

GM and Chrysler Dealership Closures: Protecting Dealers and Consumers
United States Senate
Commerce, Science and Transportation Committee
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Good afternoon, Mr. Chairman.

I'm Fritz Henderson, President and CEO of General Motors. Thank you for the opportunity to discuss an important part of GM's viability plan, our dealer network restructuring. Simply put, a strong dealer body is vital to GM's success. Indeed, for many customers, our dealers are the "face of GM," – so this effort is very, very important.

It is also an effort that – regrettably – is quite painful – for us, for our customers, and especially for our dealers. Many of them run businesses that have been in their families for generations. The impact of what we are doing affects them personally as well as financially. It also affects the communities and states where they live.

That is why we went about this task very objectively and carefully. We decided not to terminate any dealers and developed a unique wind-down process that we believe is more equitable and fair. I will share more details about our process later in my testimony.

Our current dealer network in large part was established in the late 1940s and '50s. Back then, before the U.S. Interstate Highway system was built, America was a much more rural country. GM, Ford and Chrysler dominated the U.S. car market.

But times have changed. Today, I'm here to discuss why GM needs to have fewer, better dealers selling at higher volumes, who are able to better take care of customers; the costs associated with having under-performing dealers; and the objective process we are using to make the changes we need to make.

For decades, GM and our dealers have enjoyed periods of prosperity and have also weathered the inevitable troughs that are part of such a cyclical business. Over the last 20 years, we have seen particularly dramatic changes and pressures that have come from international trade, volatile energy markets, and increased competition in the U.S. market.

Foreign manufacturers who entered this market beginning in the '70s had the advantage of establishing their dealer networks in line with modern demographics. Today, more people live in the suburbs of major metropolitan areas, versus rural areas or small towns.

To meet these challenges, we've been designing new products, developing new technologies and restructuring our company to bring our fixed costs in line with these competitive market forces and shifting sales volumes.

But the most recent global financial crisis – which has yet to fully stabilize -- has made it clear that we no longer have the luxury of time – nor money – to continue to pursue the evolutionary approach we used in the past. It was an approach we hoped would bring about change, while minimizing the disruption change brings to everyone involved.

Although it's been tough to hear at times, the direction we received from Congress, the Administration, the Automotive Task Force, and countless industry analysts and pundits, was clear and to the point: we needed a dramatic restructuring, done with speed, across all parts of our business, if GM was to remain viable. We were asked to deliver a plan to make that happen by June 1.

The President acknowledged what we all understood from the start – such a plan would require shared sacrifice from GM and all of our stakeholders. What has become clear as we execute our plan is that GM, our employees, and our dealers do matter to America. We are collectively woven throughout the economic fabric of our country.

And this has been the most difficult part of executing our plan. . .the human story of the people who are affected by the painful but necessary actions we are taking to ensure our viability. Members of Congress, Treasury representatives, and the Automotive Task Force have seen this for themselves during their visits to our facilities and plant communities in recent months.

Reinventing GM – real change – does require shared sacrifice. Thousands of hourly and salaried employees are losing their jobs, and those who remain have had their pay and benefits cut. Plant closures impact families and the communities where they live.

These are tough times for everyone in the GM family. And, as a part of the GM family, our dealers are also being asked to bear some of the sacrifice in order to build a stronger, more viable GM.

The reality of our situation is this: all parts of GM, including the dealer network, must become smaller and more efficient to reinvent GM as a company that is not only viable, but capable of surviving cyclical downturns. GM's viability plan calls for fewer, stronger brands, as well as fewer, stronger dealers.

For years, we have heard the call that GM must adapt to today's global competition and market conditions or it will not survive. We agree.

In the case of our dealer network, because of our long operating history and existing dealer locations, many dealerships now operate in outdated facilities that are also no longer in the prime locations to best serve customers.

Much of the growth in GM's dealership network occurred in the 1950s and '60s, when we held a dominant share of the U.S. auto market. Since that time, strong new competitors have entered this market and our market share has shrunk, leaving us with too many dealerships. For example, GM today has roughly 6,000 dealerships in the U.S., compared to 1,240 for Toyota and 3,358 for Ford.

Besides the intense pressure from competitors, GM dealers also compete against each other. Over the years, many GM dealers could not earn enough profits to renovate their facilities and retain top-tier sales and service staffs.

Thin profit margins and state franchise laws also prevented many dealers from relocating as U.S. demographics shifted from urban to suburban settings. The dealers that remain compete with each other for a shrinking share of GM sales. Current market conditions only make this situation worse.

Our current plan calls for GM to have between 3,800 and 3,500 U.S. dealers by the end of 2010, depending on attrition levels, with a retail market share of 17.3 percent in a retail sales market of 10.15 million. This means that the number of units sold per dealer would nearly double, compared to today's levels.

This overall number is based on the previously announced potential sale of the Saturn, Hummer, and Saab, brands, or their phase-out if they can't be sold; dealer attrition over the next 18 months, which -- as you might expect in these difficult times -- is running at record levels; and the wind-down over time of the approximately 1,200 dealers we notified on May 15th, plus an additional 200 dealers who also received wind-down agreements this week.

The Treasury noted the problems caused by GM's current dealer network in their assessment of our Feb. 17 viability plan on March 30. They said:

"GM has been successfully pruning unprofitable or underperforming dealers for several years. However, its current pace will leave it with too many such dealers for a long period of time while requiring significant closure costs that its competitors will not incur. These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales."

Everyone agrees – even the dealers themselves – that a restructuring of GM's dealer network must take place.

A smaller dealer network reduces GM's costs, primarily related to support we provide for information technology systems, dealer and sales person incentives, field sales, service and training, service parts, and advertising. This support costs GM roughly \$1,000 per vehicle.

However, this effort we are undertaking is not really about saving money – although there will be cost savings. A key to GM's success over the long haul – which U.S. taxpayers have a vested interest in – will be a healthy, strong, and profitable dealer network that can provide the industry's best customer service and enhance the image of our four remaining brands: Chevrolet, Cadillac, Buick and GMC. Dealers who are too small, are unprofitable, or perform only marginally well, simply cannot provide those things to our customers.

The remaining dealerships will be better poised to keep their current GM customers, while aggressively marketing to take sales from competitors. The long-term benefits of a stronger, more viable dealer network are clear.

We are making these hard decisions to benefit our customers. As we reinvent GM, we are putting the customer first in everything that we do. Even with these cutbacks, GM will still have the biggest, most extensive dealer network in the country – more than any of our competitors, including Toyota, Honda, Nissan, Ford and Chrysler.

Next, I'd like to talk about the objective process we are using to consolidate the dealer network. We strongly believe that how we are doing this is as critical to our success as what we are doing. GM's dealer consolidation process is unique.

First and foremost, as I stated earlier, we have not terminated any dealer agreements. Just this week, we sent wind-down agreements to dealers who we could not retain in the network long-term. When executed, these agreements allow them to stay in business until October 2010 – the expiration date of their current dealer agreement -- so they can sell down their vehicle inventories and provide warranty service to customers, thus winding down their business in an orderly fashion.

We also – subject to bankruptcy court approval – have some financial assistance in the wind-down agreements to allow the dealers to accomplish this. On May 15th, we had previously notified most of these dealers about our planning. While this is not an easy process by any means, we think it is far preferable to an abrupt termination.

Prior to taking any action, we conducted a thorough analysis of every market and every dealer throughout the U.S. to assess individual market requirements and dealer performance.

Some of the key dealer performance factors that we looked at included:

- Customer satisfaction index
- Sales performance and volume
- Working capital
- Profitability
- Dualing patterns
- Dealership location
- Facility

We also carefully considered our dealer network coverage in rural areas and small towns versus urban/suburban markets. We know that our strong presence in rural areas, small towns and “hub” towns such as gives us a leg up versus the competition, which we intend to maintain. When these dealers perform to our standards, they are a huge asset.

We also took great pains to ensure that minority dealers were considered equitably and proportionally. In fact, the percentage of minority dealers overall may actually increase slightly after the consolidation takes place.

Identifying dealerships that we want to keep in the GM dealer network and those with whom we will have to wind down our business relationships was a very difficult step. However, it is a step we had no other choice but to take for GM's viability.

By reducing the number of dealers, the remaining dealers will see increased sales throughput at more competitive levels. This will provide a greater return on their

investment, especially in metropolitan markets. They will be able to retain top sales and service talent, invest in their facilities, and focus on selling vehicles to people who don't currently own a GM car or truck. Most importantly, they will be able to improve the overall customer experience and retain current customers.

From GM's point of view, by winding down under-performing dealers, we will eliminate the negative impact they have on our brand image and increase the opportunity for sales and service provided by our high-performing dealers. Although we will achieve substantial cost reductions in the consolidation, our primary goal was to improve the dealer network as a whole. This will enable us to focus our resources on top performers and core brands so we can attract and retain more private capital and the best dealer operators.

Dealers who wish to provide GM with additional information with regard to their performance on the key dealer performance factors have the opportunity to provide it to our Dealer Network Planning and Investments organization. We have received a number of such requests and are continuing to receive them.

Our dealers are not a problem but an asset for General Motors. Consolidating our dealer network will make it an even stronger asset.

Before concluding, let me mention one additional opportunity to help dealers and auto manufacturers in the current environment. In several other countries around the world, vehicle sales incentive programs have been implemented. These fleet modernization – or “scrappage” – programs provide incentives for customers to trade in older, less fuel-efficient vehicles for vouchers to purchase newer, cleaner, more fuel-efficient vehicles.

These programs have been very successful in stimulating vehicle sales in other countries. We urge Congress to quickly enact legislation for such a program in the U.S. In particular, we support the proposal introduced by Senators Stabenow and Brownback. It provides the broadest and potentially most effective program of those being considered.

In conclusion, GM is grateful for the support of the Congress and Administration as we undertake this painful, yet essential reinvention of our company.

As we are experiencing first-hand, it's much easier to talk about the need to change in the pages of newspapers, or on cable television. However, dramatic change is a much more difficult and serious challenge to actually undertake, and requires sacrifice.

The wholesale reinvention of GM has not been easy. But we will not soften our determination to see this process through because it is difficult or to run from sacrifice. We hope your support remains just as strong.

We understand our responsibility to American taxpayers, and we take it very seriously. We want GM to not only survive, but thrive. And we want our employees, communities, and especially our dealers to thrive with us. This – and, of course, great cars and trucks – is the way to pay back our nation's support.

The end result will be a healthier, successful, reinvented GM that will not only benefit employees and dealers, but contribute to America's economic and competitive strength.

Thank you. I look forward to your questions.