

Auto dealers stuck in neutral but hopeful for future

Region seems to have stabilized after very rocky couple of years

By Kelly Johnson

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Two years ago, the Sacramento region and parts beyond were hit harder by auto dealership closures than nearly anywhere else in the United States. This region got the blood letting out of the way early. During the past year, the four-county region lost only four dealerships, which in this woeful economy is viewed as a good thing.

“That is very low by comparison” to other major California cities in the last year, said Randy Berlin, global practice director of Urban Science, an auto retailing consulting firm. The United States lost 258 dealers between Jan. 1 and July 1, dropping the dealer count to 18,223, Urban Science found. That’s on top of the 1,603 dealerships that closed last year.

California has lost 315 dealers since January 2008. The Sacramento region has lost about two dozen new-car dealers since 2007, the second-highest percentage in the nation, behind Providence, R.I., according to one analysis.

As for the national outlook, Urban Science predicts that a higher-than-normal rate of closures will continue nationwide through this year, due to bankruptcies, continued shutdowns of General Motors and Chrysler dealerships, and Mercury calling it quits.

Sacramento’s auto landscape, though, appears pretty stable now after its earlier major upheaval. “The market has right-sized itself and the market should be fairly stable going forward,” Berlin said. But when will consumers start shopping again in a big way? New-car dealers and industry professionals are trying to forecast what comes next. That’s not easy.

For anyone to accurately predict consumers’ behavior after these difficult times, “it’s just shooting in the dark,” said Mark Lasher, co-owner of Lasher Automotive Group. “It’s such an unknown right now, I don’t think anyone really knows,” added Don Palombi, general manager of Folsom Lake Honda. Lasher, Palombi and other local dealers are confident that the worst is over for the region’s new-car sellers. Peter Welch, president of the California New Car Dealers Association, also is “pretty confident that we’ve hit the bottom” in California.

The bottom was severe. California had been averaging new-car sales of 2 million vehicles a year for almost nine years until the big drop of 2008, he noted. That year sales dropped to 1.45 million, and last year sales fell further, to 1.04 million vehicles. That’s the lowest in almost 35 years.

But of late, there have been some encouraging signs. General Motors Co. and Ford Motor Co. reported in the second quarter a \$1.3 billion and a \$2.6 billion profit, respectively. Chrysler Group LLC, meanwhile, reported a \$183 million profit.



Can't get enough vehicles

Local dealers and the New Car Dealers Association's Welch aren't anticipating a dramatic turnaround any time soon. As long as people are worried whether they can make a house payment or if they might lose their job, they'll be afraid to take on more debt with a car loan, Welch said. "There are a lot of people sitting out on the sidelines," he said.

Jon Peterson, general manager of Folsom Lake Ford and Folsom Lake Kia, said he expects a "slow crawl back. I don't think we're going to see anything crazy" at his dealerships. Folsom Lake Ford and Kia are down about 50 percent from their peak in 2004-05, he estimated. The Ford store is up about 25 percent from this time last year. Folsom Lake Honda, meanwhile, is up about 5 percent year over year for new and used sales.

Peterson's forecast for the region's dealerships over the next year? "I think overall you're going to see it stay pretty flat," he said. After that, he thinks auto sales in Sacramento will be in good shape. Local dealers said they expect pent-up demand to drive up sales by 2012, along with what they hope will be a more stable state government. For now, getting enough inventory is a problem.

"For us, it's just trying to get product," Peterson said. "Now, we're asking for product." The Ford Fusion, for example, is a hot car that Folsom Lake Ford can't get enough of to satisfy demand. That's because car makers want to avoid their predicament of the past, and aren't overproducing. Manufacturers have reduced the number of assembly plants and have adjusted labor agreements.

Dealers used to have an 80-day supply. Now, they typically have a 30-day supply, Berlin said. As a result, sometimes consumers have to wait longer to get their vehicle or they can't be as picky about color or options on the vehicle. Credit, on the other hand, has loosened up somewhat, both for dealers to offer financing to consumers and for dealers to obtain the financing they need to tide them over between purchasing vehicles from the manufacturer and selling them to consumers. It's still not easy, but it's no longer impossible.

Indian, Chinese cars anticipated

In the future, consumers might have more brands from which to choose and dealers might have more brands to sell. Car makers in India and China are expected to enter the U.S. market with their brands. The United States also will likely see startup electric car makers offering vehicles for sale. In addition, Chrysler announced in July that it would open about 200 stores nationwide by the end of the year to sell Fiat.

Given California is the largest auto market in the nation and that Sacramento is a large metro market, this region is likely to be tagged to sell one or two of those new auto brands, Berlin said.

One large out-of-the-area dealership group, meanwhile, believes in Sacramento. Kuni Automotive Group, which owns dealerships in Oregon, Colorado and locally, last month added to its local holdings by buying the assets of Mike Daugherty Chevrolet and the land on Fulton Avenue where Daugherty had sold Chevrolet and Hummer vehicles.

Kuni has long owned Hubacher Auto Center in Sacramento.

