to bolster service capacity in front of an anticipated boom in consumer demand.

"If you're going to do anything from a market rep perspective, now is a great time," Templin said. "Land prices are low, contractors are looking for work, interest rates are low. So we have this window of opportunity."

While manufacturers generally try to be sensitive about demands, they're not succeeding, said Stephen Wade, the incoming NADA chairman and a Utah dealer. It's driving some dealers, including the Tragessers, out of the business.

"A lot of older dealers [are] saying, 'It's time for me to bail because I can't afford to get into debt and to do these kinds of things,'" Wade

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DEMANDS

Stores weigh debt vs. buyout offers

continued from previous page

said. " 'With all the uncertainties out there, how do I go in to huge amounts of debt to satisfy the factories when I'm having a hard time making it work the way it is?' "

Facility pressure is a top driver for dealers choosing to sell their businesses these days, said two prominent advisers who specialize in dealership sales.

Many dealers see the upgrades as something that will run up expense with no tangible returns, said Mark Johnson, a Seattle adviser.

Sheldon Sandler, managing partner of Bel Air Partners in Skillman, N.J., says facility pressure is a huge issue. "The manufacturers can have this idea that one size fits all," Sandler said. "They use projections and ideas that prove often not to be right."

Almost every manufacturer uses the right it has to approve ownership changes as leverage to get buyers to agree to facility upgrades, Sandler said.

Incentive quandary

With many manufacturers, incentives are offered in exchange for upgrades. But incentives can also become a penalty against dealers who can't justify the investment.

Sandler cited Mercedes as the poster child with its controversial Autohaus facility program.

"If you're not in compliance, you're less competitive with your neighbor who is," he said. Dealers are "damned if they do and damned if they don't."

Dealers need fair margins on the vehicles they sell, Tonkin said. When margins erode and are replaced by bonus payments for meeting certain requirements, "that's a dangerous place to be," he said.

Nearly one-third of the respondents in the *Automotive News* survey said the facility push was accompanied by financial incentives.

A GM dealer who responded said gross vehicle margins have dwindled so much that he feels he has no choice but to conform to GM's standards. It's the only way to earn payments through the automaker's Essential Brand Elements program.

Public retailers' advantage

The big public retailers aren't in the same quandary as smaller entrepreneurs. They have deeper pockets and better access to capital. Though cases are rare, the public companies also have the financial muscle to challenge the factories in court.

Sonic Automotive Inc., the nation's third-largest retailer, has done just that. It sued Mercedes when the automaker blocked Sonic's purchase of a Charlotte, N.C., store in 2008, alleging upgrade requirements were excessive.

State regulatory agencies cleared the deal, although Sonic wound up selling the store soon after the acquisition because it objected to Mercedes' expansion plans for the market, said Sonic President Scott Smith.

But facility pressure hasn't returned to the level seen when U.S. sales topped 16 million vehicles, he said.

"There seems to be more of a partnership, at least based on what I am experiencing," Smith said. "The Internet has changed things a lot. Big, fancy showrooms are not nearly as important as the industry used to think."

Manufacturers eased pressure — as they should have — during the market collapse, said Mike Jackson, CEO of AutoNation Inc., the largest U.S. retailer. "Now that we're out of the death spiral, it's appropriate to start talking about standards again," Jackson said.

That said, some standards, particularly those governing size and capacity, are based on "old-school

NICK DAGGY

The cornerstone of Vernon Tragesser's dealership is a reminder that it has a history going back to World War I.

Feeling the heat

Demands from manufacturers are up, according to about 330 dealers who responded to an *Automotive News* survey.

- Nearly three-quarters are feeling pressure for facility upgrades.
- More than half feel pressure about customer-satisfaction scoring programs.
- More than one-third reported more pressure to order inventory.

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calculations that have no place in today's business," he said.

For instance, some service bay requirements are based on a 40-hour workweek. AutoNation stores, by contrast, operate extended service hours during weekdays and stay open weekends.

"You can still meet customers' needs without creating these energy monsters," Jackson said.

Dealers do have options, said Richard Sox, a Florida lawyer specializing in franchise law.

"Definitely don't ignore it, and definitely don't say no," Sox said. "Engage the manufacturer in a business discussion about the cost-benefit analysis of the upgrade."

It's more problematic, he said, when manufacturers tie an incentive to the improvements, creating a competitive disadvantage for dealerships that don't comply. In some states, such as Florida and Hawaii, recent changes in franchise law can help protect a dealer in that situation, he says.

"As franchise laws are strengthened and dealers have more protections, you're going to see increased litigation in that area," Sox said. Still, legal challenges are expensive and difficult.

It's why many dealers choose to sell instead — and that may be what some manufacturers are angling for, Sox said. The pressure also can be a tool to trim the dealer body.

That might explain Ford's demands of Tragesser Ford. The automaker had approached the family with a buyout after months earlier without mentioning facility upgrades.

"It was pretty obvious they didn't want us anymore," David Tragesser said.

With the Ford sign coming down, the Tragessers intend to make a go of it as a used-car and service operation. With the family business' rich history — it sold its first Model T in 1913 as an associate dealer, three years after its start as a blacksmith shop, and became a franchised dealership in 1922 — the goodbye is disappointing.

"We could see the direction Ford Motor Co. was going and were excited," Mike Tragesser said. "The light was on at the end of the tunnel. Well, we never got to the end." AN

Mark Rechtin, Bradford Wernle and Diana T. Kurylko contributed to this report re-evaluate those requirements to ensure that they continue to be reasonable.

4.4.4 Dealership Image and Design

The appearance of Dealer's Premises is important to the image of Dealer and General Motors, and can affect the way customers perceive General Motors Products and its dealers generally. Dealer therefore agrees that its Premises will be properly equipped and maintained, clean, and appealing to customers. The interior and exterior retail environment and signs also will comply with any reasonable requirements General Motors may establish to promote and preserve the image of General Motors and its dealers.

General Motors will monitor developments in automotive and other retail industries to ensure that General Motors image and facility requirements are responsive to changes in the marketing environment.

General Motors will take into account existing economic and marketing conditions and consult with the appropriate dealer council in establishing such requirements.