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Car dealerships struggle, though local market appears more stable

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By Don Hammonds, Pittsburgh Post-Gazette

The deteriorating auto sales market in the United States sent the amount of profit at new car dealerships plummeting to \$349 per employee in 2008, from \$4,173 per staffer in 2007, according to an analysis by a company that researches data for privately owned firms.

The dollar amount of sales per employee also dropped last year. In 2007, the average new car dealer collected \$620,572 per employee, up from \$615,597 in 2006.



But last year, the average new car dealer pulled in \$465,556 in sales per employee -- a drop of more than \$150,000 from the previous year, the data from Raleigh, N.C.-based Sageworks showed.

The future looks even more ominous for profit-starved dealers.

Major automakers yesterday reported their U.S. sales continued the deep slump in February, putting the industry on track for its worst sales month in more than 27 years as huge rebates and low-interest financing failed to spur fearful consumers to make a major purchase.

General Motors' sales tumbled 53 percent from a year earlier, while Ford's U.S. sales fell 48 percent and Chrysler's fell 44 percent. The major Japanese automakers fared only slightly better.

Industry analysts say when all the numbers are tallied, February sales could be worse than January's total of 656,976 light vehicles.

"It's probably stating the obvious, but it's potentially devastating if we don't come back from these levels within the next 12 to 14 months," said Jeff Schuster, executive director of forecasting at J.D. Power. "Right now, the economy looks like it's going to be getting worse instead of better, and a lot of that relates to consumer confidence."

The misery at car dealers is widespread, extending to just about all carmakers, not just domestic ones.

"Each one of the 10 major new vehicle manufacturers suffered a retail sales decline in early February, compared to one year ago," said Gary Daults, senior vice president of global automotive operations at J.D. Power.

Unfortunately, some industry analysts say, the recently passed stimulus package will do little to help, at least immediately, because it doesn't contain checks to be sent to households.

Many analysts believe consumers probably would not spend tax cut money on cars or other major purchases anyway. Frightened by economic conditions, consumers are more likely to save money they get to help protect them from financial disaster, should they lose their jobs or economic conditions worsen.

Though there are no statistics yet available for Pittsburgh's dealers, many people think the region isn't suffering as much as other locales.

"It seems that Pittsburgh is probably a little better off than the other areas," said Denise Brennan, executive vice president/CEO of the Greater Pittsburgh Automobile Dealers Association.

"We're a little more stable here. Our housing markets never had spikes and valleys, and the same holds true with the auto industry. It's just a little bit more consistent here."

But for those dealers in Pittsburgh and elsewhere who are struggling, there are some options for coping.

Ms. Brennan said there are a number of seminars, Webinars and workshops that the National Automobile Dealers Association has begun advertising. "And we're trying to do everything we can, as is the national association, to help them get through difficult times," she said.

NADA offers a dealer hot line where dealers can talk with consultants and trained instructors about everything from cash flow and accounts receivable to warranty administration, inventory and other financial and operational issues.

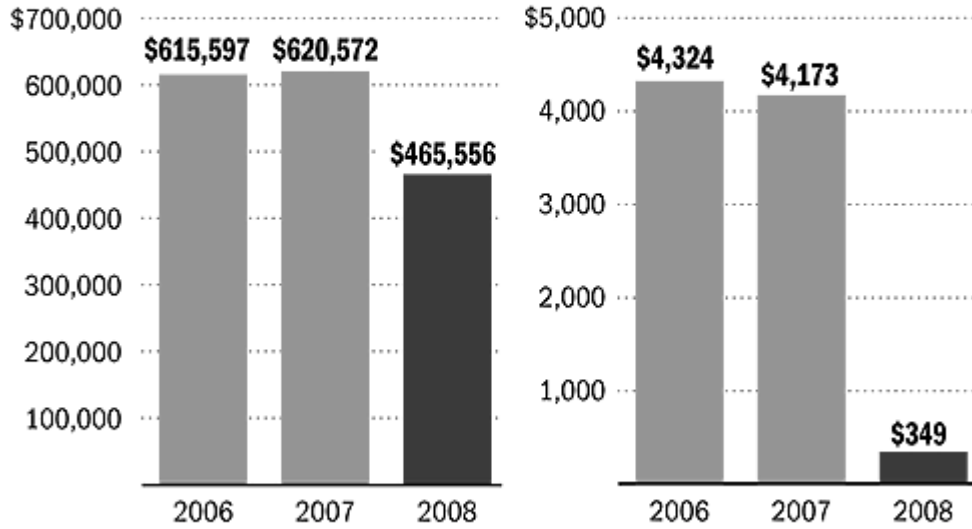
The U.S. Small Business Administration also offers guaranteed loans to small dealerships unable to "secure conventional commercial financing on reasonable terms," the guidelines for the loan program say.

To qualify, dealers must have total annual receipts under \$29 million and no more than 100 employees.

Loans can be used for a number of purposes, including working capital and refinancing existing debts.

Car dealers' woes

Annual sales numbers and average profit for U.S. car dealers saw a huge decline in 2008.



Source: Sageworks, Inc.

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