# The Facts on Chrysler's Dealer Realignment

> *"We believe Chrysler's consolidation plan is a difficult but positive step forward for Chrysler and the automotive retail industry. Dealer consolidation is a necessary measure in today's automotive industry and will strengthen America's dealer network and improve dealer profitability over the long term."*
>
> - Mike Jackson, CEO of AutoNation, the largest dealer group in the US

On June 9, a U.S. Bankruptcy Court approved the Chrysler dealer consolidation plan, finding that it "constitutes an exercise of sound business judgment by the Debtors, made in good faith and for legitimate commercial reasons [and] is appropriate and necessary under the circumstances." The key outcomes of this plan are:

- ***Despite a painful restructuring, Chrysler will retain 86% of its dealers by volume and 75% by location.*** As part of Chrysler's recently completed Chapter 11 process, the company is maintaining franchise agreements with the overwhelming majority of its dealers. Even after this process, Chrysler will have twice as many dealers as Toyota as a share of its sales.

- ***Chrysler's plan maintains the company's commitment to customer access, particularly in rural areas.*** Chrysler customers will have to drive less than 11 miles to the nearest Chrysler dealer, compared to 19 and 25 miles for Toyota and Honda, respectively.

- ***Chrysler has made a commitment to its discontinued dealers that 100% of the inventory on their lots will be <u>purchased at cost</u> minus a $350 inspection, cleaning and transport fee.*** We have successfully found buyers for 100% of the outstanding vehicle inventory, and dealers requesting our assistance have received commitments for 80% of their parts inventory.

## <u>The Cost to Chrysler of an Oversized Dealer Network:</u>

While it is unfortunate that some dealers were unable to keep their Chrysler franchises, **an uncompetitive dealer network has imposed serious financial burdens on the Company** that could no longer be sustained. These costs include:

- $1.5 billion per year in lost revenue from underperforming dealers
- $1.4 billion over four years in costs to develop "sister vehicles" for single-channel dealerships
- $150 million per year in incremental advertising costs
- $33 million per year in incremental administrative costs
- In addition, pricing power and brand management are negatively affected by a preponderance of competitive dealers

## <u>"Profitable" Dealers and the Chrysler Plan</u>

Chrysler's discontinued dealers were, for the most part, the least profitable dealers in the network. On average, discontinued dealers lost $73,000 in 2008. However, given how overdealered the Chrysler network has become, even some profitable dealers can impose significant financial burdens on Chrysler:

- Many profitable dealers are single-brand dealers. It is simply no longer strategic for Chrysler to maintain single brand channels because of the costs noted above, nor will these dealers be viable going forward.
- Some of these profitable dealers achieve their returns by selling competitive brand vehicles. Of these dealers who have been discontinued, their Chrysler business on average was only 12% of their total new vehicles sales.
- Many profitable dealers derive profits from the sale of used cars or used car services – businesses that will be unaffected by the loss of a Chrysler franchise.