

## **The Franchise System on Two and a Half Pennies**

Remarks by  
Forrest McConnell  
2014 NADA Chairman  
to the  
2014 New York International Auto Show  
New York City, April 15, 2014

Look into the face of this man. What type of person do you see?

Based on this photo, you probably see a nice guy.

What you probably *don't* see is a Special Forces Green Beret who served in Korea; or a famous motorcycle world champion; or a Hollywood stuntman. Do you see a husband and proud father of three boys?

I see a friend, mentor, and all of those other things. This man was a motorcycle mechanic turned mega-star dealer. His name is Dave Mungenast and he was, in the best sense of the word, a bad ass.

When he started in our industry, he almost went broke. He scraped and borrowed to open a "Honda" motorcycle dealership. In 1967, he signed with an obscure upstart called "Toyota." In 1968, he hit hard times but he vowed he would not close his business while he owed other people money. He made it through the economic storm and eventually owned some of the most successful stores in the Midwest including Honda and Lexus dealerships.

Dave was a pioneer in our industry. He helped pave the way for four start-up brands in America: *Honda, Acura, Toyota* and *Lexus*. So why is his story still important to us today?

Because all these manufacturers – even back in 1968 – leveraged the franchised dealer system to get their products to the public. And because franchised dealers shouldered the cost of stores, service, employees and inventory. Dealers like Dave Mungenast gave those franchises a partner on the road to success.

Now, if I showed this picture of a vehicle to customers nationwide and asked them to tell me what they see, the majority of them would probably just say "a car." They probably don't see the more than *17,800 franchised dealerships* that work to bring that car from the assembly line to them.

They probably don't see the long-term service that the car needs and service that thousands of dealers provide down the road. And they certainly don't see the franchised dealer network which makes owning a car possible for millions of people—a network that people like Dave Mungenast put his heart and soul into.

In 1994, years before Dave passed, he said something to me that changed how I looked at this business. We were in a cold conference room in Detroit. I was only 34 at the time. Dave said to me, “Forrest, when you look at someone my age all you see is an old man. But what you *don't see* are all the things that old man has done in his life.”

What he said to me changed how I view people. It changed how I view business. There's a lot that goes on behind the scenes, behind someone's life, and behind someone's business. That is especially true for dealers. There's a lot that dealers do behind the scenes that many people forget about.

I remember another meeting with Dave. We were in an NADA business group together. And Dave told me this: “Selling a car is just one day for the customer. If you want to be successful, you have to figure out what to do for the customer all the other days they own the car.”

Dave told me that the first aspect of our business – selling a car – is the easy part. It's just the start of the relationship with our customers. Our job, as dealers, is to make our customers happy the entire time they own the car. And that's the long-term aspect of our business – service. Whether customers want service on a gas-powered, hybrid or electric vehicle, dealers support their customers past the point of sale. We're the ones customers come to for help and answers. This is a fact that the public and the media sometimes forget.

I've even heard the media call us “costly middlemen.” I've heard people question the value of our services time and time again. There are more than 17,800 new-car dealerships in our country. Dealers employ over 1 million people nationwide. We generate 15 percent of all U.S. sales tax. These dealerships compete fiercely for the opportunity to sell people cars and to service those cars for the long-term.

That kind of competition benefits customers.

If manufacturers sold directly to customers, there would be zero competition in pricing vehicles, parts, and service. Customers would be stuck paying the full sticker price because there would be no “same brand dealership” to shop and compare prices. One thing I've learned is that customers like to pay the full sticker price just as much as they like paying a speeding ticket. They hate it!

The biggest competition for a Ford dealer is the other Ford dealer down the street. Cutting out dealers *would not* lower car prices. A factory-owned retail network would have to make the same investment in physical assets and incur the same operating expenses that dealers now shoulder, just like Dave Mungenast shouldered for Lexus, Toyota, and Honda.

With wide distribution and service channels, franchised dealers can respond to recalls faster and more efficiently than a single manufacturer or factory store ever could. When dealers are called upon to address a recall, they see an opportunity to help get their customers back on the road and restore confidence in the brand.

Customers who have a dealer advocate on their side make warranty and safety solutions easier. When I was a service manager, I couldn't even count the number of times I had to convince the manufacturer to fix a problem for my customer – sometimes even during the warranty period. That would rarely happen if dealers weren't in the picture.

But okay, let's say the manufacturers do the job of selling cars. Even if you believe this bizarre logic, it's naive to think that a factory retail network would pass on any of these imaginary savings to the customer instead of keeping it for themselves or their shareholders; because there would be no competitive pressure to pass on these savings. A dealer's every day job is to be an advocate for the customer. We're there when a teenager crashes the car and needs parts replacement. We're there when a college kid locks himself out because he lost his car keys. We're there to show parents how to pair their phones with the car's system.

We're there for everyone when there's a nationwide recall, like the kind that our friends at GM are experiencing right now. Millions of GM cars have been recalled so thousands of dealers are getting ready to fix those cars for their customers. Several GM dealers here like Bill Fox, Dave Westcott and Mark Scarpelli are just some of the 4,000 GM dealers nationwide gearing up to take care of their customers. They're getting ready to support customers from New York City to Yuma, Arizona.

When something goes wrong on the assembly line, our service departments are there to make things right. Last year, 22 million cars were recalled for safety defects. Car and truck owners know they have a dealership in their community that they can turn to instead of dialing an "800 number." They have a direct contact that provides warranty and recall work at no cost to them.

How many of you are going out to dinner in New York?

If you tip your server 10 percent, you're a cheapskate! If you tip your server two and a half percent, he'll be on you like a rat on a Cheeto! But that's what a good dealership makes on a net profit total sales: 2.5 percent! Did everyone hear that?

I'll say that again: dealers make just 2.5 percent profit on total sales.

And speaking of sales, let's talk about the system that makes it all possible: the franchise system. It's a model that drives competition up and keeps costs down. It is single-handedly the best model for selling and servicing vehicles anywhere. We didn't sell 15.9 million new vehicles last year on luck. We didn't sell 600,000 hybrids, plug-in hybrids, and electric vehicles in 2013 by being inefficient. And at the same time, we're handling millions of recalled vehicles.

This is why the franchise system has survived for over 100 years. The auto industry needs the franchise system. But don't take my word for it. Take the word of one of the country's most respected business leaders. He's the president and CEO of Toyota Motor Sales North America. Take a look at Jim Lentz!

You know, we're in a great place to talk about all this: New York City. Wall Street is just around the corner. Let's backtrack to some tougher times. When GM was coming out of bankruptcy, it was the dealers who helped keep GM's head above water. We kept those good GM cars moving off our lots and onto the roads when the tidal waves came in. We kept our GM dealerships open...paid our employees... and held an average of five million dollars in inventory. Now what if GM was making *and selling* cars during a time like that?

Several manufacturers tried doing that exact same thing several years ago, and they failed. Could GM or Chrysler have made it back from the brink without our support and our network of dealerships? Did they have the billions to open and staff 4,000 stores across the country? So if you're an investor, would you want a manufacturer to sell cars? Or the dealers who've been doing it for over a century? So, now, when I ask all of you here to look at this picture again and tell me what you see?

I hope you all have a better view!

I'll give you one more example today. I still remember a phone call I got one day when I was a service manager. I remember a mom was absolutely hysterical because she accidentally locked her baby in the car on a scorching hot day. I got the call and our service department responded fast. We unlocked the car and got the poor woman's baby out.

Now at a time like that, who do you think our customers want to talk to?

If you have a recall on your kid's car do you want help from a "1-800" number or an internet chat box?

Or do you want help from a dealer? A man like Dave Mungenast?

I know who I'd choose...

Who would you choose?

Thank you!

# # #