

**How American Dealers Survived**  
**Remarks By**  
**2010 NADA Vice Chairman Stephen Wade**  
**to the**  
**Automotive Fellowship International**  
**June 29, 2010**

Good afternoon. Let me begin by thanking the AFI leadership for allowing NADA to participate in this meeting. Ron, please accept my sincerest gratitude for the invitation.

I would like to discuss with you how U.S. auto dealers have survived through the turbulent times of the past two years, and then, briefly outline the challenges our members face for the balance of this year and also in the years to come. We're happy to take any questions following this if time allows.

It has been more than 40 years since we have witnessed such low sales volumes in our industry. In 2000, the U.S. auto industry had its best year ever, selling 17.4 million units. Those numbers are hard to comprehend when in 2009 the industry sold just 10.4 million units.

The fact that in recent years a normal month would be 1.2 million to 1.5 million units and suddenly we were in the 700,000 to 850,000 range illustrates how difficult things had become. Incredibly, there were some brands that out-performed the market and actually had sales increases, despite the industry's performance—namely, Hyundai, Kia and Subaru.

So, how have dealers survived all this? Five overall factors have contributed to dealer survival and viability.

First, dealerships that were well-capitalized were in the strongest position to survive. As revenues collapsed, it was critical to have sufficient cash on hand to weather the storm. No one knows better than dealers how important cash reserves are—crisis or no crisis.

Second, expense control was critical. As you know, it is never easy to reduce the number of employees at our dealerships. But in these challenging times, it became necessary to very quickly reduce overhead costs, such as personnel and advertising. Just like GM and Chrysler did during the bankruptcy process, dealers had to establish a “new break-even” for our dealerships, and by doing this, we saved ourselves much-needed capital.

Third, dealers, unlike many other small businesses, have multiple profit centers. Over the last twenty years, dealers have adopted strategies to leverage service and parts operations effectively. As we grapple with new vehicle profitability – or lack thereof, NADA expects dealers to continue to focus more of their energy on fixed operations and used vehicle sales to generate profits.

Fourth, dealers have survived because many of them have a diverse group of franchises. More than 42 percent of NADA's members have multiple franchises. In difficult times, that is an

insurance policy to help mitigate the difficulties of a downturn. While no OEM has been immune to challenges, a dealer who has more than one franchise is effectively spreading their risk during difficult times.

Finally, through NADA, we were able to communicate the dealer message to the public, the media and, more than ever, to government – policy makers, politicians and regulators. Our key message was that dealers were not the reason GM and Chrysler faced financial Armageddon. We didn't cause the Wall Street meltdown, but we sure were disproportionately affected by it.

So what did we learn during this crisis that will help us going forward? We learned that the dealership model is not widely understood—by the media or the general public, and especially our government officials. I was amazed at how often we had to educate people on how our business works. For example, most people did not know that dealers own and finance their vehicle inventories. The common belief was that manufacturers provide the inventory and we just sell it. As credit for wholesale financing became less available last year, this was one misperception that was critical to combat.

Government can be our partner and assist us, but it requires interaction and education for that assistance to be effective. I—along with other dealers from the NADA board and NADA staff—sat in multiple meetings with members of President Obama's administration and had lengthy, frank discussions with his Auto Task Force, which was put together in the days leading up to the GM and Chrysler bankruptcies.

This interaction was important in the fact that it allowed us to articulate dealer concerns and outline the important role auto dealers play in the value chain. There was no one organization other than NADA that could represent dealer/stakeholders as the future of GM, Chrysler, and, most likely, the rest of the U.S. auto industry hung in the balance.

Dealers everywhere must ensure that our lawmakers fully understand the vital economic role we play in our communities. We are truly the grassroots of getting the dealer message out there.

As the global economic crisis unfolded, dealers and NADA repeatedly made the argument that we are an important economic engine. Amazingly, dealerships collected more than 21 billion dollars in sales tax revenue last year, representing as much as 20 percent of many states' and municipalities' revenue.

We also learned how important NADA's relationship with manufacturers can be, and this proved invaluable in 2009. We meet with all manufacturers twice a year to review the results of the NADA Dealer Attitude Survey. This survey offers dealers a unique opportunity to give their input in key areas of the dealer/manufacturer relationship, and is looked upon by the senior executives of the OEMs as their report card for dealer relations.

In addition, we frequently undertake numerous other meetings with OEMs as circumstances warrant. As you can imagine, this ongoing dialogue proved critical during the industry crisis last year. Generally speaking, most manufacturers value the dealers' voice and welcome the

dialogue. The bottom line is that you *must* have a seat at the table to be an effective dealer advocacy organization.

Finally, much has been said about our individual state franchise laws and their importance. While franchise laws did not protect dealers from termination in the bankruptcies, it is important that the integrity of these laws be protected for the future. Bankruptcy is essentially the only way state franchise laws protecting dealers can be pre-empted. Without these protections dealership values would be negatively impacted and capital investment in dealerships would become less attractive and more difficult to obtain. Simply speaking, these state franchise laws offer a balance of power between the dealer and manufacturer that is critical to maintain in today's ever-changing industry.

So what does the future hold for the American market? The trends in the U.S. market over the next five years will likely continue what we have seen in the past decade.

Competition among manufacturers will continue to increase, especially with the entrance of the Indian and Chinese automakers on the immediate horizon. While a multitude of choices is good for consumers, it could mean diminished profits for dealers as the industry becomes more fragmented.

It is likely the U.S. market will start to more closely resemble the European market over the next five years, with leading manufacturers each having similar market share. GM, Ford and Toyota are already very close to each other and many analysts expect Honda, Hyundai, Kia, and VW to gain share based upon recent trends.

The biggest change that I expect going forward is a divergence in consumers' buying habits. The question we all want answered is: "Has this crisis permanently changed consumer buying preferences?"

No one really can answer that question: However, we do know that for more than two decades, U.S. consumers have been *adding a lot of debt and saving at very low rates*. Since the economic crisis began, Americans have, on average, been saving more and spending less. This could significantly impact the automotive market.

Will consumers be unwilling to spend more for vehicles? Will they move to lower-priced models? Will more influence on fuel efficiency mean consumers will gravitate away from bigger vehicles with bigger engines? Demographic changes could also deeply impact our industry.

While all of us as dealers have to be ever mindful of changing consumer preferences, as business owners, we also have to be concerned about the evolving actions taken by government. In America, NADA members are facing multiple threats to our business model.

First, with continuing fallout from the bailout of Wall Street, all facets of the economy are coming under greater scrutiny by government regulators, and dealers have not been immune to this.

Most recently, Congress and the Obama administration have proposed that car dealers be included in a broad reform bill that will step up regulation of all aspects of financial services. This includes the establishment of a new government consumer agency that would provide greater oversight of dealer-assisted financing of customer vehicle purchases.

This would put yet another layer of regulation and additional costs into our dealerships, which is totally unnecessary.

NADA mobilized its grassroots advocacy on Capitol Hill to get the message out that dealers are already effectively regulated by the Federal Reserve, the Federal Trade Commission, and individual state agencies. In addition, dealers didn't cause the Wall Street mess, and shouldn't be included in its punishment.

I'm happy to report that in late May, the Senate endorsed what the House of Representatives already had passed, supporting pro-consumer language preserving affordable auto financing options for car buyers in the Wall Street reform bill. We fully expect that this language will be in the final bill that President Obama will sign in the coming weeks.

Second, as a result of the recent Toyota recall, there is an impetus in Washington to further regulate what is already an extremely regulated automotive sector.

Consider some of the provisions of a proposed new car-safety law. Sophisticated electronic data recorders or "black boxes." Many new cars currently have these devices, though not as elaborate or expensive as this law would require. On top of that, carmaker CEOs will need to certify that the information their companies provide federal safety regulators is complete and accurate, or face fines up to \$250 million dollars and potential imprisonment. Perhaps some will choose a safer line of work.

Finally, more stringent fuel economy standards have recently been adopted. By 2016, vehicles will have to achieve a 30 percent improvement in overall fuel economy, to 35.5 miles per gallon. In an environment where government dictates strict fuel standards without consumer motivation to purchase these vehicles, manufacturers are then forced to build vehicles that consumers may not want to support these standards.

It's very clear that without strong reasons to do so, such as much higher fuel prices (currently a gallon of fuel is less than three dollars in the U.S.), American consumers will reject these choices simply because they do not fit their needs.

Let me wrap up by saying that in many ways, the dealer model has not substantially changed. As independent business owners, we continue to grapple with the challenges we have always faced: competitive pressures; keeping expenses under control; finding new revenue sources; and satisfying our customers.

When so much of our business model is controlled by manufacturers *and* government regulation, I find comfort in knowing that these business basics have not changed. These are things we, as dealers, can control.

I'll leave you with the thought that, as we gradually see improvement in our industry, we must never forget what we've been through these past few years and not allow complacency to creep back in – retailer and OEM alike. Let's always reflect on the lessons learned from this crisis to continuously strive to become better.

Once, again, thank you for inviting me to be here. I'd like to ask Michael to join me to answer any questions you might have.

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