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THE MARKETING OF NEW AUTOMOBILES BY FRANCHISED DEALERS WITH SPECIAL REFERENCE TO SALES MANAGEMENT POLICIES AND PRACTICES

DISSERTATION

Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of The Ohio State University

By

Alfred Alexander Cox, B.S.E., M.B.A.

The Ohio State University
1961

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ACKNOWLEDGMENTS

The author wishes to express his appreciation to the many automobile dealers and sales managers who willingly and enthusiastically cooperated in furnishing much of the primary data necessary to make this study. Appreciation is also extended to the officials of the Ohio Automobile Dealers Association and the National Automobile Dealers Association for their helpfulness in providing other data and in securing the cooperation of the dealers for the field survey.

Finally, the author is indebted to the members of his dissertation committee, Professor William R. Davidson and Professor Leo Stone, for having read the manuscript and having made helpful suggestions, and, particularly, to his adviser, Professor Theodore N. Beckman, who spent considerable time in analyzing the study and making constructive criticisms.
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CHAPTER I

INTRODUCTION

With the advent of a buyers' market in the automobile trade in late summer of 1953, franchised dealers\(^1\) were confronted with many problems. These were largely of a sales management nature and represented the dynamics of a marketing system that adjusts, both functionally and institutionally, to changing market conditions. Although the dealers have made a concerted effort to effect satisfactory solutions to their problems, not all have been so resolved.

Objectives

This thesis presents the results of a research project that had as one of its objectives the determination of the sales management policies and practices used in retailing new automobiles. These were analyzed and evaluated as they were related to dealer problems. They were also appraised by comparing them with policies and

\(^1\)The term "automobile dealer" is defined as any person, partnership, corporation, association, or other form of business enterprise operating under the terms of a franchise and engaged primarily in the retail sale or distribution of passenger cars, trucks, or station wagons.
practices of modern, scientific sales management. As a last objective, conclusions were drawn and recommendations were made that should aid franchised dealers, in particular, and students of marketing, in general, in understanding the problems and formulating solutions to them. In accomplishing these objectives, it was necessary to present a picture of the marketing system used in the distribution of new automobiles.

Concept of Sales Management

For purposes of this study the broad concept of sales management was used, for it is generally accepted to connote something more than the function of selecting, training, and directing a sales force. It is that part of the field of business management that relates to planning, organizing, and controlling marketing functions, whether performed by the official traditionally called the sales manager, or by the general manager, or by the president of the corporation (a type of business organization under which many dealers are organized), or by others. For example, this broad concept would encompass management's responsibility for determining the quality and composition of the product line, for the pricing of it, and for providing maintenance and repair as required by warranty and service policies. It would include a responsibility
toward financing (both business and consumer) and insuring the product, even though it be advisory. The concept would further extend management's responsibility for understanding and administering certain aspects of the manufacturer-dealer sales agreement, for determining market potential, and for establishing activity quotas. And last, but certainly not least in importance, the concept would include responsibility for advertising, sales promotion, and the personal selling function. The latter, closely paralleling the narrow view of sales management, is that of selecting, training, compensating, supervising, and stimulating all sales employees.

Within the 1950's leaders in the trade have become increasingly aware that profits should not be temporarily maximized by unethical practices. This has been evidenced by the growing number of dealers, as individuals and as organized groups, who are developing a code of ethics to which their policies and practices should adhere. This function of developing and maintaining a code of ethics may also logically fall within the realm of sales management responsibility.

In the discussion that follows throughout the chapters, it is seen that all of the above-designated functions, and others, are found in the typical dealer organization. The implication of contrast is made only
because the general concept of sales management limits its application to the manufacturing and wholesaling levels of our economy. These functions, however, are just as real and complex to the average dealer as they are to the average manufacturer or wholesaler of comparable size of operations in other trades and industries.

Need for Study

In determining the need for this study, three conditions were recognized: (1) Automobile dealers have been quite vociferous in proclaiming unsatisfactory business conditions; (2) the automobile trade is significant enough to the national economy to warrant continuous surveillance by industrial leaders, government officials, and educators; and (3) there does not appear to be any formal study, so organized and with the objectives that this study purports to have, in existence.

Unsatisfactory business conditions. Automobile dealers during the 1950's have reported falling net operating margins. In fact, all-time lows have been reached. Dealerships in operations have also been significantly declining. Yet these phenomena have existed in a period of soaring sales, and because they are not historically characteristic of the trade, it must be accepted that
they are the effects of causes yet to be determined in the development of this study.

Conditions became so critical by 1955 that on March 9 the Chairman of the Senate Committee on Interstate and Foreign Commerce appointed the Subcommittee on Automobile Marketing Practices to inquire into and make a thorough investigation of all phases of automobile marketing practices. Although this Committee has a continuing responsibility, its function has been largely limited to a study of manufacturer-dealer relationships through the franchise system of distribution.\(^2\) This study has been proposed, however, to extend the area of inquiry even further; for, as it has been previously pointed out, franchise relationships are but one aspect of the sales management function.

**Importance of industry.** It hardly seems necessary to observe that the automobile industry is so large and so important to the national economy that its continued stability and growth are imperative. In terms of value added by manufacturing and marketing, the industry makes a sizable contribution to the gross national product. In terms of number of establishments and employment, the

\(^2\)As a result of the information and data gathered by the Subcommittee on Automobile Marketing Practices, the Federal Automobile Dealer Franchise Act (Public Law 1026) was passed by the 84th Congress and signed by the President on August 8, 1956. See Chapter V for a discussion of this Act.
figures are likewise impressive. The same may be said when dollar sales of automobiles are compared with total sales by retail establishments. Furthermore, it must be remembered that automobile financing occupies a major part of the activities of various finance institutions. Detailed figures are presented in following chapters to illustrate these points. Suffice it to note at this time in descriptive terms that the automobile industry does warrant continuous study because of its size. Such study should assist governmental and industrial leaders in fostering those conditions most conducive to a sound and strong industry.

Paucity of literature. Again concerning the paucity of literature in the field, the files of the Library of Congress have been examined; conferences have been held with representatives of the National Automobile Dealers Association (NADA) in Washington, D. C.; other widely accepted sources of secondary information have been reviewed; and no study appears to exist in which a research has been made as previously outlined. Most of the published literature in the field deals with the romance and development, as well as the technical aspects, of automobile manufacturing. The trade papers and magazines publish articles of current interest; however, they are
not usually of comprehensive development nor of an academic nature.

In the growing reservoir of marketing literature, there is always the need for additional commodity studies; and this thesis in some aspects may be viewed as that type of study. Furthermore, it is believed that certain phases of the subject developed herein may serve as a base from which more detailed, but narrower, analyses may be made.

Methodology and Sources of Information

The nature of this thesis is partly statistical and partly descriptive. The primary and secondary research was centered around the following sources: (1) a personal interview survey of franchised dealers; (2) a mail-questionnaire survey of franchised dealers; (3) records, reports, and other publications from the National Automobile Dealers Association and the Automobile Manufacturers Association; (4) correspondence with representatives of the automobile trade; and (5) miscellaneous published literature.

Personal-interview survey. Personal interviews were of the semi-directed type and were conducted with a selected group of dealers. The purpose was to secure information and data regarding their sales management policies and practices in the retailing of new automobiles.
The sample design was based upon a restricted sample with judgment selection of observations. In other words, the universe from which observations were made was the approximate retail trading area of Columbus, Ohio, a trading area determined by Rand McNally and Company and published by Standard Rate and Data Service in Consumer Markets. The survey included 12 counties, all of which surrounded Franklin County, the county in which the city of Columbus is located, the central or core city of the Columbus standard metropolitan area.³

It is worthy of note at this time that all of the counties in the survey are included in the telecasting and broadcasting coverage, as well as newspaper distribution, emanating in Columbus. This factor of coverage has great significance because of the competitive impact through advertising that large-volume, central-city dealers have on small-volume dealers located in the peripheral zone of metropolitan areas and retail trading areas.

In selecting observations, or dealers for the survey, consideration was given to making the sample proportional to each of the following three bases:

1. Sales volume classification of NADA members
2. Number of franchises, by manufacturer
3. Number of new car registrations, by manufacturer

³The survey included the following counties: Franklin, Delaware, Union, Madison, Fayette, Pickaway, Fairfield, Licking, Knox, Marion, Clark, and Ross.
Sales volume classification of NADA members. In considering the first base, the Business Management Department of NADA furnished figures to show volume classification of its members in the United States in 1957:

<table>
<thead>
<tr>
<th>Group</th>
<th>Number of Motor Vehicles Units Sold Previous Year</th>
<th>Per Cent of Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1 to 149</td>
<td>76.6</td>
</tr>
<tr>
<td>II</td>
<td>150 to 399</td>
<td>16.6</td>
</tr>
<tr>
<td>III</td>
<td>400 to 749</td>
<td>5.0</td>
</tr>
<tr>
<td>IV</td>
<td>750 or more</td>
<td>1.8</td>
</tr>
</tbody>
</table>

After studying these figures it was concluded, however, that a survey based on the above proportion of dealers was illogical. To do so would mean, for example, that for 38 extremely small-volume dealers interviewed only one large-volume metropolitan dealer would be interviewed. In view of the current problem conditioned by the competitive struggle of small-volume dealer against large, this basis was discarded. Large-volume dealers are far more important to the trade in terms of sales than their number of establishments would indicate. Therefore, another basis was sought that would give more weight to that group of dealers.

Number of franchises, by manufacturer. Consideration was given next to selecting dealers on the basis of the number of franchises established by the manufacturers.
The percentage distribution, as listed in Automotive News Almanac for 1957, was as follows:

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Motors</td>
<td>6.7</td>
</tr>
<tr>
<td>Chrysler Corporation</td>
<td>32.0</td>
</tr>
<tr>
<td>Ford Motor Company</td>
<td>19.9</td>
</tr>
<tr>
<td>General Motors Corporation</td>
<td>34.3</td>
</tr>
<tr>
<td>Studebaker-Packard Corporation</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Again, after a study of these figures, it seemed unreasonable to use them as a basis for the sample. These would have had one General Motors Corporation dealer interviewed for each Chrysler Corporation dealer. This ratio does not reflect the significance of each to total sales of the trade, and so it, too, was discarded.

Number of new car registrations, by manufacturer.

There was, however, a third and final basis studied that appeared to give proper consideration to each represented manufacturer in terms of sales significance, also to large-volume dealers, as well as small-volume dealers. This basis was the percentage of new car registrations, by manufacturer, in the United States for the first six months of 1957. The August 13, 1957, edition of Automotive News listed these percentages:

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corporation</td>
<td>45.10</td>
</tr>
<tr>
<td>Ford Motor Company</td>
<td>30.31</td>
</tr>
<tr>
<td>Chrysler Corporation</td>
<td>19.05</td>
</tr>
<tr>
<td>American Motors</td>
<td>1.90</td>
</tr>
<tr>
<td>Studebaker-Packard Corporation</td>
<td>1.13</td>
</tr>
<tr>
<td>(Miscellaneous)</td>
<td>(2.62)</td>
</tr>
</tbody>
</table>
For practical reasons it was believed wise to eliminate from the sample any dealer representing American Motors, Studebaker-Packard Corporation, and "miscellaneous" sources (e.g., foreign car imports). Their importance to the market in total sales was negligible, and their inclusion in the study should have had no great significance to the accomplishment of its objectives. Nevertheless, it is recognized that their sales significance did rise to 18.89 per cent in 1960; but because this figure represents a decrease of 2.73 per cent from 1959, it seems reasonable to conclude that their increase should be viewed as only temporary. By the middle of the 1950's a growing demand trend was being established for small, compact cars, but the "Big Three" manufacturers (General Motors, Ford, and Chrysler) were not attempting to satisfy this market. It was not until the introduction of the 1960 models that they made any significant effort to capture the "domestic compact" sales. Furthermore, the problem of survival for dealers representing small-volume manufacturers is sufficiently critical to justify a separate study in that exclusive area.

The approach to the survey, then, with the associated limitations, left a study of dealers representing General Motors Corporation, Ford Motor Company, and Chrysler Corporation. When their sales importance to the
market was converted to a base of 100, the following percentages are obtained:

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corporation</td>
<td>48</td>
</tr>
<tr>
<td>Ford Motor Company</td>
<td>32</td>
</tr>
<tr>
<td>Chrysler Corporation</td>
<td>20</td>
</tr>
</tbody>
</table>

It is upon this basis that dealers were chosen for the sample from the Columbus retail trading area.

The population, a retail trading area. Columbus, Ohio, has often been used for marketing studies as a test market. Many of its characteristics closely parallel those of the Continental United States. In fact, its economy is diversified and its enterprises are characterized by industrial, agricultural, educational, and governmental pursuits. It seems reasonable to expect that problems encountered by automobile dealers in Columbus and its surrounding trading area are not uncommon to those encountered by dealers throughout the nation. Also, it seems reasonable to expect that sales management policies and practices found there are likewise characteristic of dealers throughout the nation.

Dealer selection. The problem of dealer selection was explained in detail to the Executive Secretary of the Ohio State Automobile Dealers Association, and it was through his cooperation that 39 dealers consented to participate in the survey. Included in the sample were
dealers characterized by their policies and practices as "aggressive." Also included were dealers known as "conservative." It is realized that these characteristics are qualitative in nature and almost defy measurement, yet they are recognizable to persons most intimately associated with the trade.

Of the 39 dealers interviewed, 17 were metropolitan and 22 were non-metropolitan. The former are defined as those located in the central or core city and contiguous incorporated areas of the standard metropolitan area. They generally have a larger sales potential than do the non-metropolitan, those located outside the area designated for metropolitan dealers. This classification will be used frequently throughout this study because the problems, policies, and practices differ somewhat for the two types.

Another useful classification is that of single-point and multiple-point. The former term simply identifies that dealer who has no competitor in his city handling the same brand of car that he sells. Multiple-point is a trade term also that identifies the dealer who in his city has at least one or more competitors distributing the same brand of car.
**Size of sample.** With reference to the NADA sales volume groups, the survey included the following:

<table>
<thead>
<tr>
<th>NADA Sales Volume Classification</th>
<th>Number of Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group I</td>
<td>5</td>
</tr>
<tr>
<td>Group II</td>
<td>20</td>
</tr>
<tr>
<td>Group III</td>
<td>7</td>
</tr>
<tr>
<td>Group IV</td>
<td>7</td>
</tr>
</tbody>
</table>

The size of the sample is believed to be adequate. First, the very nature of the research project did not require extreme statistical accuracy. Second, during the interview period, a state of diminishing returns seemed to set in. In other words, the responses by dealers to questions regarding policies and practices became stereotyped, and it was believed that any further sampling would add little to the accomplishment of the objectives of the study.

**Interviewing.** The interviews were made during the summer months of 1957 and were held with either the top executive of the firm or the sales manager, sometimes both. Length of the interviews ranged from two to five hours, accomplished in most cases with one call; others required two calls. Almost all dealers enthusiastically cooperated with the interviewer, particularly so because their problems were paramount issues at that time and because they were aware that representatives
of the Ohio State Automobile Dealers Association and National Automobile Dealers Association were cooperating and encouraging the study.

Mail-Questionnaire Survey

Following the personal interviews, a mail questionnaire was sent to each dealer participating. After the initial mailing, two additional follow-up letters were sent, and this effort resulted in replies from 28 dealers (a 72 per cent response).

The purpose of the questionnaire was to secure additional information which might not have been given freely at the time of interview. Essentially, answers sought involved matters of profitability and "cross-selling." Information regarding these subjects is considered "classified" by many dealers. Also, it required the checking of accounting records. Time for considering other answers was needed. For these reasons, the questionnaires were sent to the dealers after the interviews.

"Cross-selling" may be defined as the practice of a franchised dealer selling new automobiles outside the sales territory or "zone of influence" designated for the dealer by the sales agreement, or franchise, with his manufacturer.
The Approach

Although the subject matter of policies and practices is developed throughout this study from the viewpoint of the administrator (essentially, the sales manager), appraisal is made from the social or consumer point of view. It is recognized that the end result of all production and distribution is consumption and that it is the consumer who must be served with a product at a reasonable price and at a fair profit return to efficient manufacturers and distributors. It is also recognized that the most efficient and effective method of distribution should be promoted, but that this method may be subject to alteration in accordance with the desires of consumers when services and "frills" are added.

These basic beliefs have at times been in conflict with the positions taken by various groups within the automobile industry. Because billions of dollars have been invested by dealers and manufacturers, and because during the 1950's the financial status of some has been perilous, these conflicts were perhaps inevitable. This study presents the factors bearing upon these areas of conflict, and then, from the social point of view, conclusions are reached and recommendations are made.
Dealer Problems

Prior to the initial interviewing, trade literature published throughout the 1950's was reviewed. Conferences were held with officials of the state and national Automobile Dealers Associations. Reports prepared as a result of several Congressional and Federal Trade Commission investigations were studied. These efforts revealed a rather wide range of conditions which dealers identified as problem areas. Specifically, they can be listed as follows:

1. Unsatisfactory profit margins
2. Declining number of dealers in operation
3. Factory overproduction
4. Territorial insecurity
5. Bootlegging
6. Factory sales pressure on dealers
7. Unsatisfactory franchise terms
8. Phantom freight
9. Too liberal credit terms
10. Cross-selling
11. False and misleading advertising

It can be noted that some of the areas are allied by nature of the problem and can be analyzed together. An example can be seen with territorial insecurity, bootlegging, and cross-selling. Other areas are quite distinct and must be treated separately, as it is with false and misleading advertising practices.

It can also be noted that all of the problems are in some degree related to the sales management function on the retailing level. Not all of the areas, however,
are within the control of franchised dealers, as it can be seen, for example, in the phantom freight charges which have been imposed on dealers by manufacturers in the determination of freight charges for delivery of automobiles. Therefore, certain limitations must be recognized in the development of this study, for it makes no claim to have included primary research on the manufacturing level. In fact, the manufacturers have become quite sensitive in dispensing data and information regarding these critical problem areas. Congressional committees have requested and received some such data, and when applicable to this study they are used.

Limitations

There are other areas related to automobile retailing that justify detailed inquiry, but this study does not include their analysis or exposition. They are suggested by the following questions:

1. What is the future for franchise dealers representing the small-volume manufacturers?

2. What will be the impact of foreign car imports and domestic compact cars on the market?

3. What problems, policies, and practices will be peculiar to the sales management of their distribution?

4. Is there a trend toward a supermarket type of operation in the retailing of automobiles? If so, how far will it go and what will be its effect on dealers unable to adopt supermarket techniques?
5. What are the policies and practices in the sales management of marketing used cars, trucks, and services of the dealer repair and maintenance shop?

Although these areas, and even more related to the trade, are in need of research, time and expense, as well as the necessity for delimiting even this project, do not permit their inclusion in this study.

A Restatement

In arriving at specific conclusions and recommendations, it would seem that these are the essential points:

1. What functions do franchised dealers perform and what are their major contributions to the national economy?

2. What conditions have effected lowered dealer profit margins and less dealerships in operations? Specifically, how are cross-selling, bootlegging, pricing, and false and misleading practices involved?

3. What are the major characteristics of the franchised system for distributing automobiles? Is it effective? Are there legal and ethical questions involved?

4. What are the internal management policies and practices regarding the marketing functions? Are they effective and in line with the scientific approach for planning, organizing, and controlling functions?

5. What is the consumer interest in marketing automobiles? Is public policy being violated?

It is felt that the magnitude of the automobile industry problems justifies attention by academicians. Reference has previously been made to the importance of
the industry to the national economy. Moreover, conflicts of interests prevail and an unbiased, objective analysis is needed. With a code of ethics and professional status, members of institutions of higher learning are prepared to recommend solutions in fairness to all parties concerned. Also, representing a repository of knowledge of the theoretical and applied concepts of economics, academicians can compare the actual with the ideal and seek further adherence to the basic tenets of our private enterprise, free-price system.
CHAPTER II

THE AUTOMOBILE INDUSTRY

The automobile industry is composed largely of a manufacturing segment and a distribution segment. It is the purpose of this chapter to present (1) a quantitative evaluation of the contribution of each to the national economy, (2) a picture of the marketing channels, and (3) an explanation of the various classifications of franchised dealers.

Manufacturing Segment

In tracing the history of the industry, it has been observed that there have been five stages of development.\(^1\) First, from 1865 to 1898 European and American pioneers were occupied with experimentation and development. Manufacture was on a very small scale. Second, small firms were producing for a limited market from 1899 to 1910, but demand for automobiles was growing. Because little capital was required, over 100 firms were

formed which included two of the present giants: Ford Motor Company and General Motors Corporation. These firms used two principles now recognized as requisites to successful growth: (1) vertical integration and (2) a standardized product moving in large quantities on a production line that results in lower costs and selling prices within reach of the mass consumer market.

The third period, from 1911 to 1922, when annual production rose from 187,000 to 2,656,000 units, was characterized by development of a mass market and a continuation of horizontal and vertical integration. General Motors developed its well-known decentralization plan which permitted a maximum of autonomy in operation at divisional level, yet had central coordination of finance, research, accounting, and inventory control.

From 1923 to 1941 there was intense competition for the replacement market. Chrysler Corporation came into being, but many smaller firms were lost in the competitive struggle. Cars were produced with style, comfort, and satisfactory performance; and the public began supporting the used car market.

The fifth period, from 1946 to 1954, was one in which production was geared to satisfaction of a deferred demand that had built up because of shortages of cars during World War II. During this period major improvements were made in production techniques.
The last period extends from 1955 to 1961. It is a period of intense selling effort and is characterized as a buyers' market. It is also a time when small producers have found survival even more difficult.

Total manufacturing group. The U. S. Census of Manufacturers for 1954 revealed that there were 2,195 establishments producing motor vehicles and parts, motor trucks and bus bodies, motor truck trailers, and automobile trailers. Their employees approximated 700,000. Furthermore, their continuing growth is evidenced by their expenditure of more than one billion dollars for new plants and equipment for each of the four years preceding 1957.²

In addition to the establishments previously noted, there are others, not included in the Census motor vehicle group, whose outputs are totally or partially used in motor vehicle production. Examples can be found in establishments for tires, tubes, glass, aluminum, upholstery fabrics, and office supplies.³


³Of the United States total consumption, the automobile industry in 1957 used the following percentages of the materials indicated: steel, 18.9; malleable iron, 49.8; copper, 7.8; lead, 44.2; zinc, 34.6; nickel, 16.2; natural rubber, 63.6; synthetic rubber, 62.9; reclaimed rubber, 38.5; upholstery leather, 63.0. See Automobile Manufacturers Association, Automobile Facts and Figures, (1958 ed.), p. 64.
General Motors Corporation alone is purported to purchase from 26,000 manufacturers. 4

Assembly firms. Of greater significance to this study, however, are the automobile assembly firms, for it is they from whom automobile dealers purchase most of their goods for sale. These firms may be characterized as an oligopoly in that there is competition among five firms: a "Big Three" and two "Independents." 5 They had approximately $9 billion of invested capital in 1957. 6 Following the trend toward decentralization of production, their output was shared by 20 states in the same year. Michigan led with 34.64 per cent of motor vehicles produced; California followed with 10.20 per cent; and the other 18 states contributed the remaining 54.94 per cent. 7

Domestic production of passenger cars was greater in the decade of the 1950's than in any other decade of automobile history (see Table 1). Whereas 1955 was the greatest year of all, with 7,920,186 units produced at a

4Small Business and General Motors (Detroit, Michigan: General Motors Corp., n.d.), p. 4.

5The "Big Three": General Motors Corporation, Ford Motor Company, and Chrysler Corporation. The two "Independents": American Motors and Studebaker-Packard Corporation.


7Ibid., p. 26.
wholesale value of $12,452 million, 1957 production was rated at 6,113,344 units with $11,198 million wholesale value. 8

One authority, who has made a major study of the industry, has drawn a number of conclusions regarding its characteristics. It is viewed as a closed industry in which no new firm has been able since 1925 to establish a competitive position of lasting importance. Furthermore, a high degree of concentration of production exists, and even further concentration is probable because of certain economic factors. There is a wide difference in the earning capacities of the various firms, with the larger ones having an advantage both as to costs and styling. Competition is mainly based on quality and styling, with heavy emphasis on the latter. And, last, there is excess capacity in the industry, with the "Independents" probably having the most. 9

Distribution Segment

Distribution of automobiles has been accomplished through four basic channels: (1) manufacturer-distributor-


Distributor channel. The first two decades of the industry were characterized by the distributor channel. Manufacturers had need of distributors because they lacked general marketing skills, were largely concentrated in one production area, and had little knowledge of potential dealers in local market areas. Many distributors came from successful dealers, who served manufacturers by recruiting other dealers, furnishing capital, performing the storage function, and shaping marketing policy.

Their importance began to wane in the 1910's when production grew and financial strength was gained by manufacturers. By the 1940's, distributors were limited to serving small-volume manufacturers where they, the distributors, were located in larger cities and found it to their advantage to wholesale to smaller dealers. In 1961 some large manufacturers continue to use distributors to serve distant markets; some large dealers also serve

in a similar manner in that they sell to smaller dealers known as "associate dealers."

There were in 1954, according to the Census of Business, 897 new and used automobile distributors. They had an annual sales volume of approximately $492 million. On an establishment basis, they represented less than 0.5 per cent of all merchant wholesalers; and on a dollar sales volume basis, they accounted for approximately the same.

Manufacturers' sales branch or office channel. The distributor gradually gave way to the manufacturer-owned wholesale branch; and with increased decentralization, where cars were "rolled" direct from plant to dealer, the manufacturers' sales branch or office became the characteristic link in the channel.

Functions originally performed by the independent distributor have been assumed by others. Sales finance companies emerged to assist dealers in financing and made it possible for manufacturers to continue to receive cash for automobiles delivered to dealers. The storage or warehousing function has largely been assumed by dealers. Manufacturers have developed elaborate sales organizations with regional and district levels of offices between home office and dealer, as is true with the Ford Division of the
Ford Motor Company. Control has thus been achieved over many factors in the dealer operation, such as inventory of parts, repair and maintenance equipment, service procedures, sales quotas, and advertising—to name a few.

The Census of Business includes items of goods other than passenger cars in collecting data for manufacturers' sales branches and sales offices of motor vehicles and equipment. Nevertheless, an indication of their size is gained from the 1954 Census which shows that there were 906 such establishments and that they accounted for approximately 4 per cent of the 22,590 establishments of manufacturers' sales branches and sales offices in the country. Sales by motor vehicles and equipment sales branches and sales offices were $8,300 million, approximately 12 per cent of the total sales by all manufacturers' sales branches and sales offices. In other words, sales made by these establishments are far more important to the wholesale trade than the number of their establishments would indicate.

According to the Census of Business this group includes "manufacturers' sales branches and sales offices primarily engaged in the wholesale sale of passenger automobiles, trucks, commercial cars and busses, and special-purpose motor vehicles (such as ambulances and fire engines); passenger car bodies; truck and bus bodies; truck and truck-tractor chassis; motor vehicle parts and accessories; truck trailers; and automobile trailers—for attachment to passenger cars."
The average manufacturers' sales branch and sales office had approximately 18 times the sales volume of the average distributor, that is, approximately $9.1 million for the former as compared to $0.5 million for the latter. These figures are suggestive of scales of operation. In the distribution of new automobiles, the manufacturers' sales branch or sales office will service relatively more buyers and larger-volume buyers.

Census figures revealing operating expenses also indicate types of operation. Operating expenses expressed as a percentage of sales were 5.1 for manufacturers' sales branches and sales officer; for distributors, 12.2. The former, serving more large-volume buyers, does not physically handle most of the new automobiles moving directly from assembly plant to dealer. Logically, then, operating expenses should be lower per dollar of sales.

Other channels. Two other channels must be recognized. One involves the sale of cars and control of dealers from the manufacturer's plant and home office. This would be the manufacturer-retailer-consumer channel. Another channel, only of historical interest, is that of manufacturer-manufacturer's retail store-consumer, distinctive because the retail outlet was owned by the
manufacturer and served as an establishment for wholesaling cars to other dealers.  

In 1961 manufacturers still have a financial interest in some dealerships. Funds have been established to assist some dealers with capital when they possess "know-how" and seem reasonably promising of success. General Motors Corporation's "Motor Holding Plan" is an example. This type of financial management does not have as its objective a long-term investment in retailing functions and should not be included in the marketing channel just discussed.  

Retail structure. The importance of the franchised automobile dealer on the retail level is shown by using again data from the Census of Business. The 1954 Census with comments regarding the entire automobile group stated:

This group, heavily dominated by car dealers, continued as second in importance in the retail major groups, increasing from 14.5 per cent in 1948 to 17.6 per cent in 1954. A minor part of this increase was accounted for...

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12In trade literature, this outlet is called a "retail branch."  

13Of the 39 franchised dealers interviewed for this study, only 6 dealers acknowledged themselves as "manufacturer-holding-dealers" operating under the plan just noted or under similar plans by other manufacturers.  

14Automotive group includes franchised as well as non-franchised dealers; also, dealers for tires, batteries, accessories, motor cycles, aircraft, boats, and household trailers.
by the inclusion in the Retail Census of all repair shops of franchised passenger car dealers. Previously only those shops operated at the same location as a passenger car salesroom were included in retail trade. By and large, however, the increase reflects the increasing importance of automotive transportation in the economy.15

The franchised dealer occupies a unique position among marketing institutions. Essentially, he is a retailer of new cars, a consumer durable good that is the second most costly item purchased by the average consumer during his lifetime.16 The dealer's problem is complicated by fluctuating demand, largely conditioned by changes in style and engineering features of the competing products, as well as changes in disposable personal income and credit terms. The dealer must stand ready to accept a "trade-in" car, which was made on 87 per cent of new cars sold in 1955.17 Additional sales are usually limited to used cars, accessories, and repair and maintenance services. In the performance of these retailing services, franchised dealers have mobilized approximately $5 billion of capital


16Exceeded only by real estate.

for their businesses. They have employed 590,000 persons, according to the 1954 Census.

The same Census shows that the total number of retail establishments in the nation approximated 1.7 million and that franchised automobile dealers account for 2.4 per cent of that total number, or 41,407. Total annual sales in the same year for all retail establishments were approximately $169,968 million; and of that amount, franchised dealers accounted for 14.8 per cent, or $25,107 million.

Here again the same observation can be made for this institution as was made for another on the wholesaling level: the franchised dealer is far more important to the retail trade than the number of his establishments would indicate.

Classification of Dealers

For a complete understanding of the automobile trade and problems, it is essential to have knowledge of various bases for classifying dealers. As it was noted in Chapter I, they may be classified according to location (metropolitan and non-metropolitan); competition (single-point and multiple-point); and sales volume. There are still other pertinent classifications.

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18 Figure determined by the Business Management Department, National Automobile Dealers Association.
Relationship with manufacturer. Depending upon their relationship with manufacturers, dealers are classed as (1) direct or (2) associate. Those who make direct purchases are known as "direct dealers." There are others, however, who are small volume, located in small towns, and unable to meet the standards desired by manufacturers concerning display, inventory, and service. These are known as "associate dealers" because they buy their automobiles from direct dealers, the large-volume outlets that serve manufacturers in a manner similar to distributors.\(^{19}\) Associate dealers have experienced the advantage of having available to them the complete assortment of automobiles carried in stock by the direct dealer. Furthermore, delivery has generally been made more speedily.

Number of brands handled. Franchised dealers may be classed as either (1) single representation or (2) multiple representation. In the first instance the dealer sells only one brand of new cars; that is, he operates with one franchise. The latter sells two or

\(^{19}\)One of the dealers interviewed for this study (Geo. Byers Sons, Inc., located in Columbus, Ohio) is illustrative of the associate dealer relationship. This dealer serves 68 associate dealers in Ohio, Indiana, and Kentucky. He maintains his own terminal in Findlay, Ohio, where approximately 7,000 automobiles are received each year from Detroit and later delivered by the dealer with his own fleet of car transports.
more brands (also known as "dual dealership," "dual franchise," or "dual representation").

Many of the reasons underlying a manufacturer's decision to use single or multiple dealerships are the same as those generally underlying exclusive or selective distribution policies. Potential volume of a territory is the paramount determining factor, for manufacturers desire dealer operations that are profitable. Also, manufacturers require adequate service facilities to cope with repair and maintenance required by their brands in the area. Single representation cannot be the answer to these aims in all communities.

Single representation is generally used by large manufacturers with cars selling in large volume. Nevertheless, in small communities where sales potential does not justify single representation, dual franchises are used. Examples would be the following: (1) Ford being sold with Mercury and (2) Chevrolet being sold with Oldsmobile. Even smaller-volume manufacturers prefer to use single representation; but in areas of low potential, dual dealerships must be used.

Since 1955 significant changes have been made in the distribution patterns of at least two major manufacturers. Chrysler Corporation is the prime example. Whereas General Motors Corporation and Ford Motor Company
for several decades have sold their Chevrolet and Ford cars through single representation dealers, Chrysler Corporation has sold its Plymouth on a dual basis. This plan was effectively used in gaining public acceptance of the new car introduced in 1928. After Plymouth became a high-volume selling item, it was additionally beneficial in keeping Chrysler dealers financially solvent during the depression years of the 1930's. Dealer dissatisfaction has, nevertheless, been expressed because in a typical single-point dealer community each Plymouth dealer has competition from two other Plymouth dealers. This condition prevails in that Dodge, De Soto, and Chrysler automobiles are each represented by separate dealers and each handles Plymouth. As a result of these conditions, Chrysler Corporation announced a policy change in 1955, which provides for a gradual transfer of Plymouth to single representation.  

The other major change was made by American Motors, one of the two "Independents." In 1957 it was announced that the company was signing up dealers of the "Big Three" to handle the American Motors cars, Rambler and Metropolitan. This plan was not being opposed by the "Big Three." In fact, there was reason to believe it would

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particularly benefit dealers of the medium-priced line of
cars. With the dual dealerships there would be increased
opportunities for greater sales and better utilization of
service facilities.\textsuperscript{21}

In Table 2 the extent to which single and multiple
franchises are used by dealers handling American-made cars
can be seen. Several points are of interest. First, of
the lower-priced cars, whereas Chevrolet was sold by 5,550
single-franchise dealers and 1,900 multiple-franchise
dealers, and whereas Ford was handled by 5,693 single-
franchise dealers and 1,328 multiple-franchise dealers,
Plymouth by contrast was sold by only 195 single-franchise
dealers and 7,500 multiple-franchise dealers. In other
words, the total dealers selling Plymouth exceeded either
Ford or Chevrolet, and yet sales by each of the latter two
by far outnumbered the former.\textsuperscript{22}

Second, analysis of Table 2 reveals that most of
the dealers represented under the multiple-franchise
column are those selling with only two franchises and
not three or more. This statement can be proved by sub-
tracting from the 38,685 total net dealers the 21,421

\textsuperscript{21}"New System for Selling Cars?" \textit{Business Week},
August 24, 1957, p. 105.

\textsuperscript{22}Table 2 also shows that by January 1, 1958,
Chrysler Corporation had not advanced very far into its
program to distribute Plymouth through more single-
franchise dealers.
total single-franchise (termed "exclusive" in the table) dealers. That difference is 17,264, which represents the total net dealers actually operating with two or more franchises. Now, if it is assumed that the total multiple franchises are represented by dealers selling with only two franchises (but this is not true), then one-half of the total multiple franchises, i.e., 36,352, could be taken to indicate the total net dealers with multiple franchises. That figure would then be 18,176, and it is not far divergent from the actual figure of 17,264. Again, this calculation is only intended to show that most multiple-representation dealers in the country are those with only two sales agreements. It is impossible to determine from available figures just how many of the net dealers are selling with three or more franchises.

Table 2 does not include data regarding franchises for foreign cars sold by American dealers. It is known, nevertheless, that on January 1, 1958, there were 9,168 franchises for foreign car sales related to dealers of American cars in this country. These franchises comprise two categories. First, there were 7,412 franchises representing "captive imported brands," i.e., cars produced by foreign manufacturers and distributed exclusively by American manufacturers because of ownership of or
agreement with the foreign manufacturer. Second, there were 1,756 franchises of other imported cars sold under multiple-representation agreements. Authorities disagree on the potential for small car sales in this country. Before 1960 the demand was being fulfilled largely by foreign imports, but in that year all of the manufacturers in the "Big Three" group introduced the small compact cars.

**Age of dealership.** It was determined from the field survey that 10 per cent of the dealerships had been organized as franchised firms less than 5 years; 21 per cent from 5-10 years; 10 per cent from 10-15 years; 15 per cent from 15-25 years; and the remaining 44 per cent had been organized for more than 25 years. The average for all dealers was 21 years; for metropolitan dealers, 28 years; and for non-metropolitan, 16 years. It thus becomes evident that the typical dealer is one who has experienced some of the depression years of the 1930's, the shortages of World War II, and the sellers' market, as well as the buyers' market, of the post-war years. Also, the average metropolitan dealer is a much more seasoned dealer than is his small town counterpart.

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23 The following list shows the domestic brand with which the "captive imported brand" is distributed: (1) Buick-Opel; (2) Pontiac-Vauxhall; (3) Ford-English Ford; (4) Rambler-Metropolitan; (5) Studebaker-Packard-Mercedes-Benz.

Population of locale. One survey of 19,007 dealers revealed that 18.7 per cent of them were located in communities under 2,500 population; 50.2 per cent in cities from 2,500 to 25,000; 15.6 per cent in cities from 75,000 to 250,000; 2.6 per cent in cities from 250,000 to 500,000; and 5.6 per cent in cities over 500,000 population. In other words, the typical dealer is not the "big city" dealer. In fact, the reverse is true, for the majority (68.9 per cent) are located in cities under 25,000 population.

Legal form of organization. Table 3 shows that of the 41,407 establishments of franchised dealers in the United States in 1954, the individual proprietorship accounted for 16,572 of them, or approximately 40 per cent. Corporations were almost as prevalent. They represented 15,869, or a little over 38.3 per cent. Partnerships accounted for approximately one-half of each of the preceding two forms, i.e., 8,913, or approximately 21.5 per cent. The cooperative form was used in only 27 establishments, and other legal forms were used in 26 establishments.

From computations based on data in Table 3, sole proprietorships were found to average $281 thousands in annual sales. This can be contrasted with $1,044 thousands for the corporations; $431 thousands for the partnerships; and $677 thousands for the cooperatives. It can thus be seen that the average corporation had four times the sales volume of the average sole proprietorship. Because larger sales volume dealers are generally located in the relatively larger cities, it seems reasonable to conclude that the incorporated dealers are likewise generally situated there. On the other hand, it would be reasonable to expect sole proprietorships to characterize Groups I and II sales volume group dealers in the smaller cities.

The popularity of the corporation is apparently found largely in the advantage of limited liability. Also, with its ability to attract additional capital it serves well those dealers who have developed increasing sales and require more permanent capital.

Ownership. Table 4 presents the results of the 1954 Census of Business regarding number of establishments and dollar volume of sales for single-unit and multiple-unit organizations of franchised passenger car dealers. The latter type is further broken down into (1) those who are members of multi-unit organizations operated
exclusively for passenger car sales and (2) those who are single units operated by multi-unit organizations dealing in unrelated kinds of retail business.

Of the first multi-unit category noted above, there were 1,600 establishments which represented 3.9 per cent of the total franchised passenger car dealers in the United States. Their annual sales amounted to approximately $1,202 million, which was 4.8 per cent of total sales by all franchised passenger car dealers.

These figures are slightly higher if the second multi-unit category is included with the first. The establishments would then total 2,026, or 4.9 per cent of all franchised car dealers; the sales, approximately $1,519, or 4.1 per cent of total sales by all franchised car dealers.

The remainder of establishments and sales are accounted for by single-unit independent dealers. These single units operated as "one-establishment" firms accounted for 39,381 establishments, or approximately 95.1 per cent of total sales by all dealers.

If, however, establishments and sales of single-unit firms operated by multiple-establishments firms (in unrelated kinds of retail business) are also included with the above, then the figures for single-unit independent dealers would be still higher. In fact, the
establishments would be 96.1 per cent of the total; and sales, 95.2 per cent. It is believed that this coupling should be done for presenting the real significance of single-unit firms, even though the percentage difference is small. There should be little advantage to an automobile dealer if his firm is owned and controlled by a multi-unit organization that has other units included that retail other unrelated lines of goods. The usual advantages of buying power, buying skill, lower operating costs, and price appeal are probably not experienced under such a relationship.

Table 4 also reveals that of the 1,600 establishments belonging to passenger car multi-unit organizations, 1,212 of them are included in organizations of only two establishments. Furthermore, 204 establishments belong to organizations with only three establishments. There are, in fact, no relatively large chains in the automobile trade. This is in contrast to the total retail trade where the most significant group of multi-unit organizations are those with more than 100 stores. Nevertheless, the insignificant use of multi-unit organizations in automobile retailing is logical. They are not predominant in those lines of goods where service is paramount in customer relations, and in automobile retailing the need for varied and many services is exemplified.
CHAPTER III

ORGANIZATION AND PROFITABILITY

The concept of organization structure generally includes the relationships between functions, individuals, or groups of individuals, and physical factors. Its importance to top management in an automobile firm is no less acute than it is to top management in any retailing organization. Nevertheless, because dealer organizations have certain functions that permeate all of them, and because their objectives are essentially the same, structures have become standardized. By far, the line form is the most prevalent. Only the very largest have line and staff.

The Line Organization

In the typical dealer organization, authority passes in a direct line from the general manager, who is usually the owner of the firm, to the most minor employee. The major departments are headed by the following "managers," as they are generally called: (1) office, (2) new car sales, (3) used car sales, (4) service, and (5) parts.
Quite frequently, new car sales and used car sales are combined into one department. This is also true for service and parts. Sometimes the heads of service, used cars, and parts report to the sales manager.

Figure 1 illustrates the organization of a typical firm. This dealer had a dual-franchise and was classed in Group II, having sold 292 new units and 455 used units in 1956. He was sole owner of his incorporated enterprise and served as general manager. He had four managers directly responsible to him: office, parts, service, and sales. The office manager, who had two assistant clerks, was essentially the bookkeeper and cashier. The parts manager had an assistant, and reporting to the sales manager were five salesmen who sold new and used cars and one salesman who sold used cars exclusively. Last, there was the service manager, responsible for the work performance of 14 employees: 6 mechanics, 2 body workmen, 2 lubrication men, 2 wash and undercoat men, 1 upholstery-man, and 1 painter.

Metropolitan and non-metropolitan dealers. Several significant observations can be made regarding the number of personnel in the various functional groups. Table 5 shows that the average metropolitan dealership, in terms of employees, is approximately three times the size of the average non-metropolitan. Whereas the latter has 3.3
Fig. 1. Organization of a small dealership for automobiles.
employees in the general management and office group, the former has 8.4. Also, whereas the non-metropolitan dealer has 13.8 employees in the parts and service group, the other has 47.5. Likewise, the sales groups bear approximately the same relationship: 5.8 to 15.8. Total employees for the non-metropolitan dealers averaged 22.5; for metropolitan, 71.7.

Sales volume groups. Table 5 also reveals that there is a geometric progression in numbers of employees in the functional groups as dealers increase their sales from one sales volume group to another. In fact, each succeeding group is approximately twice the size of the preceding. This same relationship is also characteristic of total personnel. Whereas Group I dealers have an average of 11.0 employees, Group II dealers have 26.5; Group III, 58.7; and Group IV, 103.7.

Adequacy of parts and service personnel. One aspect of dealer organization size is pertinent to the controversial practice of cross-selling. It concerns the adequacy of the parts and service departments to cope with the maintenance and repair requirements of automobiles sold. During the interviews, many complaints were received from low-volume dealers that were directed against the possible inability of high-volume dealers to
service, maintain, and repair satisfactorily the new cars sold. These complaints were voiced largely by the lower-volume dealers located in the peripheral zone of the Columbus trading area. They were extremely resentful of the prevailing cross-selling practices that resulted when large-volume dealers in Columbus sold to out-of-town buyers. The real issue was that the metropolitan, high-volume dealers were able to obtain the profit on new car sales made to out-of-town buyers and yet were subsequently immune to the responsibility for providing adequate facilities and personnel for satisfactorily servicing, maintaining, and repairing the cars sold. This immunity or lack of responsibility came when the out-of-town buyer took his new car to his town of residence and expected his local dealer to repair and maintain it. The assumption made by the complaining dealers was that the most lucrative business came from new car sales and not from repair and maintenance service.

Now it is recognized that there are factors other than the number of parts and service personnel that indicate dealer capacity to maintain automobiles; namely, testing and repair equipment, technical ability of personnel, and building area. To the extent, however, that this one factor is indicative or determinative of dealer
capacity or ability to maintain cars, Table 6 is presented. The data contained therein show that in 1956 metropolitan dealers sold 14.2 new motor vehicles for each parts-and-service employee, whereas non-metropolitan dealers sold 16.4 units. Furthermore, metropolitan dealers sold 35.4 new and used motor vehicles units for each parts-and-service employee, whereas non-metropolitan dealers sold 46.8 units. Thus it would seem that there is no basis for any contention by non-metropolitan dealers that metropolitan firms are understaffed for coping with maintenance of cars sold. Should it be that the personnel of non-metropolitan dealerships is less specialized and that some employees of the office and sales departments are able to and do function in the maintenance of cars, it would seem not to alter appreciably the conclusion drawn from a study of the data in Table 6, for metropolitan dealers sell approximately 24 per cent less automotive units per parts-and-service employee than the non-metropolitan sell.

**Expenses and Profits**

Economists have long recognized the importance of profits as providing the motive power for the economic system. Even the losses (the negative profits) help in
bringing about readjustments in allocation of resources to different industries, as evidenced by the declining number of automobile dealerships in operation during the 1950's. The following conclusions have been made from a study of the operating statements of franchised dealers that cover the seven-year period from 1954 through 1960.

1. Variable operating expenses are lower for the smaller-volume firms than for the larger ones. (Group I dealers averaged 3.3 per cent, compared to 4.2 per cent for Group IV dealers. See Table 7.)

2. The advantages of lower variable operating expenses of the smaller sales volume dealers are more than offset, however, by their higher fixed and semifixed expenses. (Group I dealers averaged 10.6 per cent; Group IV dealers, 8.4 per cent. See Table 7.)

3. Total operating expenses indicate economies of increasing scale of operations. (For Group I, II, III, and IV dealerships, these expenses averaged 13.9, 14.0, 13.4, and 12.5 per cent, respectively. See Table 7.)

4. Gross operating profits are generally higher for the lower-volume dealerships. (For Group I, II, III, and IV dealerships, these profits averaged 14.6, 14.8, 14.5, and 13.7 per cent, respectively. See Table 8.)

5. Net operating profits are greater for the larger-volume dealerships. (For Group I, II, III, and IV dealers, these margins averaged 0.7, 0.8, 1.1, and 1.2, respectively. See Table 8.)

First of all, it must be recognized that the differences in these figures, even though appearing small on the surface, are quite significant because they apply to sales of automobiles of high unit values. Second,
these figures explain in part the competitive advantage enjoyed by the larger-volume dealers (usually the metropolitan) over the smaller-volume ones (usually the non-metropolitan). The difference in gross operating profits for Group I and Group IV dealers from 1954 through 1960 amounted to an average of 0.9 per cent. Inasmuch as the gross operating profit can be considered the same as maintained markup, the cost complement would be relatively higher for Group IV dealers than for Group I dealers. It is known, however, that cost of total sales is largely made up of new car cost, and because this cost in actual dollars is the same for each dealer regardless of sales volume category or quantity buying, it would seem that the larger-volume dealer has been satisfied to operate with a relatively lower markup than has the small-volume dealer. Assuming the cost of a new car to be the same for two dealers, then the dealer who lowers his markup by only 1 per cent is lowering his retail price to consumers by approximately $30 on a $3,000 automobile. In a market where car buyers "shop around" for price, this differential has considerable significance. This competitive impact has been felt mostly by the small-volume
dealers. The extent of unprofitable operations is seen in the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent of Total Franchised Dealers With Operating Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>38.7</td>
</tr>
<tr>
<td>1956</td>
<td>29.6</td>
</tr>
<tr>
<td>1957</td>
<td>28.0</td>
</tr>
<tr>
<td>1958</td>
<td>35.0</td>
</tr>
<tr>
<td>1959</td>
<td>12.1</td>
</tr>
<tr>
<td>1960</td>
<td>21.9</td>
</tr>
</tbody>
</table>

Although automobile dealers traditionally operate four departments, their profit objectives are largely centered around one department, that is, new car sales. This is evidenced by their concept of "service absorption," a term used to express the percentage of gross profit on total service sales (labor, parts, and all other services and stockroom sales, except accessories with new vehicles) to fixed and semifixed expenses for the firm. Their reasoning is that if the profit on service sales covers all fixed and semifixed operating expenses for the entire firm, then any profit on a new car sale contributes to the net operating profit for the firm. Service absorption usually amounts to slightly more than 50 per cent.

The point is, however, that it seems that dealers should require each operating department to assume its

1NADA Business Management Survey Reports for the years concerned.
full share of costs and expenses and contribute something to the net operating position of the firm. This would require a knowledge of direct, semidirect, and indirect costs by department, but apparently these are not generally known. Of the 39 dealers interviewed, 37 stated that they were using a departmental accounting system, yet only a few acknowledged full awareness of what their true costs and expenses were for each department. It has been reported that although automobile manufacturers furnish dealers model accounting systems and encourage their use, the systems and records do not reflect clearly and in a way that anyone can understand the actual costs of operating a dealership.\(^2\)

The ratio of net profit margin to sales seems best suited for an intra-trade study so that each dealer can compare his position to trade averages and trends throughout the years. Nevertheless, the ratio of net operating profit to equity capital reflects upon the profitable employment of that capital and is just as

meaningful, if not more so. Franchised dealers obtained the following average operating results in 1954:

<table>
<thead>
<tr>
<th>Sales Volume Dealer</th>
<th>Net Worth Per Dealer</th>
<th>Percentage of Operating Profit to New Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group I</td>
<td>$77,036</td>
<td>1.7</td>
</tr>
<tr>
<td>Group II</td>
<td>177,800</td>
<td>3.8</td>
</tr>
<tr>
<td>Group III</td>
<td>340,169</td>
<td>6.6</td>
</tr>
<tr>
<td>Group IV</td>
<td>755,278</td>
<td>5.5</td>
</tr>
<tr>
<td>Industry Average</td>
<td>108,871</td>
<td>5.7</td>
</tr>
</tbody>
</table>

It is regrettable that the above figures cannot be brought up to date. NADA ceased its publication in 1954, and publications of the Internal Revenue Service include gasoline service stations along with automobile dealers when presenting data relative to equity and net profits. Furthermore, the Census of Business does not include these valuable statistics for analysis. A clearer picture can be obtained, however, by computing the net operating profit in terms of actual dollars for several years.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. New Car and Truck Sales</th>
<th>Total Dealer Sales per New Unit</th>
<th>Total Sales ($1,000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>6,364,565</td>
<td>$4,673</td>
<td>$29,741,612</td>
</tr>
<tr>
<td>1955</td>
<td>8,126,909</td>
<td>4,625</td>
<td>37,596,954</td>
</tr>
<tr>
<td>1956</td>
<td>6,849,614</td>
<td>4,957</td>
<td>34,853,537</td>
</tr>
<tr>
<td>1957</td>
<td>5,982,342</td>
<td>4,919</td>
<td>33,643,060</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent of Net Profit to Sales</th>
<th>Net Profit ($1,000's)</th>
<th>Net Profit (Per Cent of 1954)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>0.60</td>
<td>$178,450</td>
<td>100</td>
</tr>
<tr>
<td>1955</td>
<td>0.17</td>
<td>639,145</td>
<td>359</td>
</tr>
<tr>
<td>1956</td>
<td>0.80</td>
<td>278,828</td>
<td>157</td>
</tr>
<tr>
<td>1957</td>
<td>0.70</td>
<td>235,536</td>
<td>132</td>
</tr>
</tbody>
</table>

(Column 1 figures were obtained from the Automotive News Almanac Issue for the respective years. Columns 2 and 4 figures appeared in NADA Business Management Survey Reports also for the respective years. Column 3 was obtained by multiplying Column 1 by Column 2; and Column 5 was a multiplication of Column 3 by Column 4.)

The purpose of presenting the above data is to give some indication of the net profit return on equity capital for the years following 1954. In order to draw a conclusion, however, it must first be assumed that the net worth of total franchised dealers did not change appreciably from that of 1954. This seems fairly reasonable, for even though total dealerships in operation fell from 41,910 in that year to 37,982 in 1957, it stands to reason that there would be some capital expansion of the dealers to offset that withdrawn. Therefore, if Column 6 above is applied to the known ratio of net profit to net worth for 1954 (an average of 5.7 per cent), then an approximation
of that ratio for the years 1955 through 1957 can be obtained.

<table>
<thead>
<tr>
<th>Year</th>
<th>1954 Net Profit to Net Worth</th>
<th>Net Profit (Per Cent of 1954)</th>
<th>Net Profit to Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>5.7</td>
<td>100</td>
<td>5.7</td>
</tr>
<tr>
<td>1955</td>
<td>5.7</td>
<td>359</td>
<td>20.5</td>
</tr>
<tr>
<td>1956</td>
<td>5.7</td>
<td>157</td>
<td>9.0</td>
</tr>
<tr>
<td>1957</td>
<td>5.7</td>
<td>132</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Should it be that the equity of all franchised dealers was less in the years of 1955 through 1957 compared with that of 1954, then the ratios of net profit to net worth will be higher. Considering (1) that a substantial number of dealers reported operating losses for the years under study, and (2) that the figures being analyzed are averages, it can be concluded that a substantial number of dealers, nevertheless, found their operations lucrative.

**Dealerships in Operation**

The full extent of adjustment by dealers to changing market conditions and unprofitable or lowly profitable operations can be seen by examining Tables 9 and 10. The former shows that according to the Census of Business the total number of retail establishments increased in this country by 7.2 per cent from 1948 to 1958. In fact, all major groups of retail businesses increased except the
food store group, which decreased 22.0 per cent. Even the automotive dealers group grew in number by 9.8 per cent, but the segment of franchised passenger car dealers fell by 12.3 per cent.

Table 10 is even more significant, for it traces the effect of the buyers' market on dealerships in existence from 1953 to 1961. In the former year there were 45,191 franchised dealers; and in the latter, 32,074. This represents a net decrease of 13,117 dealers, or 29 per cent. Within this period there has been only one year in which dealerships increased: 1956, by 1.6 per cent. This was the year following 1955 in which sales rose to an all-time high and profits were the greatest of all the buyers' market years. Table 10 also shows that there was a marked increase in automobile business failures in 1953 when for the first time since World War II supply began to exceed demand. Computations based on the same table also show that reductions in total dealerships generally were much larger than failures for each year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Total No. of Dealers of Previous Year</th>
<th>Dealership Failures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>3,281 Decrease</td>
<td>219</td>
</tr>
<tr>
<td>1954</td>
<td>1,536 Decrease</td>
<td>246</td>
</tr>
<tr>
<td>1955</td>
<td>644 Increase</td>
<td>151</td>
</tr>
<tr>
<td>1956</td>
<td>3,036 Decrease</td>
<td>211</td>
</tr>
<tr>
<td>1957</td>
<td>794 Decrease</td>
<td>233</td>
</tr>
<tr>
<td>1958</td>
<td>2,619 Decrease</td>
<td>253</td>
</tr>
</tbody>
</table>
These data indicate that the majority of dealers who withdrew their resources from the automobile trade did so voluntarily. The economist would recognize that the accounting concept of net profits for the automobile dealer theoretically includes (1) economic interest and (2) pure profits. Since the latter represent a residual income after all costs (explicit as well as implicit) are met, it seems highly questionable that the automobile trade for a substantial number of dealers has been profitable for years. This conclusion seems valid in that the operating statement makes no provision for the payment of economic interest (an implicit cost) to the dealer for his invested funds. Because economic interest can be identified approximately as the prevailing contract rate on substantially riskless investments (such as Series E United States Savings Bonds that yield slightly more than 3 3/4 per cent), it is clearly evident that many dealers have made no pure profits.

It appears that many more dealers would act as "economic men" and withdraw their resources from the

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3Economic interest may be defined as "the price paid for the riskless use of 'loanable' funds, whether the funds are borrowed or owner-invested." See Mary Jean Bowman and George Leland Bach, Economic Analysis and Public Policy, 2nd ed. (New York: Prentice-Hall, Inc., 1949), p. 541.
economy if it were not for purely personal reasons for remaining in business. The interviews for this study revealed the following explanations:

1. The automobile trade is a "way of life." Traditionally, it is a "father-and-son" business, with many dealers having inherited it from their fathers, or presently training their sons to take it over eventually. It is also the only line of trade with which many dealers have had intimate experience, and they desire not to adjust to a new one.

2. Many dealers have faith that the profitable eras of pre-war and post-war days will return; and, barring insolvency, will remain in business.

3. There is hope that recently enacted or proposed Federal legislation will effect a reduction in financial difficulties.

4. Dealers generally include in their operating expenses salary payment to themselves which provide a living, even though the firms make no net profit.

5. Many dealers who desire to sell their franchised firms are unable to find buyers with adequate funds or with acceptability by the manufacturers as franchised dealers.

It would appear on the surface at least that public policy is being violated by those dealers who refuse to liquidate their unprofitable enterprises. The allocation of limited resources in accordance with consumer preferences is a basic tenent of our private-enterprise, free-price system. The negative profits incurred by dealers over a period of years should motivate
them to reallocate the resources they control to other enterprises, goods, or services, as appears to be the collective decision of consumers acting in the market. One of the purposes of subsequent chapters in this thesis is to examine the many factors bearing upon this profit position and to determine whether there are mitigating circumstances apt to effect a change.
CHAPTER IV

MARKETING FUNCTIONS

Automobile dealers are not unique among retailing institutions in that they assume certain universal and indispensable functions found in the marketing system. This chapter indicates the breadth and depth of those functions.¹

Buying. Because of their selling agreements, dealers limit themselves to one source (the manufacturer) for most of their new cars, parts, and accessories. Nevertheless, they have an active and continuing responsibility for buying policies and practices. They must study opportunities to obtain dual franchises which will further expand the number of brands handled. They must weigh the possible effects of handling foreign cars and domestic "compact." They must decide to what extent the used car department should be expanded; how large a

¹A marketing function has been defined as "a major economic activity which is inherent in the marketing process, pervades it, and which, through a continuous division of labor, tends to become specialized." See Theodore N. Beckman, Harold H. Maynard, and William R. Davidson, Principles of Marketing, 6th ed. (New York: The Ronald Press Company, 1957), p. 35.
variety and assortment of parts and accessories should be stocked; and to what extent capital can be profitably employed in additional installation and equipment, largely for repair and maintenance of cars. These considerations are suggestive of major policy decisions which can make the difference between profit and loss for the firm.

Also of great importance, decisions must be made regarding the quality and quantity of cars stocked. The former is complicated by the availability of combinations of optional equipment and accessories that can satisfy a wide range of buyers. Accordingly, each dealer must have an understanding of the buying motives and wants of consumers in his sales territory. Quantity considerations are conditioned largely by capital required, operational expenses involved, and the need for an adequate stock of such variety and assortment to interest potential buyers.

One manufacturer has a standard car with varying equipment, parts, and accessories that can satisfy a buyer interested in any one of the following characteristics: (1) economy; (2) economy, but something more; (3) luxury but modest performance; (4) performance; or (5) high performance plus maximum luxury. This basic car, depending on the options selected, would have a factory-suggested price ranging from $1,700 to $4,000. See "Optional Extras: Detroit's Way of Making Cars Fit Many Tastes," Business Week, April 6, 1957, p. 116.

Neither quantity discounts nor cash discounts are given by manufacturers for cars purchased. Ford and Chrysler (but not GMC) allow a 2 per cent cash discount on parts purchased, although the franchises make no specific provisions for it.
Fortunately, NADA has aided its members by publishing each three months certain average figures that are helpful in determining quantity to buy. These "per dealer averages" are shown for each sales volume category, as well as for the industry as a whole. The more important ones are the following: (1) passenger car inventory, (2) truck inventory, (3) days of supply of passenger cars and trucks, (4) number of days supply of used vehicles in inventory, (5) average cost per used vehicle in inventory, (6) percentage of used vehicles in stock 30 days or longer, (7) number of months supply of parts in inventory, and (8) annual turnover of investment in parts.

It has been stated that a four-month on-hand-and-on-order inventory of parts is considered normal and desirable. Also, the average car inventory should include a thirty-day supply of new cars and a twenty-day supply of used cars. An exception to this standard should be found within two months of the new model introduction date, when a larger supply of new cars will carry the dealer through the change-over period. In addition, the days-of-supply of new cars should be greater prior to the beginning of the increased sales season.\(^4\)

Depending upon the nature of the item and size of the firm, responsibility for buying is to be found with the general manager, any one of the departmental managers, or a senior salesman. The latter, because of his years of experience and understanding of buyer preferences, is sometimes authorized to place orders for new automobiles.

Concerning sources of supply, the Census of Business for 1954 lists 12,563 jobbers of automotive parts and accessories, 207 distributors of garage equipment and tools, 1,207 tire-tube wholesalers, and 3,260 petroleum products distributors as available to franchised dealers for purchases. In fact, it appears to be rather common practice for some dealers, particularly in smaller cities, to carry little or no stock of some parts and accessories which are available in local wholesale outlets.

The automobile auction, where used cars are bought and sold at wholesale, must be singled out for special comment. Companies that operate these auctions have grown in importance particularly since World War II and now total more than 150 for the entire country. \(^5\) Franchised dealers account not only for the largest volume of sales at the auctions but also for the largest volume of purchases. Auctions serve dealers by representing a

continuous outlet for disposing of used cars from over-
stocked dealers. Also, from the buying viewpoint, auctions
represent a source from which a franchised dealer can buy
used cars with increased confidence in car condition, title,
and price. Price experience at the auctions is used for
the establishment of used car wholesale prices throughout
the various regional market areas of the country. 6

Selling. The selling function is of such importance
to automobile retailing that two chapters of this study
(Chapters 8 and 9) have been devoted to an analysis of it.
This function encompasses several activities that include
recruiting, selecting, training, and supervising salesmen;
influencing demand through advertising, sales promotion,
and public relations. Last, and of most importance, selling
means the making of sales—not only of new cars, but also
of used cars, trucks, parts, accessories, and repair and
maintenance service as well.

Selling can be distinguished by "service selling"
and "creative salesmanship"; but these have often been

6 The National Automobile Dealers Used Car Guide
Company publishes monthly the N. A. D. A. Official Used
Car Guide, which, among other things, shows the average
loan value and average wholesale price for domestic used
cars and many foreign-made used cars. There are six
ditions of each publication, one for each market region
in the country. Other similar publications: Galves' Wholesale Price List from New York, the Red Book from
Chicago, and Kelley's Blue Book from Los Angeles.
criticized as having been reduced to mere "order taking"--a condition recognized as unsatisfactory for the buyers' market.

Transportation. Another major marketing function is transportation, the activity that results in movement of goods from one place to another. Of the movement of new cars from factories to dealers, 13 per cent is made by rail, approximately 80 per cent by truck, and the balance by water. 7

Although the franchised dealer has had little or no control over the transportation of new vehicles shipped to him from the factory, he has been vitally concerned over certain inequities resulting from manufacturers' policies and practices regarding shipment of cars and freight charges. General Motors and Ford began using the phantom freight pricing plan in the 1930's. In 1939 the Federal Trade Commission investigated the industry and alleged that an excessive profit accrued to car makers due to a difference between the amounts charged

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for delivering automobiles to dealers and actual cost of transportation. 8

Nevertheless, manufacturers continued into the 1950's their policies of charging for freight as though the assembled cars were shipped from their main plants in the Middle West. As more and more assembly plants arose in all sections of the nation, dealers became more outspoken concerning their disapproval. In 1955 NADA through its "National Affairs Action Program" had as one of its projects the elimination of phantom freight charges by Federal legislation. 9 Among others, one bill was introduced in Congress (H. R. 528) to amend Section 5(a) of the Federal Trade Commission Act to prohibit manufacturers from making charges for freight which they had not been required to pay. 10 This bill was opposed by the Federal Trade Commission on the grounds that the agency already had jurisdiction over discriminatory pricing systems.

Manufacturers also opposed the bill. As one executive of Chrysler told a House Commerce Subcommittee, 11

8 The agency took no action, however, for it was decided that the problem was too complex to handle. It would have involved a study of freight rates, cost of assembling cars at factory and branch plants, methods of billing, and other factors. Ibid., p. 163.


a ban on so-called phantom freight would result in a "large price increase" for 60 to 70 per cent of new car buyers. The executive believed that outlawing phantom freight would result in manufacturers charging a uniform delivered price everywhere in the country. Before the same Congressional committee, one official from GMC also stated that the proposed legislation would not reduce automobile prices but instead might cause prices to go higher. The historical record now shows, however, that the proposed legislation designed to curb phantom freight, its analysis in the public press, and subsequent Congressional investigations had a beneficial effect that appears to serve more nearly the ultimate consumer's interest. General Motors, Ford, and Chrysler, all announced pricing reforms in 1956. General Motors did raise wholesale prices, but lowered transportation charges to many dealers.


13It was reported, for example, that transportation charges for a Chevrolet were $12 less to a dealer in St. Louis, $23 less in Seattle, and $47 less in Dallas. General Motors estimated that dealers who sold approximately 50 per cent of their cars would receive a net decrease or no change in cost, whereas the balance would have slight increases. See "A Basic Change in Auto Selling," Business Week, March 3, 1956, p. 104.
Likewise, the automobiles sold by Ford had wholesale price increases; but with transportation charges adjusted, it meant a net decrease for some dealers in the country and an increase for others.\textsuperscript{14}

The uneconomic advantage enjoyed by some dealers under the old delivered pricing system in the country appears to have been reduced. The new method for determining delivery charges for General Motors (all of the Big Three have similar methods) is based upon a destination charge that includes only the cost of transporting the finished automobile from an assembly plant, plus cost of shipping parts from Detroit to the assembly plant. Although this method may not theoretically be the most accurate, inasmuch as many parts used in the assembly plants are not produced nor shipped from Detroit, it seems more realistic and equitable than the previous plan which included more phantom freight.

Another beneficial result is the reduction of bootlegging of new cars by franchised dealers to non-franchised dealers.\textsuperscript{14}

\textsuperscript{14}For example, the Ford automobile, although increased at wholesale cost to dealers, but with decreases in transportation charges, had net reductions to dealers of $27.50 in Miami, $32.50 in Denver, and $33 in Oklahoma City and Houston. Examples of net increases were $10 in Boston, $11 in New York, and $16 in Chicago and Detroit. It will be noted that the net decreases were experienced by dealers located relatively farther away from Detroit. See "Ford Juggles Charges on Freight and Prices," \textit{Business Week}, February 25, 1956, p. 32.
dealers, that is, mostly used car lot operators. As an example, in November, 1954, Ford was charging approximately $350 for transportation of a Ford automobile to the West Coast. The resulting differential between the West Coast delivered price and the Detroit delivered price enabled West Coast used car lot operators to buy cars in Detroit (from where they were driven to the West Coast) and sell them at a price lower than franchised dealers in their area could sell them. Although bootlegging has been promoted by more than one factor, to the extent that it has been furthered by differentials in transportation charges, the activity has been diminished.

It must not be assumed that a franchised dealer's only interest in transportation is related to new car delivery from the factory. His responsibility for determining type of shipment and expediting shipment, when necessary, is more closely associated with parts, accessories, used cars, and to an extent, new cars. Other than routine shipments from suppliers, many parts and accessories are moved, sometimes on short notice, by the dealer's own transportation equipment from local distributors or nearby manufacturers. By their very nature, new and used cars are mobile. Thus a dealer generally assumes responsibility for transporting used cars. Furthermore,

\[15\] Ibid.
in many areas throughout the nation, dealers cooperatively participate in an exchange office that permits a dealer to obtain from another dealer a specific automobile, for which an immediate sale can be made, in less time than it would take to get the car through regular channels from the manufacturer. This practice is known as an "accommodation transfer," and the function of delivery in these situations is assumed by franchised dealers.

Storage. One of the major functions of franchised dealers that manufacturers expect of them is storage. In fact, they have been quite insistent that dealers maintain adequate storage and display areas as a requisite for continuation of franchises. 16 These areas are largely reflected by space for showroom, warehousing, yard, and bin and rack. 17 It is recognized by many dealers, however,

16 One of the Ford dealers interviewed for this study had lost the lease on his building. He was expecting his franchise to be terminated because of his inability to find a building and area adequate for his operations and satisfactory to the manufacturer.

17 One large, successful dealer with decades of experience has used and recommended the following space allotments: (1) new car sales display, 400 square feet per vehicle; (2) new car warehousing, 150 square feet per vehicle; (3) used car sales display, 300 square feet per vehicle; (4) service work stalls, 240 square feet per vehicle; (5) customer reception area, 240 square feet per vehicle; (6) finished repair job parking, 150 square feet per vehicle; (7) parts department, one square foot per $5 of inventory cost. Also, of the total land area, 40 per cent should be building area; 35 per cent, storage of finished work; and 25 per cent, used car display. Berry,
that excessive display and warehousing areas, not warranted by a certain size of operations, will only increase operating expenses, and, perhaps, cause a dealer to lose trade to his competitors.

Financing. A fifth major function is that of financing. In this respect, the automobile dealer is confronted with financing problems unlike those of most other retailers. On the one hand, manufacturers have always demanded cash for their new automobiles. On the other, consumers desire to buy automobiles on credit. So in addition to working capital required for purchase and sale of these goods, dealers need capital for certain fixed assets such as land, buildings, furniture and fixtures, shop equipment, and other assets of a more or less permanent nature.

In 1955 it was reported that the average net worth of franchised dealers was $118,774. For sales volume Group I dealers, the figure was $80,720; Group II, $188,528; Group III, $338,528; Group IV, $856,528. The industry average was 10.5. These figures, when correlated with the preceding recommended space allotments, are suggestive of the relatively large display and warehousing floor areas required by even the smallest sales volume dealers. Business Management Survey Reports, Entire Year, 1956 (Washington, D. C.: National Automobile Dealers Association, 1956), p. 2.
Group III, $388,772; and Group IV, $641,182. Even with these amounts of equity capital, there are still not sufficient funds possessed by the average dealer to finance his purchases of cars without the assistance of financial institutions. Likewise, few consumers are able to finance their instalment purchases of cars through dealers. Commercial banks and sales finance companies are the institutions that generally finance wholesale and retail credit sales of automobiles.

These statements are not meant to imply that dealers do not participate with some of their own capital in financing sales. First, in 1954-55, automobile dealers accounted for 3 per cent of the sources of instalment credit in new car purchases. Second, some dealers finance consumer purchases of cars through so-called "non-instalment" credit contracts, which specify "payment in more than one instalment but at very long, irregular, or unspecified intervals." Third, with the "floor plan" method of wholesale financing, dealers furnish some funds, for the amount loaned by the sales finance company is not


20Ibid., p. 47.
always for the full amount of factory cost of new cars plus transportation costs and other charges made by the manufacturer. Fourth, dealers also contribute some funds on used car credit purchases, because sales finance companies seldom lend in excess of 85 per cent of the average loan value currently listed in industry books of used car values. And, last, some dealers own their own sales finance companies through which consumers may finance instalment credit sales. Even though a dealer has none of his own funds involved in these practices, his vital role in the finance function is further shown by his advice and arrangement for financing through various finance institutions.

Risk bearing. Another major function is that of risk bearing which becomes inherent in a dealer's firm because of his ownership of various assets. His merchandise inventory is subject to style obsolescence and fluctuating market value. His accounts and notes receivables are subject to bad-debt losses.

In an effort to protect himself against these possible losses, a dealer has several courses of action to his advantage. The revised franchise agreements of 1956

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and 1957 have several clauses that permit, under certain conditions, return of unneeded parts to the manufacturer. Also, new cars still carried by the dealer into the new-model period are subject to price discounts.

Dealers transfer part of their risk through insurance. It is not uncommon for them to have adequate insurance on the following: (1) building, (2) improvements or betterments to building if it is leased, (3) fixtures and equipment, (4) plate glass and neon signs, and (5) new and used car inventory. 22

In 1957 the average dealer spent for insurance, other than building, 0.33 per cent of total sales. For Group I dealers, the percentage was 0.38; Group II, 0.32; Group III, 0.27; and Group IV, 0.23. 23 In other words, these expenditures, relatively, did not vary greatly.

22Through insurance, dealers may also protect themselves from these events: (1) injury to customers while in establishment; (2) damage to customers' property in custody; (3) injury to employees while working; (4) personal injury or property damage from elevator; (5) loss of income in event fire or other disaster forces dealer to suspend operations; (6) loss in case of robbery or burglary; (7) loss arising from the forging or altering of checks; (8) loss arising from embezzlement or misapplication of money or property; (9) loss stemming from the disappearance or destruction of money or securities; and (10) personal injury or property damage from steam boiler or other explosion. See "Be Sure--Insure," NADA Magazine (September, 1954), p. 32.

Dealers also minimize risks through certain policies and practices relating to sales and profits. They encourage and actively participate in various training programs involving themselves, their sales managers, salesmen, and service personnel. These programs are sponsored by the dealers, their manufacturers, or one of the associations to which they belong. The contents of the programs involve a study of the more modern and scientific management policies, procedures, and practices.

**Marketing information and research.** If the function of marketing research is accepted to be that of "collecting, analyzing, and interpreting through research activity, marketing information which is disseminated to those charged with the responsibility for making decisions in the marketing field," then it must be concluded that franchised dealers find such activities inherent in their businesses.\(^{24}\)

This activity is largely an intra-firm matter. Little research is of a formal nature involving studies of other dealers, the trade as a whole, consumer buying habits, or motivation. Instead, dealers limit their sources of information to records and reports maintained within the firm. For example, experience is helpful in

\(^{24}\)Beckman, Maynard, and Davidson, *op. cit.*, p. 572.
determining days-of-supply for inventory purposes of new and used cars, parts, and accessories. Records reveal the models of cars and types of accessories that have had the greatest demand in the past. They also reveal sales productivity related to various compensation plans, an aspect of sales management with which dealers frequently "experiment."

Results of formal research are most frequently contributed by manufacturers, publishing firms, and the National Automobile Dealers Association. The latter has encouraged dealers to do more individual research, largely of a cost accounting nature, to show the actual cost of marketing each car on the retailing level. The very nature of a dealer's organization and its small size of operations limit the opportunity for more research, even though it be desirable.

**Used car appraising.** Another major function is that of appraising the value of used cars for purposes of accepting them as trade-ins on a new car or buying them for resale.

Ordinarily this function would be viewed as perhaps a sub-function of the buying function. In automobile retailing, however, it has emerged as a major economic activity. Proof of this is seen in many dealerships, particularly the larger sales volume ones, where certain
personnel function only in used car appraising. Even in the lower-volume firms, frequently only a few personnel are authorized to appraise used cars for market value. In other words, through a division of labor this function, too, has become specialized.

The number of used cars accepted as trade-ins or bought by the typical dealer does not fully reflect the scope of all appraisals. This is true for two reasons. First, they are made on many more cars than are eventually accepted in consummated new car sales. And, second, dealers prefer to reappraise a used car after its previous appraisal is approximately ten days old.

**Contrast with Other Trades**

Although automobile dealers function as typical retailers, a number of aspects of their operations and products are unlike those of other trades.

Consumers generally seem concerned about the quality of goods purchased, but only when they have considerable knowledge can they engage in effective price shopping. This appears to be the case for automobiles because manufacturers traditionally engage in extensive national and local advertising of an educational nature. By contrast, in the real estate business, homes are bought on the merits of non-standardized products. In the jewelry
line, considerable quality knowledge is necessary, but seldom found, in order to compare prices. In furniture, consumers appear not too well acquainted with either manufacturers or quality. And in the appliance field, several contrasting features are found:

1. Manufacturers produce for many private brands.
2. Manufacturers' products include different kinds of goods. When sales by one are lagging, dealers promote another.
3. Yearly sales ratings are not sought to be used as promotional features in advertising.

Concerning internal operations, automobile dealers are involved in two transactions for each customer (trade-in and new car), either one of which is subject to profit loss. This is in contrast to appliance dealers, who, if a trade-in is involved, will often discard it as value-less after accepting it at a nominal, standard price. Also in contrast, manufacturers of appliances often operate warranty and service departments for products sold by their dealers. Furthermore, some manufacturers provide considerable warehousing, delivery, and installation services. Interest on floor-plan financing is thus often reduced for dealers. Quantity purchases are frequently associated with additional discounts; and, last, many appliances have been fair-traded in an effort to avoid price-cutting practices.
It would seem that these statements of contrast are suggestive of the fact (1) that there have been relatively fewer restrictions on the marketing of automobiles and (2) that automobile dealers are faced with more complexities of operations than are dealers of some other high-priced goods.
CHAPTER V

FRANCHISED DEALER RELATIONS WITH MANUFACTURER

One of the most significant factors determining an automobile dealer's operation is the relationship that he has with the manufacturer he represents. This is defined by a number of items contained in a written contract, usually referred to as a "sales agreement," "franchise," or "franchise agreement." ¹

Legal Relationship

Although there has not been a consensus regarding this relation in the legal sense, there are several strong arguments to view it as one of vendor-vendee. First, by franchise agreement statements, manufacturers authorize dealers to represent them only with regard to standard factory warranty. Second, all franchises expressly state

¹This agreement may contain provisions relating to the following major items: (1) time covered by agreement; (2) selling rights; (3) prices, terms, and discounts; (4) freight and packing; (5) taxes; (6) changes in prices; (7) title; (8) physical factors in place of business; (9) U. S. Government business; (10) demonstrators; (11) retail buyer's order and deposit; (12) sale of repair parts; (13) advertising and selling; (14) trademarks; (15) patents; (16) reports; (17) estimate of products required; (18) return on warranty work; (19) termination; and (20) death of dealer.
that a principal-agent relationship does not exist. Third, dealers do not act primarily for the benefit of manufacturers. Fourth, dealers are required to pay cash on delivery for cars and to take title. And, last, there is no expressed authority for dealers to create or modify third party contracts that manufacturers may have. The majority of courts have adopted these views; and, likewise, marketing authorities have assumed the same position, viewing the dealer as an independent businessman acting in his own behalf in the operation of his business. ²

On the other hand, the relationship has been treated as that of principal-agent, the logic of which is based on the essential characteristics of the agency: (1) An agent has the power to alter legal relations between his principal and third persons; (2) the agent acts as a fiduciary; and (3) an agent is subject to control by his principal.³ Although a substantial number of court cases have used these views, some points of reasoning have been questioned by others. Only in a very limited way are dealers authorized contractual power in behalf of their manufacturers; nevertheless, the consuming public may assume that manufacturers


³Quoted from Restatement of the Law of Agency, secs. 12, 13, 14 (1933).
do have responsibility for actions of their representing dealers. Further, with the great degree of control that dealers contend manufacturers have over them, it may be argued that they do act primarily for manufacturers. Concerning fiduciary aspects, dealers have certain obligations to manufacturers (such as accounting for profit, using reasonable care and skill, obeying instructions, and others); however, the penalty for non-performance is not legal but economic, that is, non-renewal of franchise. Nevertheless, the fiduciary duties are real and do exist in fact.¹

The Automobile Marketing Practices Subcommittee in 1956 heard much testimony from franchised dealers to

¹There are also arguments that the relationship is partly agency and partly vendor-vendee, for such has been the ruling in a substantial number of cases. The opinions handed down in these cases, however, did not make it clear as to which respects of the manufacturer-dealer relations were characteristic of which specific legal relationship. Senator A. S. Mike Monroney, Chairman, Automobile Marketing Practices Subcommittee, used the term "quasi-agency" to characterize this mixed relation in the automobile industry. See U. S. Congress, Senate Subcommittee of the Committee on Interstate and Foreign Commerce, Hearings, Investigation of Automobile Marketing Practices, 84th Congress, 2nd sess., 1956, p. 1354. Professor Hewitt has also pointed out that since the relationship in the trade does not seemingly fit into any of the standard legal classifications that a sui generis ("of its own kind or class") approach might be used. This approach would recognize differences between the form and the real substance of the relationship; would recognize that old principles and rules that once served the needs of society do not meet the requirements for treating the relationship between automobile manufacturer and dealer; and, further, would not overrule previous cases, nor make exceptions to old rules. Rather, this approach would give courts an opportunity to isolate certain areas of law for special treatment. See Hewitt, op. cit., pp. 195-206.
indicate clearly that control exercised by manufacturers is more like control of principals over agents. Thus this aspect of the industry does have considerable support that a vendor-vendee relationship does not exist, but that a principal-agent one does.

Conditions of the 1930's

The full extent of manufacturer control was clearly revealed by a major investigation of the automobile industry by the Federal Trade Commission in the latter part of the 1930's. The Report on Motor Vehicle Industry stated that manufacturers maintained a considerably greater amount of supervision over their dealers than was characteristic of most lines of business. Some were required by manufacturers to make investments in their businesses, often against their will or with implied or stated threats of franchise cancellation. Manufacturers also forced

5On April 13, 1938, President Roosevelt signed Public Resolution No. 87, 75th Congress (H. S. Res. 594), "directing the Federal Trade Commission to investigate the policies employed by manufacturers in distributing motor vehicles, accessories and parts, and the policies of dealers in selling motor vehicles at retail, as these policies affect the public interest."


7Ibid., p. 153.
dealers to take more cars than could be sold without lowering cash prices or making excessive trade-in allowances. The report contained evidence that some manufacturers billed dealers for transportation in excess of actual cost of delivered automobiles. Evidence was gathered to show that manufacturers used fear of franchise cancellation as a method of inducing a greater volume of sales; and, in some cases, they did cancel. The F. T. C. report summarized the franchise agreement in these words:

In other words, the manufacturer-dealer agreement, commonly spoken of in the trade as a "Franchise," merely sets out the conditions under which the dealer may buy and sell motor vehicles made by the manufacturers generally with the understanding, expressed or implied, that the dealer will handle exclusively the products of one manufacturer.

These agreements are between parties of very unequal economic strength and bargaining power. The terms of agreement are set up by the manufacturer, and neither the manufacturer's field representative nor the dealer is permitted to make any changes in the printed form. Having been thus drawn and insisted upon by manufacturers with years of operating experience as a background, the agreements contain whatever clauses protecting the manufacturer's interest he chooses to put into them, and likewise only such clauses protecting the dealer's interest the manufacturer chooses to put into them.10

8Ibid., p. 173.

9These efforts to encourage sales were characterized by dealers as "pressure"; but, by manufacturers, as "assistance to dealers."

The report in its chapter entitled "Summary and Conclusions" contained the following statements relating to unfair methods of manufacturers in their relations with dealers:

The Commission finds that motor-vehicle manufacturers, and, by reason of their great power, especially General Motors Corporation, Chrysler Corporation, and Ford Motor Co., have been, and still are, imposing on their respective dealers unfair and inequitable conditions of trade, by requiring such dealers to accept and operate under, agreements that inadequately define the rights and obligations of the parties and are, moreover, objectionable in the respect to defect of mutuality; that some dealers, in fact, report that they have been subjected to rigid inspections of premises and accounts, and to arbitrary requirements by their respective motor vehicle manufacturers to accept for resale quantities of motor vehicles or other goods, deemed excessive by the dealer, or to make investments in operating plants or equipment without adequate guaranty as to term of agreement or even supply of merchandise; and that adequate provisions are not included for an equitable method of liquidation of such investment, sometimes made at the insistence of the respective motor vehicle manufacturer. . . . In the opinion of the Commission, this inquiry has demonstrated that inequities exist in the terms of dealers agreements, and in certain manufacturers' treatment of some dealers, calling for remedial action.11

Dealers have for decades been aware of unequal strength between themselves and manufacturers; but, once committed by franchise agreement and growing investment in

11Ibid., pp. 1075-76.
their enterprise, they know that a change is difficult and are forever hopeful of bettering their relationships. Manufacturers, aware of resentment of their control and supervision over dealers, nevertheless, contend that such control and supervision are necessary. Their legal right to engage in the franchise agreements has been clearly defined by the courts. In *S. B. McMasters v. Ford Motor Co.*, the court stated as follows:

> ... they are entirely within their rights in so framing their contract to carry out their intention. The intention of the parties in the absence of any grounds of public policy must prevail, and their intention must be gathered from the terms of the contract itself.\(^{12}\)

In the same case, comment was made by the court to indicate the manufacturer's belief that he must control his dealers, and to show that dealers willingly submit in order to obtain the franchise; it said:

> As I view this contract, the case is simply this: The manufacturer desires to sell his products in such manner only that his interest may be promoted. He therefore demands as part of the price in the making of the contract that the person to whom he sells his goods shall submit to certain restrictions. The person desiring to buy the manufacturer's goods is anxious to purchase them, and in order to purchase them is willing to submit to the conditions and restrictions named. ... \(^{13}\)

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\(^{12}\) 3 F. 2d 469 (DC-ED, SC 1925).

\(^{13}\) Ibid.
The next example of litigation, Ford Motor Co. v. Kirkmyer Motor Co., is cited to show that although the courts do not question the legality of the franchise, they do question the one-sided character of it. The court stated:

It appears that the plaintiff has been disappointed in its expectations and has been dealt with none too generously by the defendant; but, while we sympathize with its plight, we cannot say from the evidence before us that there has been a breach of binding contract which would enable it to recover damages. While there is a natural impulse to be impatient with a form of contract which places the comparatively helpless dealer at the mercy of the manufacturer, we cannot make contracts for parties or protect them from the provisions of contracts which they have made for themselves. Dealers doubtless accept these one-sided contracts because they think the right to deal in the product of the manufacturer, even on his terms, is valuable to them; but, after they have made such contracts, relying upon the good faith of the manufacturer for the protection which the contracts do not give, they cannot, when they get into trouble, expect the courts to place in the contracts the protections which they themselves have failed to insert.14

Still another example of litigation indicates the apparent intention of the manufacturer in forming the contract. In Buggs v. Ford Motor Co., the court stated:

An examination of its terms, which are many, indicates that it was dictated by the manufacturer at Detroit, and drawn by its counsel with the avowed purpose of protecting the manufacturer to the utmost and granting, if any,

1465 F. 2d 1001 (CCA-4, 1933).
few rights to, and the smallest possible protection of, the agent.

It is one which affords some support for the wisdom and the necessity of legislation which protects the weak against a strong party in situations like the instant one.\textsuperscript{15}

It can thus be seen that with the FTC investigation, opinions handed down by the courts, and general dissatisfaction expressed by dealers, that the environment was established for favorable passage of remedial legislation by Congress and for major policy changes by manufacturers. Such did not develop because several events external to the industry alleviated any pressure to change. World War II had begun in Europe, and by 1941 the United States became directly involved. Automobile production quickly diminished as manufacturers began utilizing their plants for the production of war material. Dealers who remained in business during the war found their major sources of income from the sale of parts and accessories and from their repair and maintenance service.\textsuperscript{16} When production of automobiles began again in 1945, the dealer problem

\textsuperscript{15}113 F. 2d 618 (CCA-7, 1940).

\textsuperscript{16}The consensus of the public seems to be that many dealers during the war years and immediately thereafter engaged in questionable selling practices that harmed dealer reputations in cities throughout the country.
became one of supply rather than demand. This condition continued until 1953.  

Conditions of the 1950's

During the greater part of the 1950's, franchised dealers remained "captive" representatives of the manufacturers; and to indicate this relationship, the following clauses have been taken as examples from actual franchises in effect:

Dealers shall establish and maintain to factory standards satisfactory cash, net working capital and net worth.

Dealers shall maintain an adequate supply of parts and accessories, as determined by the factory.

Dealer shall maintain stock adequate in factory's opinion for display demonstration and retail sale.

Dealer shall install and use only factory's fleet-rate system of labor charges.

Dealer shall not publish, broadcast or post any advertising to which factory takes exception as to copy, content, medium, or location within the medium.

17 One extremely significant event regarding dealer relations with manufacturers occurred in 1948. The Attorney General of the United States made a speech in which he expressed the opinion that franchise provisions intended to suppress cross-selling and bootlegging were in violation of the Sherman Antitrust Act of 1890. The following year manufacturers withdrew these provisions; and with the return of the buyers' market, cross-selling and bootlegging became rampant. See "Congress Explores Bootlegging," NADA Magazine, August, 1954, p. 33. This aspect of the subject is developed in Chapter VI.
Dealer shall not use advertising to which factory may object as being detrimental to its good name or good will.

Dealer hereby releases and discharges seller from any and all liability for any and all damages and losses arising from the failure of seller to fill any orders placed hereunder.

Dealer will maintain a place of business, including salesrooms, service station, parts and accessories, facilities and used-car facilities satisfactory to seller and will maintain the business hours customary in the trade.

Dealer will permit seller to inspect such place of business at all reasonable times and business hours.

Dealer shall maintain stocks sufficient in the factory's opinion to meet customers' requirements.

Dealer shall allow factory representatives to inspect his accounts and records.

Dealer shall properly develop to seller's satisfaction the sale of motor vehicles and chassis in the area described in paragraph first.18

From these examples it would appear that the agreements were filled with generalities and indefinite terms much to the advantage of the manufacturers. When these terms were related to specifics, it meant, for example, that manufacturers assumed the right to impose uniform accounting systems that presented dealers with a more favorable profit position than actually was the case. This condition resulted when some dealers were not permitted to

take as explicit costs a payment to themselves as owner-manager, or a rent payment to themselves as owner of the building for the business.

The terms meant that dealers were to be held responsible for accepting all goods ordered from the manufacturer who would assume no responsibility for filling orders. The terms also meant that many small town dealers had to purchase repair and maintenance equipment for which there was little, if any, need.

Perhaps the term causing the greatest unrest among dealers was the one relating to developing sales "to the satisfaction of the seller." For General Motors dealers, this requirement was administered by comparing a dealer's sales of cars to factory standards. "National sales" averages were worked out for various price classes of cars, and "penetration of market" was then used to judge a dealer's performance. In other words, in his sales territory a dealer was expected to equal or exceed the percentage of national sales obtained by all dealers of his particular brand to national sales of all dealers in his car's price class. This same percentage standard was also determined for each make of car compared to total national sales of all cars, and each dealer was expected to meet the one pertaining to his brand.
Statistically, it is impossible for all dealers to equal or exceed such national standards. Nevertheless, it was reported that pressure was put by General Motors on all dealers to meet these standards; and those who failed were either relieved of their franchises or placed under continued pressure.¹⁹

During 1953 and 1954 the Senate Committee on Interstate and Foreign Commerce received many complaints from dealers regarding their economic difficulties. Hearings on the subject were held in July of 1953; and on March 9, 1955, the Subcommittee on Automobile Marketing Practices was appointed to "inquire into and make a thorough investigation of all phases of automobile marketing practices."²⁰ As a result of the subsequent investigation, certain activities of NADA supporting franchise changes, and the effect of several pieces of proposed Federal legislation, major improvements in manufacturer-dealer relations were made.²¹


²¹For a review of NADA activities, see "Industry-Relations Committee," NADA Magazine, January, 1954, pp. 16-17. Also, see Frederick M. Sutter, "NADA Industry-Relations Committee Plans for Year of Decision," NADA Magazine, February, 1954, pp. 28-29. Among several pieces
Major Changes in Franchises

In March, 1956, General Motors announced new franchise agreements for dealers. This was followed in April of 1957 by similar announcements for Ford and Chrysler. The new contracts available to all dealers represented improvements that were intended to enhance the security of dealers and better their profit positions. Principal improvements are detailed in the following paragraphs.22

Length of contract. To offset objections that many dealers had to the necessity of periodically renewing the

of proposed legislation, one bill (H. R. 523), introduced by Congressman Carl Hinshaw (R.—Calif.), was intended to amend Section 5 (a) of the Federal Trade Commission Act to prohibit manufacturers from making charges for freight which they had not been required to pay. Another bill (H. R. 6544), introduced by Congressman Tom Steed (D.—Okla.), was intended also to amend the Federal Trade Commission Act to permit manufacturers to assign specific areas of service responsibility to their dealers. This bill was an attempt to regain legally some degree of territorial security, for it would permit manufacturers to reinsert a clause in dealer agreements to enable the dealer performing warranty service to collect a fee from the selling dealer, when the selling dealer was not the warranty-servicing dealer. In an attempt to curb bootlegging, a third major Federal bill (H. R. 2688), introduced by Congressman John Bell Williams (D.—Miss.), provided for permission to automobile manufacturers to reinsert a clause in the selling agreement to allow the manufacturer to cancel an agreement with dealers who sold new cars to unauthorized dealers for resale to the consumer.

22 The Legal Division of NADA has prepared an undated, unpublished report entitled "Comparison of Principal Improvements in New General Motors, Ford, and Chrysler Agreements." Also, the April 29, 1957, issue of Automotive News included an article "How New Franchises Compare" which includes a summary of dealer contracts and factory concessions.
franchise agreement, all of the Big Three made available a continuing agreement. That was the only type of contract which Chrysler had. General Motors had a 1-year and a 5-year agreement; and, similarly, Ford had a 1½-year and a 5½-year agreement, all at the option of the dealer.

Refunds or price reductions. General Motors provided for a rebate of 5 per cent of list price on unsold new cars carried by the dealer into the new model year. This was an increase from 4 per cent, allowed in the previous contracts. Ford and Chrysler for the first time provided also for a 5 per cent rebate. In addition, the latter two firms had an alternate plan that was an incentive plan based on a bonus for moving unsold new cars prior to announcement of new models.

Parts obsolescence. Again concerning cost of goods, General Motors dealers may submit a list of unused, inactive parts that are in good condition. After examination of the list, the manufacturer will advise the dealers of parts to be accepted; and they may return annually up to 4 per cent of the total annual purchases at list. The Chrysler franchise makes no provision for obsolescent parts, but the company's policy is to publish a list of "Parts Eligible for Exchange," and any part so listed may be returned. Even those parts not shown on the official list may be listed by the dealer and submitted to the
factory for review and approval of return. Ford makes no provision for return of obsolescent parts.

Return of new parts and accessories. Dealers of General Motors may return new parts that are in good condition and unused within 90 days after receipt; accessories, within 30 days. Chrysler has the same policy, although the franchise does not specifically provide for it. Ford has no plan permitting return of new parts and accessories.

Cash discount. None of the Big Three have franchise provisions for cash discounts; however, Ford and Chrysler both have a policy that permits a 2 per cent discount for cash payment of parts purchased.

Warranty service. Franchises for both General Motors and Ford provide for 100 per cent reimbursement to dealers for all parts and labor charges relative to performance of warranty service work on new automobiles. Chrysler does not include this provision in its agreement with dealers, but its policy provides for 100 per cent return, just as General Motors and Ford do.

Sales performance. Each of the Big Three provides criteria for evaluating dealer sales performance. General Motors eliminated the previous term that a dealer shall properly develop the sale of motor vehicles to the satisfaction of the manufacturer. In its place, the new agreement establishes in detail the standards to be used. The
President of General Motors, Harlow H. Curtice, has explained the standards as follows:

We will compare the competitive performance of the dealer with other dealers, specifically in his zone area but not necessarily to the exclusion of the regional and national areas.

In judging performance we will use the records generally accepted for this purpose. In addition, we will take into account other pertinent factors such as population growth and shifts, the trend of the dealer's sales performance over a reasonable period of time, the availability and delivery of new cars and trucks to the dealer and especially local conditions directly affecting sales performance.23

Special provisions were made for metropolitan dealers, which would include consideration of the location of a dealer's business, general shopping habits of the public, and dealer's previous sales experience in the area.

Franchises for Ford dealers included changes that designated standards in more detail, for they would relate a dealer's unit sales to total unit registrations in his area, as well as unit sales of other makes. These standards would include a comparison of Ford dealers of reasonably comparable size. Like General Motors, Ford would also consider sales trends, availability of cars, and local conditions. Special provisions were made for the metropolitan dealer whose portion of sales a dealer "fairly may be held responsible."

The last of the Big Three, Chrysler, had agreements in which the dealer agreed to fulfill "minimum sales responsibility." This was determined by using the ratio of Chrysler registrations in the last 12 months to total registrations in the dealer's "Sales Locality." Like General Motors and Ford, Chrysler took into consideration other factors, which included revision in the dealer's "Sales Locality" description. A metropolitan dealer's responsibility would be a "fair share" of all Chrysler sales in the areas.

Advertising. In their franchises, all of the Big Three expressed disapproval of misleading advertising. General Motors established an "Advertising and Promotional Program," which was financed both by company allocation of fixed amount per car and by price increases to dealer. Cooperative advertising funds were eliminated.

For Chrysler, the franchise stated that the company could collect such sums for advertising "as may be authorized by purchases of cars." As it was with General Motors, the Chrysler franchise eliminated cooperative advertising funds. Ford franchises made no direct references to any dealer advertising contributions.

Termination. Concerning termination of franchise procedure, all of the Big Three had a number of points in common: (1) Dealer can terminate on 30-day notice; (2)
factory can terminate contract on 90-day notice for listed causes; and (3) factory can terminate all contracts without notice for several listed causes. In addition, Ford can terminate continuous contracts on a 120-day notice. On termination, the factory will lease the dealer's premises for one year if no other tenant is found, and will repurchase the following items: all listed parts at wholesale price, plus 5 per cent; all accessories purchased in previous 12 months; all special tools purchased in previous 36 months; and all signs at a fair market value.

The bases for termination of a franchise by each of the Big Three are similar; therefore, only one firm will be used as an example. The Ford franchise states that a franchise can be terminated upon 90-day notice if the dealer fails to fulfill obligations regarding sales and service responsibility, place of business, facilities, and equipment, capital, personnel, accounting system, reports, stocks, orders, customer handling, trade practices and advertising, company inspection, warranty, service policy, pre-delivery inspection, non-agency status, and misrepresentation of genuine Ford parts.

Immediate termination may result from the dealer's failure to fulfill obligations regarding payments to factory and use of trade marks and trade names; other
acts: any attempted transfer or assignment of franchise, transfer of dealer's ownership in firm, failure to function in ordinary course of business, disagreement of officers having adverse effect on business, conviction of dealer, and submission of false reports. Ford will give the dealer reasonable opportunity to correct any failures regarding operating requirements specified in the franchise.

Other minor provisions. There are still other minor provisions of the new contracts which are unique to each specific manufacturer. Chrysler franchises permit the dealer to designate method of shipping cars. In 1956 General Motors adopted the policy of billing dealers for cars when they arrived, rather than when they were shipped. In 1957 Chrysler adopted a similar policy of billing dealers for cars 2 to 5 days after shipment.

On death of a dealer, General Motors franchises permit the widow to have an interest in the dealership for five years; Ford, for one year. Chrysler permits this interest indefinitely. And, last, General Motors and Ford both provide for a 90-day delay of termination on death or incapacity of a dealer.

Evaluation of New Franchises

This thesis has pointed out that the automobile industry is characterized by a tremendous concentration
of economic power in the manufacturing firms. These are relatively few in number; and their major relationships are with franchised dealers, who, on the other hand, are relatively large in number, but small in size. This one-sided relationship has made it possible for provisions of franchises to be determined by one party only. Mutual rights and obligations have not been clearly defined. In fact, the franchise has afforded the manufacturer legal protection when he chose to engage in unfair and coercive action—often called "pressure" by the dealers. But these statements generally apply to the era prior to 1957.

Since introduction of the new franchises, sufficient time has elapsed to appraise their effects. Even in the summer months of 1957, when 39 dealers were interviewed for this study, not one voiced any serious objection to the franchise as it existed then. It thus appears that major objections have been overcome, if consideration is given not only to revisions in the contracts but also to concessions on policy matters. This is not to suggest, however, that all objections have been satisfactorily met. In late 1958, it was reported that the Industry-Relations Committee of NADA would continue its work "unrelentingly"

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24The only objection raised was the continued "high-handedness" or superiority evidenced by some representatives from the manufacturer's region or zone office. Many dealers also criticized the absence of any territory security clause, a subject that is developed in the following chapter.
to bring further into proper balance the power of manufacturers and dealers, and to obtain selling agreements which are fair, equitable and definite in their terms."^{25}

Nevertheless, franchise revisions of 1956 and 1957 were indeed significant. It was reported that General Motors contracts represented "the first basic change in the technique of automobile distribution in nearly 40 years."^{26}

Dealer security has been enhanced by the agreements which more clearly define mutual rights and obligations of both parties. Conditions of termination have been better classified. Original expressions that were rather vague in requiring the dealer to maintain sales "to the satisfaction of the seller" and "to develop properly" have been eliminated. In their place, manufacturers have detailed standards that dealers can more easily understand. All manufacturers of the Big Three have a continuing contract that does not require renewal each year, but this aspect of the contract takes on lesser significance when it is realized that the agreement contains an extensive list of causes for termination. Other terms of the franchises give indication of greater profits for dealers,


particularly the ones regarding rebates on some new cars, payments for warranty-service, and the right to return under certain conditions parts and accessories.

In the review of all franchise terms, it thus becomes evident that automobile manufacturers and their dealers do not fall within either of the two major legal classifications of vendor-vendee or principal-agent. Somewhere in between lies their relationship. The dealer is unlike the regular retailer who buys from many manufacturers and wholesalers, any one of which may be substituted for another, and no one of which assumes control over retailing operations. Neither is the automobile dealer similar to an agent who is neither legally nor practically independent.

Rather, this in-between stage is the result of a mutuality of interests of the two parties. On the one hand, the dealer is looked upon by the public as the manufacturer's representative, whose success is conditioned to a great degree by the quality and value of the manufacturer's product. And, on the other hand, the manufacturer's success depends substantially on how well the dealer performs his marketing functions.

It thus seems logical to support, as a matter of public policy, those manufacturers, who, with billions of dollars of investment in plant and equipment and new model
investment, define in franchise terms certain reasonable standards for control of a dealer's operations. Unreasonable standards for control, such as occurred in 1955 when manufacturers forced dealers to buy cars in such quantities that they could not be profitably sold, should not be condoned.

The problem then arises as to what is reasonable and what is unreasonable. Some guidance in this area has been provided by the Automobile Dealer Franchise Act of 1956, which will be analyzed in a latter section of this chapter. At this point, it can be concluded, however, that major improvements have been made in manufacturer-dealer relations, for the new franchise terms, adopted by all automobile manufacturers, do provide greater equity and fairness between the two parties.

Non-Legal Resolution of Dealer Problems

Two new methods have arisen whereby problems arising between manufacturers and dealers may be aired and solutions sought. One results from the establishment of a dealer-relations department by each manufacturer; and another, from the formation of so-called "dealer-factory councils."

By 1957 each of the Big Three had established either a Dealer Relations Board or a Vice-President in
Charge of Dealer Relations. As an example, in 1956 General Motors announced the creation of a new office known as Executive Vice-President in Charge of Dealer Relations.\textsuperscript{27} This executive has no authority to alter franchises, change policies with dealers, or adjudicate their disputes. Rather, his job is to cement good relations by reviewing complaints from dealers and forwarding them to the appropriate officials. Of great significance also, his responsibilities include making recommendations at meetings of General Motors policy groups.\textsuperscript{28}

By 1957 also, all manufacturers had established Dealer-Factory Councils that were dealer elected. Their general objective is to eliminate difficulties arising between manufacturers and dealers and to improve business relations between them. There are various levels of these organizations, topped by a National Council. At the lower levels, most of the complaints and recommendations are resolved. Other unsettled questions deemed important by the national council are discussed at length with the management of the various car divisions of the manufacturer

\textsuperscript{27}To indicate the importance of this position, this executive is one of the three executive vice-presidents reporting to the President of General Motors. Of the other two, one is responsible for the car divisions; and the other, finance staff.

concerned. A review of trade literature shows that the subjects discussed run the gamut of manufacturer-dealer relations: pricing, advertising programs, and even engineering and design factors. Generally, the councils have been highly successful in achieving their objectives.

State Legislation

Another area affecting manufacturer-dealer relations is that of the various laws enacted by some state legislatures in the country. In this respect, legislatures have been more sensitive in attempting to give some relief to dealers than have been the courts. These statutes, enacted by 18 states by 1957, can be placed into three broad categories: "(1) licensing laws, most of which require manufacturers to obtain a license to do business in a state; (2) anti-coercion statutes; and (3) stiff regulatory measures, controlling the business from franchise agreement through to final retail sale." 29

Manufacturers have vigorously opposed the anti-coercion and licensing laws and have succeeded in several instances through litigation in having such statutes declared unconstitutional, as was true with General Motors and the Colorado law in 1955. Further, a basic weakness has existed with most of the statutes that provide that a

manufacturer's license may be revoked for unfair threats to cancel a franchise, unfair non-renewal, and coercion to take unordered goods. With one-year dealer contracts, manufacturers simply allow a franchise to expire and do not renew it. In this way, cancellation of contracts is avoided, and the law does not apply. Some states have special commissions to review cancellation cases and others prohibit certain activities of both manufacturers and dealers. In opposing state legislation, manufacturers have apparently feared that control of the franchise system would pass to the dealers.

The Automobile Dealer Franchise Act

A balance of economic power in the industry was provided by the passage of the Automobile Dealer Franchise Act in 1956. As stated in the preamble, the chief purpose is:

To supplement the antitrust laws of the United States, in order to balance the power now heavily weighted in favor of automobile manufacturers, by enabling franchise automobile dealers to bring suit in the district courts of the United States to recover damages sustained by reason of the failure of automobile manufacturers to act in good faith in complying with the terms of franchises or in termination or not renewing franchises with their dealers.31

30See Hewitt, op. cit., p. 106.
31Public Law 1026.
There is nothing in the Act to indicate that it applies before the contractual obligations are established by the franchise terms agreed upon by manufacturer and dealer. In other words, each party is free to make its own decision as to whether or not to enter into an agreement. Section 2 specifically gives the dealer a right for legal action for damages that he sustains "by reason of the failure of . . . manufacturer . . . to act in good faith in performing or complying, . . . terminating, canceling, or not renewing the franchise." After passage of the Act, it was feared that the interpretation of "good faith" might prove difficult,\(^{32}\) even though Congressional debates had emphasized that manufacturers were free to terminate inefficient dealerships or those which did not provide adequate representation. Specifically, Section (a) of the Act stated:

\[
\text{The term "good faith" shall mean the duty of each party to any franchise, and all officers, employees, or agents thereof to act in a fair and equitable manner toward each other so as to guarantee the one party freedom from coercion, intimidation, or threats of coercion or intimidation from the other party: Provided, That recommendation, endorsement, exposition, persuasion, urging or argument shall not be deemed to constitute a lack of good faith.}^{33}\]


\(^{33}\) Public Law 1026.
Recent court decisions have begun to establish precedence for the above definition: lack of "good faith" must be determined in a context of coercion or intimidation. For example, it was the opinion of the court in Staten Island Motors, Inc. v. American Motor Sales Corporation that non-renewal of the dealer's 1958 franchise was not associated with coercion or intimidation or threat. Had there been pressure of any sort and had the dealer resisted this pressure, then the opinion of the court was that there might have been a good cause for action against American Motors Sales Corporation under the provisions of the Automobile Dealers Franchise Act. 34

Dealer Relations and the Public Interest

In considering the impact of the entire gamut of manufacturer-dealer relations from the social viewpoint, it is necessary to distinguish between short run and long run. Regardless, public policy should have an underlying tenet of fair and workable competition as being desirable. This type of competition should result in goods and services for consumers that are marketed at fair prices with reasonable returns to efficient businessment for their invested capital.

The record shows that since 1953 there has been intense competition in new car retailing and that this has been largely of a price nature. In fact, competition has been so intense that it may be questioned that the average dealer has received a reasonable return on his invested capital. Although the period up to 1961 can only be described as the short run, the question may well be asked as to where the automobile retailing trade is headed in the long run. If the factors that precipitated intense competition and unsatisfactory profit positions for the average dealer are left unchecked, it is reasonable to conclude that the present marketing system for new automobiles may be appreciably changed in the long run. That change may very well indicate the existence in the future of only large-volume, "supermarket" types of operators in metropolitan areas. Future study is needed on this possibility, but the point is that consumers must be left free to "vote" with their dollars in the market for the types of marketing institutions that serve them best.

Public policy should prevent any unreasonable artificial factors being imposed on the economic system which interferes with demand and supply forces. Congress apparently had this concept in mind when it passed the Automobile Dealer Franchise Act. Although future litigation will establish more fully the degree to which the
manufacturers' power has been curbed, it must be assumed that they now have relatively less freedom in abusive practices about which dealers have complained. This will be manifest largely in less pressure on dealers to sell and to accept excessive quotas of cars. Furthermore, there may be reluctance on the part of some manufacturers in terminating some dealers for unsatisfactory sales productivity, even though there is no court precedence that indicates it cannot be done.

The foregoing statements are indicative of "restricting" competition at dealer level. It must be remembered, however, that this is the short-run concept only. In the long run, it is highly probable that the major policy changes by all manufacturers in 1956 and 1957 and the Dealer Act of 1956 are "promotive" of competition.
CHAPTER VI

CROSS-SELLING PRACTICES

The practice of "cross-selling" was defined in Chapter I as the selling of a new automobile by a franchised dealer outside the sale territory designated for him by his franchise. This practice has had adverse effects on a substantial number of dealers and has been a paramount problem during the buyers' market. It has legal implications that involve (1) exclusive territories and (2) exclusive dealing. The purpose of this chapter, then, is to explain the practice of cross-selling; determine its legal, economic, and social implications; and recommend a solution to the problem.

Prior to 1949, cross-selling was not significant. Because of clauses usually inserted in franchises, dealers were granted exclusive territories in which to sell, with provisions for a "financial penalty" or "adjustment" for each car sold by a dealer outside his exclusive territory.¹

¹One franchise stated: "Seller hereby grants to the Dealer and Dealer hereby accepts the privilege of selling at retail . . . in the following described territory but not elsewhere." Another stated: "In consideration of such privilege, Dealer agrees that he will not directly or indirectly solicit sales elsewhere than the above-described
These provisions served as a deterrent to excessive cross-selling and appear to have satisfied the interests of both manufacturer and dealer. In the evolution of the direct channel, manufacturers desired cash for their automobiles and effective retail outlets to cope locally with the used car trade-in problem. Territorial security made it possible for dealers to expend funds and effort to build up sales potential and then not surrender that potential to dealers outside the protected territory. At least with the penalty provision, they found it less profitable to sell into the territory of other dealers who would receive the penalty for having "lost" the sale. Dealers thus felt secure in building an efficient organization, complete with adequate product service facilities. Manufacturers had better cooperation from dealers, and market coverage and cultivation were thus intensified. The public gained because fast and efficient repair and maintenance service became available in all localities throughout the nation.

2 For example, Chrysler Corporation charged $75 for every car a dealer sold outside his territory. This policy, however, was very difficult to "police." See testimony of Mr. L. L. Colbert, President, Chrysler Corporation, in U. S., Congress, Senate Subcommittee of the Committee on Interstate and Foreign Commerce, Hearings, Investigation of Automobile Marketing Practices, 84th Congress, 2nd sess., 1956, p. 429.
In 1949, however, the protection afforded by territorial security clauses came to an abrupt halt. The Attorney General of the United States expressed his opinion that franchise provisions intended to suppress cross-selling and bootlegging were in violation of the Sherman Antitrust Act of 1890. The opinion was that any restriction upon the right of a dealer, who had title to automobiles, to sell such automobiles to anyone, anywhere, or at any price was illegal. Accordingly, all manufacturers dropped these restrictive clauses in their 1949 and 1950 contracts; and they have not since been revived, even though considerable pressure has been brought to bear by various dealer groups for their reinstatement.

Causes of Cross-Selling

To an indeterminate but insignificant degree, it seems reasonable to assume that cross-selling and bootlegging (selling to unauthorized dealers, i.e., non-franchised dealers, most of whom are used car lot operators) have existed for decades. During periods of a sellers' 

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3Admiral Frederick J. Bell, Executive Vice President, NADA, has explained that over-inventoried dealers and phantom freight charges were responsible for the bootlegging that began in late 1953. See "Congress Explores Bootlegging," NADA Magazine, August, 1954, p. 48. The effects of this condition can be illustrated by citing the example of Denver, Colorado. Of 148 franchised dealers selected at random in the area, sales for 1953 were reported at $42,167,303, and net operating profits at $1,522,821. The following year the
market, however, there has been little, if any, incentive to engage in the practices. During buyers' markets, on the other hand, there obviously are reasons, and the dealers interviewed for this study furnished the following explanations:

1. Franchised dealers have the freedom to sell to any buyer residing anywhere.

2. No penalties, service charges, or adjustments are imposed on the selling dealer to the benefit of another dealer in whose sales territory the buyer may reside.

3. Some dealers feel that they will usually be immune from any responsibility for performing warranty service or subsequent repair and maintenance service on cross-sold cars. Thus, unit sales will rise without the necessity for increasing organization size with additional service department personnel or building up assets with more plant and equipment.

4. Some over-stocked dealers need to liquidate their inventory, and yet their designated sales territory will not absorb the sales.

5. Manufacturers "pressure" dealers to sell more cars.

6. Some dealers have personal ambitions to build their dealerships into high-volume outlets, even to a sales position far exceeding the potential of their territories.

7. Other dealers genuinely strive for a lower mark-up per vehicle retailed and accordingly expect higher volume which is partly obtained by selling out of territory.

8. Most dealers engage in the common practice of using "bird-dogs," individuals who are not salesmen or

area was flooded with new cars marketed through used car auctions and used car lot operators. The ensuing price competition caused the net profit of the 148 dealers to fall to $501,364 in 1954, even though their sales rose slightly to $44,487,929. In other words, a slight increase in sales from one year to the next was accompanied by a two-thirds decrease in profits.
employees of the firm, but who refer prospective buyers to the dealers. These individuals often live and work outside the dealer's territory.4

Apparently, all dealers to some degree are involved in cross-selling. In a hypothetical case, let it be assumed that there are two sales territories: territory "A" and territory "B," each of which has a single-point dealer who sells the same brand of car as the other. For one of the reasons noted previously, territory A dealer sells an automobile into territory B. This automobile is reduced from regular price because territory A dealer feels that the sale would not be made otherwise. It is "over and above" the sales potential in his own territory, so he believes; and the price need not cover in gross margin its full share of indirect expenses. The dealer believes that any gross margin above direct expense adds to the net operating profit of the firm.

At this point, however, a reaction sets in. The dealer in territory B retaliates by selling into territory A, for territory B dealer also has the same thoughts as territory A dealer. The result is that each dealer then must meet the lower price in his territory established by the outside dealer. Where this condition is multiplied

4These reasons are the personal opinions of the 39 dealers interviewed for this study.
many times by a dealer cross-selling into many adjacent and nearby sales territories, the effect is one of intense price competition. Consumers are educated and encouraged to shop for "deals" only. They play one dealer against another. In time, some dealers find themselves unable to recover all direct, semi-direct, and indirect expenses. Profits deteriorate, and dealers go out of business.

Theoretically the conditions described could occur under existing legislation and control of dealers by manufacturers. In actual practice, it does occur, but the quantitative measurement of it would be difficult to determine. It matters not whether cross-selling at reduced prices was begun through ignorance of actual costs, by excessive inventories of cars, by pressure for increased sales, or for other reasons. The essence of the matter is that a solution should be found to the problem.

Extent of Cross-Selling

There appears to be no macro-data available that show the extent to which cross-selling is practiced, yet some indication of its prevalence can be learned from the following facts.

In the questionnaire that followed the personal interviews, each dealer was furnished a map outlining
the counties in the state of Ohio and was asked to designate with an "X" those counties into which he made sales of new motor vehicles in 1956. An additional map was furnished on which the dealer was to designate also those counties which to his knowledge had dealers that cross-sold into his own local county.

There were 24 dealers who replied to the questionnaire (16 non-metropolitan and 8 metropolitan). It was learned that each county had an average of 8.7 other counties with dealers cross-selling into it. Although this figure applies to all dealers, the experience was quite similar for both metropolitan and non-metropolitan firms (10.9 and 8.3, respectively). As a conclusion, then, it would seem that the average county forms a "core" or a "nucleus" for a cluster of eight or nine other counties into which sales are made.

In answer to the question as to how many counties, other than his own, the dealer sold into, the average for all dealers was 7.4 (for metropolitan, 6.3; non-metropolitan, 7.9). It thus seems that cross-selling is indeed a reciprocal or retaliatory practice, even by admission of dealers themselves. It should be pointed out that from results of the questionnaire, metropolitan dealers seem to sell into slightly fewer counties than do the
non-metropolitan in the Columbus trading area. It is not contended, though, that this difference is of any great significance. It can be assumed, on the other hand, that metropolitan dealers have less reason to sell outside their assigned territories, inasmuch as their sales potential is relatively larger.

Also in the questionnaire, dealers were asked to estimate their dollar sales and unit sales made outside their assigned territory. In dollar sales, the average for non-metropolitan dealers was 10.2 per cent; for metropolitan, 4.2 per cent. As for unit sales, the former cross-sold 9.6 per cent; the latter, 4.3 per cent. None of these average figures appear to be in conflict. In fact, they seem to substantiate others. Metropolitan dealers engage in relatively less cross-selling regarding (1) number of counties sold into and (2) dollar, as well as unit, sales. These figures also support the belief that, although the number of motor vehicles cross-sold is not extremely significant in relation to total sales, cross-selling is an extremely significant factor in establishing price levels for automobiles. The practice and its impact on prices may be compared with the practices of discount houses within the 1950's. They have had an effect of lowering price levels of appliances sold by traditional retailers of such items.
Legal Implications

In considering several solutions to the problem, it is necessary to question their legality under the anti-trust laws, for they would involve certain aspects of "exclusive arrangements." In other words, may a dealer be granted an exclusive territory and penalized for sales made outside that territory? Also, may a manufacturer require a dealer not to handle products of another manufacturer?

Exclusive territories. In answer to the first question, it is known that various types of exclusive territory agreements are used in several industries. Further, the use of exclusive agencies and exclusive territories have been upheld in cases involving the anti-trust laws.\(^5\)

Both of these practices do restrict competition within the exclusive territory as far as the one product of the manufacturer granting "exclusives" is concerned. Nevertheless, if there is active competition of similar products of other competing manufacturers, there is little effect on total competition. Most manufacturers who have

been brought to court by the Department of Justice have been "giants" of the industry or have been charged with attempts to monopolize, illegally restrain competition, or fix resale prices. Of course, by any standards even the smallest of the automobile manufacturing firms is a large firm; but as it has been observed, "until engineers and economic forces give us a way by which a man can manufacture an automobile in his back yard, we will continue to have organizations the size of General Motors or Ford—as long as people want Chevrolets or Fords." 6

Since case precedence has established that exclusive territories are not per se violative of the Sherman Antitrust Act, the Clayton Act, or state antitrust legislation, the question naturally arises as to where specifically use of exclusive territory contract is illegal under the Sherman Antitrust Act, as the Attorney General implied in 1949 for the automobile trade.

Section 1 of the Act forbids contracts, combinations, or conspiracies in restraint of trade. Therefore, should manufacturers and dealers agree through franchises to restrict cross-selling and bootlegging, apparently the conspiracy aspect of Section 1 could be established as

evidence of antitrust violation. On the other hand, if franchises did not contain terms expressly forbidding these practices, but if dealers voluntarily cooperated in avoiding them and aided manufacturers in "policing" other dealers, then perhaps conspiracy could again be implied. Both of these assumed conditions would perhaps have to be reviewed by the courts as to whether or not there was an "unreasonable restraint on trade," a dictum that was introduced in the famous Standard Oil case of 1911. A later dictum, which has been termed "quantitative substantiability," has been established in the also well-known Standard Stations case that could conceivably serve as precedence for invalidating territory security clauses, for each automobile manufacturer could be restraining a substantial number of dealers and a substantial part of the market.

This study has attempted to point out that the automobile trade is unique among retailing trades and perhaps deserves special treatment. It seems that this aspect should be related to Section 2 of the Sherman Act that forbids actual monopolies or attempts to monopolize any part of trade or commerce. Although it must be

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7 Standard Oil Co. v. U. S., 221 U. S. 1 (1911).
recognized that any manufacturer of a branded product obviously has a natural monopoly with that branded product, it can hardly be said that an automobile manufacturer is attempting to monopolize where he uses exclusive territories in an effort to avoid or alleviate ruinous price competition among his own dealers. Any critic of the franchise system of automobile distribution, with or without territory restrictions, need only look in any locality to find ample evidence of intense competition between dealers of the various brands of cars to know that monopoly has not and does not exist.

Authorities in marketing are well aware of the advantages of the franchise system that benefits manufacturers, dealers, and the public. In the automobile trade, dealers must invest large amounts of capital. Goodwill and sales potential are built over the years through effort; fair prices; and fast, efficient service. It is not a business in which just any businessman may enter. Neither is it quickly entered into, nor quickly liquidated. Indeed, territory security would seem a small price to pay to insure the desirable benefits under the franchise system. There is some indication that car buyers have brand loyalty, but not dealer loyalty. Thus, it would appear

that dealers have the right to demand some degree of protection which would keep other dealers of the same brand of car from "cashing in" on the fruits of their effort.

**Exclusive dealing.** The question regarding the right of a manufacturer to limit the dealer to the sale of the manufacturer's own products is more easily answered. First, since the passage of the Clayton Antitrust Act the courts have generally not upheld contracts in which manufacturers have excluded the sale of competitive goods by their dealers. Second, automobile franchises do not require exclusive dealing or tying agreements.

This latter statement is not meant to suggest, however, that exclusive dealing is not characteristic of the trade. Most General Motors dealers handle only General Motors cars. Most Ford dealers handle only Ford cars, etc. These exclusive dealerships are probably the reflection of certain natural economic factors permeating the manufacturer-dealer relations. In the mind of the public, there is a strong identification of each dealer with his manufacturer, which is usually related to style, price, and service.

The legal right of a dealer to engage in multiple representation is generally not questioned. It was pointed out in Chapter III that in 1957 American Motors
announced plans to sign up dealers of the Big Three to handle the Rambler and Metropolitan cars produced by American Motors; and, furthermore, these plans were not being opposed by the Big Three. Even later, many dealers have begun to add to their line the "foreign imports," some of which are not "captive" cars distributed exclusively by the American manufacturer the dealer represents.

It can be reasoned that the use unofficially of exclusive dealing in automobiles contributes to the oligopoly situation on the manufacturing level. Exclusive dealing forecloses a substantial part of the retailing level to any new firms entering manufacture, and yet a strong dealer organization is essential to the success of any new manufacturer. In other words, a new manufacturer would find it necessary to develop his own channel of distribution. He would be confronted with an immediate need for tremendous talent in personnel already occupied in dealerships for other manufacturers. If automobile manufacturing can be characterized as a "closed industry," perhaps the same can be said for the retailing trade as it regards dealership organizations for automobiles produced by firms other than the Big Three and the two Independents.
Proposed Solutions to Cross-Selling

There have been many proposed solutions to cross-selling, no one of which has had complete support from the dealers, Congress, and other governmental agencies involved. As a result, by the summer of 1961 no limitations or penalties had been placed upon the right of dealers to sell automobiles to consumers residing anywhere. Because these solutions have a number of characteristics in common, their analysis will follow the presentation of the essential points of each.

During the middle 1950's, there were several bills introduced in Congress that were designed to permit reinstatement of territorial security and anti-bootlegging provisions in franchise agreements. The major ones follow.

1. S. 3596 would amend the Sherman Act and permit reinstatement of the anti-bootlegging clause in the selling agreements.

2. S. 2929 would amend the Federal Trade Commission Act and give power to manufacturers to refuse to sell to or cancel a franchise of any dealer who sold new cars to unauthorized dealers.

3. H. R. 6514 would amend the Federal Trade Commission Act and permit a manufacturer to require that a dealer of his product sell only within a designated geographical area.

In June of 1957, NADA, not having succeeded in obtaining relief through Congress to the problem, developed
a so-called "Area-of-Service-Responsibility Plan." As stated by NADA, the major text is as follows:

It is the intention of this plan that dealers' cost per new unit be increased by a certain sum (a minimum of $100 a car is suggested).

The manufacturer in return will pay each dealer this certain sum per unit sold in his trading area, regardless of whether sold or delivered by him, on consideration of adequate and proper facilities, parts, and personnel as required by the selling agreement and for guaranteeing performance of proper warranty and after-delivery service on all new cars of his make sold or delivered within his trading area.10

After the Department of Justice voiced its opposition to the plan in October of 1957, there were other proposed bills pending before the 86th Congress in 1960. They were all of the permissive legislation character, for they would permit, but not require, manufacturers to establish territory security programs. The significant bills follow:

1. S. 2151 ("Monroney Bill"), a "bonus" bill, would permit a manufacturer to give a dealer an additional discount, rebate, or allowance on each new car sold by the dealer to consumers residing in his sales territory. A dealer who sells outside his designated area would not have to pay a penalty to the dealer in whose territory he sold, but the selling dealer would not be eligible for a bonus from the manufacturer.

2. S. 2042 ("Schoeppel Bill"), a "penalty bill," permits the manufacturer to designate a sales area for each dealer. If a dealer sells outside his own area, he must pay a monetary penalty to the dealer into whose territory he sold.

3. S. 997 ("Langer Bill"), also a "penalty bill," applies not only to automobile manufacturers but also to all manufacturers of "complex mechanical equipment." It would permit them to terminate franchises of dealers who cross-sold and refused to make the infringement payments.

As it has become obvious, the major parties involved in the controversy are four: (1) automobile manufacturers, (2) franchised dealers, (3) the public, and (4) the Department of Justice. The position of each has become quite clear. Manufacturers contend that they will not attempt to control cross-selling nor reinstate territory security clauses in franchises until they are granted a specific right to do so by Federal legislation. Dealers, in general, support manufacturer control of cross-selling; and, in particular, favor permissive legislation enabling manufacturers to control. As for consumers, it seems reasonable to assume that they will always desire the freedom to buy automobiles from any dealer, regardless of his location. And, last, there is the position of the Department of Justice, which has been previously noted.

It appears on the surface that the above positions are irreconcilable, but further analysis seems to show a different picture. The Department of Justice is apparently
correct with its attitude. Under present Federal legislation, franchises with a "penalty" or "bonus" provision to control cross-selling do restrain trade. This restraint would logically be, for example, between one Chevrolet dealer and another Chevrolet dealer, or between one Ford dealer and another Ford dealer. It would not be in restraint of trade between a Chevrolet dealer and a Ford dealer. Ample competition between brands of different manufacturers was found by the court in one private suit (Boro Hall Corp. v. General Motors Corp. 11) at a time when penalty payments were administered by manufacturers after dealers sold automobiles outside their assigned sales territories.

It thus appears that it is this lack of competition, or restraint of trade, between two dealers handling the same brand of car that concerns the Department of Justice. It is not the exclusive territory provision per se that violates antitrust legislation. It is the restrictive covenant of a "penalty" or "bonus" payment. This would probably be the opinion of a court, inasmuch as the doctrine established in U. S. v. Trenton Potteries Co. 12 is

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11 130 Fed. 2d 196, 197 (2d Cir. 1942).
that some restraints may be "conclusively presumed" and unreasonable per se. Thus, should manufacturers reinstate the restrictive covenants in franchise agreements, the enactment of one of the proposed pieces of legislation (S. 2151, S. 2042, or S. 997) must be made.

The FTC apparently is also correct in opposing anti-bootlegging legislation (such as S. 3596 and S. 2929) in that it is directed at the "result" of bootlegging, rather than the "cause." This problem obviously has as its source the manufacturers, who (unintentionally, it is assumed) have at times encouraged bootlegging by (1) using freight charges that include phantom freight for some parts of the country and by (2) stocking dealers with more cars than they could reasonably dispose of in their regular course of trade.

The analysis, then, revolves around two questions. Should cross-selling be controlled? If so, is Federal legislation the only method by which it can be achieved? In answering the former, it seems best to visualize two extreme hypothetical situations. One would be the retail structure if cross-selling were left uncontrolled over a long period of time, a situation that would largely be a projection of a trend already begun. The large metropolitan dealers, with lower costs of operations, large volume
of sales, and ability to blanket a retail trading area with metropolitan advertising media, would largely establish the selling prices for automobiles. Non-metropolitan dealers would then find it necessary to meet metropolitan prices, possibly an impossibility because of their relatively higher operating costs. In other words, the metropolitan dealers, or perhaps large super-market type operators, would be able to make the majority of new car sales. In time, more and more non-metropolitan dealers would lose out in the competitive struggle. Consumers in these areas would be forced to patronize metropolitan dealers for repair and maintenance service, an impossibility under many conditions and an inconvenience under most. This is true because most non-metropolitan dealers would not remain in business to retail this service exclusively.

It is believed that most consumers would not sanction the extreme situation pictured above, even though their "votes" with dollars in the market have already begun to produce it. It may be said that local garages could cope with the repair and maintenance service; however, as automobiles become more and more complex in technical composition, they require factory-trained specialists who are generally not available in such garages. It may also be said that manufacturers could
staff and operate repair shops in many smaller towns and cities throughout the country, but there is no indication that they are willing to do so.

The other extreme hypothetical situation is that where cross-selling is controlled, and no dealer is permitted to sell outside his designated sales territory. With this restraint upon competition, many inefficient dealerships would be permitted to continue their operations. This would be an economic waste of our limited productive resources and should not be tolerated.

Therefore, the only conclusion that can reasonably be reached is that neither of the above extreme situations is compatible with the basic tenets of our marketing system and should not be permitted to develop. Rather, as a matter of public policy, it seems wise to support those conditions that would permit efficient dealers everywhere to continue to exist if their sales potentials warrant it. But in the automobile trade, under the conditions of 1953-1961, efficiency cannot reasonably be measured in terms of profitability.

There are two courses of action, other than legalizing cross-selling control, that should alleviate the problem. One would be an educational program for franchised dealers that would include an intensive study of cost accounting and pricing. This would enable dealers to
understand better that each new car sold should cover its full pro rata share of direct, semi-direct, and indirect costs. They would also understand that cars cross-sold by them, at a price not recovering all these costs, would only invite retaliation in kind from other dealers, clearly an action not based on an economic advantage.

The second course of action would involve a determination of the relationship or ratio between (1) the volume of cars sold per year and (2) the amount of plant, equipment, and personnel required for product service that the volume of cars sold would indicate as needed. Dealers would be required by manufacturers to maintain these facilities. For the dealer who cross-sells excessively, this requirement would conceivably necessitate an increment of capital investment that would be non-productive of profit. Thus, the dealer would seek to avoid this condition and should reduce his cross-selling activities accordingly.

Should the preceding plans not prove practicable, perhaps there is wisdom in supporting permissive legislation that permits manufacturers to use "penalty payments" or "bonuses" to suppress excessive cross-selling. In that territory security would be a policy essentially affecting pricing policies of franchised dealers, it appears that much can be gained by examining the philosophy underlying
a resale price maintenance policy. Indeed, this latter policy would also be highly questionable as violative of antitrust legislation were it not for the Miller-Tydings Act, the McGuire Act, and various state laws that legalize it.

From the public or consumer point of view, price maintenance on identifiable goods is claimed to be desirable because it keeps such goods conveniently located in establishments of local dealers. It is argued that where prices are not maintained, consumers are unable to purchase some goods in the relatively smaller cities and find it necessary to travel to larger cities for purchase, warranty adjustment, and repair and maintenance services.

From the dealer's point of view, it is reasoned that the firm, particularly the smaller independent merchant, is protected from price cutting by some of the larger and newer types of retail organizations, such as chain stores, department stores, and supermarkets. In other words, the smaller independent merchant is assured of an adequate market for identifiable goods at prices that will yield a profit. It is further reasoned that with price maintenance manufacturers are able to maintain the quality of their goods, because there does not exist the
competitive price-cutting pressure to lower prices and accordingly lessen the degree of quality.

Now it is recognized that there are also reasonable arguments against resale price maintenance, but the point is that legislators over the years have found justification for legalizing the policy through legislation. Without such legislation, resale price maintenance would violate the very same statutes that franchise provisions for enforcing territory security and controlling cross-selling would violate: Section 1 of the Sherman Act and Section 5 of the Federal Trade Commission Act (an unfair method of competition).

The thesis of this study does not preclude the right the consumers have to buy their automobiles at any time or place they so choose. It does not support any economic framework that would perpetuate the inefficient or ineffective. The proposition does, however, support those conditions that will make goods and services available as it is believed consumers desire them in the long run.
CHAPTER VII

PRICING AND FINANCING

As it was noted in the preceding chapter, many dealers establish automobile prices on the basis of competitive circumstances and are without knowledge of the total costs involved. These are composed of (1) the manufacturer invoice cost and (2) the dealer operating expenses in retailing the automobile.

The inflexibility of the wholesale price can be attributed to its method of determination which is based not so much upon sales potential but upon a "standard volume" concept.¹ This gives consideration to two important factors inherent in a manufacturer's operations: (1) relatively high investment in capital goods and (2) seasonal and cyclical changes in production schedules.

The market potential for the new car industry is determined for some years in advance. Each manufacturer determines his own sales potential (his share of the total


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market), which becomes the average volume for production, say in one year. Plants, however, are not built for a total capacity to equal average annual volume. Total capacity must be something larger to cope with those years in which actual sales volume will exceed planned average sales. In a hypothetical case, it might be assumed that a manufacturer wants a plant capacity that is 25 per cent above average volume. Should this manufacturer determine his average annual sales volume as 1,000,000 motor vehicle units, then he would build a plant with a capacity for 1,250,000 units. In other words, he would be capable of producing up to 125 per cent of annual average volume, but in an average year he would be producing at only 80 per cent of capacity, or 1,000,000 units.

This 80 per cent of total capacity is established as standard volume, and all costs relative to it are used in determining the wholesale price of a motor vehicle unit. Direct costs and indirect costs based on 1,000,000 cars produced for the year plus a planned profit margin determine the selling price to dealers. This standard volume concept benefits the manufacturer in two respects: (1) it insures him of his desired return from his investment in the plant over its life expectancy, and (2) it gives him sufficient plant capacity to cope with the above-average demand when it occurs.
In theory and in practice, there are a number of effects of this pricing policy. First, in years when actual production exceeds standard volume, a manufacturer's operating return on investment begins to accelerate far above the planned average rate of return. This is explained by the fact that cars produced above standard volume need cover only direct costs before net profits begin, and yet cars produced above this volume are sold to dealers at the same price as cars produced up to standard volume. Second, the reverse of the above statement is true. When actual production falls below standard volume, a manufacturer cannot recover all direct and indirect cost and obtain his planned net margin; therefore, his profit decline begins to accelerate. It is not surprising, then, to witness widely fluctuating profit positions from year to year when actual production fluctuates widely from standard volume.

Third, this policy makes it relatively easy for a manufacturer to grant dealers year-end price concessions, granted to help promote sales of last-of-model-production cars, when production exceeds standard volume. This, it should be noted, is one of the two primary practices to explain what little deviation there is in the established wholesale price. The other deviation is that caused but rarely effected by announced competitor prices.
Last, the policy tends to stabilize prices within any one model year. As a result, this rigidity and inflexibility has promoted charges against the manufacturers of using "administered prices" to the detriment of the public interest. These charges were investigated by the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, United States Senate, in 1957; and ample evidence was presented to show that even though automobile manufacturers may have used administered prices, there is no foundation for charging them with unjustifiable price increases. In fact, there is some evidence to indicate that manufacturers have made efforts to hold down prices. Furthermore, bigness per se invites governmental investigation and action under the antitrust laws. Accordingly, manufacturers may establish administered prices lower than the most profitable for fear of governmental intervention.

There is great risk associated with automobile manufacturing: uncertainty of public acceptance of product style and features; lead time required for styling and


engineering functions; losses if product does not sell as anticipated; and large investment in plant and equipment. It seems highly likely, therefore, that the standard volume concept, which serves as a base for administered pricing, has resulted in greater efficiency for the industry and a higher standard of living for the public.

Dealer Price Policies and Pricing

Unlike most retail institutions that have adopted a one-price policy, automobile dealers characteristically use a varying price policy. The latter finds its distinction in the relationship between (1) the dealer stated list price compared to the manufacturer suggested list price and (2) the dealer allowance on a used car traded-in compared to the average, or market, true cash value of car. For those sales that are for cash or without a used car traded-in, the varying price policy is seen in the general practice of granting a discount from the manufacturer suggested list or dealer stated list price.

Throughout the interviews for this study, it became apparent that the price policies employed by all dealers could be broken down into three categories. First, there were those dealers who established retail list prices above those recommended by the manufacturer and who granted relatively high trade-in allowances or discounts. This
category, briefly termed, could be called "high list--high trade-in or discount." It would primarily appeal to that consumer whose purchasing motive rests primarily on the attractiveness of the allowance or discount.

The second category of "average list--average trade-in or discount" seems to be followed by the more conservative, well-established dealerships. This policy seems to be the most logical and sensible. After all, the manufacturer list price has been scientifically determined; it includes a trade discount that enables an average dealer to recover his operational expenses and still leave a residue for net profit. This policy does not distort in the mind of the public market prices for either new cars or used cars. It permits a logical emphasis to be placed upon the "cash difference" involved in a trade-in sale, a point which in price competition should be the most important to a rationally thinking buyer. Any other basis with any other pricing method involves some deception.

The last category is "below list--below average trade-in or discount." It appears to be followed by many of the more youthful dealerships that strive for relatively high volume operations and engage in many promotional activities that are frequently punctuated by "blitz sales."

It would seem almost impossible to state quantitatively with any degree of precision just how many dealers
are characterized by each of the three policies. This is true for a number of reasons. First, because there are so many degrees within the range of any one policy it would be difficult to establish any demarcation between the various policies for one blends into the other. The problem is similar to that presented marketing specialists who must establish standards for grade labelling. Second, many dealers engage in more than one policy at a time. In other words, the price policy or pricing method depends upon the buying motive of a particular customer. And, last, dealers often change their policies throughout a model year. ¹

So numerous have been the pricing policies that a consumer is confronted with the determination of the effective purchase price when a new car purchased has had a used car traded-in. This price can be determined by subtracting from the stated list price the "over-allowance" on the trade-in, or adding the "under-allowance." ² The

⁴Of the interviewed dealers, 76 per cent stated that they could "match any advertised price" of competitors in the Columbus retail trading area. It does seem illogical that dealers able to meet price competition would be so fearful of cross-selling activities. Perhaps the best explanation for the difference is to be found in the fact that control of cross-selling does somewhat reduce the effects of price competition.

⁵It has been reported that the median over-allowance was 18 per cent of the effective price of new automobiles purchased in 1954; for 1955, 20 per cent. See Board of Governors of the Federal Reserve System, Consumer Instalment Credit: Financing New Car Purchases (Washington, D. C.: U. S. Government Printing Office, 1951), Part IV, p. 26.
major problem involving this price determination is one related to down payment. Over allowances result in a fictitious down payment which means an over-stated down payment. It has underlying it a violation of one paramount principle in credit management: the down payment should be reasonable, large enough to create a feeling of actual ownership, and sufficient to at least cover the initial depreciation of the goods. For new automobiles, this figure has varied from 25 per cent to 33 1/3 per cent of the purchase price.

As an example, an automobile with a manufacturer suggested list price of $3,200 may have a dealer stated or floor price of $4,000. In a sales transaction involving a trade-in, the used car may have a market cash value of $400, yet the dealer may grant $1,100 as a trade-in allowance. The over-allowance in this case would be $1,000. When this amount is subtracted from the dealer stated list of $4,000, the remainder would be $3,000, the effective purchase retail price, a price level at which the dealer probably figured he could profitably retail the automobile.

The critical point, however, concerns the relative down payment. If the used car is accepted as the down

payment, it appears that a 35 per cent payment has been made, that is, $1,400 of $4,000. On the other hand, the effective down payment on the new car is the actual market cash value, or $400, not $1,400. When this figure of $400 is calculated as a percentage of the effective purchase price ($3,000), it will be seen that the purchaser made a down payment of only 13 1/3 per cent, clearly in violation of sound credit management.\(^7\)

In actual price determination in automobile retailing, markup is generally not the same as the manufacturer trade discount; for this traditionally amounts to approximately 25 per cent (20 per cent on "compacts"), which is not based on freight charges and excise taxes included in the invoice cost, but on car wholesale cost only. Therefore, if the dealer himself desires a markup of 25 per cent at retail, he must add 33 1/3 per cent markup based on his total cost which must be considered as equal to wholesale billing price of the car, plus excise tax and freight charges. Inasmuch as there are indications that delivery

\(^7\)An arbitrary dollar sum added to the effective price of an automobile for the specific purpose of being able to offer a higher allowance on a trade-in or a discount is known in the automobile trade as a "price-pack" or "packing." These terms also apply to an increase in finance charges made for the specific purpose of returning to the dealer an "overage." For example, see "Economics for Consumers: Chaos in the New Car Market," Consumer Reports, April, 1956, pp. 197-202.
and handling costs are approximately the same as the amount charged the buyer for such service, it is doubtful if any profit is achieved here. Because these charges are generally added after the markup has been applied to total cost, or to the retail price determined by the cost complement, it stands to reason that the markup is just slightly under 25 per cent of the retail.

Apparently a substantial number of dealers use the cost method of accounting, for trade publications frequently urge dealers to convert to the retail method of inventory and accounting control. For the automobile trade, it would seem that this method would have obvious advantages for operating and controlling marginal profit variations of the various product lines. This would be particularly true for the used car and new car departments which are characterized by markdowns, discounts, and over-allowances.

Automobile Information Disclosure Act

In an effort to correct some of the abuses relating to automobile pricing, Congress passed in August, 1958, the Automobile Information Disclosure Act (also known as the "Sticker Bill," "Truth in Labelling Bill," and "Price-Sticker Bill"). The major provision of the statute requires that each new car for sale bear a sticker that shows the manufacturer suggested retail price, which includes the
Federal excise tax and preparation charges; freight charges; and prices of factory-installed accessories. The only additional cost to the car buyer would be state and local taxes, and dealer furnished optional equipment and accessories. The "heart" of the Act is Section 3, which states:

Every manufacturer of new automobiles distributed in commerce shall, prior to the delivery of any new automobile to any dealer, or at or prior to the introduction date of new models delivered to a dealer prior to such introduction date, securely affix to the windshield or side window of such automobile a label on which such manufacturer shall endorse clearly, distinctly and legibly true and correct entries disclosing the following information concerning such automobile—(a) its make, model, and serial or identification number or numbers; (b) the final assembly point; (c) the name and location of the place of business of the dealer to whom it is to be delivered; (d) the name of the city or town at which it is to be delivered to such dealers; (e) the method of transportation used in making delivery of such automobile, if driven or towed from final assembly point to place of delivery; and (f) the following information: (1) the retail price of such automobile suggested by the factory; (2) the retail delivered price suggested by the manufacturer for each accessory or item of optional equipment, physically attached to such automobile at the time of its delivery to such dealer, which is not included within the price of such automobile as stated pursuant to Paragraph (1); (3) the amount charged, if any, to such dealer for the transportation of such automobile to the location at which it is delivered to such dealer; (4) the total of the
amounts specified pursuant to Paragraphs (1), (2), and (3).

As it is evident, the bill does not control the dealer's quoted selling price, for he is left free to establish his own and negotiate with the prospective buyer. From its inception, the bill has had the general support from manufacturers and dealers; however, like other federal legislation that regulates business, it has been controversial. In order to arrive at a decision concerning the wisdom of its passage, its advantages and disadvantages have to be weighed.

Advantages and disadvantages. Of the beneficial results or advantages of the Act, the following are considered the most significant:

1. Tends to eliminate price-packing and deception.
2. Tends to suppress bootlegging.
3. Promotes public confidence in prices.
4. Contributes to stability of the trade.

Relating to the specific effects of the Act itself there are objections or disadvantages which can be raised:

1. Manufacturers are permitted to participate in formation of resale prices.
2. Surveillance by manufacturers over dealers is increased.

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8 Section 4(a) sets forth the penalties for violation of the Act: any manufacturer "who willfully fails to affix to any new automobile manufactured or imported by him the label required by Section 3 shall be fined not more than $1,000." Failure with each automobile constitutes a separate offense.
3. Manufacturers have control over dealer gross operating margins. A "ceiling" is, in effect, placed on automobile prices.

Appraisal. It can be reasoned that with the price label affixed to the car, the dealer will find it difficult to raise arbitrarily its price for the purpose of being able to make an excessive discount or allowance. Presumably, he could order a "stripped-down" model and then add an excessive amount of accessories and equipment at "packed" prices; however, there is no indication that this practice has begun.

Under the Act, dealers are left free to sell their cars to whomever they choose, even to a used car lot operator. In this situation, however, the latter's name will not appear on the label, and it will indicate that the seller has bought the car from another dealer, probably located at a great distance, as it is true with most bootlegged cars. The buyer will then be alerted and can inquire into the means of transporting the car. If the car has been driven a considerable distance (or even towed), it may be that the buyer will consider it as "used" and

decline purchase. In this manner, it is assumed that boot-legging will be suppressed.

An added benefit of the Act is that public confidence in automobile prices is promoted. This logically follows from the inability of dealers to engage in deception when advertising, promoting, or quoting prices. Because unethical dealers are now denied the opportunity for these practices (largely, excessive allowances associated with packed prices), they must abandon them, which have been to their competitive advantage. As a result, dealers must compete to a greater degree on bases of ethical economic factors, and it is felt that this will add to the stability of the industry and survival of the most efficient.

There seems to be no question that the Act represents an exception to the classical conception of free price competition. Although it has a degree of similarity to a resale price maintenance law, it cannot be considered the same, for dealers are still able to establish their own prices. Even if the Act were a retail price establishing act, it would be ineffective by the very nature of the product which, when sold, is usually associated with a trade-in; and by varying the allowance each dealer could, in effect, establish his own retail price. Nevertheless,

10Automobile manufacturers have never advocated a fair-trade policy; neither has any substantial number of dealers. Of the 39 dealers interviewed, only one desired that automobiles be fair traded.
because the public never knows the retail prices suggested by manufacturers for the vast majority of goods, the Automobile Information Disclosure Act stands in contrast by requiring manufacturers to recommend prices that consumers see posted to the product.

It has been proposed that consumers would be helped to a greater degree if they were informed of the actual cost of the car to the dealer, or the excise tax paid from which the wholesale price could be determined. It is believed, however, that these practices would only cause confusion among the consumers and possibly considerable unrest. This would be so not because dealers are reaping unreasonable gross or net margins of profit but because most consumers do not fully comprehend the necessity and contributions of marketing functions and the associated markup at retail. Until consumers do have that understanding, perhaps it is just as well that their understanding also lacks the knowledge of automobile wholesale prices.

This is not to suggest that dealers obtain an approximate 25 per cent markup, even though the manufacturers suggested retail price shown on the label would include it. For example, the Pontiac Motor Division franchise, effective March 1, 1956, contained Section II, entitled "Dealer's Discount," which stated: "A discount of 21/2% from the List Prices shown above is applicable on all 1956 Pontiac motor vehicles and chassis." The list prices did not include handling charges or excise taxes.
As an additional objection to the Price Labelling Act, it can be reasoned that manufacturers will exercise additional surveillance over dealer activities. The latter will no longer have the freedom to sell or transfer (as in "accommodation transfers") cars to other dealers without the manufacturer taking the responsibility for rerouting, or repurchasing. Furthermore, the manufacturer suggested retail price becomes a "ceiling" for it would be difficult indeed to obtain a price higher than that shown on the label. Thus, it seems that the manufacturer has control over a dealer's operating margin. By varying the wholesale price but not the suggested retail price, the manufacturer achieves this control. Perhaps the greatest deterrent to his taking advantage of the dealer with this power is his desire to have a financially strong dealer organization.

One last major criticism regards not so much the Act per se but the philosophy that supports a minimum of governmental regulation of business. It has been observed that legislation is infectious, and now that the precedent has been established with the Price Labelling Act, other trade or industrial groups in difficulty with pricing practices may pressure Congress to pass similar legislation. Nevertheless, in considering its overall
effect on the automobile trade, the Act seems to destroy in no way the economic advantage in competition that any dealer may have. It does, however, limit the uneconomic advantages that some dealers have had with certain questionable pricing practices. Therefore, its net effect should be one of benefit.

Financial Analysis and Pricing

There are also many benefits to accrue to sales management from a financial analysis of a dealer's operation. One of them relates to sound price policies and pricing methods and is a knowledge of the costs which should, in part, determine selling prices.

Lack of cost knowledge. Many dealers do not know their actual costs. This explains partially their inadequate selling prices, lowered net profits, and indulgence in cross-selling activities. This lack of knowledge can be attributed to many factors.

It is not difficult to find from a study of various reports concerning dealer accounting many terms which are overlapping, confusing, and superfluous to the needs. Among them are "variable gross," "fixed gross," "fixed

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12 Most of the litigation involving automobile dealers and pricing has resulted from price-fixing activities in violation of the Sherman Antitrust Act. Conspiracy has been found in the adoption, printing, distribution, and use of uniform price lists by groups of dealers located within metropolitan areas.
coverage," "over-head absorption," "variable profit," "unit variable," "fixed expense," "true expense," "total variable selling expense," "semi-fixed selling expense," "variable expense," "cost," "cost of sales," "ready cost," "selling cost," "indirect cost," and "overhead cost." It is little wonder that dealers have been confused and uninformed of the net profit of each of the four major operating departments. It appears that most dealers are not professionally trained accountants or distribution cost analysts, and yet accounting methods have been imposed on them without any concise, standardized body of terminology. In 1956 officials of NADA learned that dealers wanted (1) a uniform accounting system and (2) a financial statement that would be in line with current dealer operations.\(^{13}\) As dealers pointed out, many costs were "hidden" within the financial statement submitted to the manufacturers; many were charged to various departments without justification; and a true picture of the profitability of each department was not immediately available.

It is also traditional in the automobile trade to think in terms of "service absorption," i.e., that part of the gross profit from all sales of service, parts, and accessories, and tires which cover the total fixed

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and semifixed expenses for the entire firm. It seems that this practice is not generally characteristic of other marketing institutions and is not in line with current accounting principles and practices. The service absorption concept conditions a dealer to think in terms of his new car department being subsidized by other departments. It does not recognize the widely held practice of holding each department, with minor exceptions, accountable for a certain planned profit margin.

A solution to financial analysis. It is therefore recommended that dealers analyze their operational costs by departments. This method would recognize that not all dollar sales of the operating departments are equally profitable, and the objective would be to determine the true profitability of each.

The analysis would emphasize that the average dealership is composed of (1) a "retail store" with a new car department and a used car department and (2) a "shop" (by definition, also a retail store—largely a "service establishment") with a service department and a parts department. The method would focus attention on the fact that the fifth department, the administrative department (called "office" in most cases), exists not for itself but for service to each of the other four
operating departments. The raw data needed for analysis exist in every dealership, and no difficulty should be experienced in finding reasonable bases for the allocation to each department of the semi-direct and indirect costs. Escapable and nonescapable expenses need not be considered because all operating departments must be retained, regardless of profitability. The public expects them. One of the chief objections to bootlegging is that non-franchised dealers (used car lot operators) usually have the bootlegged new cars for sales but do not have a service department for subsequent warranty and maintenance work. Therefore, elimination of an unprofitable department is not one of the results of this analysis. They are found elsewhere: (1) curbing unprofitable pricing; (2) reduction of volume dealerships not justified by sales potential; and (3) reduction of cross-selling.

Curbing unprofitable pricing. In a hypothetical example, let it be assumed that a dealer knew his direct expenses for each new car retailed were $150. Let it also be assumed that he sold 100 cars at a price which yielded $400 gross operating profit per car and 100 cars at a price which yielded $200 gross profit per car.

The $400 gross sales were made at the manufacturer suggested retail price; and, furthermore, the dealer "felt"
that this gross margin was necessary in order to recover all his per car costs and still add something to the net profit. On the other hand, the dealer made his 100 sales at $200 because he knew this gross would cover all direct expenses of $150 per car, and he felt it still would add something to net because he could not have otherwise made these sales at prices which resulted in $400 gross.

In the example, it will now be assumed that the dealer was surprised to learn that he had no operating profit after the sale of 200 vehicles. And, yet, he had been selling each one (or so he believed) at a price which would add something to net profit.

The answer to his financial difficulty would have been found in his pricing and departmental analysis of costs. Let it be assumed that the latter analysis showed at the dealer's operating capacity a total operating cost (direct, semi-direct, and indirect) of $300 per car. Then it can be clearly seen that for each $100 net achieved on the $400 gross sales the dealer lost $100 on the $200 gross sales. In other words, his total operating profit was zero.

The solution to this problem would be to reduce costs, possibly by reducing capacity, and sell only those cars which sales potential would absorb at a profitable price.
Reduction of volume dealers. It is reasonable to assume that if a dealer's sales are far above his sales potential, he has had to (1) reduce prices in his own territory, (2) engage in bootlegging, or (3) engage in cross-selling, which generally indicates selling at reduced prices in other dealer territories. There is no evidence, however, that automobile manufacturers have established more dealerships than the sales potentials of the various territories can support at a reasonable profit. Thus, there is every reason to believe that dealers will generally and ultimately understand this more clearly by a study of their costs. Furthermore, this knowledge should suppress those dealers who by their very nature want to "build an empire" and gain a reputation as a "volume operator" when their sales potential does not justify it.

Reduction of cross-selling. This last major use or effect of cost analysis is a corollary to the first two noted above. Logically, cross-selling should be reduced when dealers cease offering cars to out-of-territory buyers when the selling price does not cover total operating costs. Cross-selling, being infectious and inviting

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14 One seasoned dealer interviewed had made a cost study of his operations. With all direct, semi-direct, and indirect costs known, he calculated that his operating expenses were $325 per Chevrolet automobile sold. Yet he stated that in his same sales territory there were other dealers with lesser sales volume who would cross-sell an automobile for $50 to $100 over invoice cost. The obvious point is that had full costs been known, these other dealers would not be so attracted to cross-selling.
retaliation, lowers the market price for all dealers. It may lead to unprofitable operations. A full knowledge of costs should help in stopping it at its inception.

Controls

There are three major methods whereby dealers attempt to control their operating costs and profit margins: (1) Forecast and Budget, (2) Daily Operating Control, and (3) Wash-out Report. The first of these is a monthly control form on which is recorded the predicted sales volume, estimated operating expenses, and gross profit. Its greatest value comes from its comparison with actual operating results as the month progresses. The Daily Operating Control form enables a dealer to know on what day of the month he passes the financial break-even point. The last of these controls is unique to the automobile trade and underscores several points previously made that relate to weaknesses in dealer pricing. Therefore, it shall be singled out for detailed analysis.

In the automobile trade a "clean sale" is the sale of any car that does not involve the trade-in of a used car as part payment. Because most sales are not "clean," most dealers utilize a report, known as the "Wash-out

15All of the dealers interviewed used the Forecast and Budget form in their control; 75 per cent of them used the Daily Operating Control.
Report," that traces the complete history of an initial sale and all subsequent used cars traded-in that are related to the initial and subsequent sales. Reproduced below is an actual example from one of the dealers interviewed.

Wash-Out Report

<table>
<thead>
<tr>
<th>Line</th>
<th>Date</th>
<th>Customer's Name</th>
<th>Car No.</th>
<th>Salesman's Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6-1-57</td>
<td>--</td>
<td>New-42</td>
<td>W. E.</td>
</tr>
<tr>
<td>2</td>
<td>6-10-57</td>
<td>--</td>
<td>Used-67</td>
<td>J. E. C.</td>
</tr>
<tr>
<td>3</td>
<td>6-15-57</td>
<td>--</td>
<td>Used-73</td>
<td>W. E. S.</td>
</tr>
<tr>
<td>4</td>
<td>6-20-57</td>
<td>--</td>
<td>Used-78</td>
<td>W. E. S.</td>
</tr>
</tbody>
</table>

Wash-Out Report (Cont'd)

<table>
<thead>
<tr>
<th>Line</th>
<th>Selling Price</th>
<th>Cost of Sale</th>
<th>Used Car Allowance</th>
<th>Gross Margin</th>
<th>% Gross Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$3642.40</td>
<td>$3036.85</td>
<td>$2100.00</td>
<td>$605.55</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2000.00</td>
<td>2100.00</td>
<td>563.50</td>
<td>(100.00)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>925.00</td>
<td>563.50</td>
<td>185.00</td>
<td>361.50</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>150.00</td>
<td>185.00</td>
<td>-0-</td>
<td>(35.00)</td>
<td></td>
</tr>
</tbody>
</table>

$832.05 26.6

This report substantiates the contention that the typical dealer has his profit position oriented almost exclusively around new car sales. On Line 1 the report shows a gross margin of $605.55 on a $3,642.40 sale of a new car. Obviously, this sale price was possible because
an over-allowance was granted on the used car traded-in, which accounted for $2,100 of the selling price of the new car. Yet it was later sold for $2,000, which represented a loss of $100.

It would be far more realistic if, for example, the initial trade-in had been over-valued by, say, $200, which could be entered on an account for over-allowances. When the new car department was later charged with that amount, its dollar sales for this new car sold would be $3,442.40, i.e., $3,642.40 less $200. On the other hand, the used car department would be credited with $200, and its cost of the used car (No. 67) would be $1,900, not $2,100. This adjusted figure would permit a gross profit of $100 to be shown for used car No. 67.

Another criticism involves operating costs, pricing, and gross margin determination. It can be noted that in the report the dealer showed a 26.6 per cent gross profit. This figure, however, represents the complete "wash-out" gross on four cars compared to the cost of one car, the new car. It would be far more realistic once again to compute the gross profit on four cars to the total cost of the same four cars, i.e., $832.05 to $5,885.35, or 14.1 per cent as the gross profit, not 26.6 per cent. Had the dealer been using
the retail method for control purposes, the gross profit per cent would have been even lower, i.e., $832.05 of $6,717.40, or 12.4 per cent.

These latter two methods for computing per cent of gross margin are the only truly revealing methods. Any other is deceiving. It must be assumed that in making all four sales (not just the first one for the new car) that operating costs are being incurred. Used cars are apt to require just as much, if not more, in reconditioning expense as new cars do in handling and delivery expense. Furthermore, used cars also must bear their share of other direct costs, as well as indirect and semi-direct. It must be recognized that if dealers are to help themselves in correcting their problems, they must first know what their actual costs are and from these determine and apply their price policies and pricing methods.

**Financing of Automobiles**

In the marketing of automobiles, dealers are faced with two major financial problems: (1) inability to acquire sufficient equity capital to carry a complete stock of automobiles and (2) inability of most consumers to pay cash for cars at the time of purchase.

**Wholesale financing.** Of the 39 dealers interviewed, only one acknowledged having sufficient equity to pay cash for new automobiles delivered from the manufacturer. This
situation is not untypical of the trade, for the large working capital requirements for inventory cannot be met with funds available from net worth. Thus, there is a need for outside financing which has been provided largely by commercial banks and sales finance companies.

The latter, for example, in "floor-plan" financing, makes a charge that is composed of two parts. The first is a flat charge which compensates largely for insurance and clerical costs. In 1957 General Motors Acceptance Corporation charged $1.50 per car regardless of its value. Some other companies charged one eighth of one per cent of the amount borrowed. For motor vehicles that are to be driven prior to sale, an additional insurance charge is generally made.

The second part of the charge is for interest on the funds advanced. The rate charged the dealer is generally based on the rate the finance company has to pay for its own funds. Usually this charge is between 4 and 6 per cent per annum on new cars. It is computed on the basis of an average daily balance owed and is billed to the dealer along with the flat charges at the end of each month. The total amount of funds required for payment to the manufacturer may be advanced by the sales finance company. Ordinarily, however, the amount does not exceed 90 per cent, even less for used cars.
There are several areas in a dealer's relation with his sales finance company in which costs can be reduced. First, some dealers needlessly add to their operating costs by acquiring insurance coverage with their own agents when the same coverage has already been provided by the sales finance company in its "flat charge." Every dealer should thus strive to have full knowledge of the finance company's automatic coverage on cars financed at wholesale. Second, dealers at times do not pay promptly the finance company with funds received from a wholesale-financed car sold at retail. This practice results in additional interest costs to dealers. And, last, good merchandising practice generally requires that slow-moving goods be promoted and sold in some manner. Too often dealers have no formal method for keeping informed of slow-moving cars, and their costs related to holding and maintaining are increased. The floor plan records furnished by the sales finance companies can serve as a car-age record and should be used as such to reduce operational costs.

Retail financing. It is also true that the average dealer is unable to finance consumer sales. Of the 39

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16 These areas were pointed out by the Executive Vice President, Universal C. I. T. Credit Corporation. See Alan G. Rude, "What Dealers Miss in Financing," NADA Magazine, May, 1956, p. 14.
dealers interviewed, only 10 acknowledged this activity, and it was generally qualified by terms of "little" or "some." Mostly it was limited to used car purchases. Nevertheless, 6 dealers stated that the financing activity made a significant contribution to net profit.

In 1955, of the instalment purchases of new cars 45 per cent were financed through sales finance companies, 41 per cent through commercial banks, and only 3 per cent through automobile dealers (cars financed by dealer-owned sales finance companies included with sales finance companies).¹⁷

The changing importance of the various lending institutions in automobile retail financing has been determined by comparing the total volume for each to the total volume for all institutions involved in such credit. In summary, it can be noted that a loss in importance was experienced by sales finance companies and automobile dealers. On the other hand, a relative increase in importance was noted for commercial banks and "other" lending institutions not included in the above

groups (mainly, credit unions, industrial banks, industrial loan companies, and consumer finance companies). 18

At the end of 1953, sales finance companies and automobile dealers held 47.7 per cent and 5.4 per cent, respectively, of the total automobile instalment paper. By the end of January, 1960, their share of the market had dropped to 44.1 per cent and 3.5 per cent. Concerning those who had a greater relative share, commercial banks increased their position from 41.5 per cent to 44.2 per cent; and the other lending institutions rose from 5.4 per cent to 8.2 per cent.

Commercial banks warrant special comment for their automobile paper arises from two sources. In 1953 that paper which was purchased from automobile dealers amounted to 54 per cent of the total automobile paper held by the banks. By 1960 that figure had risen to 66 per cent. Another way of expressing it is to note that automobile

18 Thomas W. Rogers, Executive Vice President, American Finance Conference, has shown that from the period of 1946-1951 credit unions, industrial banks, industrial loan companies, and small loan companies engaged in both "paper purchased" and "direct loan" activities. The volume of paper purchased by credit unions was negligible when compared to their direct loans. Industrial banks purchased about twice as much paper as they made in direct loans. The volume for each activity was about the same for industrial loan companies and small loan companies. See Thomas W. Rogers, "Instalment Credit and Automobile Ownership," *Times Sales Financing*, August, 1952, pp. 8-9.
Instalment paper arising from direct loans to car buyers fell from 46 per cent in 1953 to 34 per cent in 1960. Both types of paper, however, increased in actual volume.

The changing market position of the various lenders can be attributed to a number of reasons. During the period under study, commercial banks and credit unions have generally been conceded to have been more "energetic" and "aggressive" in becoming "automobile credit merchants." By way of contrast, sales finance companies have been characterized as more conservative.

The Consumer Instalment Credit study revealed that the typical dealer uses the services of 4 or 5 lenders of retail credit.\(^\text{19}\) The more important factors determining selection of the institutions are "(1) the generosity of the arrangement under which the lender shares the finance charges with the dealer -- the 'dealer reserve'; and (2) the character of the lender's credit standards and the flexibility with which they are applied." Based on the degree of selectivity toward dealers' retail credit paper, a ranking of lending institutions is generally made by dealers. This ranking which begins with the more exacting and conservative is as follows:

1. National sales finance companies
2. Local or regionally dominant commercial banks

3. Regional sales finance companies
4. Local sales finance companies

The difference in standards of these institutions explains why more than one institution is often used. Some paper held by a dealer will not be bought by the regular source. Furthermore, some car purchasers express a preference for a particular type of financing (namely, bank financing); and the dealer will attempt to obtain it, even though it is not normally used. Some dealers will also hold the highest quality paper; for other dealers, the reverse prevails. Friendship and collection efforts of lenders are also known to influence the choice of sources. Finally, most dealers have some bank connections, in addition to those of sales finance companies. These factors suggest that, whereas a dealer is usually satisfied with one source of wholesale financing, he enjoys the flexibility of several.

The Federal Reserve Bulletin reveals that the total estimated volume of automobile instalment credit outstanding was $16,568 million for January of 1960. This represents a 68 per cent increase over $9,835 million at the end of 1953 when the buyers' market began. This rate of increase was approximately the same for consumer instalment credit as a whole, for during the same period.

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it rose from $23,005 million to $39,568 million, a 72 per cent increase. When the automobile component is taken from the total consumer instalment credit for the six-year period, the increase in total consumer instalment credit other than automobile credit is 73 per cent. In other words, although consumer instalment credit for automobiles rose from 1953 to 1960, it rose at a rate 5 per cent less than did consumer instalment credit for goods and services other than automobiles.

**Dealer sales finance company.** With the large market for consumer financing, it may be that occasionally a dealer may have the opportunity to establish his own sales finance company or a separate department within his dealership to finance with his own funds the consumer purchases of automobiles. This situation would develop when a dealer’s net worth grows in excess of his average needs.

Several points should be studied in considering this opportunity. An incorporated dealer will find it necessary to pay undistributed profits taxes should his net worth have been increased by retained earnings. On the other hand, earnings paid out would be taxed as personal income. An alternative, of course, would be to profitably employ this surplus. At this point, a dealer may wisely consider financing retail sales. It was found that the small amount of such financing done by dealers
interviewed resulted from excess cash funds or no need to liquidate floor stock into cash.

There is, however, another side to the situation. Two factors militate against dealer financing. First, a dealer would forfeit the opportunity to obtain finance reserve payments which represent an important source of income. Second, it would be difficult indeed to overcome the advantages of the highly specialized sales finance companies, particularly in regard to operating costs. The principles of "capital turnover" and "leverage" suggest that the greater opportunity for profitable employment of a dealer's capital rests not in financing activities but in further expansion of his own firm or establishment of another dealership. In other words, for many dealers a dollar of equity capital used in a dealership utilizing wholesale and retail financing services of sales finance companies and commercial banks receives a greater per cent of return than a dollar of equity capital utilized in dealer financing of his wholesale purchases or retail sales.

It also stands to reason that wholesale financing costs to dealers would be higher if they assumed the retail financing function. These wholesale financing costs are as low as they are because sales finance companies receive from dealers retail contracts which are far more
profitable than wholesale contracts. In the absence of this market, sales finance company charges for floor planning would have to be higher. It is also believed that dealers would lose repair and maintenance work if they surrendered the placing of retail credit paper. Traditionally, insurance subsidiaries of sales finance companies give preference in accident repair to the dealer who arranged the financing. Thus, it would seem that the average automobile dealer would be benefited more by limiting his retail finance function to the arrangement of retail finance for automobiles.

Dealer reserves. The "arrangement" by the dealer for consumer financing has given rise to considerable income for the average dealership. It began in 1925 when General Motors decided to compel its dealers to use GMAC financing facilities. In order to overcome the competition of other financing institutions, which were buying paper on a non-recourse basis, GMAC with its recourse basis established a "dealer reserve." It was accumulated from an addition to the regular finance charge paid by car buyers and was paid out to dealers at stated intervals. The reserve was eventually increased until it reached 20 per cent of total finance charges on new cars and 30 per cent on used cars. The rate was not calculated on an actuarial base but upon the experience of the subnormal
dealer. The reserve then became a profit to the average dealer. Its purpose has been variously interpreted as (1) an inducement by lending institutions to secure accounts; (2) a method to limit dealer losses when handling repossessions; and (3) compensation to the dealer for handling the credit papers and arranging the finance. It does seem to have an element of each. Nevertheless, dealer reserves are generally considered as earnings, and the Internal Revenue Service treats them as such.

There are no official data to indicate the total volume of dealer reserves returned to dealers, but from various estimates made it can be appraised as substantial. The Vice President of Pacific Finance Corporation estimated that these funds amounted to one per cent of gross automobile sales in 1957. Net operating profits for all dealers in that year equaled 0.7 per cent. Therefore, without dealer reserves the trade would have been left with an operating loss of 0.3 per cent.

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21 The facts of the use of the dealer reserve were established in testimony before a Congressional investigation. See U. S., Congress, Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, Hearings, a Study of the Antitrust Laws, Part 7, 84th Cong., 1st Sess., 1955, pp. 3039-3041.

A dealer does have some latitude in determining the amount of his reserve. This is so because the discount rate given him by the finance company remains the same regardless of the finance rate charged the car buyer by the dealer. If, for example, the discount rate were 4 per cent and the dealer charged 6 per cent, the dealer reserve would be credited with 2 per cent of the unpaid balance on the paper, or $33\frac{1}{3}$ of the finance charge. On the other hand, should the dealer charge the buyer for financing a rate of 5 per cent, the dealer reserve would then be one per cent of the unpaid balance, or 20 per cent of the finance charge.

Dealer reserves for each transaction or for each dealer account are generally expressed as a percentage of 
(1) the financing charge or (2) the net unpaid balance. In the absence of state control on reserves and within legal interest rates limits, this freedom that a dealer has in part to determine his own reserve has given rise to unreasonable finance charges which have been characterized as "finance packs."\footnote{See "Finance Pack Is Assailed as Long-Term Scandal at Senate Auto Hearings," \textit{Automotive News}, March 25, 1957, p. 1. Also, "Finance Cleanup Gets Dealer, Public Support in Letters to Probers," \textit{Automotive News}, May 6, 1957, p. 1.} Prior to 1957 there were only two states (Ohio and Michigan) that had laws limiting
dealer reserves, but after that year there were several states with proposed legislation to limit such earnings.

The crucial point seems to be the manner in which dealers consider the reserves. In the highly competitive automobile market, reserves may equal or exceed net profit from all other operations. Therefore, considering the ease with which they are acquired, an inherent danger seems to exist: Dealers may relax credit standards, particularly in regard to down payments and length of contract. Also, the income from the dealer reserves relieves the pressure for dealers to analyze more closely their operations, costs, and pricing methods. Nevertheless, because net operating profits have averaged 0.8 per cent (a high of 1.7 per cent in 1955 and a low of 0.2 per cent in 1958) for the seven-year period from 1954 through 1960, the contribution of the reserves can be clearly seen.

Financing Control

There are several major sources of control that influence the financing of automobiles sold at retail:

1. State legislation
2. Federal Trade Commission
3. State insurance commissions
4. Better Business Bureaus

In addition, various policies adopted by automobile dealers, their associations, and lending institutions have
their effects as well. By the end of 1957 there were 25 states that had special statutes regulating instalment sales. Two other states had laws with minor effects on instalment sales, mostly with reference to motor vehicles. Then, too, by August of 1958 there were an additional 9 states that were considering revisions to previously enacted laws or provisions for initial ones. The Federal Trade Commission Trade Practice Rules designed to eliminate and prevent certain unfair or deceptive acts or practices in the retail financing of motor vehicles were promulgated in 1951. These sources are widely known and, thus, are not analyzed in this thesis.

There is one additional source of control, however, that, if adopted, may have a tremendous impact upon financing activities. That is the proposed piece of Federal legislation (S. 1740), known as the "Truth-in-Lending Bill," which was being studied in 1960 and 1961 by the Senate Banking Subcommittee on Production and Stabilization. The bill would require that all lenders of money


or sellers of goods on the instalment plan express to the borrower or the buyer the carrying charge as an effective or actual rate of interest per annum. Senator Paul Douglas (Dem., Ill.) has stated that the bill is not intended to "control credit" or to "pre-empt state authority over the level of rates and charges." Rather, the purpose is merely to give consumers the truth about rates and charges. On the surface it would appear that such "truth" would be desirable, for marketing and credit management authorities have repeatedly pointed out the varied and confusing bases on which interest and carrying charges are quoted.

Nevertheless, it would seem that there are a number of major objections which could be presented in opposition to the bill:

1. States already have laws establishing legal and contract interest rates.

2. The F. T. C. Trade Practice Rules and the instalment sales acts of the states require disclosure of the essential data of an instalment sale.

3. The proposed legislation would represent an additional area of Federal control of business activity.

4. In order to overcome revealing a relatively high service charge or interest rate, retailers presumably could increase their selling prices and, thus, defeat the purpose of the bill.
5. The carrying charge for use of credit is composed of several items of cost other than interest (e.g., risk investigation, clerical, bad-debt losses, acquisition of loanable funds) which result in varying rates. The justification for these is seemingly little understood by the average consumer, and the bill appears to do nothing to increase that understanding. Conceivably, additional confusion might result among borrowers or instalment buyers.

Although it is recognized that some lending institutions have an uneconomic advantage resulting from outright deceit or meaningless statements regarding credit terms, the Truth-in-Lending Bill seems to create as many perplexities as it purports to overcome.
CHAPTER VIII

MANAGEMENT OF SALES PERSONNEL

The challenge to management of the automobile sales force is indicated by a study of the following survey results:¹

1. Over four-fifths of new car buyers had not received any information from the selling dealer before the car was bought.

2. Nearly three-fourths of new car buyers had already decided on a particular brand before contacting a dealer.

3. Two-thirds of all buyers shopped for only one brand of car before buying.

4. Two-thirds of all new car buyers shop only one dealer of the brand bought.

It seems that two conclusions can be drawn from these findings. One might follow this reasoning. If the majority of car buyers have already made up their minds as to what brand of car to buy, shop for only one brand, and visit only one dealer's premises before buying; then the need for new car salesmanship is for nothing more than service selling, or low-level selling. There is little

need for the salesman to engage in activity other than supplying the customer with information helpful in making a decision among the several choices of body styles, color, etc. This type of selling seems to follow the path of least resistance. It reduces the role of salesmen to order takers and accepts their major source of prospects as "walk-ins."

On the other hand, a different conclusion might be drawn. Since the majority have already decided on one brand, shop for only one brand, visit only one dealership with that brand, but since no one brand has a distinct advantage of style, engineering, and price over all other brands, there are excellent opportunities in automobile selling for creative salesmanship. This latter conclusion seems the most logical and of greater benefit to dealers and salesmen alike. It would imbue the latter with the idea of opportunity for sales productivity in artfully and skillfully presenting the automobile for sale.

Sales Manager

Heading the group of salesmen in a dealership is the sales manager. In the smaller firms, however, the dealer himself plays a more important role in policy and procedure determination and supervisory activities pertaining to the sales function. In fact, his day-to-day
control is significantly shared with the sales manager.
Of the 22 non-metropolitan dealers interviewed, 4 had no sales manager. By contrast, all metropolitan dealers used sales managers, and in the larger firms often the only contact the dealer had with the sales manager was a relatively short daily meeting.

Non-metropolitan sales managers were relatively younger men, having been with their dealers for an average of 7 years. By contrast, metropolitan sales managers had an average of 13 years tenure. Prior to their present positions, 12 of the 39 sales managers had no automobile retailing, or retailing allied to automobile sales, experience at all. The rest possessed a background in new or used car sales, automobile service, parts and accessories sales, or tire sales. Other than these vocational experiences, there was no particular pattern that apparently leads to sales management.

Concerning compensation plans, the following were found in use:

<table>
<thead>
<tr>
<th>Salesmanager Compensation Plan</th>
<th>No. of Dealers Using Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary and Bonus</td>
<td>16</td>
</tr>
<tr>
<td>Salary, Commission, and Bonus</td>
<td>7</td>
</tr>
<tr>
<td>Salary and Commission</td>
<td>6</td>
</tr>
<tr>
<td>Salary</td>
<td>3</td>
</tr>
</tbody>
</table>
In addition, 2 dealers reported no particular plan; 4 had no sales managers, and hence reported no plan; and 1 dealer stated that he compensated his sales manager by a bonus based on net profit of the firm (generally not considered a type of compensation plan, but merely a supplement). The popularity of the salary and bonus plan can be explained. First, the bonus component provides an incentive to attain an objective other than sales, namely, net profit, which is more significant and is the basis on which the bonus is generally determined. Second, the salary component enables the dealer to direct the sales manager's efforts in areas not directly related to sales. He is usually regarded as the "No. 2" man in the organization, and makes operating decisions in the absence of the dealer.

Recruiting and Selecting Salesmen

It appears that automobile selling is not looked upon as a "career opportunity." Neither does it have the level of prestige associated with other types of selling. In fact, the sales organizations are permeated with a number of salesmen, known as "floaters," whose length of employment with any one dealer is limited.

In an effort to show the magnitude of the salesman procurement function, the turnover rate was determined by
dividing the total number of salesmen separated from the payrolls during the year prior to the interviews by the total number on the payroll at the time of the interviews. For non-metropolitan dealers, this figure was 38 per cent (40 of 128); and for metropolitan dealers, 26 per cent (57 of 223). The explanation for the lesser rate with the latter group is probably found in the salesman's personal satisfaction with the city as a working environment, the opportunity to earn a larger income, and more fringe benefits usually found with the larger dealerships.

The survey also produced data to verify the following general statements regarding recruitment and selection:

1. Relatively more metropolitan sales managers have authority to select and hire salesmen than do non-metropolitan sales managers.

2. The majority of non-metropolitan dealers have found that the age of salesmen makes no difference in their sales productivity; but for those who have, the most productive age group is 20-40 years. On the other hand, the majority of metropolitan dealers have found that age does make a difference and that the most productive group is from 30-50 years.

3. The average automobile salesman is a high school graduate. Furthermore, most dealers believe that formal education beyond high school is not essential to selling automobiles.

4. Ranked in order of frequency of response, the following personal qualifications of salesmen are sought by metropolitan dealers:

   a. Good personality
   b. Excellent personal references
c. Aggressive hard worker  
d. Honesty  
e. Family man

5. For non-metropolitan dealers, the attributes desired are as follows:

a. Excellent personal appearance  
b. Drive to make a lot of money  
c. A natural liking for people  
d. Previous selling experience  
e. Aggressive hard worker

6. Ranked in order of frequency of use, the following sources are used in recruiting salesmen:

a. Classified advertisements  
b. Suggestions by salesmen within the dealership  
c. Other dealerships  
d. Employees other than salesmen within dealership  
e. Retail salesmen outside the automobile field

7. The majority of dealers use application blanks, contact the personal or character references submitted by sales applicants, and make a credit check with the local retail credit bureau. Very few dealers use selection tests or have contracts with their salesmen.

From the scientific management point of view, the recruiting and selection process in the average dealership leaves much to be desired. In fact, it is quite informal. The modern methods and practices of more progressive firms have not been adopted. It would seem that much could be gained from research to determine the correlation between the various present practices and sales productivity of salesmen.
Training of Salesmen

Whereas almost all dealers use some type of formal training for their salesmen (only 2 of the 39 reported none at all), none expressed enthusiasm or satisfaction for the quality or quantity of training received. This formal training can be categorized into four major types, depending upon who assumed the responsibility and where it is accomplished:

1. Dealer training at the dealership

2. Manufacturer-sponsored training in the retail trading area

3. Manufacturer-sponsored training at the zone or regional level

4. Manufacturer-sponsored training at the factory

Manufacturer training centers, institutes, and schools, as they are now organized, are not looked upon as an answer to the salesman's need in that they are operated largely for dealership personnel whose functions are other than those of operatives producing automobile sales. Support is growing for a proposal that a separate school be established by the manufacturers to train salesmen exclusively. Among many related subjects, for training, would be "fundamentals of selling, personality factors, psychology of getting along with people, factors in a sale,
why people buy, etc."\(^2\) NADA supports a proposal to establish an Automobile Retailing Institute which would operate to satisfy a national need to train young men to become automobile dealers and managers and would be comparable to a four-year college course.\(^3\)

**Compensating Salesmen**

In the automobile trade, compensation plans for salesmen reflect two basic methods: (1) payment for time spent on the job and (2) payment for unit accomplishment. Actually, the plan used most frequently is a combination of the two methods. As Tables 11 and 12 show, the survey revealed the following findings:

1. More salesmen work with the salary and commission plan (51 per cent) than with any other plan. The commission plan and the draw and commission plan are of equal importance (23 per cent each); and the salary plan is seldom used (3 per cent). (Because of its insignificance, the salary plan is not considered in the statements to follow.)

2. Relatively higher incomes are earned with the salary and commission plan.

3. Relatively lower incomes are earned with the commission plan.

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Annual incomes of $5,000 or more are earned by 89 per cent of salesmen with salary plus commission plan; 66 per cent with draw plus commission plan; and 57 per cent with commission plan.

The popularity and effectiveness of the salary plus commission plan can also be explained. Like the straight salary plan, it gives security and affords greater management control over the salesman. Also, because of its contribution to higher morale, salesmen like the plan. They cooperate better, and they take a greater interest in the dealership. They feel more like a permanent member of the organization. This does not mean, however, that low sales producers are carried indefinitely by management. Because the salary component is of the nature of a fixed operating cost, management is forced to eliminate low producers.

Like the commission plan, the salary plus commission provides an incentive for volume sales because of the commission component. It is ideally used for combination salesmen who sell both new and used cars. Here the commission rate can be varied, for used cars usually are sold with a higher commission percentage than are new cars. Even the commission rate itself can be used to give greater control. One of the interviewed metropolitan dealers found it necessary to reduce the rate on new cars in order to "drive," as he stated, his salesmen
off the showroom floor and out into the sales territory for more prospecting.

Two additional aspects of compensation regard (1) the bonus and (2) an increasing rate of commission, both of which are changed from time to time or eliminated altogether by the dealer, depending upon the season of the year or the desire to promote more sales. The bonus is of two types: (1) the one traditionally given by manufacturers, particularly at the close of a model year, as an incentive to sell "close-out" cars; and (2) the one frequently given by dealers to attain a certain level of sales volume. The increasing rate commission provides an incentive for salesmen to attain (1) ever-increasing sales volume level or (2) larger gross profits per car. The merits of these additional aspects are illustrated below in an exact reproduction of the New Car Commission Schedule given by one of the interviewed dealers to each of his salesmen.

(1) $50 commission per car--1 through 10 units
(2) $100 bonus on 10th car delivery; paid at end of month
(3) $60 commission per car--11th unit and up
(4) Cost: based on actual cost, plus $20 for service
(5) 30% additional commission paid on all gross profit over $250 per unit
Example: $330 Gross
Less 250
30% on $80 equals $24 additional commission

(6) 40% commission deducted on the difference of any gross profit below $200
Example: $160 gross profit sale
This is $40 below $200 limit
40% of $40 equals $16, which is deducted from regular commission on the unit

This particular plan has several advantages. First, it emphasizes gross profit which makes a salesman strive from the highest "cash difference." Second, the plan in effect emphasizes net profit also for if a salesman falls below a "standard gross," he is penalized for it. Third, the incentive of increasing rate commission results from 20 per cent (i.e., $50 flat fee for standard $250 gross) being increased to 30 per cent where the gross exceeds $250. And, last, the plan stresses volume because a bonus is paid for attainment of a certain quota of car sales each month.

Many dealers conceded that they frequently change their compensation plans and that largely it is in the nature of experimentation. The perfect plan was being sought, but, of course, there is no such thing. On the other hand, some plans are more effective than others in accomplishing certain objectives. In view of the
unprofitable or low profitable operations of many dealerships, it seems that a scientifically developed compensation plan could make a definite contribution toward correcting the situation. The good plan described above made such a contribution, even though the dealer is located in a smaller town in the peripheral area of the Columbus trading area and is handling a brand of cars not regarded as in the high-volume class.

It seems that dealers generally would benefit from (1) having a clearer understanding of what their compensation plan should accomplish; (2) knowing the factors that motivate their salesmen; and (3) studying and adopting the plan with those features which will accomplish the objectives.

Manufacturer Sales Bonus

Bonuses given by manufacturers to encourage sale of the last units of an annual car model production have been controversial. In 1960 it was learned from a survey by Automotive News that 72 per cent of the dealers believe

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As an example, on September 1, 1957, the Oldsmobile Division of General Motors provided for bonus payments to each dealer after he had reached 50 per cent of monthly quota. The payment was $50 per car for sales from 51 to 70 per cent of quota; $100 per car from 71 to 80 per cent; $175 per car from 81 to 90 per cent; and $200 per car for sales in excess of 90 per cent of quota. See "All 'Medium' Makes Stage Sales Contests," Automotive News, September 2, 1957, p. 4.
the bonus system to be "unfair" and 85 per cent find some fault with it. Criticism of it generally involves the bonuses as being (1) too small, (2) applying to too short a period of time, and (3) inequitable to many dealers.

The argument that bonuses are too small stems from the contention that many dealers in the close-out period must grant over-allowances or discounts in excess of the bonus payments in order to sell cars. Criticism of the system applying to too short a period is based on the experience of many dealers that price concessions have to begin before bonuses apply. The main attack, however, is that of its inequitable nature, which arises because bonuses are based on quotas that are partly based on past sales. Therefore, the dealer who earlier in the model year has had relatively low sales in relation to potential because of his own lack of aggressive selling practices finds himself in an advantageous position in relation to competitors. Because his bonus payments begin at a lower quantity level than those of his competitors, his wholesale prices are lower, and he can undersell his competitors.

It would seem, therefore, that the controversy is not with the bonus per se but with the method by which it

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is determined. Assuming substantial validity to the above criticisms, it appears that the manufacturers have erred in (1) rewarding non-aggressive dealers with relatively more bonus payments and (2) penalizing aggressive dealers who are obtaining in actual sales their sales potential or even more.

Special Incentives

A sound practice characteristic of all dealers is that of using special incentives, largely of the nature of contests or campaigns. Their objective, as revealed by the interviewed dealers, is to stimulate sales of one or more of the following:

1. New and used cars
2. Slow-moving models
3. Oldest cars in stock
4. Cars which result in trade-ins needed by the used car department (a "conquest sale")
5. Accessories that will not fit subsequent car models
6. Financing and insurance arrangements

Cash, clothing, trips, and general merchandise for the home are awards that are generally given. Contests are not used continuously; three or four each year seem to be the average rate of use. In the buyers' market, these incentives tend to lift salesmen out of routine methods of selling. They add a sparkle and an interest that would not be there otherwise, according to the dealers interviewed.
Sales Supervision

Unlike most retail salesmen, automobile salesmen spend much of their time away from the retail store without the immediate presence of the sales manager. They are, nevertheless, working in accordance with definite plans, policies, procedures, and instructions from management. To insure conformity with these, the sales manager functions as a sales supervisor. His primary objectives are related to motivation, information, performance improvement, checking, and evaluation of the sales force. The major methods used in achieving these objectives are discussed below.

Sales meetings. All dealerships included in this survey have daily sales meetings attended by the sales manager, the salesmen, and, quite often, the dealer. With few exceptions these meetings are group meetings. The subjects discussed cover a wide range of topics, some of which are general in nature and pertain to all salesmen; others are more specific and relate to individual salesmen. The major ones are as follows:

1. Compensation plan
2. Car trading formula
3. Contests
4. Bonus program
5. Cross-selling
6. Competitor activities
7. Floor schedule
8. Working regulations
9. Recontact with former customers
10. Telephone calls made
11. Post cards mailed
12. Trading offers made
13. Personal contacts with prospects
14. Demonstrations
15. Cars sold
16. Financing arrangements
17. Appraisals of used cars

Sales quotas. The monthly sales quotas for salesmen is of necessity based upon the quota which the manufacturer has for the dealer. This latter amount is essential to the manufacturer for scheduling production, and its use cannot be questioned. The manner in which it is determined is quite another matter. Supposedly the dealer quota is worked out as an agreement with the sales representative of the manufacturer; however, the latter continues to have the most influential voice. Throughout most of the 1950's, standards by which a dealer was evaluated were based on his competitive performance with others in his zone, but not to the exclusion of regional and national areas. This statement merely means the following: If, for example, sales of car "A" were 10 per cent of total car sales in Zone X, and 10 per cent of total car sales in Region Y, and 10 per cent of total car sales in the nation; then, other things being equal, the manufacturer would expect a dealer to sell car "A" to the extent of 10 per cent of total car sales in his sales territory.
This determination is scientific and reasonable, assuming, however, that "other things are equal." It is within this area that manufacturers may be unreasonable. Population and income changes in particular and local conditions in general may be factors that would cause a dealer's sales productivity to be above or below zone, regional, or national average.

The sales managers included in this survey used judgment and an individual's past sales record as bases on which to determine an individual salesman's sales quota for the month. Many sales managers made the quota a psychological goal in that the amount assigned was more than they had reason to believe the salesman could achieve.

Activity quotas. Also in the supervisory function, sales managers often establish daily activity quotas. One typical example is the so-called "5-10-15-20" program which requires the following each day:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal sales presentations</td>
<td>5</td>
</tr>
<tr>
<td>Telephone calls</td>
<td>10</td>
</tr>
<tr>
<td>Post cards mailed</td>
<td>15</td>
</tr>
<tr>
<td>Offers to trade</td>
<td>20</td>
</tr>
</tbody>
</table>

Additionally, there are others frequently assigned: demonstrations, appraisals of used cars, anniversary cards mailed, birthday cards mailed, and personal
follow-up contacts. The accomplishments of each salesman are usually posted to the sales manager's "control board" after having been reported by each salesman in his daily report.

The survey revealed that 20 of the 39 dealerships used activity quotas. It is believed, however, that all would benefit from the effective use of this tool of management. Even though automobile salesmen may not be lazy and indifferent, human nature is as it is, and activity quotas should help prevent salesmen from becoming lackadaisical toward their duties.

**Salesman daily report.** As a natural sequence to the assignment of the above quotas, a formal written report follows. The survey showed that a lesser number of dealers require these reports than those who assign quotas (13 of 39). Nevertheless, the reports are quite effective. There are psychological implications in the title of many (e.g., "Daily Money Making Sales Report" and "What I Did Yesterday"). Some are rather detailed, requiring information on prospects and their cars presently owned.

**Control board.** A so-called "control board" is widely accepted for use by all sales managers. It is usually attached to the wall of the office of the sales
manager and is posted daily to indicate sales results. Its use is most effective during the daily sales meeting. Although the amount and type of information varies, it generally carries the most essential facts: (1) dealership monthly quota and total sales to date; and (2) each salesman's monthly quota and total sales to date. Some boards are broken down for the same data relative to (1) new cars, (2) used cars, (3) new trucks, and (4) used trucks. The larger and more elaborate boards will contain columns in which can be posted all the information relative to activity quotas.

A few dealers have boards on which the number of days a car has been in stock can be easily noted. This "inventory age detector" operates like this: a small button or tag representing by number a certain car is threaded onto a horizontal wire behind which are a number of vertical columns, each representing a day. As the car remains in stock an additional day, the button or tag is moved one column to the right, indicating an additional day of inventory age. By a quick visual inspection at each sales meeting, the dealer, sales manager, and salesmen can tell how fast cars are moving and which are the slow ones that need to be promoted.
Communications. The means of communications are more oral than written in the typical dealership. The closeness of the organization, its relatively small size in personnel, the intimacy of the working environment, all combine to make possible a relatively easy flow and exchange of ideas. Nevertheless, an increasing number of dealers and sales managers are putting in writing everything of significance to a salesman's work. A loose-leaf ring binder is provided to contain operating details of the following: compensation plan (inclusive of bonus provisions), contests, pricing procedures, trading formulas, show-room floor schedules, working regulations, and any other policy or procedure relative to personnel administration.

Factors Affecting Sales Supervision

Several factors characteristic of the automobile trade and salesmen indicate that a relatively greater amount of sales supervision should be provided:

1. Formal education does not extend generally beyond high school, reflecting upon the ability to plan and organize work.

2. Modern techniques of recruiting and selecting have not been developed, leaving some question that the most effective are now employed.
3. Initial and subsequent training is conceded to be inadequate, placing a greater task on day-to-day control.

4. Working hours are often long and varied.

5. Many of these hours are spent away from the dealer's premises.

The last two factors, not previously analyzed, need further explanation. The survey revealed that in 1957 all of the 17 metropolitan dealers had their show-rooms open during weekday nights and required the presence of some salesmen. The results were somewhat different for the non-metropolitan dealers. Of these 22 dealers, 14 were open all weekday nights, 6 on some weekday nights, and 2 were not open on any night. The survey also showed that all non-metropolitan dealers required their salesmen to spend part of their working day in the territory outside the place of business. The range was from 25 per cent to 90 per cent, and the average was 51 per cent.

Essentially the same was true for metropolitan dealers, although 3 of these 17 dealers requested that all of their salesmen spend all of their working time on the show-room floor. The point is, however, that salesmen

6By March of 1961 sufficient dealers in Columbus, Ohio, were selling on Sunday to prompt protests to city officials. The latter were requested to investigate the legality of such practices.
with such freedom are apt to waste their time and spend it in ineffective and unproductive activities.

On the other hand, the task of sales supervision is somewhat reduced by three major factors:

1. Commission methods of payment are usually involved, in part at least, in the compensation plans; and salesmen are thus stimulated to effective performance.

2. Duties of salesmen are relatively standardized.

3. The unit of supervision is relatively low.

As previously pointed out, activity quotas indicate that the work of automobile salesmen is largely standardized and highly routinized. Some sales managers even believe that car buyers can be categorized into four to eight different types. To this extent, then, a lesser amount of supervision seems indicated. Also, Table 5 shows that the unit of supervision is relatively low, probably less than 10. The averages of personnel in the sales department for the various sales categories overstate the number of operatives reporting to the department head. For example, the largest dealership included in the survey had 144 employees in the sales department, but 8 of these were supervisors: a ratio of one manager to 17.5 salesmen.

In fact, most of the dealers in Group III and Group IV had more than one sales supervisor. Again, this one factor would not indicate an excessive amount of supervision as
being needed. The average productivity of salesmen, whether compared by location or by sales volume dealer-
ship, does not vary appreciably (see Table 13).

In conclusion, it would seem that there is a lesser need for sales supervision in automobile dealerships, relative to the degree that the function has been developed in many larger marketing organizations with outside sales-
men. But this conclusion should be construed as applying more to the amount of supervision, rather than to the variety of methods, tools, or techniques applied. Auto-
mobile sales managers do not seem to be characterized as experimentors or innovators. Job analyses and time-and-
duty studies are unknown. Scientific methods to determine sales potential are not used. Standards for salesmen have not been adequately developed; evaluation is generally limited to sales productivity to the exclusion of other factors. In fact, sales managers appear to be content with the limited traditional methods and do not borrow or adopt the newer methods of more progressive marketing firms. In many respects they are "business mechanics" or "cheer leaders" and do not qualify as scientific managers.
The activities of advertising and sales promotion complete in a true sense the full meaning of selling, for they represent non-personal selling, in contrast to personal selling engaged in by salesmen.

It would appear in the increasingly competitive market that advertising would assume greater significance. Nevertheless, the amount expended for it has been rather stable, whether compared to total sales or to direct personal selling expenses. The latter, expressed as a per cent of sales for all franchised dealers, were 2.02, 1.87, 1.97, 2.04, 2.03, 2.00, and 2.01 for the respective years 1954 through 1960. For the same years, advertising expenditures were 0.88, 0.73, 0.83, 0.81, 0.83, 0.77, and 0.78 per cent. In other words, the per cent relationships of advertising to personal selling expenditures for each of the respective years were 44, 39, 42, 40, 41, 39, and 39. This, then, is amazing stability.

Stability of expenditures, however, has not been indicative of the problems underlying advertising effort.
Cooperative advertising with manufacturers has come to an abrupt halt. Dealers have fought for lowered local rates. And of most significance, the trade has been plagued with unethical practices that border on false and misleading advertising. This chapter traces these developments as they occurred in the 1950's and analyzes their effects upon franchised dealers.

Dealer Advertising Practices

Dealers employ both product and institutional advertising. A considerable amount of service advertising is also used effectively. Fortunately, all manufacturers have traditionally provided dealers with prepared copy and mats. It is fortunate indeed because dealers are not specialists in advertising, and only the smaller advertising agencies are interested in accounts of those dealers who have a budget the size of which warrants outside assistance. The appeals used in advertisements rest upon the entire gamut of emotional and rational buying motives. Some have been highly controversial within recent years, and because of ethical and legal problems involved are treated more fully in a subsequent section.

The consensus of dealers interviewed was that newspapers represented the best medium for advertising new and used cars. Direct mail was second most favored, and television and radio followed. It must be recognized that
telephone directories and billboards are commonly used, but they are not looked upon as creating significant sales. Again, the manufacturers must be credited with furnishing considerable quantities of aids: direct-mail letters and booklets, circulars, posters, and bulletins.

Of the dealers interviewed, most seemed to favor advertising when sales began to lag. Exceptions to this general practice were (1) the large-volume metropolitan dealers who had budgeted a definite program and (2) all dealers experiencing introduction of new models and close-outs of old ones. The month of December was generally reputed to be a poor month in which to advertise. On the other hand, March and June were considered good. Advertising in the last half of a month has been found to be more productive of sales than advertising in the first half. With the exception of summer months, Sunday has been found the most effective day, followed by days in the middle of the week.

**Amount Spent for Advertising and Effects**

Table 14 shows the extent to which dealers in various sales volume groups advertise. In the Columbus retail trading area, it has been apparent that dealers who aggressively pursue high sales volume (particularly the more youthful ones, relatively "new" to the trade) advertise more locally.
The more "conservative" dealers, often long established and content with the status quo of their sales productivity, advertise less. This does not mean, however, that all dealers considered conservative in their sales function are necessarily low-volume operators, for some are the reverse and yet advertise relatively less. A quality product, plus goodwill built through the years, apparently substitute for some advertising. Nevertheless, it may be reasoned that advertising for many dealers is both a cause and effect of high-volume operations. They advertise more to build volume; and having built volume, they advertise to maintain volume. It is also known that non-metropolitan, single-point dealers located in areas where competition is less intense advertise less.

Table 14 shows the advertising expenditures of franchised dealers for the six-year period from 1954 through 1960. These expenditures are expressed as a per cent of total sales, and the most significant conclusion seems to be that for each sales volume group the relative amount spent does not change appreciably from year to year. It is true that larger-volume dealers spend more than smaller-volume dealers, but even when the largest sales volume group is compared to the smallest volume group, that relative difference amounts to only 0.2 to 0.3 per cent
per year. In absolute amounts, however, that difference can be quite large. For example, a Group I dealer with $200,000 annual sales ($2,000 sales for each of 100 cars) expending 0.69 per cent of sales, as the average Group I dealer did in 1960, would have spent only $1,380 for advertising. By way of contrast, a Group IV dealer with $2,000,000 annual sales ($2,000 sales for each of 1,000 cars) expending 0.93 per cent of sales, as the average Group IV dealer did in 1960, would have spent for advertising $18,600. In other words, the difference for the two dealers would be $18,600. In still other words, the Group IV dealer would have over 13 times the funds available for advertising than did the Group I dealer.

Herein lies the seat of several problems, for the Group IV dealer is apt to be a metropolitan dealer, and the Group I dealer a non-metropolitan, small town dealer. The former has by comparison large funds available for advertising in various media that emanate in the central city of the standard metropolitan area or retail trading area. Newspapers and television from the central city carry advertising appeals to the consumer in the small town to buy in the central city. These appeals are often based on lower prices, since the large-volume, metropolitan dealer has lower operating costs. There are two major effects of such large-scale advertising. First, the
metropolitan dealers influence prices established by non-metropolitan dealers. And, second, cross-selling is encouraged inasmuch as the small town buyer is "lured" into the big city in search of the lower-priced automobiles. In these two respects, as it was noted in Chapter VI, metropolitan dealers have had an effect upon non-metropolitan dealers just as discount houses have had on traditional dealers of many different items of merchandise. They have both effected a lowering of prices because the nature of their operations permitted it. In the case of non-metropolitan dealers, however, their operating expenses do not always permit competitive prices.

**Manufacturer Participation**

Prior to the major changes in franchise agreements in 1956 and 1957, most dealers were involved in a cooperative advertising program with their manufacturers. Before abandonment of these programs, however, dealer complaints had been registered at various dealer council meetings concerning the administration of the cooperative funds. For example, General Motors dealers opposed heavy expenditures on radio and television advertising; some dealers, particularly those in smaller cities, believed that for
their contribution of funds they should receive some commercial mention in the advertising.1

General Motors and Ford both eliminated their co-operative advertising programs, and the Chrysler franchise made no direct reference to any dealer advertising contribution. Nevertheless, the Ford franchise provided for collection of advertising funds "as may be authorized by purchase of cars," and General Motors established an "Advertising and Promotional Program" that was financed both by the firm's allocation of a fixed amount per car and by a price increase to the dealer. As an example, in 1956 the Pontiac Division provided for collection of $25 from the dealer for each car purchased and for a contribution of $12.50 by the manufacturer. These funds were to be used as follows:

The amounts contributed by Dealer shall be used solely in paying the cost of local advertising, including preparation expense, in the area described in Paragraph First of Dealer's Selling Agreement, through such local advertising media as will benefit Dealer. If a dealer desires to participate in local advertising with another Pontiac dealer or Pontiac dealers in a community outside the area described in Paragraph First of his Selling Agreement, he may do so provided that he shall have reached an agreement in writing with the dealer or dealers in whose area such community is located as to the amount per motor vehicle or chassis which is to be taken out of his

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1"General Motors Scraps Co-op Ad Program," Printers' Ink, December 7, 1956, p. 31.
contribution to the Fund and applied to such advertising. A copy of said agreement shall be furnished to Pontiac.

All local advertising to be paid for out of the dealer portion of the Fund shall carry the name and address of Dealer except that if that is impractical where more than one dealer contributes to the advertisement, a suitable group reference will be used. ²

This new program, of course, did not limit a dealer taking individual action to meet local conditions and competition in his area.

With the passage of several years since the end of the cooperative program, dealers have had the opportunity to appraise this aspect of their relationship with manufacturers. In a 1960 survey, ³ it was learned that 48.8 per cent of the dealers believed that manufacturers and their advertising agencies are not adequately concerned or influenced by the views and opinions of dealer organizations. Concerning type of advertising which is most effective in bringing prospects to the dealership, 63.6 per cent favored local advertising, and 29.2 per cent favored

²Section VII, Dealer Price List No. 3-56, effective March 1, 1956, Pontiac Motor Division, General Motors Corporation.

³The survey was made by the School of Journalism, University of Illinois, of some 405 franchised dealers that were representative of all franchised dealers. A response of 61 per cent of the dealers was obtained. See "Factory Ads Criticized," Automotive News, Dec. 5, 1960, p. 6.
national advertising. On the question of whether dealers were receiving adequate local advertising support from manufacturers, 26 per cent stated it was adequate, while 29.6 per cent said it was slightly inadequate; and 33.6 per cent, quite inadequate. Typical comments included criticisms that dealers had no voice in determining advertising at the local level and that manufacturers were partial to large metropolitan areas in placing their advertising.

After the end of cooperative advertising, dealers were confronted with a problem involving rates for advertising charged by local newspapers. The latter had many different rates applying to various types and classes of advertising. One was a "local" rate, lower in cost than a "national" rate which automobile manufacturers had been charged when they placed cooperative advertising for dealers. The problem arose when newspapers continued to charge national rates to local dealers who began placing their own advertising. Newspapers feared that if local dealers were granted local rates, manufacturers would begin to channel all advertising through dealers for placement. This problem was short-lived, however, for dealer organizations began an educational program to acquaint newspaper officials of the intent of local dealer advertising, on the one hand, and of manufacturer advertising on
on the other. As a result, newspapers gradually began to grant dealers the local rate; and, in many instances, total revenue from dealer advertising began to grow. 4

Advertising Ethics

It hardly seems necessary to establish as fact that there has been throughout the country ever since the buyers' market began considerable false and misleading advertising. Harlow H. Curtice, President of General Motors, conceded in 1956 that even some of his firm's officials had encouraged "unethical advertising" by car dealers in an effort to sell more automobiles. 5

One of the best listings of typical false and misleading advertising claims has come from the Columbus (Ohio) Automobile Dealer Association. This group in 1959 placed an advertisement in the Ohio State Journal in which the buying public was warned about seven different types of claims in automobile advertising. Brief comments to indicate how each claim may be false or misleading follow the list below.

1. "$600 Below Factory Government Posted Prices."

This claim obviously has reference to the Federal Automobile

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Information Disclosure Act. The manufacturer's suggested retail price appearing on the government-required sticker is in no way a government-approved price. Neither is it a government ceiling price. The price sticker, or label, is meant to suppress price-packing; but the above claim would have consumers think otherwise.

2. "No Downpayment--as Low as $33 a Month." This claim, even when true, can only lead to long-term financing and exorbitant finance charges. Furthermore, it violates some very basic credit management principles discussed in Chapter VII. Also, it is extremely doubtful if any credit institution would accept credit paper arising from this claim of possible terms of payment. And certainly there is too much risk involved for an automobile dealer to carry such paper.

3. "Would You Take $2,000 for Your '54 Model?" This implication obviously is that 1954 models have a trade-in value of $2,000. During the days of price-packing, these inflated values were commonplace. In 1960, however, it would require an extremely high-priced new model with considerable margin to accept a 1954 trade-in at $2,000.

4. "Look What We Allowed. . . ." This claim is usually followed with examples where excessive trade-in
allowances were granted. The claim is also conditional, usually stated in fine print, that actual trade-in value depends on condition of used car offered in trade and on type of new model purchased. Examples given in the advertisement are exceptional and not averages.

5. "Must Sell 500 Cars Immediately." This claim when examined may show that the advertiser has none or few of such cars in stock, but is willing to show and demonstrate other high-priced, less-in-demand models.

6. "Buy at Dealer's Cost." The implication to many consumers is that this "cost" is dealer invoice cost from the manufacturer. Actually, "cost" may include salesman commission, service charges, and others that result in a selling price perhaps approximating or equalling the standard retail price.

7. "Absolutely No Interest Charges." As the economist would view the situation, there is a cost, either implicit or explicit, that the dealer must bear with capital funds tied up in inventory. Dealers should recover this cost, along with other costs, in retail prices if they expect to make a profit. By claiming that no interest is charged, dealers may in reality be recovering such charges by establishing an above-standard retail price for the automobile or its accessories.
The above examples, if not false and misleading, can surely be characterized as unethical. Some fall within the meaning of "bait advertising," which has been defined as "an alluring but insincere offer to sell a motor vehicle which the advertiser does not in truth intend or want to sell." 6

Control of Advertising Practices

The reputation and prestige of any automobile manufacturer or dealer can be influenced by advertising. In order to correct malpractices in automobile trade advertising and to encourage higher ethical standards, many organizations, both commercial and governmental, have made concerted efforts. Most states that have dealer licensing statutes make fraudulent conduct a basis for denying or revoking permits. Moreover, there are eleven states that will withhold a dealer's license for deceptive advertising. 7

All franchises now contain clauses agreed to by the dealer at the time of signing that misleading advertising


is disapproved. As an example, the 1956 Pontiac Selling Agreement reads as follows:

Both Pontiac and Dealer recognize the need of maintaining the highest standards of ethical advertising at all times in order to secure and maintain public confidence in Dealer, Pontiac, and Pontiac products.

Accordingly, Pontiac will not publish, cause to be published, encourage, or approve any advertising relating to Pontiac products which is likely to mislead or deceive the public, and Dealer will not publish, cause to be published, or approve any advertising relating to Dealer's sale of Pontiac products which is likely to mislead or deceive the public.

Without punitive measures relating to this Section, it would seem that its real intent and purpose would be weakened. And this indeed is the case. Section 23 of the Pontiac franchise defines causes for termination of the dealership, but violations of Section 18(d) are omitted. The Executive Vice President of NADA has stated that it would be practical for manufacturers to include in franchises a code of business standards and to designate the type of dealer desired to distribute automobiles. It was contended that this action would eliminate unethical dealers. Again, however, it seems that unless manufacturers

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8Section 18(d), Dealer Sales Agreement, effective March 1, 1956, Pontiac Motor Division, General Motors Corporation.

provide for penalties on violations of such standards that
the mere designation of them will be less than effective.

As early as 1951, the Public Relations Committee of
NADA began working on a code of ethics. In an effort to
increase good will, the Association urged new car dealers
to display on their premises a certificate to manifest
their "Code of Ethics based upon integrity and responsi-
bility." NADA has continued to encourage and coordinate
state and local associations to develop their own standards
for ethical practices, many of which pertain to advertising
and sales promotion. As an example, the Automobile Dealers' Association of Indiana adopted for their dealers on a
voluntary basis a 22-point Code of Ethics. Its contents
have been summarized as follows:

The code of ethics covers truth and accuracy
in advertising and selling of automobile
products; promises to honor any guarantee
given with the sale of cars and trucks; seeks
to improve business methods and ethics and
to maintain fair competition to the end
that the public will be better served;
pledges dealers to refrain from the per-
formance of any act which would be injurious
or detrimental to the automobile retail in-
dustry, and provides a guide to the public
as to fair and unfair practices.

10A Basic Guide for Influencing Public Attitudes

11"Indiana Okays Code of Ethical Practices,"
Automotive News, June 16, 1958, p. 3.
The Better Business Bureaus in all large cities throughout the country have investigated reported cases of misleading or deceptive advertising. Their findings have been reported in local bulletins; and in some states where statutes have been violated, they have been submitted to the attorney general and secretary of state for proper action.

The Federal Trade Commission is limited in its control to violations only in cases which involve interstate commerce; nevertheless, in Washington, D. C., it has complete jurisdiction over unfair trade practices. As a result, it has been reported that the agency plans to make the District of Columbia a paragon of truthful advertising. It began by issuing a seven-point guide on advertising guarantees.  

Also, the Bureau of Advertising of American Newspapers Publishers Association has made efforts to improve malpractices. Through its newsletters it has carried on an educational campaign for its members and has made positive suggestions for creation of successful automobile advertisements. Many advertising media as a matter of policy reject requests that are false or misleading, and the legal

12"FTC Envisions D. C. as Ad Showplace," Automotive News, May 9, 1960, p. 3.
right to reject such advertising has been upheld by the courts.

It would seem that unethical advertising and sales promotion has in the past invited the same practices in retaliation. It has been infectious just as cross-selling has been. Quantitatively, the amount in use would be difficult to measure, but there are indications that it is diminishing. Fewer complaints are being registered in various trade publications. Thus, it seems reasonable to conclude that the controls previously noted are effecting what they were purported to do. It would seem that their further development and refinement are desirable.

Leaders of the automobile trade are also evidencing an emerging philosophy of management. They seem to recognize that their marketing institutions exist because of the suffrage of the people. They are actively seeking goodwill and are rediscovering their service objective.
CHAPTER X

CONCLUSIONS AND RECOMMENDATIONS

Because a buyers' market has existed in the new automobile trade from 1953 to 1961, changing conditions of supply and demand have forced franchised dealers to make major adjustments. These represent the dynamics of a marketing system that tends to perpetuate those institutions that efficiently contribute essential functions so long as the social and economic needs exist. This thesis represents the results of an analysis of the basic conditions underlying the industry, largely on the retailing level, with the objective of reaching conclusions and making recommendations on the more significant difficulties regarding profitability, pricing, cross-selling, franchises, and management of the selling function.

Basic Conditions

There are four points of view to consider in the analysis: (1) manufacturers, (2) dealers, (3) government, and (4) public. Each has basic characteristics, conditions, and objectives bearing upon the major problems.
Manufacturers. Automobile assembly is represented by an oligopoly of five firms with a high degree of concentration of production, excess capacity, and wide differences in earnings. Their policies and practices have varied effects upon franchised dealers:

1. Competition for their products is mainly based on quality and styling, with heavy emphasis on the latter.

2. Distribution is generally accomplished through manufacturers' sales branches and offices which exercise considerable control over dealer operations.

3. Relations are defined in a franchise that creates a legal position between that of vendor-vendee and principal-agent.

4. Sales are made to dealers as a "captive" group of buyers upon whom excessive quotas of cars were forced prior to 1956 and 1957.

5. Pricing is based upon a "standard volume" concept which permits little, if any, fluctuation of wholesale prices throughout a model year.

6. National consumer advertising provides considerable knowledge of the quality of the products.

Franchised dealers. By contrast, franchised dealers are many in number, but small in size, and are no match in economic power when negotiating with manufacturers. Their number in operation has declined from 45,191 in 1953 to 32,074 in 1961; and, by far, more have voluntarily left the trade than were forced out by financial failure. Their basis characteristics are these:

1. The typical dealer sells less than 150 new motor vehicles each year and is located in a city under 25,000 population.
2. A substantial number has incurred operating losses and no pure profits for many years of the buyers' market.

3. Dealer reserves from finance institutions have made the difference between profit and loss for the average firm.

4. Large-volume dealers have lower operating costs per unit retailed than do small-volume ones and, therefore, are more competitive price wise.

5. Metropolitan dealers through their advertising in widely disseminated media have had significant impact on pricing policies and practices of non-metropolitan firms.

6. Accurate cost knowledge for each unit retailed is apparently not known by a substantial number of dealers.

7. Cross-selling is generally a practice of all dealers.

Government. Surveillance of the industry is made largely through the Department of Justice, Federal Trade Commission, and various Congressional committees. The major areas of investigation in the 1950's involved contracts and conspiracies in restraint of trade, manufacturer-dealer relations, and potential monopolistic practices as concomitant "bigness." Although the Automobile Dealer Franchise Act of 1956 appears to have curbed certain effects of manufacturer economic power, it did nothing to reduce that power. The most significant position assumed by the government during the buyers' market is that no action shall be taken to impair the freedom to buy or sell automobiles anywhere, at any time, or by any party in the channel of distribution.
Public. Consumers' sovereignty is shown in the market by their desire for a flexible industry to provide automobiles befitting their needs as they see them. Consumers want no restrictions on their right to buy from any dealer. They expect effective pre-delivery, warranty, and repair and maintenance product services. These products and their services are to be retailed at fair prices with reasonable profit returns to the producers and middlemen concerned.

Major Conclusions

It appears that there is no one causal factor that has effected the difficulties prevalent in the trade. Rather, it seems that there has been a chain reaction type of cause-and-effect relationships. From the findings presented in this thesis, it is believed that a valid case has been shown for the following hypothesis:

1. From 1949 to 1953, when demand exceeded supply, the background for future instability was established. Protected exclusive territories were withdrawn and not supported (neither de jure nor de facto) by the manufacturers or the Federal government.

2. When supply began to exceed demand in 1953, manufacturers with the power afforded them by franchise terms forced dealers to buy more automobiles than their sales potential could absorb at planned profitable mark-ups. Overproduction generally prevailed, and the sales supremacy competitive struggle began.

3. With excessive inventories, dealers reacted by bootlegging new cars to used car lot operators and cross-selling into other dealer territories.
4. In making far-distant wholesale sales, some dealers located near the factory found bootlegging profitable because of the differentials in delivered prices, some of which were based on phantom freight charges.

5. Cross-selling at less than planned markup became profitable to some firms also, not so much because all pro rata direct, semidirect, and indirect operating costs, as well as planned profit margins, were being recovered per unit, but because retaliatory cross-selling had not developed to establish lowered prices in the cross-selling dealer's own territory.

6. In time the lower prices associated with cross-sold and bootlegged cars tended to determine general retail prices.

7. These lower prices did not permit profitable operations of many small-volume dealerships with relatively higher operating costs located in small- and medium-sized towns.

8. Consumers became price conscious and began to shop for price and price alone. Many dealers, mostly of the metropolitan, lower-operating-costs type, exploited the situation through price advertising in mass media that covered many sales territories other than their own.

9. Intensifying the competitive market, false and misleading advertising practices arose. "Price-packing" became characteristic of a sizeable part of the trade, while many dealers established prices without adequate knowledge of whether or not any net profit margin would be obtained.

10. As a result of these conditions, the total franchised dealers in operations declined by 29 per cent from 1953 to 1961.

The trend has thus been established of eliminating the lower-volume dealerships located in the peripheral zones or outlying areas of standard metropolitan or retail trading areas. It stands to reason that of those firms ceasing operations, (1) some were inefficient, unprofitable, and not satisfying the needs of consumers; while
(2) others were efficient, providing essential consumer services, but yet unprofitable, or nearly so, because of certain uneconomic factors forced upon them. It is this latter dealer category and its future in the trade that concerns the public interest. In considering probable trends it must be recognized that certain actions have been taken to mitigate the impact of these unnatural, uneconomic factors.

1. Manufacturers have revised their delivery charge determination methods and largely eliminated phantom freight.

2. The Automobile Dealers Franchise Act of 1956 has made manufacturer unfair practices associated with coercion actionable in Federal courts.

3. The Automobile Information Disclosure Act of 1958 has eliminated fictitiously high prices from being quoted for purposes of deceiving buyers with unrealistic trade-in-allowances and discounts.

4. Major franchise changes in 1956 and 1957 (the first in 30 years) provided dealers with more definite terms of an equitable nature.

5. Standards and codes of ethics are being voluntarily adopted by various dealer organizations to correct abuses of certain unethical advertising and promotional activities.

The major problem still remains, however, concerning the declining number and the future status of the smaller-volume operator. The premise of this thesis is that the consuming public has a need for these firms that are efficient, even though "dollar votes" in the market would indicate otherwise. It is contended that throughout the
buyers' market of the 1950's when unnatural competitive acts were imputed to the trade that profitability is not a reasonable measure of efficiency.

Undoubtedly, as economic men, non-metropolitan consumers would prefer to buy their cars at the lower prices of metropolitan dealers, but they would also undoubtedly prefer to obtain product service in their non-metropolitan community. But the crux of the matter is that the smaller dealerships cannot remain in existence interminably if their major role in the business community is limited largely to that of providing product service. Service sales are a relatively small part of total dealership sales (approximately 15 per cent). In other words, even though the gross operating profit from these sales covers approximately 50 per cent of total fixed and semifixed operating expenses of the entire firm, they are not sufficiently profitable to the average dealer to justify continued mobilization of his equity funds in the business. A comparable example would be a typical gasoline service station operator who attempted to continue his business without profit from gasoline and oil sales but with profit only from lubrication and car-wash sales at competitive prices (an impossibility).
It can be reasoned if the franchised system of automobile distribution is continued, along with the trend in reduction of dealerships in operation, then the typical firm of the future would be the large-volume, supermarket type, metropolitan dealership. Consumers residing in the outlying areas of standard metropolitan or retail trading areas would find it necessary to travel to central or core cities to negotiate for purchases and trade-in allowances, as well as product service. These activities would create inconvenience and additional costs in automobile ownership. They might even offset initial savings on new car purchases made in larger cities. Furthermore, without product service establishments in the smaller towns, metropolitan dealers would of necessity have to increase their equity for additional plant and equipment needed for this increased service, and this, too, would tend to cause an increase in metropolitan retail prices. Thus, it is doubted that the total cost of automobile ownership by the public would be any lower if new automobile retailing were assumed exclusively by the large-volume firms in the larger cities.

This conclusion assumes, of course, that no other institutions would arise to provide product service as effectively and at as low a price to the consumers as
the franchised dealers do. Local independent garages are not generally specialized in regard to repair of specific brands of cars, and yet this specialization feature becomes more significant as cars become more technically complex. It appears that the prices established by these institutions are as low as they are because of operating cost advantages. They are typically located in low rent districts; have a minimum of investment in plant and equipment; offer few services; have limited variety and assortment of parts; and generally do not provide the fast service as franchised dealers do. With these limitations such garages apparently appeal to a minor segment of the public. It is therefore assumed that if the burden for product service were shifted to them in the smaller towns that significant changes would of necessity have to be made in the nature of their operations, if they are to satisfy the needs of the total consuming public. These changes would conceivably alter their operating costs and subsequently their retail prices.

Consideration should be given to manufacturers assuming the retailing function by forward integration. Several factors, however, seem to militate against this possibility:

1. Should manufacturers establish their own retail outlets, it would further concentrate economic power and "bigness" on all levels of the economy, not just the
manufacturing level, which was a questionable matter investigated in the latter 1950's by a Congressional committee concerned with public policy toward such policy.

2. Automobile retail outlets, being service institutions, are not ideally adapted to chain or multi-unit operations with highly standardized operational policies and relations with consumers.

3. With manufacturer ownership of retail stores, it is questionable again in the interest of public policy, whether competition would be increased or even maintained between different outlets handling the same brand of car.

4. It is questionable if manufacturers would be interested in their own retailing organization since their own equity capital on the manufacturing level has historically been much more productive of relative profits than has comparable capital by dealers on the retailing level.

Manufacturers have had the opportunity to permanently invest in dealer organizations but have not accepted it for decades. In fact, they appear more eager to strengthen and maintain an independent dealer organization. They assist some dealers in financing with the intent that it be temporary. They are accelerating and intensifying training of all types of dealership personnel with the objective of promoting more effective sales and service functioning. And, last, they have recognized the importance to themselves of a strong franchise system, particularly during periods of financial stress and limited consumer acceptance of their product.
Recommendations

It appears that the preservation of the franchise system can be strengthened by a number of recommended actions. First, dealers should generally abandon their pricing practices based on "variable or incremental costs." This method, when used by a relatively few isolated dealers, would have no appreciable effect on the trade; however, when it is generally characteristic of all firms in seeking extra or plus business, it has the ultimate effect of diluting profitable sales for all.

Second, manufacturers should pace their production commensurate with the market demand schedule at approximate planned selling prices. With rarely fluctuating wholesale prices determined by standard volume, any production above this level can only be absorbed by the public at lowered retail prices that result in diminishing profits or even losses for dealers.

Third, dealers should be educated in the economics of cross-selling in that this practice is often associated with retail prices not covering all operating costs and reasonable profit. These lowered prices also tend to determine prevailing retail prices.

Next, it appears that manufacturers should increase and encourage multiple-representation dealerships. This
is particularly applicable to small- and medium-sized towns where in a buyers' market the sales of one or two brands may not represent sufficient potential to support a profitable operation. There is sufficient similarity in the brands offered by any manufacturer that, for example, one dealer may practically and practicably retail all cars produced by General Motors. Further, manufacturers should not encourage growth of any dealership in personnel, plant, and equipment beyond that indicated and needed for its sales potential.

Also, it is recommended that dealers study and adopt where applicable the methods of scientific management used by progressive wholesalers and manufacturers with "outside" sales forces. This would be particularly relevant to the selection, training, supervising, and evaluating the work of salesmen.

Should these recommendations not arrest or reverse the trend of the declining number of dealerships and unprofitable operations, it is then suggested that additional consideration be given to legally sanctioning some form of protected dealer sales territory. Should this protection be provided in the form of a bonus or penalty payment, the amount recommended is not to exceed the prorata cost which a dealer incurs for establishing and
maintaining plant and equipment for product service indicated by his territory potential.

In the public interest, it seems wise that the automobile trade make its adjustments willingly to the buyers' market, for, after all, this is the condition of the long run. Any program, legislation, or objective to perpetuate the elements of a sellers' market would tend to support artificially the inefficient and needless dealerships and result in a waste of limited resources. This thesis has attempted to point out the mutuality of interests of manufacturers, dealers, and consumers. It supports the elimination of the uneconomic factors that have not permitted the market to allocate institutional resources as the public desire them.
APPENDIX
### TABLE 1

**Factory Sales of Motor Vehicles, U. S. Plants: 1900-60**

(Number of Units)

<table>
<thead>
<tr>
<th>Year</th>
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<tbody>
<tr>
<td>1900</td>
<td>4,192</td>
<td>1931</td>
<td>1,948,164</td>
</tr>
<tr>
<td>1901</td>
<td>7,000</td>
<td>1932</td>
<td>1,103,557</td>
</tr>
<tr>
<td>1902</td>
<td>9,000</td>
<td>1933</td>
<td>1,560,599</td>
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<tr>
<td>1903</td>
<td>11,000</td>
<td>1934</td>
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<tr>
<td>1904</td>
<td>22,130</td>
<td>1935</td>
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<tr>
<td>1905</td>
<td>24,250</td>
<td>1936</td>
<td>3,679,242</td>
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<tr>
<td>1906</td>
<td>33,200</td>
<td>1937</td>
<td>3,929,203</td>
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<tr>
<td>1907</td>
<td>43,000</td>
<td>1938</td>
<td>2,019,566</td>
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<tr>
<td>1908</td>
<td>63,500</td>
<td>1939</td>
<td>3,888,512</td>
</tr>
<tr>
<td>1909</td>
<td>123,990</td>
<td>1940</td>
<td>3,717,385</td>
</tr>
<tr>
<td>1910</td>
<td>181,000</td>
<td>1941</td>
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<td>1911</td>
<td>199,319</td>
<td>1942</td>
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<td>1912</td>
<td>356,000</td>
<td>1943</td>
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<tr>
<td>1913</td>
<td>461,500</td>
<td>1944</td>
<td>610</td>
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<td>1914</td>
<td>548,139</td>
<td>1945</td>
<td>69,532</td>
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<td>1915</td>
<td>895,930</td>
<td>1946</td>
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<tr>
<td>1916</td>
<td>1,525,578</td>
<td>1947</td>
<td>3,558,178</td>
</tr>
<tr>
<td>1917</td>
<td>1,745,792</td>
<td>1948</td>
<td>3,909,270</td>
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<tr>
<td>1918</td>
<td>493,436</td>
<td>1950</td>
<td>6,665,863</td>
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<tr>
<td>1919</td>
<td>1,651,625</td>
<td>1951</td>
<td>5,338,435</td>
</tr>
<tr>
<td>1920</td>
<td>1,905,560</td>
<td>1952</td>
<td>4,320,794</td>
</tr>
<tr>
<td>1921</td>
<td>1,468,067</td>
<td>1953</td>
<td>6,116,948</td>
</tr>
<tr>
<td>1922</td>
<td>2,274,185</td>
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<td>1923</td>
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<td>1924</td>
<td>3,185,881</td>
<td>1956</td>
<td>5,816,109</td>
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<td>1925</td>
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<td>1957</td>
<td>6,113,344</td>
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<td>1927</td>
<td>2,936,533</td>
<td>1958</td>
<td>4,257,812</td>
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<td>1928</td>
<td>3,775,417</td>
<td>1959</td>
<td>5,591,243</td>
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<td>1929</td>
<td>4,455,178</td>
<td>1960</td>
<td>6,674,796</td>
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<tr>
<td>1930</td>
<td>2,787,456</td>
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*Source: Automobile Manufacturers Association, Automobile Facts and Figures (1961 Edition).*
TABLE 2

Dealers Handling U. S. Makes of Passenger Cars: 1958

<table>
<thead>
<tr>
<th>Franchises</th>
<th>Exclusives (within Corp.)</th>
<th>Multiples (within Corp.)</th>
<th>Total</th>
<th>Net Dealers</th>
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<td>American Motors</td>
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<td>2,318</td>
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<tr>
<td>Hudson</td>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Nash</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Rambler</td>
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<td>2,318</td>
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<td>Chrysler Corp.</td>
<td>657</td>
<td>17,096</td>
<td>17,096</td>
<td>8,673</td>
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<tr>
<td>Chrysler</td>
<td>71</td>
<td>2,683</td>
<td>2,754</td>
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<tr>
<td>DeSoto</td>
<td>58</td>
<td>2,198</td>
<td>2,256</td>
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<tr>
<td>Dodge</td>
<td>333</td>
<td>3,135</td>
<td>3,468</td>
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<td>Imperial</td>
<td>0</td>
<td>1,580</td>
<td>1,580</td>
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<tr>
<td>Plymouth</td>
<td>195</td>
<td>7,500</td>
<td>7,695</td>
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</tr>
<tr>
<td>Ford Motor Co.</td>
<td>7,156</td>
<td>5,488</td>
<td>12,644</td>
<td>9,702</td>
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<tr>
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<td>0</td>
<td>0</td>
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<td>Edsel</td>
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<td>238</td>
<td>1,155</td>
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<tr>
<td>Ford</td>
<td>5,692</td>
<td>1,328</td>
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<td>Lincoln</td>
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<td>1,391</td>
<td>1,391</td>
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<td>Mercury</td>
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<td>2,531</td>
<td>3,078</td>
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<td>1,500</td>
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<td>Cadillac</td>
<td>181</td>
<td>1,603</td>
<td>1,784</td>
<td></td>
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<td>Chevrolet</td>
<td>5,550</td>
<td>1,900</td>
<td>7,450</td>
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</tr>
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<td>Oldsmobile</td>
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<td>3,750</td>
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<td>Pontiac</td>
<td>1,855</td>
<td>2,015</td>
<td>3,870</td>
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<tr>
<td>Studebaker-Packard</td>
<td>184</td>
<td>4,500</td>
<td>4,684</td>
<td>2,434</td>
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<tr>
<td>Packard</td>
<td>86</td>
<td>2,250</td>
<td>2,336</td>
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</tr>
<tr>
<td>Studebaker</td>
<td>98</td>
<td>2,250</td>
<td>2,348</td>
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</tr>
<tr>
<td>Totals</td>
<td>21,421</td>
<td>36,352</td>
<td>57,773</td>
<td>38,685</td>
</tr>
<tr>
<td>Less inter-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>corporate</td>
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<tr>
<td>duals3</td>
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<td>576</td>
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<tr>
<td>Total U. S. Dealers</td>
<td></td>
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<td></td>
<td>38,109</td>
</tr>
</tbody>
</table>


1Franchises held by dealers selling under terms of one franchise for one make of car from one automobile manufacturer.

2Franchises held by dealers selling under terms of two or more franchises for two or more makes of cars from one automobile manufacturer.

3Franchises held by dealers representing a second (or more) automobile manufacturer.
TABLE 3

Number of Establishments and Sales of Franchised Passenger Car Dealers, By Legal Form of Organization—United States: 1954

<table>
<thead>
<tr>
<th>Legal Form of Organization</th>
<th>Number of Establishments</th>
<th>Sales Volume (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Proprietorship</td>
<td>16,572</td>
<td>$ 379,058</td>
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<tr>
<td>Partnerships</td>
<td>8,913</td>
<td>322,420</td>
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<tr>
<td>Corporations</td>
<td>15,869</td>
<td>1,680,566</td>
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<tr>
<td>Cooperatives</td>
<td>27</td>
<td>2,048</td>
</tr>
<tr>
<td>Other Legal Forms</td>
<td>26</td>
<td>1,033</td>
</tr>
<tr>
<td>Total</td>
<td>41,407</td>
<td>2,385,125</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Establishments in Company</th>
<th>Number of Establishments</th>
<th>Sales Volume (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>41,407</td>
<td>$25,107,984</td>
</tr>
<tr>
<td><strong>Single Units, Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operated by &quot;one-establishment&quot; firm</td>
<td>39,807</td>
<td>23,905,476</td>
</tr>
<tr>
<td>Operated by &quot;multi-establishment&quot; firm</td>
<td>39,381</td>
<td>23,588,427</td>
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<tr>
<td><strong>Multiunits, Total</strong></td>
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<td></td>
</tr>
<tr>
<td>2 established multiunits</td>
<td>1,212</td>
<td>739,030</td>
</tr>
<tr>
<td>3</td>
<td>204</td>
<td>200,913</td>
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<tr>
<td>4 or 5</td>
<td>27</td>
<td>140,917</td>
</tr>
<tr>
<td>6 to 10</td>
<td>27</td>
<td>33,586</td>
</tr>
<tr>
<td>11 to 25</td>
<td>34</td>
<td>(D)*</td>
</tr>
<tr>
<td>26 to 50</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>51 to 100</td>
<td>2</td>
<td>(D)*</td>
</tr>
<tr>
<td>101 establishments and over multiunits</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>


*Withheld to avoid disclosure.
# TABLE 5

Average Number of Personnel in Major Functional Groups of Franchised Automobile Dealer Organization, Classified as to Type of Location and Sales Volume Group

<table>
<thead>
<tr>
<th>Dealer Classification</th>
<th>General Management and Office Personnel</th>
<th>Parts and Service Personnel</th>
<th>Sales Personnel</th>
<th>Total Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan</td>
<td>8.4</td>
<td>47.5</td>
<td>15.8</td>
<td>71.7</td>
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<tr>
<td>Non-metropolitan</td>
<td>3.3</td>
<td>13.8</td>
<td>5.8</td>
<td>22.9</td>
</tr>
<tr>
<td>Sales Group I</td>
<td>2.2</td>
<td>6.4</td>
<td>2.4</td>
<td>11.0</td>
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<tr>
<td>Sales Group II</td>
<td>3.7</td>
<td>15.6</td>
<td>7.3</td>
<td>26.5</td>
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<tr>
<td>Sales Group III</td>
<td>6.7</td>
<td>39.9</td>
<td>12.1</td>
<td>58.7</td>
</tr>
<tr>
<td>Sales Group IV</td>
<td>12.0</td>
<td>69.7</td>
<td>22.0</td>
<td>103.7</td>
</tr>
</tbody>
</table>

Source: Personal interviews with executives of 39 participating dealers.

1Dealer Sales Volume Groups are determined by sales of new motor vehicle units sold in one year. Group I, 1 to 149 units; Group II, 150 to 399 units; Group III, 400 to 749 units; Group IV, 750 or more units.
### TABLE 6

Average Number of Car and Truck Units Sold in 1956 Compared To Average Number of Parts and Service Personnel for Franchised Automobile Dealers, Classified as to Type of Location and Sales Volume Group

<table>
<thead>
<tr>
<th>Dealer Classification</th>
<th>Av. New Units Sold</th>
<th>Av. Used Units Sold</th>
<th>Av. Total Units Sold</th>
<th>Av. Parts and Service Employees</th>
<th>Av. New Units Sold Per Parts and Service Employee</th>
<th>Av. Total Units Sold Per Parts and Service Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan</td>
<td>673</td>
<td>1006</td>
<td>1679</td>
<td>14.2</td>
<td>35.4</td>
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<tr>
<td>Non-metropolitan</td>
<td>226</td>
<td>418</td>
<td>644</td>
<td>13.8</td>
<td>16.4</td>
<td>46.8</td>
</tr>
<tr>
<td>Sales Group I</td>
<td>94</td>
<td>154</td>
<td>248</td>
<td>6.4</td>
<td>14.7</td>
<td>38.8</td>
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<tr>
<td>Sales Group II</td>
<td>228</td>
<td>459</td>
<td>682</td>
<td>15.6</td>
<td>14.7</td>
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<td>Sales Group III</td>
<td>585</td>
<td>744</td>
<td>1329</td>
<td>39.9</td>
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<td>Sales Group IV</td>
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<td>1589</td>
<td>2627</td>
<td>69.7</td>
<td>14.9</td>
<td>37.7</td>
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</tbody>
</table>

Source: Personal interviews with executives of 39 participating dealers.

1Dealer Sales Volume Groups are determined by sales of new motor vehicle units sold in one year. Group I, 1 to 149 units; Group II, 150 to 399 units; Group III, 400 to 749 units; Group IV, 750 or more units.

2Excludes fleet sales.

3Excludes wholesale sales.

4Includes parts and service managers.
TABLE 7
Variable, Fixed and Semifixed, and Total Operating Expenses
Of Franchised Automobile Dealers: 1954-60
(Per Cent of Total Sales)

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<th></th>
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<th></th>
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<td>3.4</td>
<td>3.3</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
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<td>II</td>
<td>4.0</td>
<td>3.8</td>
<td>4.3</td>
<td>4.2</td>
<td>4.2</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>4.2</td>
<td>4.1</td>
<td>4.3</td>
<td>4.1</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
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<td>IV</td>
<td>4.5</td>
<td>4.3</td>
<td>4.3</td>
<td>4.0</td>
<td>3.8</td>
<td>4.2</td>
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<td>Industry Average</td>
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<td>3.6</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
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<td>3.7</td>
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<td>10.5</td>
<td>10.7</td>
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<td>II</td>
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<td>8.3</td>
<td>9.8</td>
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<td>11.0</td>
<td>10.2</td>
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<tr>
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<td>III</td>
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<td>7.4</td>
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<td>10.4</td>
<td>9.8</td>
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<td>7.0</td>
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<td>8.8</td>
<td>8.1</td>
<td>9.1</td>
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<td>8.5</td>
<td>9.8</td>
<td>9.9</td>
<td>10.9</td>
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<td>13.7</td>
<td>14.7</td>
<td>13.6</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Source: Annual NADA Business Management Survey Reports.

1Dealer Sales Volume Groups are determined by sales of new motor vehicle units sold in one year. Group I, 1 to 449 units; Group II, 150 to 399 units; Group III, 400 to 749 units; Group IV, 750 or more units.
TABLE 8

Gross and Net Operating Profit of Franchised Automobile Dealers: 1951-60
(Per Cent of Total Sales)

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<td>14.9</td>
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<td>13.9</td>
<td>14.8</td>
<td>14.6</td>
<td>15.4</td>
<td>15.4</td>
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<td>13.9</td>
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<td>15.0</td>
<td>15.3</td>
<td>14.6</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>14.5</td>
<td>13.4</td>
<td>13.5</td>
<td>13.4</td>
<td>13.4</td>
<td>14.0</td>
<td>13.5</td>
</tr>
<tr>
<td></td>
<td>Industry Average</td>
<td>14.8</td>
<td>13.8</td>
<td>14.5</td>
<td>14.4</td>
<td>14.9</td>
<td>15.0</td>
<td>14.5</td>
</tr>
<tr>
<td>Net</td>
<td>I</td>
<td>0.3</td>
<td>1.5</td>
<td>0.8</td>
<td>0.6</td>
<td>-0.1</td>
<td>1.3</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>II</td>
<td>0.6</td>
<td>1.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.2</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>1.2</td>
<td>2.1</td>
<td>0.9</td>
<td>0.7</td>
<td>0.5</td>
<td>1.5</td>
<td>0.6</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>1.4</td>
<td>2.1</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>1.7</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>Industry Average</td>
<td>0.6</td>
<td>1.7</td>
<td>0.8</td>
<td>0.7</td>
<td>0.2</td>
<td>1.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Annual NADA Business Management Survey Reports.

1Includes dealer reserve and profit from all departments.

2Dealer Sales Volume Groups are determined by sales of new motor vehicle units sold in one year. Group I, 1 to 149 units; Group II, 150 to 399 units; Group III, 400 to 749 units; Group IV, 750 or more units.
<table>
<thead>
<tr>
<th>Kind of Business</th>
<th>Number of Establishments</th>
<th>Per Cent of Change (1948 to 1958)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1948</td>
<td>1954</td>
</tr>
<tr>
<td>Retail Trade, Total</td>
<td>1,668,479</td>
<td>1,721,650</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, Farm Equipment</td>
<td>97,342</td>
<td>100,519</td>
</tr>
<tr>
<td>Dealers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Merchandise</td>
<td>70,807</td>
<td>76,198</td>
</tr>
<tr>
<td>Group Stores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food Stores</td>
<td>460,913</td>
<td>384,616</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>179,647</td>
<td>181,747</td>
</tr>
<tr>
<td>Apparel, Accessory Stores</td>
<td>110,944</td>
<td>119,743</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, Equipment Stores</td>
<td>80,423</td>
<td>97,607</td>
</tr>
<tr>
<td>Eating, Drinking Places</td>
<td>325,789</td>
<td>319,657</td>
</tr>
<tr>
<td>Automotive Dealers</td>
<td>85,285</td>
<td>85,953</td>
</tr>
<tr>
<td>Passenger Car Dealers, Franchised</td>
<td>43,960</td>
<td>41,407</td>
</tr>
<tr>
<td>Passenger Car Dealers, Nonfranchised</td>
<td>16,634</td>
<td>20,140</td>
</tr>
<tr>
<td>Tire, Battery, Accessory Dealers</td>
<td>16,634</td>
<td>20,140</td>
</tr>
<tr>
<td>Misc. Aircraft, Marine, Automotive Dealers</td>
<td>20,224</td>
<td>18,845</td>
</tr>
</tbody>
</table>

Source: Compiled and computed from data from various publications of the U.S. Census of Business for the years indicated.
TABLE 10

Number and Changing Importance of Franchised Automobile Dealerships: United States, 1947-61

<table>
<thead>
<tr>
<th>Year</th>
<th>Dealerships (1)</th>
<th>Per Cent Change From Previous Year</th>
<th>Number of Failures (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>45,580</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>1948</td>
<td>46,092</td>
<td>1.12</td>
<td>27</td>
</tr>
<tr>
<td>1949</td>
<td>49,172</td>
<td>6.68</td>
<td>174</td>
</tr>
<tr>
<td>1950</td>
<td>46,821</td>
<td>(-) 4.78</td>
<td>110</td>
</tr>
<tr>
<td>1951</td>
<td>47,543</td>
<td>1.54</td>
<td>80</td>
</tr>
<tr>
<td>1952</td>
<td>46,014</td>
<td>(-) 3.22</td>
<td>88</td>
</tr>
<tr>
<td>1953</td>
<td>45,191</td>
<td>(-) 1.79</td>
<td>219</td>
</tr>
<tr>
<td>1954</td>
<td>41,910</td>
<td>(-) 7.26</td>
<td>246</td>
</tr>
<tr>
<td>1955</td>
<td>40,374</td>
<td>(-) 3.66</td>
<td>151</td>
</tr>
<tr>
<td>1956</td>
<td>41,018</td>
<td>1.60</td>
<td>211</td>
</tr>
<tr>
<td>1957</td>
<td>37,982</td>
<td>(-) 7.40</td>
<td>233</td>
</tr>
<tr>
<td>1958</td>
<td>37,188</td>
<td>(-) 2.09</td>
<td>253</td>
</tr>
<tr>
<td>1959</td>
<td>34,569</td>
<td>(-) 7.04</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>32,896</td>
<td>(-) 4.84</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>32,074</td>
<td>(-) 2.50</td>
<td></td>
</tr>
</tbody>
</table>

Source: (1) Automotive News (1961 Almanac Issue). Figures apply to number of dealerships as of January 1 of each year.

(2) Dun & Bradstreet, Inc. This record includes those businesses that ceased operations following assignment or bankruptcy; ceased with loss to creditors after such actions as execution, foreclosure, or attachment; voluntarily withdrew leaving unpaid obligations; were involved in court actions such as receivership, reorganization, or arrangement; or voluntarily compromised with creditors.
### TABLE 11

Annual Income of Automobile Salesmen Earned with Various Compensation Plans, Classified by Type of Location Dealer
(Per Cent of Salesmen Earning Various Incomes)

<table>
<thead>
<tr>
<th>Compensation Plan</th>
<th>Salesmen by Type of Location Dealer</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Under $2,500</td>
</tr>
<tr>
<td><strong>Commission</strong></td>
<td>Metropolitan</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>Non-metropolitan</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>All dealers</td>
<td>2</td>
</tr>
<tr>
<td><strong>Draw plus</strong></td>
<td>Metropolitan</td>
<td>5</td>
</tr>
<tr>
<td><strong>commission</strong></td>
<td>Non-metropolitan</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>All dealers</td>
<td>4</td>
</tr>
<tr>
<td><strong>Salary plus</strong></td>
<td>Metropolitan</td>
<td>3</td>
</tr>
<tr>
<td><strong>commission</strong></td>
<td>Non-metropolitan</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>All dealers</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Personal interview with executives of 39 participating dealers.
TABLE 12

Compensation Plans in Use by Franchised Automobile Dealers
Classified by Type of Location Dealer
(Per Cent of Salesmen Employed under Each Plan)

<table>
<thead>
<tr>
<th>Type of Location Dealer</th>
<th>Compensation Plan</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salary</td>
<td>Commission</td>
<td>Draw and Commission</td>
<td>Salary and Commission</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Metropolitan</td>
<td>0</td>
<td>23</td>
<td>12</td>
<td>65</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Non-metropolitan</td>
<td>4</td>
<td>23</td>
<td>32</td>
<td>41</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>All dealers</td>
<td>3</td>
<td>23</td>
<td>23</td>
<td>51</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Personal interview with executives of 39 participating dealers.
TABLE 13

Average Number of Car and Truck Units Sold in 1956 Compared to Average Number of Sales Employees for Franchised Automobile Dealers, Classified By Type of Location and Sales Volume Group Dealer

<table>
<thead>
<tr>
<th>Dealer Classification</th>
<th>Av. New Units Sold</th>
<th>Av. Used Units Sold</th>
<th>Av. Total Units Sold</th>
<th>Av. Sales Employees</th>
<th>Av. Units Sold Per Sales Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan</td>
<td>673</td>
<td>1006</td>
<td>1679</td>
<td>15.8</td>
<td>106.5</td>
</tr>
<tr>
<td>Non-metropolitan</td>
<td>226</td>
<td>118</td>
<td>644</td>
<td>5.8</td>
<td>111.7</td>
</tr>
<tr>
<td>Sales Group I</td>
<td>94</td>
<td>154</td>
<td>218</td>
<td>2.4</td>
<td>103.3</td>
</tr>
<tr>
<td>Sales Group II</td>
<td>228</td>
<td>159</td>
<td>687</td>
<td>7.3</td>
<td>94.8</td>
</tr>
<tr>
<td>Sales Group III</td>
<td>585</td>
<td>744</td>
<td>1329</td>
<td>13.1</td>
<td>109.2</td>
</tr>
<tr>
<td>Sales Group IV</td>
<td>1038</td>
<td>1589</td>
<td>2627</td>
<td>22.0</td>
<td>119.4</td>
</tr>
</tbody>
</table>

Source: Personal interviews with executives of 39 participating dealers.

1Dealer Sales Volume Groups are determined by sales of new motor vehicle units sold in one year. Group I, 1 to 149 units; Group II, 150 to 399 units; Group III, 400 to 749 units; Group IV, 750 or more units.

2Excludes fleet sales.

3Excludes wholesale sales.

4Includes sales manager.
TABLE 14
Advertising Expenditures of Franchised Automobile Dealers
Classified by Sales Volume Groups: 1954-1960
(Per Cent of Total Sales)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>0.79</td>
<td>0.66</td>
<td>0.70</td>
<td>0.69</td>
<td>0.73</td>
<td>0.64</td>
<td>0.69</td>
</tr>
<tr>
<td>II</td>
<td>0.95</td>
<td>0.72</td>
<td>0.91</td>
<td>0.84</td>
<td>0.86</td>
<td>0.80</td>
<td>0.80</td>
</tr>
<tr>
<td>III</td>
<td>1.01</td>
<td>0.83</td>
<td>0.98</td>
<td>0.94</td>
<td>0.93</td>
<td>0.90</td>
<td>0.89</td>
</tr>
<tr>
<td>IV</td>
<td>1.04</td>
<td>0.96</td>
<td>0.97</td>
<td>0.99</td>
<td>0.96</td>
<td>0.98</td>
<td>0.93</td>
</tr>
<tr>
<td>Industry Average</td>
<td>0.88</td>
<td>0.73</td>
<td>0.83</td>
<td>0.81</td>
<td>0.83</td>
<td>0.77</td>
<td>0.78</td>
</tr>
</tbody>
</table>

Source: Annual NADA Business Management Survey Reports.

<sup>1</sup>Does not include factory cooperative advertising funds. Includes travel, promotion, and service training expenses for Ford and Lincoln-Mercury dealers.

<sup>2</sup>Dealer sales volume groups are determined by sales of new motor vehicle units sold in one year. Group I, 1 to 149 units; Group II, 150 to 399 units; Group III, 400 to 749 units; Group IV, 750 or more units.
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AUTOBIOGRAPHY

I, Alfred Alexander Cox, was born in Quilin, Missouri, January 10, 1920. I received my secondary school education in the public schools of Conway, Arkansas, and my undergraduate training at George Washington University and Arkansas State Teachers College, which granted me the Bachelor of Science in Education degree in 1948. I received the Master of Business Administration degree from the University of Arkansas in 1954. In September, 1953, I enrolled at The Ohio State University to begin work on a doctoral program in the Department of Business Organization. The following September I received a teaching appointment as Instructor in Business Organization and held this position for three years. In September, 1957, I joined the faculty of North Texas State University as an Assistant Professor of Business Administration and held this position for four years while completing the requirements for the degree Doctor of Philosophy.