

Saturday in the Park

RETURNING FROM MAUI, traveling all night, arrived in Atlanta on the red-eye at 2 p.m. Eighteen hours in hotels and airports plus an overnight stay just to deliver a two-hour speech to a large West Coast dealer group and then to turn around and come right back home; 40 more minutes waiting at baggage claim, then 45 minutes to the house, changed suitcases, another 45 minutes back to the airport, flew back out at 7 p.m. for a two-day private seminar for Koons Ford of Annapolis.

I keep reminding myself, this is the glamorous life I used to always dream about.

You know, hard as it is, I actually really do love this lifestyle. Some people (wife and son included) think I am a workaholic. Upon returning, I spent two full days in front of the cameras shooting an infomercial and producing some video educational material for managers of car dealerships.

The boy is 16 now and drives wherever he needs to go...usually you can find him at his girlfriend's house. In other words, my wife Debbie and I have some newfound freedom on the weekends...together time.

Well...after burning myself out over the last two weeks, this weekend I decided to spend a little one-on-one time with my wife.

Stone Mountain Park on a Saturday afternoon...October 2, thousands of the wackiest people I have ever associated with. Picture this...more than 300

booths all competing for your vote as the best chili...or the best Brunswick stew...or the best cornbread. We had accidentally stumbled onto The Great Miller Lite Chili Cook-Off...one of Atlanta's biggest and best annual events.

This thing was absurd...rowdy in a family sort of way. Walking from booth to booth, you stopped and tasted a sample of their entry...a small plastic cupful...about a heaping tablespoon of chili. There was some really hot and spicy chili and some exotic recipes (sworn to be in the family for generations). My wife and I



"Am I concerned?"

You bet I am.

***There's a lot more
happening than meets
the eye and...yes...we
will have to pay the
piper eventually."***

—Jim Ziegler

were having the best time. Every booth had a theme...crazy themes like the one where everyone in the booth was dressed like the Flintstones. In that there was also a prize for showmanship, some of the booths had themes ranging from hilari-

ous to bizarre. There were church groups, and Shriners, restaurants, Boy Scouts, motorcycle gangs, and family groups...all comers were eligible to enter.

The bands were great...playing '70s music...our generation stuff.

We visited all 300 booths and sampled at least one sample at each one...there were some booths where the chili was so good it required three or four tastes to adequately judge whether or not they were to get our precious vote.

How's your math? Now, I admit, Debbie didn't sample something at every booth we visited...but I did. For those of you who know me personally, you have no problem believing that. Well, remember, we were also drinking Miller Lite as we walked along. I guess what I am trying to say is that as we neared the end of the booths I suddenly realized I had eaten at least 300 tablespoons of chili...probably much more than that. I was feeling very strange and my stomach was starting to make growling and churning sounds reminiscent of a pack of angry rabid pit bulls.

I was quickly beginning to realize this wasn't going to be a totally relaxed afternoon after all. A sense of urgency was building up. I told my wife we needed to get home...in a hurry.

Transitions

There was this wave of sadness that passed over me as I read the words. Of course, we all knew it was coming...it was time...well deserved...after 40 years, Jim O'Connor announced his retirement from Ford Motor Company. As vice president of North American Sales and Marketing, O'Connor is the last "Car Guy" to leave the building. Take my word for it...O'Connor was the best of them all. If he said it, you might not like it, but you know he had integrity...and that rare quality few factory people possess...he had honor. His word was actually worth something.

He and I violently disagreed about the Ford Blue Oval Certification program but we never lost sight of the fact that we were friends. In my columns I always referred to O'Connor as a man of conviction *but* I never lost sight of the fact

continued on P-14

that he was a soldier under orders and his first allegiance was always to Ford Motor Company...right or wrong.

Whether or not he was totally effective in championing the dealers' causes, I can tell you this...during the Jac Nasser years my sources ran very deep at the very highest levels within Ford Motor Company. Those of you who have followed my columns through the years, you know I was writing about things at that time that could only have come from the deepest most well-placed inside sources at the highest levels. I was very much aware of what was happening behind the scenes. During those years I can tell you there were numerous times when Jim O'Connor championed the dealers' issues at some risk to his own career. Ford Motor Company is not a haven for free thinkers. My sources told me that O'Connor was indeed a vocal dealer advocate inside the company. I am talking about what he said to other Ford executives in private meetings, not the out-front press opportunities.

Two years ago, I came across an original photograph from a 1914 Model-T convention, which was held in Chicago. This photograph featured all of the original Ford dealers at a banquet. It was a little rough and moldy, but otherwise crystal clear...in great shape considering it was a 90-year old antique picture. I sent it to Jim as a gift. O'Connor was ecstatic. He had the rare historical photograph completely restored and it hung in his office in a place of great pride.

I could always pick up a phone and give Jim a call. If he was in a meeting or traveling, I'd get a callback in short order. He was always available. None of the standard arrogance and pomposity I ordinarily associate with Ford executives.

I consider Jim O'Connor one of the finest. He will be sorely missed. I feel I have lost my last friendly contact within that company...maybe the dealers have as well.

Replacing O'Connor is Earl Hesterberg, formerly the head of Ford Motor Company's sales and marketing in Europe for the last five years.

The way I sort of see it is this guy Hesterberg might be a second-stringer with a smoke and mirrors track record. His background sort of hops around, starting at Ford in the '70s, then a short stint with Nissan in the early '90s where he takes some bows for showing a 31.5 percent sales increase for Nissan North America 1992-94. Then he's off to Nissan Europe and then to Gulf States Toyota (I have some friends there that

know him) and then Ford of Europe.

Well, it's true he was at the helm in '92-'94 when Nissan North America increased sales dramatically. But, I have to ask a question here. Didn't Nissan crash hard, as in almost over the edge...on the brink of bankruptcy, following that period? It seems to me, as I recall, there may have been some really stoopid finance programs and grossly over-residualized leases offered by Nissan at that time, sort of reminiscent of Mssr. Pierre Gagnon's leadership profile at Mitsubishi. I am operating from memory here and, of course, I might be wrong.

Of course, Mr. Hesterberg most recently headed up Ford of Europe. That brings me to question the headline in Auto Snooze (September 27 issue) in an article by Wolfgang Eschment. The headline reads as follows: *Ford's goal: Reduce loss in Europe to \$200 million.*

The first sentence of the article may shine some light on what we are dealing with here... *"Ford of Europe Chairman Lewis Booth is confident the automaker will cut its pretax loss this year to less than \$200 million from \$1.1 billion last year."*

Is that a commentary on the Hesterberg track record and qualification?

According to the newswire... General Motors lost in court when it tried to prove a Chinese company had counterfeited...as in ripped off and copied... counterfeited or duplicated a General Motors car. Of course, it was a Chinese court.

Who woulda' guessed that something like that would happen? Well, I predicted it over and over again in recent issues...and this won't be the last time.

In the August issue of *Dealer* magazine I wrote an article titled *The Day After Tomorrow*.

In part I wrote at that time..."The Chinese are experts at counterfeit, knockoff merchandise. I am warning that there is going to be a wave of knockoff, cheap, Chinese automobile dealer franchises being offered for sale in the US market. In other words, look for Chinese companies to flood the market with cheap cars over the coming decade. I predict that many dealers will step up and buy the franchises with weird sounding brand names. We're looking at \$8,000 cars that will directly compete with \$15,000 and \$20,000 cars. Oh sure, you're right if you are thinking their quality is not going to be competitive. Not at first anyway. Neither was Hyundai's quality for the first 10 years that it sold here. Once again, I will tell you that eventually the Chinese compa-

nies will get it right... and then they'll get it perfect, very much following the Hyundai business model."

I am on record, in print, chiseled in concrete on this issue...every manufacturer that tries to do business in China is going to get screwed...over and over again. I said it here...I said it first...and I didn't pussyfoot around the bush. These people can't be trusted. I am talking about the Chinese government, not Chinese people.

It seems General Motors has built a reasonable case that SAIC Chery Automobile Company blatantly ripped off the Chevrolet Spark, which is a Daewoo product based on the Daewoo Matiz.

Well, it also seems that the Chinese government has conclusively declared that there is no evidence that the Chinese company copied the General Motors car...end of story...nowhere to go from here.

Well done Toyota

Well, the first wave of nearly 200,000 veterans are returning home from the Iraq-Afghanistan campaigns and Toyota has stepped up to the plate with its Hire*A*Hero Program giving returning veterans preferential hiring opportunities at Toyota and Lexus dealerships nationwide. Well done! When I first heard about it I was moved with a feeling of elation. Hopefully other manufacturers and dealers will follow Toyota's lead.

Head 'em up...blow 'em out

Facing a 70-day supply of '04 models on the ground, General Motors and Ford called the bet and raised with incentives and rebates, topping \$6,000 on 2004 SUVs in a wild-ass 72-hour, balls-to-the-wall, clearance sale...and it worked.

General Motors fired the first shot on September 21, announcing no-interest loans up to 72 months on all remaining 2004 Chevrolets, Buicks, Pontiacs, GMCs and Oldsmobiles... everything, including Corvette and previously not incent-ivized cars and trucks. GM announced the sale would run on all units sold between Tuesday, Sept. 28 and Thursday, Sept. 30.

Ford snuck in there with a brilliant counter-attack beginning an identical program with a two-day head start beginning its sale on Sunday, September 26.

I am seeing a lot of criticism aimed at General Motors and Ford by industry

continued on P-73

analysts, even some dealers, complaining that we are burying our future market with 72-month interest free loans and "creative" finance packages. Of course, even J.D. Power and Associates checked in with some commentary in the press by one of its alleged analysts (anal-lists) Jeff Brodoski, who was quoted as saying... "(It) sounds like a move of desperation."

Sadly enough, I have to agree. (Imagine that...Ziegler agreeing with J.D. Power and Associates). It is not only a move of desperation; it's a life and death battle for survival. GM and Ford do not plan to go down without a fight and they are firing everything in their arsenals.

I've read quotes from dealers in industry publications criticizing the fact that General Motors has resorted to fire-sale tactics to unload inventory that is piling up. Excuse me; this is no time for dealers to take shots at the factory when it's doing whatever it takes to make something start moving.

I think General Motors is doing what it has to do. It has most recently, under current management, been more dealer-responsive and sensitive to dealer issues than at any time since I have had it on the radar screen.

And, I believe Ford Motor Company might (I said might) be coming around and actually working with its dealers and considering their interests.

Am I concerned? You bet I am. There's a lot more happening than meets the eye and...yes...we will have to pay the piper eventually.

This is what I have been screaming about in almost every article, month after month. Under the surface, there are even more ominous landmines that many of the reporters in the mainstream media are missing. (They are not car people.)

First of all, according to all "reliable" research from "reputable" research sources, more than 30 percent of consumers are upside-down...negative equity in their car loans. A standard 60-month loan is upside down for approximately 3.8 years. I don't know the statistic on 72-month loans, but let's just say it's probably around 4.5 years, give or take. Now, let's interject another dynamic into the picture... more than 63 percent of consumers have a credit score below 600...that qualifies as "Bad Credit." If 63 percent of consumers have "Bad Credit," there is another large percentage of con-

sumers who have "Damaged Credit." I frankly have not seen a statistic on that but let's guess it's probably another 20 percent of the potential car-buying public. That leaves us with an estimated 83 percent of potential car buyers having severe credit issues.

There are only 180 million licensed drivers in this country...and we are in retro population growth, trending down from the baby boomer generation.

The stage now being properly set...what I am getting at is that the manufacturers have to increase the incentives to bail the people out of the cars that the last incentive program put them into, as the manufacturers have to keep increasing the incentives to offset the increased amount of upside-down-ness created by the previous incentive program. It's out of control and spiraling upward.

Now here's the other shoe dropping...as incentives go up and terms stretch with zero percentage loans and huge "hidden subsidies" that are not even on the radar screen...used car values are going to continue to fall. It is going to be increasingly difficult to know whether or not you are in a car "right." Dealers can expect erratic and unexpected wholesale losses in previously owned units. I am going to be especially paying attention to several of the big public company players who have a reputation for loading up and paying too much for used cars. Can you say "Under more water than the Titanic?"

Well, I have spoken to dealers nationwide and the big sale worked its magic. Virtually every manufacturer, import and domestic, got on board and turned out the public en masse. We moved a lot of cars...and the dealers made a lot of money. The end of September, beginning of October re-energized the market and, people are still out there shopping...The good news? It ain't over yet.

A few years back, Art Spinella, CNW Research, produced a statistic (which I assume is still fairly accurate) that 87 percent of consumers said that the monthly payment amount was the overwhelming deciding factor in their purchase of a new or used car. So, zero percent and the 72-month financing represent a short-term fix to a long-term problem. But, guess what? Most consumers opted away from the 72 months in favor of the rebates. (Actually a better deal for the consumers). According to industry analysts and GM insiders I

spoke with, only the smallest fraction of consumers actually took the 72-month, zero percent program.

But, now in early October, General Motors has actually increased the incentives over the end of September levels...up to \$7,000 on some units.

With high debt loads and damaged credit, many consumers today find themselves refinancing their upside-down-ness, piling it on top of the next loan because they haven't got adequate down payment to cover it. Cash in deal has become a lost art in the sales departments of most dealerships...we really suck at it. Our sales representatives and managers have become weak at getting the consumers to come up with real cash out-of-pocket down payments.

When I bought my new 2005 Cadillac Escalade in September, GMAC had a special offer running where it will pay the first two payments if you financed with it. Well, there was another \$2,000 it subsidized to get my business.

What is not as widely publicized...a trend running just below the surface...is that the manufacturers' captive lending arms are loosening up tremendously and diving deeper into the shallow end of the gene pool, offering financing to credit-challenged consumers with a history of default. This has become known in the industry as "The Gagnon Mitsubishi Strategy."

Of all of the dynamics stacking up that will lead to disaster, this is the one that will bite the manufacturers on the ass quicker than anything else they are doing. We're financing some really bad proven credit risks...with little-to-no cash out of pocket...in other words we're putting credit criminals in cars they have historically proven they have no intention of paying for with no cash down payment, which compounds their upside-down situation. Can you say "Repo?"

Then, there's the hidden money... money on the hood...stair-step bonuses and special program money (Blue Ovary Certification, etc.) from the factories to the dealers. Personally, I hate those programs; they've whored up our industry. I do a lot of business in Texas, and I gotta tell you...Texas is the most whored market of all the states where I consult car dealers.

Dealers in Texas are advertising deep into the holdback and beyond reaching

continued on P-74

out to grab those graduated incentives they may or may not qualify for. That's insane. The factories are guilty of putting us into this "trick box."

A small town Ford dealer, my friend, Kenny Shreve, said, "The factory is putting those dealer incentive programs out there telling us it is a carrot on stick but in reality, it's just a dog turd painted orange."

Toyota continues to turn up the heat with 100,000 additional hybrid units in 2005. With more than a 250,000 sold since 2000, Toyota is planning to step up production bringing more than 100,000 hybrid cars (Prius sedans) into the country in calendar year 2005. The plan is to ratchet up to more than 300,000 worldwide hybrid sales next

year with a Lexus Luxury version and a Highlander hybrid SUV.

With its incredible "War Chest," Toyota can afford to roll out exciting new concepts in an all-out market blitz. Once again proving the old adage...it's the product...stupid.

With Toyota, Nissan and Honda all cranking up production in August and September (*Detroit News*), the gloves are definitely off and the latest round of increased incentives is Detroit fighting back. Toyota stepping up production more than 12 percent and Honda spitting out a production increase of more than 18 percent...the Asian manufacturers have collectively increased worldwide production more than 63 percent.

This is an economic war fought on

several continents. European production also backed up more than 30 percent.

Like I've said repeatedly...this is a life or death struggle for the market and the Japanese are definitely making their move right now. The market cannot absorb all of the scheduled production in 2005-2006. We've worn out all available and potential prospects. The latest round of incentives should adequately bury many of our future buyers well into the foreseeable future.

My advice to dealers...you need to get lean and get mean. Tighten up your sales processes, measure your advertising effectiveness and make adjustments, manage your relationships with past customers, book your used cars daily, hold the gross on every unit, have daily save-a-deal meetings, stop giving cars and trucks away, and get rid of under-performers and non-achievers on the sales force and in management.

I said it first...I've said it before and I'll say it again... "Somebody's Gonna Die."

Well, it's Sunday evening and the Miller Lite Great Chili Cook-Off is still very much a part of my current reality. There will be no cognac featured in this article. As a matter of fact...I won't tell you where I am sitting right now as I write this article; I'll just say thank God I have a laptop computer.

More food for thought

Did you see where Ford Motor Company dumped J.D. Power and Associates as the administrator of its Blue Oval Certification program? God bless Bill Ford and Steve Lyons for having the testicular fortitude to finally send Power packing. When Dave Power showed his true anti-dealer colors (my opinion based on perceived evil content of his message) in his famous *Wall Street Journal* interview last year I was hoping that someone in Ford's top management had enough hair on their cajones to oust this festering infection out of our system.

Now, I just wish the rest of the manufacturers would stop sucking up to these people.

Jim Ziegler is the president of Ziegler Supersystems, Inc.

If you wish to discuss this article with other dealers, or with the author, please go to the "Discussion Forums" at www.Dealer-magazine.com and enter the "Dealer Advocate" forum or e-mail him at jziegler@Dealer-magazine.com.



Ford has a better idea.