

Killing car brands a rocky road

Even struggling brands are vital to legions of dealers and they don't usually go down lightly.

By Peter Valtes-Dapena, CNNMoney.com senior writer
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NEW YORK (CNNMoney.com) -- As General Motors struggles to sell cars, one repeated bit of advice is that it needs to shed some brands -- especially if it joins forces with Chrysler. But there's one big roadblock in the way -- the dealers who sell those cars.



COURTESY: GENERAL MOTORS
The phase-out of GM's Oldsmobile brand from 2000 through 2004 illustrates the complexities of withdrawing a brand.

"It's very difficult," said Tom Libby, an auto market analyst with J.D. Power and Associates "and very time consuming."

Libby formerly worked for Ford Motor Co. (F, *Fortune* 500) His job was to help open new dealerships and work to close underperforming ones.

There is only one way to get an auto dealer to close up shop, he said. "It almost always involves the manufacturer paying the dealer to close his doors," a tricky business of asking dealers to give up their businesses.

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"All states have some form of protection for car dealers," said Mike Moloshok, a New Jersey lawyer who is former head of the American Bar Association's Franchise and Dealership Committee.

State laws often restrict the terms under which a manufacturer can refuse to renew a dealer's contract and the terms under which they can allow nearby dealerships to open. Anything seen as "coercion" is also usually prohibited. Laws also prevent manufacturers from favoring one dealer, for instance by selling vehicles at a lower price to one dealer than to another.

Car dealers need those laws to protect themselves from capricious actions by carmakers, Moloshok said. Unlike clothing retailers, for instance, who may sell products under a variety of brands or who could easily switch from one supplier to another, a car dealer is married to that brand.

Further complicating the matter: No single approach works, because laws vary from state to state, according to Libby. And dealership franchise laws are usually much stronger than laws that apply to other types of franchisees, said John Frith of Urban Science, which consults automakers on dealership location strategy.

"Dealers typically have more money so they have a little bit more influence with the legislature than the local Subway," he said.

Not your father's phase-out

GM's experience with phasing out its Oldsmobile brand in the early 2000's shows how hard it can be to get dealers to close or change their line of business to match a manufacturer's strategy. And moving to another GM brand wasn't always possible because of competition from nearby dealers.

"I had good friends who were Oldsmobile dealers that are just out of the car business," said Reed Trickett of Nashville, Tenn., a former Olds dealer.

Oldsmobile sales made up just 1.6% of America's market share in 2000, a sharp drop from 6.5% a decade and a half earlier when it had been one of America's top-selling car brands, according to market trackers at Autodata. At the time, GM (*Fortune* 500) said it just couldn't find a way to make Oldsmobile profitable again.

After he was presented with a buy-out offer from GM, Trickett said he called lawyers and seriously considered suing. He ultimately decided to take a cash pay-out GM offered, using the money to expand his adjoining Honda dealership.

Of the 2,800 Oldsmobile dealerships in operation in 2000, most accepted GM's proffered buy-out packages. Amounts varied depending on the dealer's sales volume in prior years and what percentage of those sales came from Oldsmobile.

But dozens of other dealers did fight for more money from GM, according to lawyers who represented them.

"We ended up with 19 lawsuits in 17 different states. I think that was the final number," according to Florida attorney Richard Sox who said at least 100 dealers hired his firm to fight GM for more money.

Each of those states had its own set of laws under which the suits were filed, argued and, in most cases, negotiated to settlement, he aid.

After that, GM simply started negotiating higher-priced settlements without waiting for a legal filing. One case is still not resolved, Sox said.

GM would not comment on the amounts but, according to media reports from that time, packages varied widely from tens of thousands to more than a million.

And GM did assist many dealers by helping them shift to other brands, said company spokeswoman Susan Garontakos. GM would not say how many dealers sued or negotiated while threatening to sue.

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At least GM's approach in the Oldsmobile case -- an outright killing of the brand - gave dealers a fighting chance, said Sox.

"The worst-case scenario for the dealers is what's happening now with some of the line-makes," he said, using another term for brands.

Instead of just dropping them, manufacturers are simply shrinking the line-ups of some brands and combining them in one-stop dealerships with other brands. This is what GM is doing now with its Pontiac, Buick and GMC line-ups.

Besides reducing the number of dealerships, "brand channeling" is supposed to allow each brand to more tightly focus on a core vehicle type while still allowing the dealer to sell a full line-up of cars, trucks and SUVs.

But according to Sox, "They're strangling these line-makes so they're not viable."

Buick now has just three vehicles in its line. For a Buick dealer, GM's invitation to work out a business deal with a nearby Pontiac dealer is pretty hard to resist.

GM spokeswoman Garontakos took issue with Sox's view of the process. She called the plan good business for all involved and not an intimidation tactic.

Besides, said Frish of Urban Science, dealerships represent their brands to consumers, for better or worse. No carmaker wants to deliberately starve any on-going dealers.

"It's just not good to have dealers going out of business," he said, "The brand's value is tarnished in the marketplace" ■

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