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Consolidation, technology force dealers to adapt

By Constance Crump

Fewer brochures. Better-informed buyers. Cappuccino bars. Auto dealerships have changed in recent years, and customers have kept pace. Lingering fear of the car-buying process has been replaced by the power of information available online and the need for fewer dealers.

Like other retailers, auto dealers selling **General Motors Corp.** brands and others wish they had more customers. Tremendous sums are invested in buildings, yet the Detroit Three have too many dealers for the number of cars they sell each year — by some analyst estimates they have twice as many as they need.

What's a dealer to do? For some, the answer is merge, diversify or adapt to new sales trends.

Still, state franchise laws have been crafted to protect auto dealers, said auto analyst Bruce Belzowski, assistant research scientist in the Automotive Analysis Division of the **University of Michigan Transportation Research Institute**.

"Dealers have been able, through their lobbying efforts, to get the kinds of rulings that keep them from being pushed around by the big, bad manufacturers, including GM," he said. "That's made it difficult for manufacturers to cut back on the number of dealerships they have."

That franchise-holder protection has forced the automaker to try to coddle the dealership network into going along with its plans, Belzowski said. GM is trying to combine Buick, Pontiac and GMC brands into a single dealership to provide each dealer with a full line of vehicles: cars, trucks, SUVs, small, midsize and full-size. This could happen through mergers of dealers near each other.

"Dealers understand that it's a negotiation," Belzowski said. "Sometimes the manufacturers buy them out. If they see a recession coming, maybe this is a good time to get out. Manufacturers use that as an opportunity to thin the dealer body. It's going to take years. None of the manufacturers have enough money to buy out all the dealers they need to buy out."

Many aspects of the retail car market are so challenging that some auto sales veterans can't adapt, said Gordon Stewart, president of **Stewart Management Group Inc.** of Harper Woods.

The group operates five dealerships in Michigan, Florida and Georgia, including **Gordon Chevrolet** in Garden City. It's ranked seventh on *Crain's* list of largest auto dealers, with 2006 revenues of \$271.5 million.

Communicating to customers

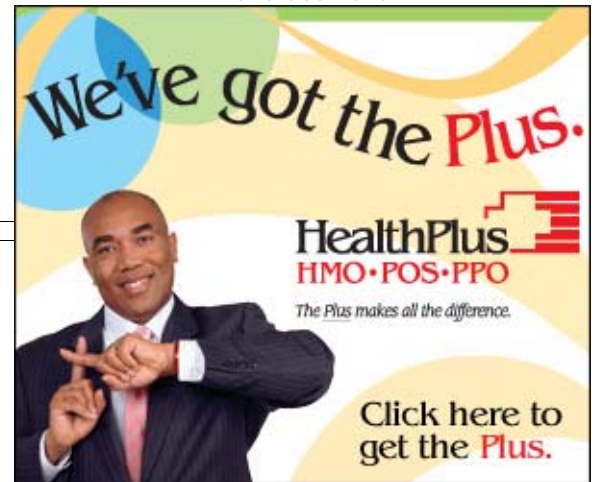
"Whenever possible, we like to hire people who are from outside the auto business. They adapt more quickly to our business philosophy," Stewart said. "In many dealerships, it's hard to find out what the price the dealer is actually willing to sell it for is, or what your monthly payments will be before you commit." Two of the dealerships in the Stewart Management Group have no-haggle policies, while a third offers customers the option of haggling or not.

Marketing to women is another evolving trend.

"We hope we've overcome the aversion women have had to car-shopping. In our dealerships, we work to make women feel comfortable," Stewart said. "In Detroit, we only advertise on (female-oriented) radio stations. We don't bother on male stations. Women especially don't like to haggle. They really warm up to the one-price concept."

Training for these factors, Web surfing habits of consumers and other trends are a big concern for dealers. These days, the best salespeople have "a lot more discipline and administrative skills, even accounting, not the raw selling skills you

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used to look for," said Doug Fox, president of the Troy-based **Detroit Auto Dealers Association** and owner of dealer group Ann Arbor Automotive.

Dealer consolidation

The biggest dealers, such as the **Penske Automotive Group**, which ranks first on *Crain's* list of largest dealers with more than \$11 billion in revenue, have nothing to fear from the changing industry and a contraction of the national dealership network. Smaller dealers are another story.

"There are still far too many dealers for domestic makers for the sales volume and because vehicles have become so much more reliable. It may take a decade for the dealer network to be right-sized, but it will happen. A lot of the painful changes will have to take place in the next five years," said Patrick Anderson of **Anderson Economic Group**.

"The average Toyota dealer sells double the number of vehicles of the average GM, Ford or Chrysler dealer. There are a lot of (domestic brand) dealers out there now who are not profitable. They can't achieve the volume they need to have the amenities and be a "dealership of tomorrow.' "

Despite their weakening clout with the automakers, don't underestimate the dealers, said industry analyst David Cole, chairman of the Ann Arbor-based **Center for Automotive Research**.

"Downsizing the dealer network is a tedious process because of the tremendous independence the dealers have," he said. "The automakers know the dealers are important for consumers — they are the face of the company — it's an extremely important group."

GM had made several big steps already, with the elimination of Oldsmobile and the weaving together of Buick, GMC, and Pontiac, Cole said. We can expect even bigger changes between 2005 and 2010, when the labor changes kick in — the tiered wage structure and the benefits trusts.

"GM is going to be much more competitive," Cole said. "They'll be able to wring hundreds of dollars out of the cost of each car. They'll put some of that money into product — upgrading interiors, for example. Dealers are probably going to have a more attractive cost structure — if they're one of the ones that survive."

Lifestyle trends

Fancy granite floors or cappuccino bars may not be a reason for choosing one dealer over another, but it's something customers expect these days.

"Customers have high expectations for the service they're going to get in the showroom — cappuccino bar, high-definition TVs — better amenities than in luxury hotel lobbies," Anderson said.

Car dealers haven't gone far enough, said Brian Hurrtenne, who has been involved in several auto-dealership design projects as an architect with **Hamilton Anderson** in Detroit.

"Typically, retail is based on lifestyle and image," he said "Car sales should be too ... the new small cars are all naturals for lifestyle retailing."

Doug Dalglish Jr., general manager of **Dalglish Cadillac** in Detroit, has a different perspective. He's one of the third of four generations to operate the dealership founded by his grandfather. His father, Doug Sr., 79, uncle, Charles, 83, and other family members are active in the business is well.

"I don't think customers come in for a cappuccino bar," he said. "Maybe that's because I don't have one. I hope they come in for informed salespeople and service departments that fix it right the first time."

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