

*“Auto Sales in a Changing Market:  
Transforming Problems into Opportunities”*

Remarks by  
NADA Chairman Dale Willey  
to the  
Automotive Press Association  
Detroit, MI  
October 9, 2007

Good afternoon.

This afternoon, I'm going to talk quite candidly about the problems facing the auto industry. I see those problems through the lens of my career in the industry.

Take the GM strike, for instance. We're all relieved that it lasted only a couple of days. But many of us remember the last national strike at GM, back in 1970. I had the dubious fortune of starting my business at the beginning of that strike. Talk about a rough start. The strike resulted in no new inventory. It got so bad that, at one point, I was down to one used car on the lot. It was a lime-green, 1969 Buick Wildcat Coupe. I was forced to learn fast how to survive during hard times.

The fundamental lesson I learned was that in confronting a problem, even a crisis, the key was to find a way to transform that problem into an opportunity. In my own case, it forced me to learn how to both minimize costs and maximize service and how to think creatively to keep current customers happy and bring in new ones.

By the way, it became a lot easier to bring in those new customers when I had cars on the lot.

I see the current situation facing the auto industry as similar in a way to the situation I faced in 1970. We face many problems, but behind those problems are opportunities that can lead to an even stronger industry.

Before we can create those opportunities, we have to hear the bad news and face the problems we have. And there are many.

First, the industry is changing rapidly and change is always hard. Just think how much has happened since NADA was here last year.

Who would have predicted that GM would reach a historic agreement with the UAW that could change the nature of management labor relations so dramatically?

That Cerberus would buy Chrysler? And then Chrysler hires Jim Press.

Or that Ford would be led by someone who, a little over a year ago, was considered an industry outsider? I'm proud to say that Alan Mulally is from Lawrence, Kansas, a graduate of Lawrence High school as well as the University of Kansas. One other side note, Lorraine and Dick Mulally, Alan's parents, have been loyal Pontiac customers of mine for year.

At the time of the last GM strike, the Detroit Three held 69 percent of the U.S. market – it's more like 52 percent today.

This industry has always been about change, but it seems that change is coming at us faster than ever.

Unfortunately, change is not the only problem we face. The housing slump and credit crunch are impacting auto sales. To make matters worse, some experts say that there is a 30 to 40 percent chance of a nationwide economic downturn in the near future. And we all know what a downturn could do to the industry.

There are other threats as well, including the dangers posed by rising oil prices and potential oil shortages. And the threat of climate change could lead to government regulation that would have vast impacts on how we do business.

Given all the problems that we face, it would be easy to get wrapped up in the immediacy of the moment and give in to pessimism. But I keep thinking about the GM strike in 1970 and how I found opportunities in those problems confronting me. It seems to me that my story is but one small chapter in what has always been the story of our industry.

We dealers are a resilient bunch. We've survived world wars...natural disasters...depressions...and recessions...and an ever-changing marketplace. We can't lose sight of the fact that we've faced these tremendous challenges again and again—and always overcome them, by turning problems into opportunities.

One of the dealers who represents this great history is Don Drennen. The name Don Drennen may not mean much to people these days. But back in the 1930s, he was one of a handful of dealers who loaned GM money, so GM could continue to produce product. He saw that the problems facing GM and the nation were really opportunities and had the courage to invest in the future. Don Drennen was only one dealer, but in another way, his story is the story of all of us. And I'm happy to report that Don Drennen's dealership is still thriving under the management of his great grandson, Ward Drennen.

We all know the rest of that story – GM went on to become the biggest automaker the world has ever seen. But without those dealer loans, GM would have been out of business. Don Drennen knew how to turn a problem into an opportunity.

The good news is so do we.

Before detailing how problems facing us today can be made into opportunities, it is important to recognize that the difficulties we face today are not as severe as problems we have overcome in the past.

First, we need to remember the tremendously positive economic impact that dealerships have on their communities. Auto sales account for the largest segment of our retail economy – over 22 percent. That’s about \$700 billion each year. And dealerships employ more than 1 million people nationwide...more than all of the auto manufacturers combined. And these are the kind of jobs that cannot be outsourced overseas.

Second, the auto industry is cyclical. If history shows us anything, it’s that the manufacturer that’s up today could be down tomorrow. But this also means that the manufacturer that is down today can turn that around. The very weakness in the current U.S. auto industry could make a rebound all the stronger.

Third, despite the problems in Detroit and the challenges facing us elsewhere, it is important to remember that the industry as a whole is strong. In fact, the past eight years have been some of the best in history for the U.S. automobile retail business.

NADA chief economist Dr. Paul Taylor projects annual sales this year will be about 16 million new vehicles. That’s down from last year’s 16.5 million but still very strong by any standard. And that strength remains in an economy that grew less than two and a half percent last quarter.

Moreover, there are positive signs that the economy could improve. The Federal Reserve’s recent rate cut was welcome news. The hope is that it will ease the housing slump and the credit crunch and keep the economy moving in the right direction. In fact, some experts expect housing to start turning around by the middle of next year.

There’s even talk about Detroit automakers regaining some market share. Analysts predict that new products like the Buick Enclave, Ford Edge and Jeep Compass and aggressive marketing by the domestic makes could win back some of their market by 2009. We haven’t heard that kind of prediction in quite some time.

While there are positive signs, we have to recognize the problems that we face – especially in the long term. As it always has been, those problems provide opportunities to create an even stronger industry.

Let me detail how some of the problems can be transformed into opportunities. Take the loss of market share by the Big Three in Detroit and the rise in gasoline prices. Those higher prices create an opportunity to design and sell more efficient vehicles. Some car buyers are already shifting to more fuel-efficient vehicles. Sales of gas-electric hybrids have risen 37 percent so far this year. The point is that loss of market share and higher prices create an opportunity for the auto industry to reinvent itself. We all know that quality product will always have an impact on the industry.

Another key sign of change among consumers is their move toward more fuel-efficient crossover-utility vehicles. And yet, the sales of these vehicles are often mixed in with full-sized SUVs, and this buying trend is not sufficiently recognized. CUV sales have risen over the last few years. Innovative new product has been the key to these increased sales, just as it has with the hybrids.

Also, several manufacturers are expected to introduce more diesel-fueled vehicles, which provide fuel-economy gains without sacrificing the needs of the American consumer.

*(pause)*

What about the environmental problems that threaten our industry, but more importantly, the entire planet? One of the mega-issues that's surfaced this year is CO2 emissions and what to do about them.

The world has changed. This year, I've had the opportunity to travel to meet with dealers and OEM representatives in Mexico, Britain, Australia and New Zealand. Their markets are different from ours, and their business concerns are different. But they share a common concern – climate change. In fact, it was uppermost on their minds.

How do we effectively reduce emissions of greenhouse gases like CO2?

Not surprisingly, the focus right now is mainly on transportation. After all, cars are highly visible. Confronting climate change will require changes in all aspects of emissions generation, including agriculture, construction, and utilities. But it is clear that cars are one important part of the CO2 picture.

Many believe that additional regulation impacting the automobile industry is inevitable. At first glance, the thought of more regulation may be scary. What we have to do is take the problem posed by regulation and transform it into an opportunity.

Let me give you one example of how we can do that in an area of particular concern to us...CAFE – corporate average fuel economy standards.

Some have proposed drastic increases in these standards – increases that may not be technically feasible and that could have vast negative effects.

There are two important questions about CAFE: Will it be done responsibly and who will do it? For a while, it appeared that it was not going to be done responsibly. In fact, at one point the House leadership was prepared to move forward with either Representative Markey's H.R. 1506 or the Senate-passed bill, H.R. 6. Both bills are considered unreasonable.

They call for CAFE increases that would pose a significant threat to vehicle choice, safety and affordability.

Let me illustrate. Even if production of SUVs ceased today, manufacturers say they could not meet the mandates set forth by either the Senate energy bill or Markey's bill.

The leadership of NADA confronted this problem by making clear that it supports an aggressive but responsible increase in fuel economy standards. The good news is that there is legislation in Congress calling for such action – the Hill-Terry bill, H.R. 2927.

When it comes to fuel economy increases, Hill-Terry is no slouch. It would raise fuel economy for cars and light trucks to between 32 miles per gallon and 35 miles per gallon by MY 2022 – that's a 40 percent increase over the current standards. These are aggressive targets, and they will be a challenge for automakers. But Hill-Terry gives manufacturers enough lead-time to develop technologies needed to meet the new standards. It also balances fuel economy increases with vehicle diversity, safety concerns and affordability.

When Hill-Terry was first introduced, it had only six co-sponsors. The House leadership did not even have it on its "radar screen." NADA organized a "fly-in" to Washington, so dealers could meet face-to-face with their legislators. We carried forward one simple message: Hill-Terry is the only bill that calls for responsible CAFE reform.

Within 15 legislative days, the bill had more than 120 co-sponsors. Now, I'm proud to say, there are 170, including your own John Dingell.

We agree the U.S. must become less dependent on foreign sources of oil. We also agree with the goal of reducing CO2 emissions. But a boost in CAFE can accomplish these goals only if consumers buy the new, more fuel-efficient vehicles. And there's no guarantee they will. For example, light trucks have outsold cars for the last five years.

Drastic government mandates could force automakers to build cars that the American consumer will not buy. If that happens, car owners will simply hold onto their older, less fuel-efficient cars. We call it the "Jalopy Effect." It would slow down meaningful reductions of CO2 emissions. And that's not something that any of us wants.

The key point is that effective advocacy by dealers has done more than slow down irresponsible, "knee-jerk" legislation that would do harm to the auto industry and, therefore, the U.S. economy. Our effective advocacy also has increased support for legislation that would both reform CAFE standards, thereby cutting CO2, without putting our industry at risk. Talk about a win-win.

This is an industry undergoing tremendous change and bracing for even greater change to come – with dealers at the center of much of it.

Truthfully, this has always been the case. From the birth of the industry through the upheaval of the first world war, the boom that followed, the depression, World War II, and ever since, we always have confronted change and the problems that came out of it. And we've always dealt with those problems by turning them into opportunities.

I can't help but think of my own experience as a young car dealer looking out at an almost empty lot and seeing one used car, lime-green at that.

I'm proud to say that my experience in transforming problems into opportunities has been all of our experience – for over 100 years. And in the future – when that car lot may be filled with vehicles that run on alternative fuels – that fundamental truth will remain. We, both manufacturers and dealers, will always prosper as long as we focus on transforming problems into opportunities.

Thank you. I'm ready to take your questions.

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