

Moving Forward ... Together
Remarks by
NADA Chairman Ed Tonkin
to the
Greater Los Angeles Automobile Dealers Association
June 30, 2010

Thank you, and good morning everyone. I'm very pleased to be here with you. This is really the fun part of this job: traveling around the country talking to other dealers about our industry. And that's certainly a more pleasant topic than it was at this time last year.

The industry has started to stabilize, and I'm optimistic about our future. I bet most of you are, too. It's just the way we dealers look at things. Eighty-five percent of us have just survived one of the most turbulent periods in the history of our industry. That was no accident.

Individual dealers did it through strong capitalization and careful expense control. We have multiple profit centers under one roof; when one is not performing due to market conditions, we switch our emphasis to another one. Many of us also have multiple brands, which is very helpful.

Finally, we survived because, through NADA, we were able to communicate the dealer message to the public, the media and government—policy makers, politicians and regulators. That message was clear: Dealers were not the reason GM and Chrysler faced financial Armageddon.

Getting that message out to a national audience was something no dealer could have accomplished alone. NADA was able to correct misperceptions about our business and bring our very strong case directly to the highest levels of government.

We faced many serious issues – the decline of credit availability for flooring and capital loans, difficulty with retail financing, a market that crumbled to almost half of what it was and two major manufacturers going through bankruptcy.

And NADA was there to help dealers every step of the way; working to loosen credit, lobbying against bad bills on Capitol Hill, working with the White House, negotiating with manufacturers and preventing a higher number of dealer terminations and fighting for arbitration rights for those dealers who lost their franchises.

We learned some very important lessons through this crisis, and they will help us going forward.

For one thing, we learned that the dealership model is not widely understood — by government officials, the media or the general public. I was amazed at how often we had to educate people about how our business works. For example, most people did not know that we own and finance our vehicle inventories. They thought that manufacturers provide the inventory and we just sell it, like Walmart. As credit for wholesale financing became less available last year, this was one misperception that was critical to combat.

We learned that government can be our partner and help us, but it requires interaction and education for that assistance to be effective. I — along with other dealers from the NADA board of directors and staff — sat in multiple meetings with members of President Obama's administration and had lengthy, open discussions with the Auto Task Force. This interaction was important in allowing dealers and NADA to lay out our concerns and outline the important role dealers play in the value chain.

And it wasn't just the NADA leaders and staff who made it happen. Dealers everywhere spoke up to ensure that our lawmakers fully understood the vital economic role we play in our communities. As the global economic crisis unfolded, dealers and NADA repeatedly pointed out how dealers are a key part of the economic engine of local communities everywhere.

Dealerships collected more than \$21 billion in sales tax revenue last year, which is 20 percent of many states' and municipalities' revenue. That's not surprising to you or me, but many of the people we met with were amazed by it. And it's something we have to make sure our representatives in Washington are always aware of.

The strength we have lies in our association; not the institution or the building, but the coming together of great hearts and minds in this industry to work for the betterment of all. Working together and speaking with one strong voice is critical to our continued success in Washington, where we still have many challenges this year.

We're tackling IRS issues, like UNICAP and LIFO. Avoiding a patchwork of mileage standards under new CAFE requirements is a priority. We're continuing to work on the estate tax and right-to-repair. It's a very diverse set of issues, all of which would make a difference in your business.

With dealers in dire need of credit for vehicle inventory, NADA helped build congressional support for an SBA pilot program for dealer floorplan loans by banks. We are still working to expand the program and increase the loan limits and looking for ways to increase access to floorplan credit through legislation.

Watching Congress closely to avoid unnecessary and burdensome regulation is critical; the new Wall Street reform bill is a primary example of that.

Just last Thursday night, the House and the Senate agreed on a bill that exempts dealers from oversight by a new consumer-finance agency.

Automotive News said it best: "The conference agreement represents a hard-fought victory for NADA over a powerful coalition that included President Barack Obama, the Pentagon, senior Democratic lawmakers, military families, consumer advocates and civil-rights activists."

This was a hard-fought victory! And while I'm not going to rehash the entire war here, it is a powerful example of what we can do when we pull together to achieve a goal.

Last fall, when the proposed new agency was just a blip on most people's radar screen, NADA's legislative staff recognized it as a very real and very potent threat to dealer-assisted-financing and the availability and affordability of auto credit.

NADA was successful in the House late last year in having dealers excluded from oversight under the proposed new agency because of the efforts of Orange County Congressman John Campbell. We reminded House members that auto dealers were not part of the problem that caused the economic downturn and that dealer-assisted financing is already regulated very effectively and efficiently at both the federal and state levels.

With our support Congressman Campbell's amendment passed on a strong 47-21 vote in the Financial Services Committee. When it was challenged on the floor of the House, the dealer-grassroots machine went into action again and defeated an attempt to strip the language from the House bill.

The Senate, which passed a similar bill in May, was a much, much tougher fight. In late March, the Senate Banking Committee hurriedly approved a bill without considering any amendments. This bill did not exempt dealers. Even President Obama weighed in, saying repeatedly that dealers *should* be included.

Throughout, NADA kept up the pressure on Senators and we continually asked dealers to do the same. I'm sure you were all sick of hearing the term "Brownback amendment" over the past several weeks.

Finally, Senator Brownback got agreement from the Senate Majority Leader for a vote to instruct the conferees to preserve the dealer exemption. The Senate voted by a wide margin – 60 to 30! – to recommend that Senate conferees agree to the exemption when they got down to reconciling their bill with the House bill.

Thanks to all of you and your employees who took the time to call your Senators on this. By the way, Senator Boxer stood with us, while Senator Feinstein voted no.

But I have to tell you, while Senator Brownback was a true friend to us and fought successfully against these new burdensome and unnecessary regulations, another hero in this story is Representative John Campbell from right here in Southern California. He sponsored the original amendment to the House bill that ultimately prevailed. He understood this issue from the beginning because he's one of us.

I want to extend to you, on behalf of dealers everywhere, our thanks for sending John Campbell to Congress. And I have one more favor to ask: please take the time to thank him ... by phone, email or in person the next time he's back here.

The dealer exemption and other recent successes we've seen on Capitol Hill were only possible because of the collective efforts of NADA leaders, board members and staff, along with state and metro dealer associations, and working closely with ... you. No single dealer could have accomplished this.

Dealers from all over the country take the time to call, email, write or even visit a legislator. To those of you who took action on these issues – or any others over the years – again, thank you!

Washington isn't the only place where we can't go it alone. Last year we also learned the importance of NADA's long-standing relationships with manufacturers.

Yes, the events of last year may have strained the relationships with a couple of them, and we will always have some differences. But we can't do business without each other, so we will always find common ground.

The two Detroit OEMs that went through bankruptcy last year now face a watershed moment. With new ownership and new people in charge, they have a golden opportunity to craft a new relationship with their dealers, one based on a genuine spirit of cooperation.

So it's in the best interest of all manufacturers to establish and maintain excellent relations with their dealers. Dealers who are treated as true business partners by their manufacturers and are provided the opportunity for healthy profits and a good return on investment have more confidence in the manufacturers they represent.

We reinvest in our employees through training, we reinvest in our facilities, and we enthusiastically market and promote our manufacturer's products, all of which result in a much higher level of customer satisfaction, thereby creating long-term customer loyalty.

Some automakers understand that having a strong and healthy dealer network works to their advantage. They know that winning in the marketplace requires continual dialogue with their dealers. They respect the expertise of the dealer when it comes to selling vehicles one-at-a-time and understanding what consumers want.

The bi-annual NADA Dealer Attitude Survey bears this out: the highest-scoring manufacturers also typically score higher on dealer input, have fair policies and procedures and interact more often and more effectively with their dealers. Moreover, those that score highest typically succeed in the marketplace when others fail. Coincidence? I don't think so.

These manufacturers "get it." Others don't. The new owners and management of Chrysler and GM can be real game-changers. They may even go down in automotive history as leaders who changed the industry and their place in it by creating a vibrant, dynamic and fair relationship with their dealers, one of mutual respect and profitability.

In our increasingly global marketplace, auto makers from around the world are ready to do business here. The tiny Dutch auto manufacturer Spyker recently bought Saab from General Motors in large part because they wanted its U.S. dealer network.

Because if there is one certainty in our industry – one ever-present constant – it's the dealers. It's us, you and me. No matter what, we dealers will be there. The manufacturers know that. They just seem to forget it sometimes ... until they need us.

When I was in Washington several weeks ago, I went to the Senate hearing on the Toyota recall. I sat right behind Toyota's Yoshi Inaba as Sen. Mark Begich from Alaska asked him how his constituents in the Alaska tundra, miles from civilization, could get their Toyotas repaired. Mr. Inaba answered calmly – and without hesitation – “We will ask our dealers to take care of them.”

Of course Toyota would ask its dealers, and of course, the dealers will take care of those customers, just as we always have. Retail automobile dealers are the face of the manufacturer to the public. No matter what the future holds for us, that will not change.

So how long before we start thriving again? Of course that's what we all want to know. While our industry and the overall economy are improving, there is still enough uncertainty to make it difficult to accurately predict where we are going. But there are clues that give us a pretty good idea.

It's clear that dealership size is generally increasing. Since 1989, the number of dealers selling more than 750 units has increased by more than 13 percent.

It's apparent that, over time, we will see the average dealership continue to grow unit volume. This is partially a result of manufacturers' actions, but also a desire among dealers to generate operating synergies and economies of scale. In 2009, the average U.S. dealer sold 541 new units, and that figure will continue to increase going forward.

Clearly the bankruptcies of GM and Chrysler and their consequent restructuring will change the landscape permanently. And with the elimination of only three brands in the marketplace — Pontiac, Saturn and Mercury — and the entrance of the Indian and Chinese auto makers on the horizon, competition will no doubt increase.

The U.S. market could start to resemble the European market over the next five years, with four manufacturers – GM, Ford, Toyota and Honda – each having similar market share. Hyundai, Kia and VW should gain share based upon recent trends.

Big picture, we can expect a market of 11 million to 12 million new-vehicle sales this year; unemployment is coming down, homes are selling and banks are lending money.

Here in California, of course, the environment is still challenging, but we do see extremely positive signs that things are on the mend. And beyond 2010, we foresee even better numbers for the industry in the 2012-2015 timeframe.

But we're not out of the woods yet. We have a tremendous opportunity to rebuild our industry and make it better than it was before. That's not a job for one or two companies or one segment of the business or one association. That's a job for all of us. NADA will play a vital role, but so will you and I, individually *and* collectively.

NADA must be built from the bottom up, directly from dealer input and dealer priorities, a top-down agenda just won't work. *You* know what's most important. And for us to represent you effectively, it's vital that we listen to *you*. After all, our one and only mission is to serve dealers.

So in our collective race back to prosperity, let's take time to make smart long-term business decisions. Let's draw on our relationships with all of our partners – government, the media, consumers, manufacturers, NADA and each other – to create an industry in which we can all thrive.

Let's move forward *together*.

###