

Shape of a New Domestic Auto Industry Begins to Emerge

Smaller is the Operative Word

General Motors has indicated to selected dealers and NADA representatives that it will move faster to terminate as many as 1,700 dealerships and drop the GMC and Pontiac franchises as it strives to meet “viability” requirements put on it by the Auto Task Force.

The news, first reported by the Bloomberg News Service, suggests the company is trying to avoid using bankruptcy court as a

GM, looking to accelerate dealer cuts, may add GMC, Pontiac to termination list



means to cut operating costs and size production proportionate to sales. It is unclear what compensation it has in mind for the impacted dealerships. GM took nearly two years and paid nearly a billion dollars when it shuttered the Oldsmobile franchise in the 1990s.

GM’s original consolidation plan had been to reduce its 6,200 dealer count by about 25% over a five year time period, primarily through attrition. The government rejected that plan as not going far enough, and in response, GM now appears ready to move to terminate underperforming locations, particularly those in metro areas, by as early as June 1, a dealer who had received such a notice told Bloomberg.

Meanwhile, Fiat CEO Sergio Marchionne, the man the Obama administration is hoping will save Chrysler, thinks what is happening to the U.S. auto market is a precursor to more contraction in the auto industry. In a speech to Swiss bankers on

March 24, he predicted that “in 24 months as few as six global auto companies will remain.”

The drop in auto demand in the Western world, which he expects to

last for some time, will require still greater economies of scale to cover the costs of new product and market development, he told the bankers.

“Consolidation is the only way to get there,” Marchionne said.

At an analysts’ meeting in New York in January he said Fiat’s proposed alliance with Chrysler was a “first step in that

Fiat sees the Chrysler link as a first step in a new round of industry consolidation



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Federal Hiring Rising in Metro Washington

The Washington Metropolitan Area should see as many as 30,000 new jobs created in the area as the \$787 billion American Recovery and Reinvestment Act begins to impact the economy over the next two years.

That is the thinking of researchers at the Partnership for Public Service, a nonpartisan group that focuses on federal hiring. They say 50 percent to 60 percent of those positions will be filled by recent college graduates moving into the area and the remainder by mid-level administrators moving from other positions. John Palguta, vice president for policy at the



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direction, but by far, not the last,” the Washington Post reports.

Marchionne is expected to lead a new management team at Chrysler if the two companies can complete a merger plan by the May 1 deadline set by the Auto Task Force.

Maryanne Keller, the seasoned automotive observer, says that will take a “Herculean effort.” If the two companies do manage to merge, however, Marchionne is expected to put in place a new board of directors, which would include some

We will make money on small cars, Marchionne says.

Fiat executives and possibly members of The Auto Task Force, and could set the new company in an entirely new

direction.

Marchionne is expected to drop several Chrysler product lines and begin introducing Fiat products by 2011. Many of the latter will be small vehicles. Contrary to conventional thinking, he says there is a profit to be made on small cars. He notes in the Washington Post story that Fiat produced 2.2 million “small cars” last year and made a \$1.3 billion profit, while GM, which produced 8.8 million vehicles, is hoping to avoid bankruptcy. “Toyota makes money selling small cars in America,” he noted.

Marchionne says “the auto industry’s fate is tied to mass-market vehicles,” and that industry executives will pay dearly ignoring that truth. “We have to understand that this is a Wal-Mart industry,” he said.

Maryland Auto Dealers Gain Franchise Rights in Legislature

Maryland franchise auto dealers were benefited by legislation passed by the General Assembly, which adjourned earlier this week, that enhances the state’s franchise relations law. Just two hours before the Maryland legislature was to adjourn, it passed (SB 668) backed by the Maryland Auto Dealers Association which, among many provisions, does the following:



- Prohibits a manufacturer from discriminating between dealers who do and do not participate in a manufacturer program
- Broadens the Maryland franchise law to give a dealer standing to sue a captive finance company
- Gives a dealer standing to challenge manufacturer performance standards not based on “fair and reasonable” demographic and geographic characteristics
- Requires automakers to make all their sales incentives available to all same make dealers
- Prevents automakers from denying non-program participating dealers from receiving a benefit provided to program participating dealers and
- Requires a manufacturer to reimburse a dealer for any facility upgrades required by the manufacturer within two years of dealer termination.

The measure is effective June 1, 2009. More details will be made available by the MADA.

On another front, legislation aimed at clarifying “terms of sale” in dealer advertising was passed. Starting October 1, 2009, all dealer advertisements must advertise the full delivered price, excluding *only* taxes, tags, any dealer processing charge and freight, in the largest font in the advertisement pertaining to vehicle price.

Peter Kitzmiller, president of MADA, said he was extremely pleased with the results from the General Assembly and praised the dealer leaders who directed the association’s legislative agenda. “We had superb dealer involvement this year, but all hats are off to Jack Fitzgerald (Fitzgerald Auto Malls) who spent a lot of time in Annapolis personally reaching out to the key legislators who ultimately carried the day,” said Kitzmiller.

The Maryland action comes on the heels of similar franchise law success marshaled by VADA in the Virginia General Assembly, which *The Bulletin* reported on in last week’s issue.

Virginia Localities May Raise Car Tax Rates

The recession in new and used vehicles sales has some Virginia jurisdictions looking at raising the tax rates on personal property, like cars, to offset significant revenue shortfalls.

Spotsylvania County officials, for example, believe they will lose some \$13.2 million this and next fiscal year because of fewer new vehicle sales and declining values of used vehicles. County supervisor Hap Connors said the shortfall was partly because of a 22% drop in vehicle values in 2008.

Stafford County is having a similar experience and County Administrator Anthony Romanello has proposed a tax-rate increase on cars and motorcycles to make up for the 22% drop.

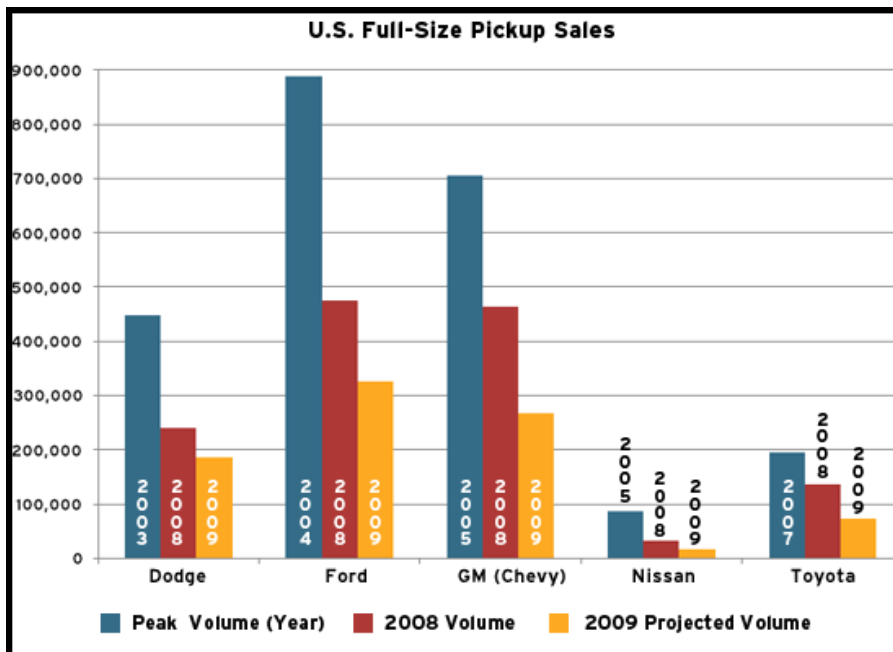
With new and used vehicle sales struggling, it is anticipated more counties will be visiting the car tax rate issue as a means of recovering budget shortfalls.

Full-size Pickup Sales Slide Continues

Industry Fears Permanent Drop in Demand

In a little noticed item reported by Edmunds.com this week, a troubling trend was revealed that has major implications for all the automakers relying on full-size pickup truck sales for profitability.

Analysts at the website have determined that sales of the vehicles have declined a stunning 50% to 70% from their peak in 2000. They note the declines impact imports and domestics alike, pointing out that while Ford F-150 series sales are off nearly a half-million units from their peak, Toyota has seen a drop of nearly 63% in Tundra sales in just two years and is predicting operating losses in the U.S., in part because of its \$800 million investment in the truck plant that produces them.



MD Transportation Secretary Headed for Obama Administration

Maryland Transportation Secretary John Porcari looks to be set to join the Obama administration as Deputy Secretary of the U.S. Department of Transportation. President Obama announced his intention to nominate Porcari earlier this week.



WANADA and MADA commend Secretary Porcari on his nomination.

JOBS—Cont. from P.1

organization says approximately 12,500 of the new jobs will be direct federal government positions and that the remainder will be government contract positions.

“The federal government has become the employer of choice,” he says.

Stephen Fuller, director for the Center for Regional Analysis at George Mason University, says the area has already gained 7,000 to 8,000 jobs over a year ago and that the Washington area saw fewer job losses overall in February than all other major metropolitan areas of the country.

Many jurisdictions in the area are laying off employees, but overall, the unemployment rate is about 6.1%, well below the national average of 8.5%

The analysts expect that if the trend continues, and they see no reason it won't, there will be a significant impact on housing and transportation expenditures.

-Attention Members-
NADA Compensation and Employee Benefit Survey

NADA wants to tell the story of how dealerships contribute to the well being of their local communities and the country as a whole and is once again asking you to complete this very important survey.

Two reports will be produced from the data: a national report that focuses on the total contribution the franchise auto dealer

industry makes to the country and one tailored for WANADA and Washington area dealers. This date is invaluable to dealer employers, but will only happen with your support



So **Please** go to the secure website: <https://www.nada.org/survey> and complete this important survey.

A copy of the prepared reports will be available to dealer principals only.

The WANADA Open
May 18



Mark your calendar and sign-up for another spring outing with friends and colleagues. A championship golf course, beautiful scenery, lots of camaraderie and plenty of prizes are the deliverables at the **WANADA Open**.

Be there!

Note that attendance is limited this year to the first 128 registrants. Register online at www.wanada.org

Position Wanted—Senior Level Finance Executive

Dealer executive with extensive experience and contacts in automotive finance market is seeking dealership employment. For further information please contact John O'Donnell, 202-237-7200.



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Staying Ahead...

Accept the fact that some days you're the pigeon and some days you're the statue.

-Roger C. Anderson-

Enclosure:

- **WANADA Open** registration