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The Franchised Automobile Dealer:
The Automaker's Lifeline

"Far from being a burden to the manufacturer it represents, the automobile dealer supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer."

Prepared for:

NATIONAL AUTOMOBILE DEALERS ASSOCIATION

NADA

Casesa Shapiro Group

Executive Summary

The independently owned and independently financed franchised automobile dealer network is a critical asset to the auto manufacturers. U.S. auto dealers have $233.5 billion invested in their businesses. This capital is supplied by 20,700 independent dealerships that employ and train over 1.1 million people.

The dealer body is not owned by the manufacturer but is independent and self financed. It serves as the link between the assembly line and the consumer. Far from being a burden to the manufacturers they represent, dealers act as an extension of the manufacturer. They support the manufacturers' efforts by providing, at virtually no cost to the manufacturer, a vast distribution channel that allows for efficient flow of product to the public.

The relationship between the dealer and manufacturer is mutually beneficial. The dealer's significant investment allows the manufacturer to spend its resources on research and development of product while the dealer spends its resources on sales, marketing, and customer handling. Each group benefits from the other and neither could afford all the expenses of the total value chain.

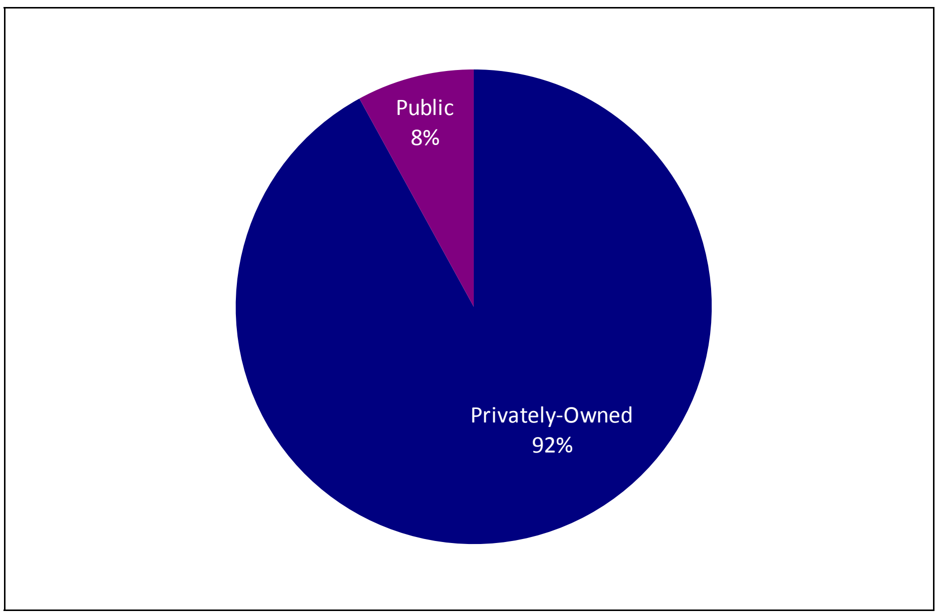
Overview of US Auto Retailing

Virtually all new cars and light trucks bought in the U.S. are sold through franchised dealers. Dealers are independently owned, and combined, represent the largest retail business in the U.S., with approximately $693 billion in revenues in 2007. Franchised dealers employ over 1.1 million people, comprise nearly 20% of all retail sales in the U.S., and, in total, pay billions annually in state and local taxes.

Dealers are Independent Businesses

The nation's 20,700 independent franchised new car dealerships comprise an industry that is fragmented and largely privately held, with private ownership accounting for 92% of the market (Chart A). ***The franchised dealership is a business independent of the auto manufacturer, is self financed, and serves as an extension of the manufacturer. Far from being a burden to the manufacturer it represents, it supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer.***

Chart A: Dealership Ownership in the U.S.



Source: Merrill Lynch

Dealers Play a Complex and Essential Role

The franchised dealership system in the U.S. is the independent link between the manufacturer's assembly line and the consumer and its functions include, but are not limited, to the following:

- Selling the product and providing information for consumers
- Holding vehicle and parts inventory for a push oriented manufacturing system
- Performing service and providing parts to fulfill manufacturer warranty obligations
- Handling product safety recalls

- Facilitating the exchange of used vehicles
- Arranging financing for consumers
- Supplying capital for new showrooms and service facilities
- Creating advertising and marketing programs targeting local markets
- Providing market feedback to the manufacturer
- Training employees as required by the manufacturer

Dealer Investment on Behalf of Automakers

In filling their essential role as the link between the assembly line and the consumer, franchised dealers make large investments, incur substantial expenses, and bear considerable financial risk that *otherwise* would be borne by the manufacturer. The scope and magnitude of these financial commitments is discussed below.

1. Dealer Investment

Franchised dealers have $233.5 billion invested in their businesses, or an average of $11.3 million per dealership. The main components of this investment can be broken down into the following categories:

a. Facilities and Land

Most individual auto dealerships require several acres of land, which the owner must purchase or lease. Manufacturers require that the owner build or maintain a facility that houses a vehicle showroom and a service and parts center, along with all related customer and employee amenities. The business is real estate intensive. Casesa Shapiro Group estimates, conservatively, the average dealership has approximately $2.5 million invested in land, buildings, furniture, fixtures and equipment.

b. Inventory

In lieu of the auto manufacturers having to do so, dealerships maintain a large physical inventory of new cars. Typically, a dealership will hold a 60-90 day supply of new cars. The average dealership has approximately $4.9 million invested in new car inventory. This number nationally is $101.3 billion.

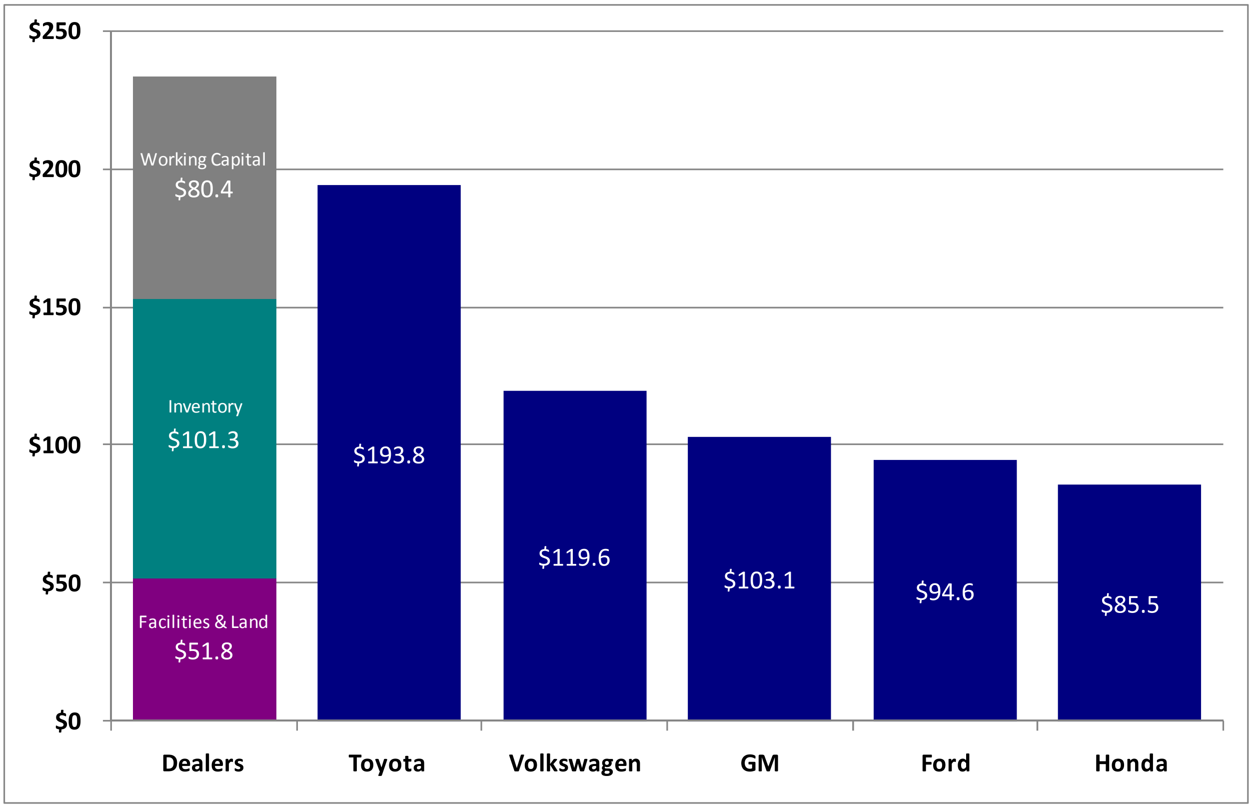
c. Working Capital

Manufacturers dictate specific working capital requirements, which are significant. For example, manufacturers typically require that dealers carry net working capital investment equal to two months of parts inventory value, new and used inventory value, and other expenses. In addition, more capital is needed to fund receivables due from manufacturers, customers, and finance companies. The average dealership needs approximately $3.9 million in working capital and nationally dealerships have $80.4 billion invested in working capital.

In total, U.S. franchised dealers have more capital invested in their businesses than the world's largest automakers, as shown in Chart B.

Chart B: Investment of the U.S. Franchised Dealer Body vs. Total Industrial Assets of Major Automakers

$Billions



Source: NADA Industry Analysis for September 2008; company reports for latest fiscal year; Honda and Toyota fiscal year ends March 31.

2. Operating Expenses

In 2008, dealers are expected to deliver approximately 13.5 million new vehicles to customers. In doing so, they will incur approximately $80.8 billion in expenses.

a. Personnel Expense

The largest category of expense is for personnel, which is estimated at $36.5 billion for 2008.

b. Sales Related Expense

In 2008, dealers will spend approximately $7.3 billion advertising manufacturers' products, or more than $20 million per day. These expenditures are in addition to what the manufacturer spends to advertise its product, thus augmenting the automakers' marketing efforts. Dealers also spend $329 million annually to train sales personnel to remain knowledgeable about manufacturers' products. In addition, it is estimated that dealers spend $873 million annually on regulatory issues such as Truth in Lending and Graham Leach Bliley Act/privacy compliance.

c. Service and Parts Related Expense

Dealers incur costs to train service technicians who repair and maintain customers' vehicles. Training expense is ongoing as the manufacturer continually introduces new models and technologies. In addition, dealers must also comply with changing OSHA and EPA requirements. The dealer body spends $423.8 million per year to keep its service staff proficient, or about $20,473 per dealership.

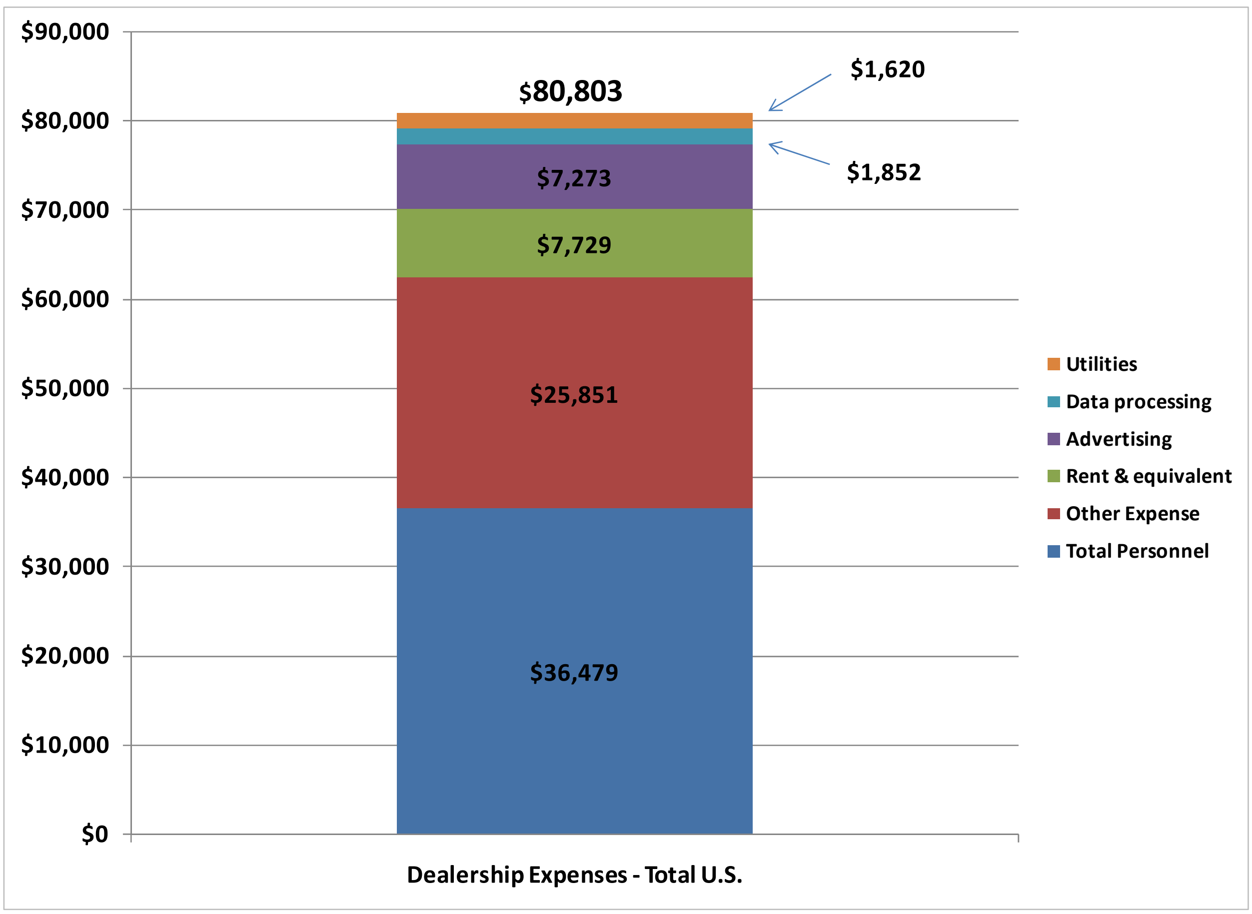
d. Inventory Expense

Aggregate new vehicle inventory carrying costs are $890 million or $42,995 per dealership on an annual basis.

Chart C below illustrates aggregate dealership expenses for dealerships in the U.S. Chart D shows the average pre-tax net margin for dealerships in the U.S., which is etimated to fall to 0.8% in 2008.

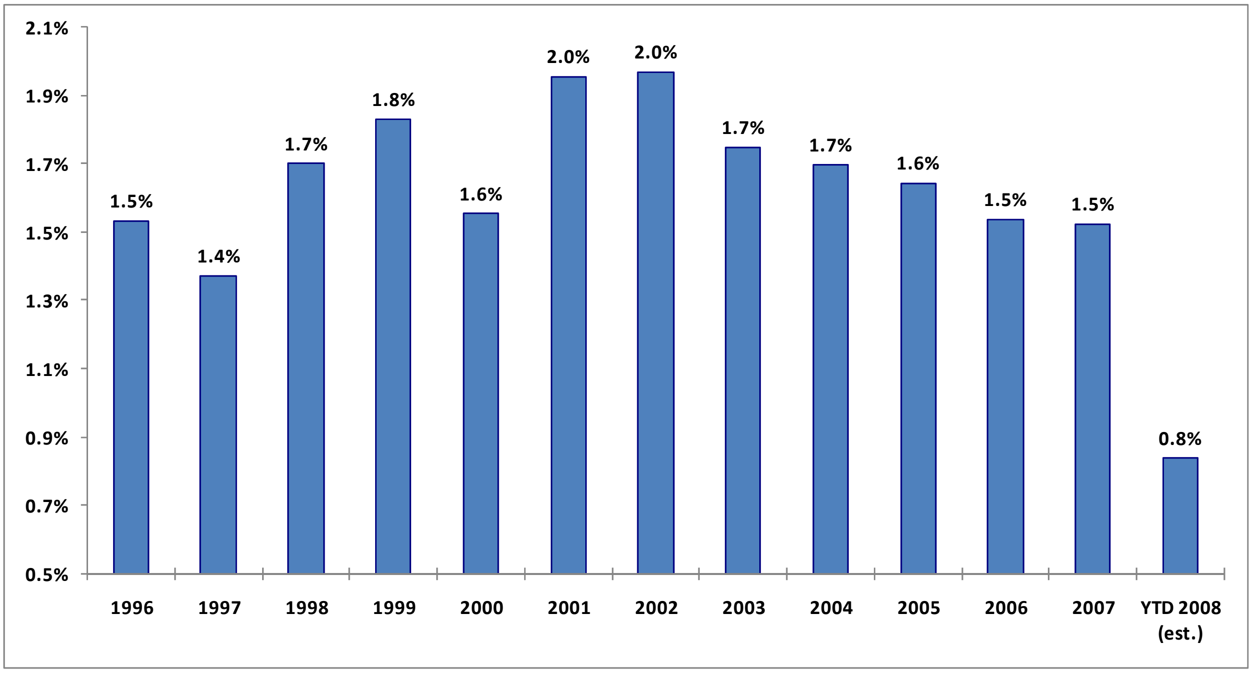
Chart C: Aggregate Dealership Expenses for Dealerships in the U.S.

$millions



Source: NADA Industry Analysis

Chart D: Pre-tax Net Margin for Dealerships in the U.S



Source: NADA Industry Analysis; Casesa Shapiro Group estimates

Automakers Have Externalized Significant Risks to Dealers

In addition to making large investments and incurring substantial expenses to operate, dealers shield the manufacturer from various risks.

1. Multi Million Dollar Inventory Risk

The manufacturer invoices the dealer for a new vehicle when it ships the vehicle from the plant, not when the vehicle arrives at the dealer. Often, time from invoicing to physical receipt can take two weeks, or longer. The dealer bears the carrying cost during this delivery period. On the other end of the spectrum, the dealer bears the risk of aging inventory. While the manufacturer may provide assistance from time to time in the form of rebates and incentives, the dealer takes the risk that the vehicle may sell at a loss. The average dealer has approximately $4.9 million of new car inventory at risk.

2. Financing Risk

Most dealers finance their vehicle inventory through a finance facility called a floorplan. Most dealer principals are personally responsible for this floorplan liability. Risks here are twofold: a floorplan lender may rescind its commitment, leaving the dealer to find a new lending source or being forced to pay off the note, a potentially devastating outcome as dealers rarely have enough cash to pay off such a large obligation. On the consumer side of the equation, dealers are at the mercy of the consumer lending market. Should lenders cease to lend, or tighten their lending standards, the dealer's ability to sell his or her inventory is greatly diminished.

3. Receivables Risk

Receivables due from the manufacturer include vehicle holdback (essentially a margin payment), vehicle incentives, and warranty reimbursements. While the dealer must fund payment timing differences through working capital, the dealer is at risk in the case of a manufacturer bankruptcy. Receivables due from the consumer include payment for labor and parts for service work performed but not yet paid. The dealer is also at risk for receivables from financial institutions funding the consumer's purchase of the vehicle.

4. Real Estate Risk

Dealers have large investments in land and facilities. Often, these facilities are single purpose and cannot be used for occupants other than auto dealerships. In addition, manufacturers often require dealers to undertake substantial renovation projects to their facilities for branded image programs. Manufacturers often wield a velvet hammer, attempting to use a dealer's refusal to embark on an image program to prevent the dealer from sharing in certain incentives available to those who have undertaken the program. Should a particular manufacturer's sales decline, or should a manufacturer exit the market, the return on capital invested in these programs is often poor or worse.

Importance to Local Communities

Car dealerships are local businesses and provide significant sales tax revenues and employment opportunities to the communities in which they operate. Nationwide, car dealerships provide employment for 1,114,500 people and pay billions annually in state and local taxes. In addition, on average, each dealership makes $25,600 in charitable contributions to its community.

Appendices A and B attached provide some context on a state by state basis of the prevalence and reach of these businesses. At a more local level, a typical dealership geographic profile may look as follows:

Table A: Estimated Economic Impact of Dealers, by Representative Town/City

	Population	Estimated No. of Dealers	Estimated Employment	Estimated Investment
Newark, OH	47,176	9	486	$101,700,000
Greensboro, NC	247,193	90	4,860	$1,017,000,000
San Jose, CA	939,899	220	11,880	$2,486,000,000

Source: Casesa Shapiro Group

Conclusion

U.S. franchised auto dealers have invested $233.5 billion in their independent businesses. This investment represents more capital than the total industrial assets of any of the world's largest automakers. These businesses employ over 1.1 million people, are supportive of their local communities, and pay billions annually in state and local taxes. They deflect certain financial risk from the manufacturers by putting their own capital at risk. The dealers' enormous investment allows the manufacturer to spend its resources on research and development of product while the dealers spend their resources on sales, marketing, and customer handling. Neither group alone could afford all the expenses of the total value chain. Dividing the value chain rationalizes the process. Automakers spend their resources efficiently on manufacturing and dealers spend their capital efficiently on serving the consumer. The independent franchised dealer body is the lifeblood of the automaker. While the retail consumer is the dealer's customer, the dealer is the manufacturer's only customer.

Far from being a burden to the manufacturer it represents, the automobile dealer supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer.

Appendix A: Estimated Number of New Car Dealership Employees in 2007, by State

	Total Employees	Avg. number per dealership
Alabama	16,471	48
Alaska	2,292	60
Arizona	29,182	114
Arkansas	8,712	33
California	133,721	84
Colorado	17,076	60
Connecticut	14,388	45
Delaware	4,022	62
DC	32	32
Florida	76,508	81
Georgia	33,858	56
Hawaii	5,105	77
Idaho	5,842	47
Illinois	43,336	46
Indiana	21,778	42
Iowa	12,020	33
Kansas	10,072	39
Kentucky	13,072	44
Louisiana	18,210	54
Maine	5,350	37
Maryland	24,131	67
Massachusetts	23,400	49
Michigan	36,258	48
Minnesota	19,500	45
Mississippi	9,460	39
Missouri	21,603	44
Montana	4,280	32
Nebraska	6,584	31
Nevada	11,025	93
New Hampshire	7,122	42
New Jersey	32,152	56
New Mexico	7,458	53
New York	49,122	44
North Carolina	32,828	47
North Dakota	3,196	33
Ohio	40,937	43
Oklahoma	19,979	67
Oregon	14,092	51
Pennsylvania	50,694	44
Rhode Island	3,308	53
South Carolina	15,042	46
South Dakota	3,480	30
Tennessee	22,121	53
Texas	86,828	65
Utah	9,340	61
Vermont	2,783	29
Virginia	33,094	60
Washington	23,317	61
West Virginia	6,227	37
Wisconsin	21,633	36
Wyoming	2,460	35
Total US	**1,114,501**	**53**

Source: NADA Data, 2008 Edition

Appendix B: Relationship of New Car Dealerships to Total Retail Trade in 2007, by State

	Dealer payroll as % of total retail payroll in the state	Dealer employees as % of total retail employment in the state
Alabama	12.9%	7.0%
Alaska	11.5%	6.8%
Arizona	15.2%	8.4%
Arkansas	12.7%	6.7%
California	13.9%	7.9%
Colorado	13.6%	7.3%
Connecticut	14.0%	8.0%
Delaware	15.2%	8.2%
DC	1.4%	0.7%
Florida	15.1%	7.9%
Georgia	13.8%	7.4%
Hawaii	12.0%	6.2%
Idaho	12.6%	7.3%
Illinois	13.8%	7.6%
Indiana	12.9%	7.0%
Iowa	13.3%	7.3%
Kansas	13.2%	7.2%
Kentucky	11.9%	6.4%
Louisiana	14.5%	7.5%
Maine	11.8%	6.6%
Maryland	14.7%	8.3%
Massachusetts	12.7%	6.8%
Michigan	15.1%	7.7%
Minnesota	12.3%	6.8%
Mississippi	12.4%	6.4%
Missouri	13.9%	7.3%
Montana	12.1%	7.0%
Nebraska	12.6%	6.9%
Nevada	14.9%	7.7%
New Hampshire	13.9%	7.7%
New Jersey	13.4%	7.2%
New Mexico	14.0%	7.8%
New York	10.5%	5.9%
North Carolina	13.8%	7.5%
North Dakota	14.0%	8.0%
Ohio	12.9%	7.3%
Oklahoma	14.6%	7.7%
Oregon	13.1%	7.4%
Pennsylvania	13.8%	8.0%
Rhode Island	11.9%	6.5%
South Carolina	12.1%	6.6%
South Dakota	13.3%	7.5%
Tennessee	13.4%	7.3%
Texas	14.6%	7.9%
Utah	11.6%	6.2%
Vermont	12.9%	7.5%
Virginia	14.6%	7.9%
Washington	12.1%	7.2%
West Virginia	12.7%	7.4%
Wisconsin	12.9%	7.6%
Wyoming	13.5%	7.4%
Total US	**13.4%**	**7.3%**

Source: NADA, 2008 Edition

Sources

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Ford Motor Company
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