Car Dealers Take Fall For Errors of Others

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It can't be much of a surprise to anyone that General Motors has followed Chrysler into bankruptcy. The move was rumored for weeks, and it was probably overdue by more than a year.

The severe economic recession that began in 2008, combined with rising fuel prices last summer, created a perfect storm that made bankruptcy virtually inevitable. Both Chrysler and GM have now begun the process of drastically reducing their dealer networks by terminating franchise agreements or notifying dealers that their franchises will not be renewed in 2010.

The manufacturers claim they have no choice and need to cut costs if they're going to survive. No one disputes that they need wholesale reorganization, but automobile dealers are a source of revenue, not expense, for the automakers. The dealers constitute a vast distribution network at minimal cost to the manufacturers. The dealers bear the cost of the inventory in their showrooms, actually purchasing the vehicles they sell to the public. And those showrooms? The dealers pay for the facilities you visit to buy and service your automobiles, not GM or Chrysler. A group of dealers made this case during a recent hearing before the U.S. Senate Commerce Committee, but few believe things will change. On Tuesday, the Automobile Dealer Economic Rights Restoration Act of 2009 was introduced in Congress, requiring Chrysler and General Motors to continue to honor their commitments to auto dealers and follow state franchise laws. At this point, however, there's no way to predict if these political measures to protect dealers will succeed.

So if dealers aren't the real problem, what is? There's enough blame to go around, but most of it has to be laid at the feet of the United Auto Workers Union and GM and Chrysler managers, who have made poor decisions about marketing, design and labor issues for decades. Unfortunately, under pressure from the Obama administration's automotive task force, the manufacturers have taken a hatchet to their distribution networks, while the politically favored UAW winds up owning a large chunk of each company.

Inefficient union work rules have hamstrung the domestic automakers for years, while non-union Japanese and European manufacturers who build cars and trucks in the U.S. have enjoyed the flexibility to make needed changes to enhance productivity.

Caught in the crossfire of all this political and legal maneuvering are the dealers and their employees. Some of the top Detroit executives have paid with their jobs, most notably former GM CEO Rick Wagoner, and surely others responsible for this mess deserve to be shown the door.

Besides the dealers themselves, the real losers are likely to be consumers, who will have fewer choices when it comes to sales and service of new automobiles from U.S.-based manufacturers. Nearly everyone seems to be paying the price for the mess largely created by the unions — except the unions themselves.

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