

# **Analysis of DaimlerChrysler's Project Alpha (One Man's Opinion)**

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## **Introduction**

Instead of looking at the plan from the point of view of a local dealer, I tried to look at the project as Jurgen Schremp would, from the point of view of running a world organization.

In an attempt to get as accurate an answer as possible, I researched domestic and foreign publications, speeches and press releases over the past several years looking for a common thread, or theme of the company. In other words, I felt that although a single speech or report given to a single group (such as the Texas Dodge dealers) would be tailored to that group's interests, by reviewing a series of speeches and reports I could garner a more accurate assessment of what the company's real goals really were and how it intended to achieve them.

In reading, digesting and analyzing the information, I concluded:

**Project Alpha is here  
It makes sense for DaimlerChrysler  
It will be implemented; and  
Dealers who are last to accept and act on those facts will be hurt**

If you have not yet read it, there is a book published by Spencer Johnson, co-author of "The One Minute Manager." It is titled: "**Who Moved My Cheese?**" Its publicity flyer states, in part:

## **The Handwriting on the Wall**

**Change Happens** (Project Alpha)  
(They Keep Moving the Cheese)  
**Anticipate Change** (Project Alpha)  
(Get Ready for the Cheese to Move)  
**Monitor Change** (Project 2000)  
(Smell the Cheese Often So You Know When It Is Getting Old)  
**Adapt to Change Quickly**  
(The Quicker You Let Go of Old Cheese, The Sooner You Can Enjoy New Cheese)  
**Change**  
(Move with the Cheese)  
**Enjoy Change**  
(Savor the Adventure and the Taste of New Cheese)  
**Be Ready to Quickly Change Again and Again**  
(They Keep Moving the Cheese)

\*This report was written with the intent to give our clients and friends an edge in anticipating change (Project Alpha), monitoring change (caused by Project Alpha) and in changing quickly (to profit from Project Alpha). I hope you find it a benefit – and enjoy the change.

## Consolidation Timeline

- 1990** – Chrysler, GM and Ford implement Project 2000 to reduce dealer body size and to consolidate.
- 1994** – GM begins exercising “right of first refusal” (which allows GM to reject a prospective buyer of a dealership, purchase the store itself and turn it over to another dealer. (GM was trying to align Pontiac-Buick-GMC dealers and Chevrolet-Oldsmobile-Cadillac dealers).
- 1995** – **“The right of first refusal had a chilling effect on buyers’ willingness to negotiate** the sale of a GM dealership,” said Charlie Walton, partner of Minronov and Walton Associates, an Edison, NJ broker.
- “Oldsmobile dealership used to be a hot property . . . [today] **the same store might sell for one-tenth [of what it sold for before].**
- 1998** – DaimlerChrysler terminates Eagle brand, with 626 Jeep-Eagle only dealers.
- 2000** – GM announces impending termination (2004) of country’s oldest automotive nameplate: Oldsmobile, with 2,801 dealerships. “With this news the Oldsmobile brand has lost virtually all value. There is no blue sky, “ said Sheldon Sandler, founder of Bel Air Partners, an automotive investment firm in Princeton, NJ. “An Oldsmobile **dealership is just worth what you can sell it for at a used furniture store.**”
- **“Nobody wants to buy an orphan.”** Said Kieth Crain, Editor, Automotive News.
- 2000** – Automotive News’ third biggest story of the year was: “GM signed Oldsmobile’s death warrant, although it delayed the date of burial for two or three years.”
- Automotive News’ biggest story was: Jürgen Schrempp “admitted he lied and conned the leaders of a U.S. auto company . . . the **Chrysler executives simply weren’t smart enough** to realize it.”
- 2001** – September - **Chrysler announces “Project Alpha”**
- DaimlerChrysler **closed all of its 2,920 Plymouth franchises in effect on January 1, 2001.**
  - GM’s Oldsmobile closed 450 Franchises
  - Ford’s Mercury closed 321 Franchises
  - Ford’s Lincoln lost 121 Franchises
  - GM turned down 25 percent of the 500 Oldsmobile dealers who tried to make a case for receiving extra money for their terminations. GM excluded compensation for future profits, disposal of used vehicle inventory, or IRS penalties for LIFO recapture.

# ***History***

## **I. The Consolidation Effort**

The dealership consolidation effort, which began in 1991, was almost in stride by 1998, when Ramsay Gillman, then president of NADA said the dealer group believed that future consolidation will be driven by the market and carried out by dealers. Edward K. Roggenkamp III (General Motors) and Tom Pappert (Chrysler) said it was the manufacturers who were firmly in the driver's seat.

Under Chrysler's Project 2000 plan, the factory wanted to reduce its outlets to 4,000 stores by 2000: 1000 in major metro areas, 1,000 in secondary areas and 2000 in rural markets. Under GM's Project 2000 plan, created in 1990, GM wanted to go from 9,500 dealers in 1990, to 7,000 by 2000.

The U.S.-badged brands of DaimlerChrysler (sometimes herein referred to as "DCX"), GM and Ford continued to swing their Project 2000 axes and chopped another 335 dealerships from their retail networks in 1998.

By the end of 1998, Chrysler was down to about 4,500 stores and GM down to 8,097, with Chrysler terminating its Eagle brand that year.

By 2000, consolidation continued in full swing with GM announcing the impending termination of the nation's oldest brand: Oldsmobile, by 2004, and with DaimlerChrysler's termination of its "Plymouth" brand, effective January 1, 2000.

**In 2001, DaimlerChrysler unveiled "Project Alpha".**

## ***II. The Rationale***

In 1950, 7.2 million light vehicles were sold in the United States, from 46,821 domestic and import dealerships.

In 2000, almost 10 million more vehicles (17.4) were sold from only 22,000 dealerships. One of Tom Pappert's foretelling statements was: "It's not the number of dealers who get you market share; it's the number of productive dealers that get you market share."

In 1998, Chrysler had 4,552 dealers, GM 8,090 dealers, Acura 262, Honda 996, Infiniti 148, Lexus 177, Toyota 1,194, and Mercedes-Benz 320. Interestingly enough, about 400 of Toyota's 1,194 dealers accounted for almost 70% of all U.S. Toyota's sales.

Project Alpha is a bold move by DaimlerChrysler to consolidate its U.S. badged Chrysler, Jeep and Dodge brands.

## ***III. The Plan***

According to Stephen Landry, vice president of dealer operations for DaimlerChrysler, the plan is for dealers to increase sales of metro dealerships from 950 vehicles a year to about 1,500 vehicles. He acknowledged that Project Alpha will result in fewer dealerships, but stated fewer dealers is "not the ultimate strategy".

Today, the “fewer but larger, more profitable dealerships” trend is “in” with the Big 3. Ford and General Motors have similar programs. By January 2000, GM was down to 7,831 dealers and Ford Motor Company was down to 4,643. By 2001, GM had 7,761, Ford Motor Company 4,587 and the Chrysler Group 4,308.

Doug Stevens, GM’s 2002 director of dealer network development said GM’s “*channel strategy*” (single dealership, or stand-alone Cadillac and Chevrolet dealerships in major markets, with combined Pontiac-Buick-GMC stores as a third channel) originally called Project 2000, had achieved phenomenal sales increases at dealerships where the plan is in place. Dealerships on “channel” have annual sales of 23 to 63 percent higher than stores off channel.

The average number of dealership sales per metro GM dealership, in 2001, was 981 for Channel stores and 602 for non-Channel stores.

As of 2002, GM had about 60 percent of its dealership aligned with the channel strategy.

#### ***IV. The Implementation***

In 2001, Ford lost 56 and the Chrysler Group lost 57. In addition, GM’s Oldsmobile had 450 franchises terminate, Mercury 321, Lincoln 121 and Chrysler closed all 2,920 Plymouth franchises.

As of January 2002, the Chrysler Group has approximately 4252 dealers, of which 231 were Chrysler only points, 466 Chrysler-Jeep points, 873 Dodge only points, and 408 Jeep only points. Project Alpha entails the closing or dualing of all of these dealerships.

Aside from exercising its right of first refusal, a factory can terminate a dealer for any number of reasons. (See paragraph 6 below for some examples).

#### ***V. The Cost of Implementation***

**Some brand models will suffer.** According to Earl Ziemann, GM of Huntington Beach (CA) Chrysler-Plymouth-Jeep “The Dodge Durango competes with our Grand Cherokee. One of them could take a beating, probably Jeep. Durango is a lot more popular.”

**Dealerships will close.** Automotive News reports an estimated loss of 500 Chrysler dealerships with the implementation of Project Alpha.

**Dealer renovation costs,** for dealers selling 100 new per month, could be as much as \$100,000 or more. Ken Crowley, Bristol, CT, spent about \$500,000.

A Chrysler Group E dealer (annual vehicle sales of 1,200 or more) will need at least 3,400 feet of showroom space and 25 or more service bays.

The factory will not give financial assistance even though it is striving for “instantly identifiable dealerships” – a tall arch, a solarium at either end of the building, etc.

## ***VI. The Consequences to the Manufacturers***

With respect to Phase I (Project 2000), according to Ed Roggenkamp, then director of the Dealer Network Investment and Development Corp., at GM, by 1998 GM had done 1,000 projects across the county and had only three lawsuits.

Further, the termination of 2,900 Oldsmobile franchises only brought 4 lawsuits.

## ***VII. The Big Picture***

1. **Alpha Will Happen. “Project Alpha just makes so much sense that it’s scary”**, said Stephen Landry, vice president of dealer operations for Daimler Chrysler.
2. **A single point domestic dealership is but a grain of sand on the beach, when weighed against “The Big Picture”.**

Vehicle sales of the merged Chrysler and Daimler corporations, which totaled 2.5 million in 1995, have almost double, in 2001 to 4.5 million for DaimlerChrysler and, when including its alliance partner, Mitsubishi, total worldwide production and sales reached approximately 6.35 million.

DaimlerChrysler, with Mitsubishi, has 10 percent of the total global market, with Mercedes-Benz leading with world in the premium segment.

Insofar as commercial vehicles are concerned, DCX leads the world market accounting for 21% of the total market.

**DCX covers virtually every segment and price class**, from subcompacts to heavy vehicles with: (1) the smart City Coup; (2) Mitsubishi Lancer; (3) Jeep Cherokee, (4) Chrysler Voyager; (5) Dodge Viper; (6) Mercedes-Benz E-class, (7) Maybach, (8) Serta bus, (9) Freightliner Truck, (10) Sterling Truck, and (11) Western Star.

**The three markets of the triad:** (1) Western Europe; (2) NAFTA and (3) Asia are completely covered by DCX’s product and brand. Further, DCX is represented with production sites in 34 countries and has sales organizations in over 200 countries.

Contrary to feelings and opinions in the United States, the value of DCX is approximately 55 billion Euros – twice as much as the combined market capitalization of both Chrysler Corporation and Mercedes-Benz in 1995 – plus, the corporation has achieved a size and global presence that provides high potential for the realization of economies of scale – aka “Alpha”.

3. **Eventually there will be no “single franchise” Chrysler Group stores.**

The development of identical parts that have no competitive differentiation is being pursued for all DaimlerChrysler corporate passenger car brands; sales and marketing organizations will be coordinated and optimally utilized. **Economies of scale make sense.**

**The Project Alpha idea is to build bigger, stronger dealers in metro areas,** to get more volume and eliminate competing lines. It is also likely that Project Alpha is the first concrete step to significantly reducing the number of Chrysler Group models across the range. That makes sense because there is no good reason for Chrysler brand vehicles to be competing against one another.

Plymouth was merged with Chrysler and, eventually, Plymouths became little more than stripped-down versions of similar Chrysler models. Finally, the brand was terminated, along with the Eagle brand. (In Canada, not only were Plymouth and Eagle phased out, but Dodge was limited to just trucks and the Caravan -- and the Dodge Intrepid is sold as a Chrysler.)

During recessions, when there is less money available to distinguish one brand from the other, why duplicate models? What is the business sense of having Chrysler Group dealers sell similar lineups such as the Chrysler Sebring and the Dodge Stratus? What is the advantage of offering a Dodge Caravan, a Chrysler Town and Country and a Chrysler voyager (which was a Plymouth before eliminating that brand) through one dealer group? How will this sales strategy benefit sport utilities such as the Jeep Grand Cherokee and the Dodge Durango?

To improve the company and its image, DCX has no choice but to pressure dealers to modernize and to consolidate. And, although Chrysler denies it, up to 500 smaller dealers that are balking at investing in Alpha could be let go.

#### **4. Chrysler Group Dealers must Act Now, or let time make their decisions**

General Motors ended the duplication of effort with Oldsmobile and sold off its heavy duty truck dealerships to Volvo White. Volvo White, in turn, then weeded-out the duplication of coverage and numerous truck dealers ended up without stores.

**Alpha is going to happen regardless of what American dealers think or do.** It will make for stronger dealers, more dealer and factory profit, better product and will provide economies of scale.

Although DCX says there is no intent to force dealers to dual, the company really has no choice if it wants to build a strong dealer body and identity in the global market.

DCX already used Project 2000 to dual Chrysler-Plymouth-Jeep-Eagle dealerships before killing the Eagle and Plymouth brands and DCX is currently positioning itself to increase its "world" market.

To date, no factory ever confided in dealers what its long-range market plans were – and DCX probably won't break that tradition. History usually repeats itself. See Automotive News article, February 12, 2001, by Peter Brown:

One of [Jürgen] Schrempp's problems stemmed from an interview he gave to the Financial Times in October. In that interview, he seemed to boast of deceiving the Chrysler people . . . Schrempp said that without that deception, Chrysler would not have agreed. .

In short, Schrempp did what he had to do to obtain the best result for the company he represented, and that company's shareholders – and he won for his company.

5. **Blue Sky for Single Pont Chrysler-Jeep and Dodge dealers will be history.** Dealers will probably be working for wages only as the factory begins implementing its program through its right of first refusal and other lawful termination procedures. (See paragraph 6 below).

We believe that if single point Dodge and Chrysler, Jeep and Chrysler-Jeep dealers do not sell to the dealer in town designated as the "Alpha" dealer, then in order to implement the Alpha plan, the factory must exercise its right of first refusal each time a single point dealership sells, and award the point to the Chrysler Group dealer it wants to be the Alpha dealer. Such transfers can be accomplished at no cost to the factory if the designated Alpha dealer steps-up to the selling dealer's buy-sell agreement; or, if the designated Alpha dealer cannot afford the point, the factory can buy it and either give it to the Alpha dealer or sell it to him at a discount.

General Motors used this method in their Project 2000, wherein they dualled Pontiac-Buick and GMC franchises and Chevrolet-Oldsmobile-Cadillac franchises.

**We also believe that an important side affect of Project Alpha will be that the "blue sky" offered for non-Alpha Chrysler Group dealerships will drop dramatically.**

This identical result occurred with GM franchises (with the possible exception of large Chevrolet dealers), in connection with GM's Project 2000. In the case of GM dealers, as prospective purchasers began to realize that they were wasting their time bidding on a Pontiac, Buick, GMC and Oldsmobile stores because the factory was going to exercise its right of first refusal and dual the franchises, buyers disappeared and the blue sky values for the franchises dropped like a rock.

Factories have been upheld by the courts, against new car dealers in each of the following instances wherein the factory terminated the dealer:

- a. Transferring his stock to his heirs or any other third party, without first obtaining the factory's prior approval ;
- b. Adding a dual, without first obtaining the factory's prior approval;
- c. Changing locations (even across the street), without first obtaining the factory's prior approval;
- d. Not changing locations when asked to by the factory because of neighborhood or demographic changes;
- e. Not upgrading facilities;
- f. Having Inadequate Facilities;
- g. Poor Sales performance;
- h. Refusal to accept inventory;
- i. Poor Customer Satisfaction Scores;
- j. Inadequate Floorline limit;
- k. Misrepresentations on original franchise application;
- l. Failure to Maintain Working Capital standards;
- m. Failure to remain open adequate hours;
- n. Inadequate representation by dealer, or inefficient or undesirable dealer.

- o. Failure to fulfill any reasonable obligation, agreement, or requirement stated in the Dealer's Sales and Service Agreement.

It is a good bet that sooner or later, many dealers will violate one of the above termination clauses (or another one stated in the sales and service agreement,) and the dealer's franchise will be terminated.

## **6. Consequences to the Dealers**

Dealers of single point stores may lose up to 100% of the blue sky / goodwill value of their dealerships because no informed purchaser would waste time and money compiling an offer on a franchise that he could not get because the factory will likely exercise its right of first refusal.

The value of the dealer's facility will be decreased because, without a franchise, the facility will either have to be razed, or converted to another use in order for the dealer to lease or sell it. (Generally, the highest and best use for a dealership property is "a new car dealership".)

## **7. Conclusion**

**Change will occur. You can either direct it, or be a slave to it. Act Now, before time makes the decision for you.**

It's almost a universal axiom of life that "time" does not make the best decisions for a businessperson. Time is like the weather; it has no favorites and does not discriminate between good and evil.

Dealers with single-point Dodge, Chrysler or Jeep stores should protect their interests and equity by either selling or dualing before the blue sky / goodwill values of their dealerships are lost.

Eventually, the final holdout single point dealers will be working for monthly net operating profit only and not building equity because nobody will bid on a store that they can't have.

Consequently, the single-point Chrysler Group dealer (or the dealer's estate / heirs) will be left with a "sale-proof" franchise and an empty building.

### *Post Script*

Don't rely solely on the factory for advice regarding your business when your survival is at stake.

DCX is a public company and its officers and employees are charged with doing what's best for its shareholders. If that means misleading officers and employees of another company regarding its own company's secret intentions, then that's OK.

If the other company's officers and employees are naive enough to believe those deceptions and lose a company -- that's capitalism.

**Remember**, Automotive News' biggest story of the year was: Jürgen Schrempp "admitted he lied and conned the leaders of a U.S. auto company . . . the Chrysler executives simply weren't smart enough to realize it."

If a DCX employee gave an advantage to a supplier, dealer, or competitor of DCX, rather than protect the capital and interests of DCX's shareholders, then that employee is misguided, disloyal and certainly, not worthy of trust.

### **Why should you listen to Automotive Advisors of America, Inc.?**

- We have the track record
- We have the education
- We have the background and experience in the Automotive field
- We are the only independent consultants who took the time to research this issue in depth
- We are the first and only independent consultants to bring it to your attention
- Our position is reasoned
- Our position is documented
- We are not afraid to put our opinion on paper for open analysis, criticism and discussion

Based on our education, background and broad national experience, we are most likely in a better position to maximize your benefits than either a dealer that does a handful of deals, or brokers, attorneys or accountants who are less experienced with the intricacies of Alpha.

In the end, with us, you are relying on your own abilities and good judgment to read and reason.

We just are just bringing you the facts, our educated opinion document by the facts and, if you want us to help, we will bring our education, experience, background and skills to the table on your behalf.

### **Bibliography**

#### **Press Releases**

**Buzz Watch – Global Brand Strategy**, July 16, 2002

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#### **Conferences**

2002 DC "Innovation Symposium"

Merrill Lynch - Global Automotive Conference - March 5, 2002, **DaimlerChrysler - Corporate Presentation - Chrysler Group - Dr. Dieter Zetsche, CEO and President, DaimlerChrysler Corporation**

**Publications**

*Car & Truck News, September 9, 2001*  
*Wall Street Journal*  
*Automotive News*  
*London Financial Times*

**Articles**

Article: The Three Faces Of Chrysler, by: Jerry Flint, October 19, 2001

**Websites**

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<http://www.autonews.com/article.cms?articleId=40541>  
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\* At the he wrote this article, John Pico was a vice president of Automotive Advisors of America, Inc. Mr. Pico is now the managing partner of **Advising Automobile Dealers LLC**. Before retiring from the active practice of law in 1980 he represented numerous automotive dealers in the reorganizations, purchases, and sales of dealerships. He both tried cases as the attorney for the dealerships and arbitrated and mediated dealer related cases. He has completed over 1,000 dealership transactions. Mr. Pico became a student of the industry by receiving training and attending seminars with respect to the various departments in new car dealerships, participating in National Automobile Dealer Association (NADA) Management Education Program, having "hands-on "experience" operating a store by filling in as General Manager on an "interim" bases. In 1986, after five years of research and two years of writing, Mr. Pico authored and National Legal Publishing Company published the nation's first book on Buying and Selling Automobile Dealerships. You can obtain his biography and more information, sources and references at <http://www.advisingdealers.com>

