

# The Miami Herald

AUTO DEALERS FIGHT ECONOMIC SLOWDOWN

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PATRICK DANNER

pdanner@MiamiHerald.com

Veteran car dealer Craig Zinn wants to recapture the buzz dealerships enjoyed in the Septembers of old, when manufacturers rolled out their new models.

So the Lexus store he's planning in North Miami will include a lifestyle center where customers can work out, get a massage or a manicure, and even meet with a "life coach."

"People have no reason to go to a dealership anymore. You want to create that reason," Zinn says. "You want to be the place where somebody wants to go."

Zinn's approach is one of the more unique ways dealers are responding in a period of declining new vehicle sales.

New-car and light-truck sales are projected to fall to their lowest levels in nine years. It's even worse in Florida, where troubles in the real estate market have squeezed pocketbooks and made using home equity to fund a car purchase tougher.

The National Automobile Dealers Association projects new vehicle sales will fall to about 16.1 million this year, from 16.5 million last year. That would be well off the 2000 peak of 17.3 vehicles sold.

A larger number of prospective car buyers, meanwhile, say they are putting off making the deal. Those who are buying are financing more of the purchase price and stretching out payments to lower monthly expenses -- meaning they may not return to showrooms as soon.

Fort Lauderdale's AutoNation, the country's largest dealership group, has felt the pinch for more than a year.

"It's a disaster at retail," says Mike Jackson, AutoNation's chairman and chief executive, in an e-mail. "The consumer has pulled back" from making big purchases.

"This is probably the first real downturn I've experienced in 30 years" in South Florida, adds Mike Maroone, AutoNation's president. "South Florida has always been a very resilient market." Dealers have long benefited from the influx of retirees, South American money and the general growth of the area, he notes.

CNW Marketing Research, which tracks the automotive industry, estimates that almost 602,000 consumers have put off buying a new vehicle in the first half of this year -- almost 100,000 more than last year. Consumers cite higher monthly mortgage payments and decreases in home equity as reasons.

Mark Hodos, president and co-owner of Monarch Dodge in Lauderdale Lakes, says shoppers coming into his store want the same monthly payment as they had on their last new-car purchase.

"It's impossible to buy something more expensive and keep the same payment," Hodos says.

Monarch Dodge is selling about the same number of vehicles as last year, Hodos says, but it's making less on each sale. "We're bending over backward to make our numbers," he says.

So are a lot of other dealers. NADA figures show dealers lost \$47 per new vehicle sold in the first half of this year, compared with a \$28 loss last year.

Most say they're preparing for the sales downturn to continue. Even with last week's interest rate cut by the Federal Reserve, many homeowners with adjustable-rate mortgages will be facing monthly payment increases in the range of \$200 to \$600 over the next 15 months, says Paul Taylor, chief economist for the National Automobile Dealers Association.

"That monthly amount would cover on the low side the lease of a modest car, and on the high side, the lease of a luxury car," Taylor says. "So in those states with a lot of adjustable-rate mortgages, it's bound to decrease new-car sales."

Dealers are reacting to the slowdown in a variety of ways:

#### \* KEEPING FEWER CARS ON THE LOT

For each new vehicle that sits unsold, dealers pay interest to manufacturers -- an average of \$181 in the first six months this year, up \$10 from a year ago, NADA data shows. But four years ago, dealers were paying nothing because of assistance provided by manufacturers to tempt dealers to take more vehicles, Taylor says.

So any increase in so-called floor-plan interest expense comes right out of the dealers' bottom line -- meaning dealers are watching their inventory carefully.

AutoNation has trimmed the number of cars on its lots by more than 10,000 vehicles chain-wide, says Maroone, the company's president. Its supply of new vehicles dipped to 56 days at the end of June versus 60 days a year ago. It also created a four-person "central inventory management group" this year to help its stores better forecast inventory levels. AutoNation's stores operate under the Maroone name in South Florida.

#### \* CUTTING COSTS

"We're just watching every dime," says Pete Blake, owner of Blake Chevrolet Cadillac in Homestead. "We're not giving out any raises right now." He also has not replaced employees who have left. His workforce has shrunk by about 8 percent to 92 people.

Monarch Dodge's Hodos says he slashed in half his advertising spending but plans to double it shortly to coincide with the introduction of new models. One thing he is permanently discontinuing: free coffee for customers and staff.

"Six thousand dollars is a lot to pay for coffee when things are tough," Hodos says.

#### \* IMPROVING SERVICES

When sales are down, dealers look to other parts of the business to make up the slack.

Lombardo Perez Sr., president of Metro Ford in North Miami, says his new-car sales business is off 10 percent to 15 percent in the past 12 months, but his used-car and parts and service businesses each are up 20 percent.

Perez says he has doubled Metro Ford's Internet staff to four people to assist customers wanting to set up sales and service appointments.

"Our emphasis is on customer service," Perez says.

Dealer Craig Zinn says he has nearly doubled the number of service bays to 25 at Pines Pontiac GMC Buick and added 55 service bays to the 40 at the adjacent Lexus of Pembroke Pines.

"My whole premise is: Kiss their butts," Zinn says of his customers.

Not all dealerships have been able to navigate this rough patch.

Last month, Coral Gables Ford closed its doors and filed for bankruptcy liquidation -- a rare event for a new-car dealership. A bankruptcy lawyer for the dealership says he believes Coral Gables Ford just wasn't selling enough cars to stay open.

Developer Jeff Berkowitz, who owns the property at 251 S. Dixie Hwy. where the dealership operated, says other dealers -- including some "future Ford franchisees" -- have expressed interest in leasing the property. Berkowitz, though, eventually wants to develop the property. He won't say how long of a lease he's willing to extend to a new dealer.

The end of Coral Gables Ford follows last year's closure of Beach Ford in North Miami Beach. The site is now a Honda dealership owned by Miami's Potamkin Automotive.

Domestic manufacturers are looking to reduce the number of dealers in their ranks. Automotive News this month reported that Ford wants to eliminate at least 600 stores -- mainly in major metropolitan areas -- where it has too many dealerships. Ford wants to increase sales from about 1,000 vehicles per store to between 1,250 and 1,500, the publication reported.

Chrysler Group's new owner, Cerberus Capital Management, has warned some of its weakest dealers it may try to shut them down if their sales don't improve, the Wall Street Journal reported in July.

**"There has been a shakeout . . . primarily for domestic dealerships, " says Alex Kurkin, a Miami lawyer who represents dealers. "The domestic brands continue to lose market share to imports."**

**Whereas Toyota has five stores in Miami-Dade County, there are about 14 General Motors franchises, Kurkin says. But those Toyota dealerships sell just about as many vehicles as the GM stores. "They can't be as profitable, " he says of the domestic dealerships.**

Monarch Dodge's Hodos says Chrysler has wanted his dealership to merge with another store selling Chrysler and Jeep vehicles. But he says no one wants to spend the money to make it happen.

Florida's tough franchise laws will make it hard for the manufacturers to shrink the number of dealers, however. "They can't force you to do anything, " Hodos says.

Still, consolidation is happening. King Motor Co. of Fort Lauderdale last month sold its Pontiac, Buick, GMC and Saturn franchises on Sunrise Boulevard to AutoNation for an undisclosed amount. AutoNation combined the franchises with its Maroone Chevrolet store in Fort Lauderdale.

"There's clearly too much capacity on the retail side, " Maroone says. "We're a big advocate of the consolidation of franchises to try to gain higher volume, rationalize the cost structure and provide a high level of service."

King Motor's Kirk Francis didn't respond to a request for comment. King is looking for a buyer for its Dodge, Kia, Mitsubishi and Suzuki franchises that continue operating at the dealership.

While last week's interest rate cut by the Federal Reserve has been hailed by dealers, Erich Merkle of forecasting firm IRN says it may take as long as 12 months before the cut affects car sales. IRN predicts new-vehicle sales will tumble to 15.6 million next year.

"There is a lot of pain yet to come, particularly in housing and any big-ticket item, " AutoNation's Jackson told CNBC Wednesday. Maroone predicts a recovery next year, with lower interest rates and the introduction of new vehicle models.

Other dealers simply see the sales slowdown as the cyclical nature of the car business and remain upbeat about their prospects.

"We're naturally optimistic, " Blake Chevrolet Cadillac's Pete Blake says of his dealer brethren.