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FEATURE

B.E. Auto Industry Overview

Pumping The Brakes

B.E. auto dealers used cost cutting and customer service to avoid being wrecked by a tough economy

By Rebecca Rohan



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Purring engines and showroom shine ignite a spark in new car shoppers -- but if potential buyers perceive the economy as stalled, they back away from the dealer's window, resigned to another year with the same old ride. Despite the economic turmoil, 2002 was "the fourth best year in history for auto sales," with 16.8 million units of new light vehicles (cars, pickups, minivans) sold, according to Paul Taylor, chief economist for the National Automobile Dealers Association (NADA). He adds that "2002 only looks somewhat modest because it follows on three record years of sales from 1999 to 2001," at 16.9 million, 17.4 million, and 17.1 million units, respectively. Zero percent financing also helped save the Sept. 11-plagued final quarter of 2001, and revved 2002 sales.

"The record prior to 1999 was 16 million units in 1986," Taylor says, adding that expected sales at or near 16.3 million units for 2003 will make for a strong year by historical standards. He adds, however, that the luxury car class was hurt by the stock market slump in 2002, which had been moving irregularly downward since 2000. Other vehicle categories have responded to gasoline prices: Economical four-wheel drive "crossover" vehicle sales are up, with truck-based SUVs and large pickups down.

Companies such as Ford are cutting production, which will affect manufacturers more than it will dealers, says George Pipas, U.S. sales analysis manager for Ford Motor Co. Pipas also says production cuts reflect nothing more than lower industry sales and generally precede new products because of plant changeover of tools and employee training. As for Ford's market share, 2002 was lower than 2001. For the first three months of 2003, Ford claims 21.2% market share,

compared with 20.7% for the same period in 2002.

Marjorie Staten, executive director for the General Motors Minority Dealers Association, which is independent of GM, says the dealer body has been affected by post-Sept. 11, 0% financing -- advanced sales to people who would otherwise have postponed purchases. "The Middle East, the market -- it all affects our dealer body," says Staten. "It's a global problem for us. We didn't have it easy last year. This is the time the dealers' experience and skills come into play," she adds.

Although the industry saw an upswing in units sold, individual dealers did not uniformly enjoy the "fourth best year in history," in terms of profits. Depending on the type of vehicles they sold, the economic realities of their regions, and other factors, some dealerships had to drive with the brakes on all year; others were simply driven out of business. One such casualty was Mel Farr Automotive Group (No. 2 on the 2002 BE AUTO DEALER 100 list with \$353.3 million in sales), which suffered poor sales, among other problems, and dropped off the list -- as did Detroit-based Riverside Ford Sales Inc. That franchise was operated by Nathan G. Conyers, one of the "Marathon Men" who held the distinction of running one of five BE 100S companies ranked on our list for 30 consecutive years. His other franchise, however, Conyers Jaguar of Novi, Michigan, is still in operation. But those that made the BE AUTO DEALER 100 list tended to minimize the problems and drive forward at the best speed they could -- even if they had to push part of the way.

Those who went far managed to land on the top 10 list of growth leaders, seeing sales increases ranging from 92.3% to 26.6%. That list includes dealerships across the country, from Crestview, Florida's Panhandle Automotive Inc. (No. 11 on the BE AUTO DEALER 100 list with \$150 million in sales) to Stephens Automotive Group (No. 29 on the BE AUTO DEALER 100 list with \$80.7 million in sales) of Plano, Texas. Among the BE AUTO DEALER 100, total sales dropped 7.5%, and there was a total staff loss of 2% last year.

CRUISING THE LOTS

For Harold Williams, president of Freehold Chevrolet (No. 7 on the BE AUTO DEALER 100 list with \$201 million in sales) in Freehold, New Jersey, 2002 was an average year -- a little better than normal, but not as strong as 2001. To maximize opportunities in a post-Sept. 11 economy, Williams used raffles, trips, used car promotions, and intangible "little things," such as a car wash after servicing and keeping expenses in line with income. But, nevertheless, new car sales dropped in 2002, compared with 2001.

Williams says he spent more on used car sales in the latter part of the year. "I'm a new car dealer; I want to sell as many new cars as I possibly can. But at the same time, used cars were a portion of the business that had to be addressed seriously, and that's what I did." He adds, "I sold more used cars last year than I have ever sold." Williams' ratio of used cars to new went from 1:5 to 1:1.

As for the loss in new car sales, Williams says, "Our new car people were not aggressive, and we weren't aggressive with our advertising." So, in October, he hired a new manager who, according to Williams, "brings an intense and aggressive attitude" to the team; and the dealership saw an "immediate and significant turnaround" in new car sales.

With six franchises in Kentucky, Ohio, and Georgia, Winston R. Pittman Sr., president of Winston Pittman Enterprises (No. 14 on the BE AUTO DEALER 100 list with \$145.1 million in sales), says his imports continued to sell well, while domestics were off somewhat. "In 2002, the market was saturated with cars," says Pittman, who cut expenses by 35% at the Dodge store, laid off 20 of his 70 employees, and cut inventory by one-third in domestic vehicles. The manufacturer attracted buyers with incentives, such as rebates and 0% interest. But Pittman says incentives that lower new car prices can make trade-ins less attractive to customers, as Irving Matthews, president of The Matthews Automotive Group (No. 21 on the BE AUTO DEALER 100 list with \$93.2 million in sales) knows.

"I can't afford to keep used cars on the lot too long. They lose their value," says Matthews. "I try not to overstock, [keeping the cars] 45 to 60 days [instead of] 90 days. If you manage it well, you can still maintain the bottom line." Matthews also runs specials to build the fixed operations (service and parts) when sales are off. "If people are not buying cars, they're going to need service," says Matthews, whose three Florida dealerships are Daytona Lincoln Mercury in Daytona Beach; Prestige Ford in Mt. Dora; and Advantage Ford in Stuart.

With sales down 12%, Matthews reduced inventory. "We tried to bring inventory levels down to represent the volume that we were selling," he says. "That reduces holding costs, which is an expense, and interest that's charged on the floor plan." Matthews also let attrition reduce his commission-based staff. "If someone left, we looked hard at whether we should replace them." He has cut 5% -- 10% of a staff of more than 200 in three dealerships. His strategy now is to "add inventory and people only where it's justified."

Panhandle Automotive's growth in sales was due in large part to the acquisition in December of a new store, Albany Ford, in Albany, Georgia. "Last year was probably the slowest I've had at my flagship store in 10 years," says company CEO Leon Daggs Jr. "We were about 40% to 50% off our normal volume."

Other major factors, says Daggs, were the economy and the increased influence of import vehicles. "The imports have been taking a much bigger bite out of our business," he admits, adding that the import market share has steadily increased while domestic market share has steadily declined. Additionally, Daggs admits that his company was faced with several internal problems (such as long-time, experienced managers retiring) that left him focusing on "rebuilding," particularly in his Crestview store.

Used car sales were down 10% -- 15% for Corley's Automotive Group (No. 27 on the BE AUTO DEALER 100 list with \$83.8 million in sales), with five different, family-run franchises in and around Albuquerque, New Mexico. But Ford's Pre-Owned Certified Cars program helped at Corley Ford-Lincoln-Mercury in Grants, New Mexico, by certifying used vehicles with up to a 75,000-mile warranty, depending on year and make. "It has truly helped my market and my [small, rural] area," says Ed Corley Sr., president. Corley also focuses on employee training. "The customer is our most valuable asset," he says.

His son, Kaul, general manager at the Dodge-Chrysler-Jeep store in Gallup, New Mexico -- and one of eight siblings -- says some group training comes from the manufacturers. The dealership also supplies both one-on-one training and closed door meetings with 10 or 12 people, where workers are critiqued on abilities and weaknesses.

New car sales were down 6.9% for 2002, but Eddie Corley Jr., general manager of Lincoln-Mercury-Volvo in Albuquerque, New Mexico, says things have already turned around thanks to a focus on the sales process, especially consistency. "Every customer receives the same experience when they come into the dealership," he says. At the end of January, the company implemented a full-scale business development center, staffed with a manager and four employees who develop business from setting service appointments, to contacting potential customers. The company partially credits this new practice for exceeding sales goals each month. "NADA's ratio on kept sales appointments closed in the sales department is 20% -- 25%, and ours was 40% in January and 50% in February," says Eddie Corley Jr.

GOING BACK TO THE BASICS

Having the right people is what Ed Fitzpatrick credits with the success of Fitzpatrick Dealership Group (No. 43 on the BE AUTO DEALER 100 list with \$63.5 million in sales). With Valley Lexus and Valley BMW of Modesto, California and Coliseum Lexus of Oakland, Fitzpatrick made it seem as if 2002 had been the "year of the upscale car." Says Fitzpatrick, "I interview each of the managers and try to instill in them the way I believe business should be conducted; then [the managers] look for people who can fit that mold." He looks for dependability and reliability, which he says create customer confidence. "I've had Valley Lexus for six years, and people say they have bought three or four cars from that dealership in that time. Not only do they like the car, but they have a relationship with the people who work there."

DOING SOMETHING

Minorities of every stripe may soon have better opportunities to own car dealerships. The National Association of Minority Automobile Dealers (NAMAD) got tired of the numbers: Ethnic minorities are 32% of the population, purchase 15% of new and certified used cars and trucks, but represent less than 5% of majority owners of dealerships. NAMAD has asked every manufacturer to commit to an initial goal of 15% majority ownership of the retail network by ethnic minorities (see www.namad.org for details). This year, the request appears to have teeth: NAMAD has approached the manufacturers with the fewest ethnic minority dealers and promised to educate the buying public -- and foment boycotts -- if the manufacturers fail to meet the challenge. The first meeting -- with Audi -- was a success, according to NAMAD President Sheila Vaden-Williams. NAMAD got the auto dealer to sign a Memorandum of Understanding on Feb. 6, 2003. The agreement means that the two organizations would partner to increase minority dealerships to a minimum of 15%. Audi also agreed to meet with representatives of NAMAD once each month to identify ownership opportunities for minorities.

2003 Top 10 Growth Leaders

Company	Location	2002 Sales*	2001 Sales*	% Increase
Panhandle Automotive Inc.	Crestview, FL	150.000	78.000	92.3
Mike Pruitt Automotive Group	Akron, OH	83.000	47.000	76.6
Classic Pontiac-Buick-GMC	Hicksville, NY	36.882	22.206	66.1
Kenya Auto Enterprises	Evans, GA	66.877	40.336	65.8
New Castle Ford-Lincoln-Mercury Inc.	New Castle, IN	27.500	19.000	44.7
Cross Road Chrysler- Jeep Inc.	Oklahoma City, OK	42.420	30.750	38.0
Fitzpatrick Dealership Group	Modesto, CA	63.500	47.500	33.7
Mt. Kisco Chevrolet- Cadillac- Hummer Inc.	Mt. Kisco, NY	47.276	36.477	29.6
Noble Ford-Mercury Inc.	Indianola, IA	41.542	32.512	27.8
Stephens Automotive Group	Plano, TX	80.737	63.759	26.6

*IN MILLIONS OF DOLLARS, TO THE NEAREST THOUSAND.

AS OF DEC. 31, 2002. PREPARED BY B.E. RESEARCH.

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