Dealers Gird for Revolt

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THE idea of strife in the auto industry usually conjures up images of ham-fisted production workers and company cops locked in mortal combat outside the high, chain-link fence of a Detroit automobile plant.

This is not the year for such images. Aside from such sporadic labor troubles as inevitably crop up in a big industry, there will be no major difficulties of this sort until the United Auto Workers and management head into 1955 contract negotiation.

But all over the country today there is shaping up a more subtle, but no less real, sort of strife — a battle between the men who make cars in Detroit and the men who sell them in New York, Los Angeles and Podunk.

It is a battle that has been coming for some time, and if by a miracle it doesn't happen this year, it will have to break out in 1955. It is as grim an economic war as ever has been fought on the picket line, and the stakes are high — perhaps a billion dollars a year or

When this war comes — and apparently only a disgraceful backdown by one side or the other can prevent it — it wil not be fought out with clubs and tear gas. Rather, it will be a legal and financial war, with manufacturers trying to strip dealers of their franchises, and dealers banding together to defy the manufacturers in the marts of trade and in the courts.

It is impossible right now to say what precise form the war will take, but the shot heard round the automotive world will be easy to identify. It will be the first dealer's words to the driver of an automobile transport truck:

"Take 'em back, Bud; I told those monkeys not to send me any more 'til I sold the ones I got last week."

This war, once begun, will have to be fought out to an answer to this question:

Shall the industry produce only what the dealers think they can sell, or shall the dealers take (and try to unload) whatever Detroit feels like turning out?

Detroit says it is going to produce 5.2 milion cars in 1954 and the dealers had better get off their pants and on their feet and sell them.

Salesmen say they will sell only about 4.5 million and the heck with Detroit and its highfalutin production plans.

About as plain-spoken a citizen as you could find in this squabble is the sales manager of one of the biggest agencies on the East Coast. Of Detroit's 5.2-million-unit program, this dealer says flatly:

"If they produce more than 4.7 million cars in 1954, they'd better look around for a place to store the rest."

The handwriting on the wall began to show up about mid-1953. Last year was the best year for the industry, financially speaking, in its history. It was its second biggest year from a production standpoint — 6.1 million cars built, against 1950's record of 6,665,863.

But the boom phase of 1953 was the

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first half. After the middle of the year, sales started to slacken, and production was cut back sharply as a result. According to *Ward's Automotive Reports,* the industry's bible, there was no week in the second half of 1953 when all 18 manufacturers were working simultaneously.

But even by reducing production, the industry could not slow down quickly enough to bring supply into line with demand. The dealers started 1953 with a 300,000 stock of '52 models. They ended the year with a 400,000 surplus of '53s.

Their efforts, late in the year, to cut down these inventories added up to benefits for you (if you bought a car at that time) in the form of inflated value for your trade-in, fat discounts off list on the new car, or maybe some accessories tossed in for free.

This 400,000 carryover from 1953 has both ends of the industry — production and sales—quite unhappy. No one ever expects to wind up a year with zero inventories, right on the hickey. But the overstock this year was one-third above last year's, and the '52-'53 carryover was considered big at that time.

The inventory of last year's models creates a sweet merchandising problem. In itself, it is almost big enough a factor to start a production versus sales war. Cars are a big deal; you can't write off last year's autos the way a baker can toss out yesterday's bread. You have to consider the inventory you start with as part and parcel of the coming year's production for sales purposes.

So if Detroit does what it says it is going to do—produce 5.2 million cars—the dealers will have to wrestle with the problem of selling 5.6 million. And this they are not willing to do.

There are so many considerations involved that doping the new car market has become almost a separate branch of economics and business statistics. There are a lot of intriguing ins and outs to the game. For instance:

What is going to happen to business nationally in 1954? A meting of economists in Washington late last year predicted the gross national product (the value of all goods produced and services performed) will slump from 367 billion dollars in 1953 to about 350 billion in 1954.

What about population? There are two things to consider here: first, the gross population will increase by about 2 million in 1954, so there will be more people around to share in a smaller national income; second, the number of new households formed this year will be smaller than last year's total, so original demand for cars will continue to drop.

What about scrappage rates? Cars of 13 or more years of age are considered in the 'scrappable' category, which is related indirectly, but quite rigidly, to replacement demand for new cars. We are beginning to enter the period when the industry (during World War II) just wasn't making the cars that should start going to the scrap heap now.

What about used cars? The answer to this is related to the scrappage question. In an effort to keep scrappage rates up, some elements of the industry are starting to scrap some 1946 models to create an artificial replacement demand. But this takes not-so-old cars out of the used car market, and those cars are needed in the trading-up chain reaction that causes the eventual sale of a new car. Example: A man trades in his '36 model on a '41, and the '36 goes to the scrap heap. The '41 owner already has traded for a '48 model. That car got to the used car lot when a '48 owner bought a '51 which had been traded in on a new car. Teh industry figures it takes three used-car trades to make one new-car sale. If an artificial gap is created, the little guy with the pre-war jalopy cannot acquire a down payment for a newer used car and the chain reaction is broken.

What about new-car demand? There can be nothing but guesses on this subject so early in the year. The dealers, as we have seen, think business is going to be slow — from 25 to 33% off last year. Manufacturers talk in terms of a 15 to 20% drop.

At any rate, all the factors, national business levels, population trends, scrappage rates, used cars and the psychology of the new-car buyer, add up to a downturn in the auto market.

If the slump is 15%, dealers will sell 900,000 cars fewer than last year; 20%, 1.2 million fewer; 25%, 1.5 million; 33%, 2 million cars below last year. Any one of these is bad enough to give the industry the jitters; the dealers' predictions are enough to give auto men heart failure.

The situation came to a head in January at Miami Beach, Fla., when the National Automobile Dealers Association met for its annual convention. This time there was an air about the meeting. This was not a fat-chewing and a good time session. This was a council of war.

The shooting started even before the convention opened. On the eve of the meeting, L. D. Crusoe of Ford Motor Co.'s Ford division told dealers that, in his opinion, the industry would produce 5.5 million cars in 1954.

The dealers' answer came loud and clear from R. S. Armacost, outgoing president of NADA: The salesrooms will handle 4.5 million cars this year — no more. Beyond that point, it seems, dealers would simply refuse to accept consignments.

Detroit's reaction was immediate. The industry, which is about as ruthless as industries come in its relations with retail outlets, started to close ranks. Some companies hinted that if dealers start talking pessimism, they are likely to lose their franchises to people who are willing to sell.

As far as Detroit is concerned, the responsibility for slow sales is easy to fix. The prevailing idea in the motor capital is that dealers never have gotten over the happy days of 1946-49 when the best way to get rid of a car was to wait for someone to come in and buy it. In those days, a dealer never had to wait long. The manufacturers' opinion is summed up in these words from one industry spokesman:

"There are hundreds of dealers and thousands of salesmen who have never 'sold' a car."

What do the dealers say about this? Listen to one — the same big sales manager who scoffed at Detroit's 5.2-million production schedule:

"Anyone in Detroit who thinks we aren't selling had better come down and have a look. We've been selling since last summer.

"I have more than 50 salesmen working for me. They are all on commission — not a one of them draws a cent of salary. If they don't sell, they don't eat. And a good many of them are old-timers who know the tricks of selling from back in the depression.

"They're out seling today — no mistake about that. But they aren't bringing in the business the way they did last year. The business just isn't there to bring in."

Why not?

The population trends and scrappage rates are part of the answer, of course. Guy Tracy, chief economist for the Michigan Employment Security Commission (which keeps track of what is happening in Detroit), thinks these two factors alone could cut automotive sales between now and 1961 by 20% from the 1953 levels.

But these considerations are only a portion of the story. Another part is that for the last eight years, Detroit has been riding a postwar boom, based not only on lush times but also on a stored-up demand for cars.

To keep even with demand in the years 1942 through 1945, Detroit should have produced 14 million automobiles. It actually turned out just under 300,000 — and in 1943 its all-time civilian car production low was hit with an output of 139 units! That created a 4-year deficit of 13.7 million cars.

Those war years were years of fat paychecks and little to spend them on. There seems scant doubt that Detroit could have sold something like 20 million cars in 1946 — if the industry could have produced them. Detroit couldn't, of course — but Detroit did its best.

In the eight years since production resumed, the industry has manufactured just short of 40 million autos. It has sold 99% of them. And in so doing, Detroit has dried up the market, which is a seller's market no longer. Everybody concerned agrees to that; what they argue about is the extent to which the seller's market has been transformed to a buyer's market.

The best bet for 1954 is that the manufacturer - dealer war may start when Detroit announces its second-half production schedules. Right now, these schedules shape up tentatively this way:

First half .... 3.2 million
Second half .... 2.0 million

The dealers are willing to hold still for that first-half schedule, because they can sell that many cars and then some this year without difficulty. But they do not want to see Detroit go overboard in the second half. They would be perfectly happy if Detroit turned out only 1 million — which would mean misery in Detroit (probably about 133,000 idle in addition to the 110,000 now hunting jobs), but a satisfactory scarcity of cars throughout the nation.

If this sounds pretty hard-boiled — the manufacturers perfectly willing to see dealers go broke with immovable inventories if the Detroit headquarters can keep making money, and the salesmen prepared to see factory hands starve rather than produce too many cars — it is because the automobile industry is a pretty hard-boiled business. Six million cars — last year's sales — represent something over 12 billion dollars gross income, and the net profits all along the line are high. People forget all about sweet charity and love-thy-neighbor when they are sitting in on a game with such stakes as these.

But there is a blue patch in the sky not quite as big as a Dutchman's breeches: Detroit, after all, may be whistling in the dark and not really planning as much production as the manufacturers claim. A hint to this effect comes from Pittsburgh, where steelmakers have been complaining ever since the first of the year that except for Ford and General Motors, "Detroit seems to have forgotten there is a steel industry."

Detroit hasn't forgotten, of course. And Detroit knows that the steel industry may have a strike on its hands — and no steel to sell — sometime after July 1.

But there is a blue patch in the sky because Detroit isn't going to produce any 5.2 million cars this year.

If that suspicion is correct, the dealers will have won a bloodless victory — but an important victory nevertheless. ☆ ☆

Too Many Cars

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who says the auto industry is contributing mightily to traffic congestion by giving continually increased flexibility in traffic in building cars that will pass other cars faster.

Financier Dietz points out, however, that no matter how much automobiles may improve in design and performance, if they become a burden instead of a comfort, the continued growth of the industry is certain to be retarded.

While the debate rages as to whether production is going beyond road capacity, motor travel is reaching astronomical levels. We have over 50 million private autos and we travel over 50 billion miles a year.

Longer vacations, the increasing number of retired people who have more time to travel and the booming growth of suburbs are only a few reasons why the average car is on the road more.

Last year, 63% of all workers commuted in their cars and 85% of commuters who traveled more than 10 miles depended on passenger cars for transportation.

The frustration of driving to work through crawling traffic and then facing the problem of parking a car is convincing many owners that an automobile is strictly a luxury. As the problem thickens, it can obviously develop into a deterrent to future car purchasers.

If a faltering traffic system and multiplying auto production make driving an inconvenience, public indignation will begin to exercise its own production controls on the automotive industry.

Maybe that control was in evidence in the closing quarter of last year. December 31 found about 400,000 new cars left on showroom floors or in storage. It could have been over-production. It could have been a poor anticipation of demand on the part of dealers. It also could have been a too fat quota from the factory.

The retiring president of one of the largest auto parts organizations in the country, Charles A. Klaus, left this warning when he stepped out:

"Unless the nation's overcrowded highway system is immeasurably improved by 1960, motortists will have to change their cars into motels for weekend travel.

"Unless we are going to make cars into motels, so weekenders can sleep and eat as they inch along enjoying road signs and each other's exhaust fumes, a lot will have to be done."

The urban migration has had two im-has increased the amount of travel and portant effects on auto travel. First, it encouraged auto buying. Secondly, it has put a tremendous strain on roads never intended for such loads.

Many a farmer's corn field is now a housing development, but his farm-to-market road has seen little change. Injection of safety measures — traffic signals and stop signs — may make the old road safer. But now it may take a driver with 225 horsepower under his hood longer to make the trip into town than it took the farmer with one horsepower in front of his corn wagon.

The drawn out auto trek to town is just the beginning. When the motorist gets there, he parks his car a long walk from where he's going or he pays for all-day parking if he's lucky enough to find a lot without a 'lot-full' sign. Or, again, he may be one of the estimated 20% of drivers who park illegally.

In Washington, D. C. recently, police finally caught up with a doctor after impounding his illegally-parked car. He paid $250 for 25 long-overdue parking tickets. You can find parallels in any city in the country.

In many cases of illegal parking, the driver merely weighs the cost of parking and the inconvenience and loss of time required to find a legal parking place against the nominal fine levied if he's caught illegally parked and decides in favor of a little minor law-breaking.

Plans have been advanced in many over-crowded cities to hand the parking problem to private operators. Essentially, the idea is to provide accelerated income tax amortization for necessary parking lots and garages. Speeded-up tax treatment would make parking facilities a paying business and it would encourage a rapid increase in such facilities.

Increased tax amortization simply allows the builder and operator of a parking lot to get back his original investment quicker. This is accomplished by allowing him to set aside a larger amount of tax-free money during the first years of operation.

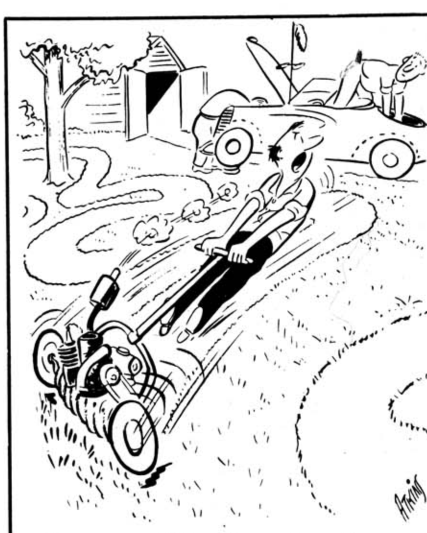
On a short term basis, this plan might reduce slightly the amount of taxes collected, but on the long term, it could be instrumental in preserving the income of city business areas.

Of far more importance, any practical plan to alleviate the parking problem will be largely responsible for preventing automobile production from reaching a saturation point.

It is a too-well-known fact that while private money could be the solution to the parking problem, it will have to be public funds to solve the highway situation.

In 1952 the Department of Commerce estimated that it would require 6 billion dollars to keep existing highways in safe condition during 1953. Last year we spent 5.2 billion for new roads and repairs on the old ones.

K. A. Stone of General Motors has said that the inadequacy of highways stems not from lack of engineering competence, but from lack of funds. There's no gainsaying that all the engineering competence which goes into today's automobile cannot increase its efficiency if there isn't someplace for it to go in the manner for which it was built. ☆ ☆



Have you kids "Souped up" anything besides that hot-rod of yours.