

WARD'S Dealer Business

What Dealers Should Do After Natural Disaster

By Steve Finlay
WardsAuto.com

DETROIT – A new study of Hurricane Katrina's impact on auto sales in New Orleans contains surprising findings on the sales front.

It also offers auto makers and dealers crisis-control lessons that can help them get back on their feet after a natural disaster.

Urban Science, a provider of automotive retail site location data and sales network development services, did a detailed analysis of what happened to New Orleans car sales after the devastating storm of August 2005.

The study indicates that, while Hurricane Katrina sparked a human exodus and crippled many car dealerships in the metropolitan region, auto makers scrambled afterwards to get the right vehicles to market because of an ensuing surge in demand.

The New Orleans parish population went from 485,000 people before Katrina to 91,000 afterwards in "a massive population dispersion," says Mitchell Phillips, global practice director for Urban Science, based here.

Among the hardest hit businesses were the city's 15 new-car dealerships. Many of them are located in areas that experienced the worst flooding when the levees broke.

Six months after the storm, Phillips and Urban Science colleagues visited New Orleans dealerships and toured the city.

"The dealerships were in different conditions," he says. "Some were totally rehabilitated, some looked like they hadn't started repairs."

He was shocked to see the city, overall, remained in tatters. "I called my wife and said, 'Honey, whatever we donated, it wasn't enough.'"

The area's new-car registrations were "pretty flat" before Katrina, says Phillips, noting that New Orleans is not a major market for new-vehicle sales.

"But what surprised us was how sales rose after Katrina," going from 13,500 units on a seasonally adjusted rate pre-storm to 16,000 units post-storm, he says. "But they've been coming down ever since."

The reason for the spike is that residents had received insurance company compensation for destroyed vehicles. Checks in hand, those people were ready to buy. But not many of them purchased family sedans.

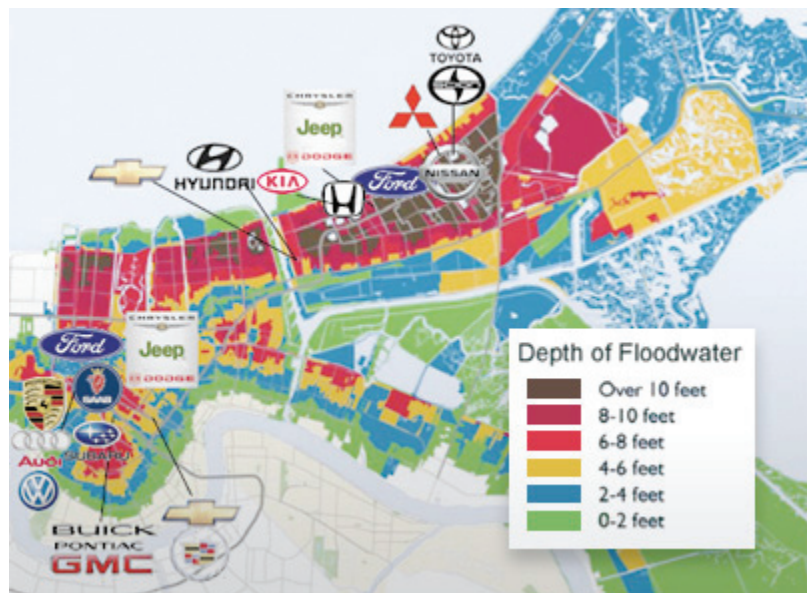
"Car sales dropped, but pickup truck sales nearly doubled," says Phillips. "As people came back to the city, they were fixing their homes and hauling away debris. They needed pickup trucks."

Main beneficiaries of that temporary sales surge were dealers outside the New Orleans city limits. Those stores survived the storm better than the ones in town, many of which were devastated.

Before Katrina, stores on the outskirts held a 62% share of the region's new-car retail sales compared with 37% for city dealers. Post-Katrina, outlying dealers' sales share rose to 90%, while in-town dealers' share fell to 10%.

Phillips says the study raises the issue of how the auto industry can cope with the aftermath of a major hurricane.

It's something dealers in New Orleans and elsewhere need to contemplate on a store-by-store basis, he says.



Map shows several New Orleans dealerships in worst areas of flooding.

For dealers who can afford it, "perhaps it's building a multi-level parking deck to store inventory, rather than storing cars on surface lots that are susceptible to flooding," says Phillips.

"It could be a question of setting up temporary locations. What about putting something in state franchise laws and franchise agreements that allows a temporary operation elsewhere if the original location is under water?"

Dealers also should look at their agreements with auto makers to see how much flexibility they might have in inventory exchanges, says Phillips.

For example, will a manufacturer be willing to take back cars in exchange for pickup trucks if market demand shifts in that direction, as it did in New Orleans after Katrina?

Urban Science also recommends dealers assess what changes in franchise laws they might lobby for in the event they are forced to run their businesses under extreme conditions.

"These are things for dealers to think about," says Michelle Lund, Urban Science's marketing manager. "The effects of natural disasters can go on for months."

It's not just hurricanes. Any natural disaster, such as an earthquake, can cripple a dealership. "There need to be provisions for natural disasters in areas susceptible to them," says Phillips.

He says automotive-retailing lessons learned from Katrina include:

- Sales will peak 60-90 days after a catastrophe, so the distribution network should be flexible enough to get desired vehicles into the affected market quickly.
- Make sure product mix meets consumer demand. "You've got to know the market," he says.
- Ensure franchise laws and agreements allow dealers to set up temporary operations for periods of sufficient length. "And if you want to set up a tent, what's in the franchise agreement regulating that?"

Ted Smith, president of the Florida Auto Dealers Assn., says, "We're trying to encourage that sort of long-term thinking among our members. If a hurricane shuts a dealership down for six days, that's a long time when you are carrying big-ticket inventory."

Florida was hit hard by a series of hurricanes in 2004, and several dealerships in the state were slow to recover, says Smith, whose association set up a special fund to help the hardest hit.

He says one of a dealership's biggest problems after a hurricane is getting employees to return to work, because they often are involved in their own post-storm affairs.

"Even if a dealership isn't selling a lot of cars right after a storm, there sure is a need to repair cars," says Smith.

Urban Science predicts the New Orleans region will return to normal in five years, with a smaller population of 272,000 by 2008. During that time, auto sales are expected to go up and down.

"In general after a hurricane, sales go up, then down and then ultimately back up," says Phillips. "That's the good news."

Smith says more good news is fewer hurricanes are predicted this season. But the bad news, he adds, is that "the ones that do hit are expected to be more severe."

sfinlay@wardsauto.com