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FINANCIAL CRISIS

GM to cut 1,100 U.S. dealers**Move comes just a day after Chrysler eliminated a quarter of its dealerships.**By Ken Bensinger, Andrea Chang and Tiffany Hsu
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The painful reshaping of the American auto industry hit home this week, delivered overnight by FedEx and UPS.

Over the past two days, General Motors Corp. and Chrysler moved to cull nearly 2,000 of their dealers, with at least 1,000 more to come. And Chrysler indicated Friday that it probably would break its contracts with hundreds of parts suppliers, setting the stage for yet another big blow to U.S. manufacturing.

The sweeping cuts were a reminder that the decades-long decline of U.S. automakers affects us all. Dealer groups estimate the moves could cost 100,000 jobs and billions in state and local tax revenue. That's not even counting the \$23 billion in federal loans to GM and Chrysler that taxpayers might never see repaid.

"This is the price of restructuring. It hits home everywhere," said Thomas Klier, senior economist at the Federal Reserve Bank of Chicago. "Every town has a car dealership. That's what was left out of this when the debate about the auto industry started."

On Friday, GM informed 1,100 of its 6,000 dealers by overnight letters that it wouldn't renew their franchises in October 2010, giving them 18 months to "wind-down" their businesses. The company also will shed about 500 dealerships that market the Saturn, Hummer and Saab brands, which GM plans to phase out or sell.

Unlike Chrysler, GM didn't publish a list of the dealers it's getting rid of, and with the GM cancellations still months off, many dealers kept the bad news to themselves.

On Thursday, Chrysler asked a bankruptcy judge to cancel the franchises of 789 of its 3,200 dealers, a process that leaves them without legal recourse and could stick them with millions of dollars in unsold vehicles when they close in only four weeks. Chrysler also indicated that more cuts could come soon.

The potential for cuts among parts suppliers came in bankruptcy court Friday, when Chrysler named about 900 vendors it plans to keep doing business with. That left about 300 Chrysler suppliers with no guarantees for the future.

Although the dealership cuts came to small towns and big cities alike, Paul Taylor, chief economist of the National Automobile Dealers Association, said the hardest hit areas appear to be suburban communities and mid-size markets. Those are the kinds of places, he said, that rely heavily on the spending, employment and tax revenue a dealer provides.

He estimated that the average dealer employs close to 50 people and pumps \$16.5 million a year into the local economy with payroll, taxes, payments to vendors, advertising and charitable giving. All told, tens of billions of dollars of spending could be lost.

"It's a horrendous story," Taylor said. "One we argue is unnecessary."

His group and targeted dealers argue that cutting franchises might simply cost GM and Chrysler even more sales.

"There's just a lot of confusion right now," said a lawyer for auto dealers, Marty Brill of the Los Angeles firm Levene, Neale, Bender, Rankin & Brill.

Brill said several targeted dealers called to ask about their legal options Thursday and Friday, while others worried that, even though they weren't eliminated, GM could follow Chrysler into bankruptcy soon, opening the door for more cuts.

GM said that though the targeted franchises represented 18 percent of its dealer body, they accounted for only 7 percent of its sales. Chrysler said the dealers it is cutting produce 14 percent of its sales, despite representing one-quarter of its sales network.

The cuts will allow the surviving dealers to expand their markets so they have a better chance of staying healthy and attracting private investment, said Mark LaNeve, GM's North American vice president of sales and marketing.

"Over time, they just can't afford to invest in their business to the degree the competition has," LaNeve said.

Toyota, for example, generally has larger and newer showrooms and service departments than GM and Chrysler dealers — making those dealerships more attractive to potential buyers.

The Obama administration's auto task force, which is overseeing the GM and Chrysler restructuring because both have received billions of dollars from the government, was aware GM would cut dealers, LaNeve said. But he emphasized that the company made the decision on how many dealers and where.

The U.S. Treasury Department also made clear Friday that it didn't play a role in the dealer closings.

"As difficult as these announcements are for the dealers that will no longer be selling GM and Chrysler cars and the communities in which they operate, without the President's intervention, the entire GM and Chrysler dealer networks could have been lost," the Treasury Department said in a written statement.

Chrysler is aiming to close its nearly 800 dealers by June 9, and those outlets might try deep discounts to clear out their remaining inventory.

But in the long run, car prices will probably rise for customers as dealers disappear.

"No longer will people be able to shop between three or four dealers within 15 minutes of each other for the best cutthroat price," said Aaron Bragman, an automotive industry analyst with the consulting firm IHS Global Insight.

Additional material from The Associated Press and The Washington Post.