Big Wheels Keep on Turning

Oregon auto icons deal with decelerating sales

By Jim Pasero

In 1982, the American economy, suffering its worst recession since the Great Depression, shrank by 2 percent. In November of that same year, U.S. unemployment peaked at 11.8 percent. Unemployment numbers in the Northwest were even higher, climbing over 12 percent. The painful economic numbers of the 1980-82 recession were figures Americans hoped they would not see again in their lifetime. Certainly, the 1990s expansion helped such optimism.

Unfortunately, last month the National Bureau of Economic Research announced that American is in a recession, and had been since December 2007. For some industries, particularly the auto industry, it doesn't feel like a recession, it feels like a catastrophe.

In October, U.S. auto sales fell by 32 percent. In November, the numbers were even worse. For General Motors Corp. (GM), the figures were worse — off 45 percent. Bloomberg quoted Mike DiGiovanni, GM chief sales analyst, about the dreadful October numbers: "If you adjust for population growth, it's the worst sales month in the post-World War II era."

Against that backdrop, America's Big Three automakers asked the federal government for a taxpayer bailout that would prevent their bankruptcies. The stakes for the American economy, according to the auto executives: enormous.

In January, Ed Tonkin, of Portland-based Tonkin dealerships, becomes vice chairman of the National Automobile Dealers Association (NADA). The following year he will become the association's chairman. Tonkin couldn't be taking the leadership helm at a more precarious time — and he's not hesitant to speak his mind.

How does he feel about the Big Three's request for a bail out? Tonkin says he's for it, but with some specific conditions, which he isn't about to soft-peddle. And he doesn't blame the Big Three's problems on making the wrong kinds of cars. Says Tonkin, "When you say they haven't been producing what people want, that is flat out wrong."

Tonkin singles out the truck market as evidence. "If Congress thinks small business can survive without pickup trucks, they are out of their minds."

Tonkin places the blame for the Big Three's problems on the union contracts. "The automakers are complicit with their union agreements. Toyota and Nissan are building cars in America. They have shown it can be done. The Big Three haven't done a good job of extricating themselves from their onerous contracts. They can't continue to ask for short-term help to pay their benefits when their competition doesn't have these obligations. When you look at the Big Three's benefit plans, retirement plans, health care costs, you see they are hamstrung. A couple of thousand dollars per vehicle makes a huge difference. Other manufacturers show what a different model can do without these constraints."

What's it like to be a spokesman for the auto dealers and 20,000 franchises and not hold back your opinions? "Dicey," says Tonkin.

Part of Tonkin's independent spirit comes from the foresight his father, Ron, used over the last four decades in structuring his auto business. The Tonkins have diversified their business so that within their 17 franchises domestic autos make up only a slice of their business. This makes them, as Tonkin says, "less affected, but clearly not immune, since our market is more heavily import-based.

"My dad had great foresight. He had a deep passion for Ferraris, and today we are the oldest Ferrari dealer in the country. It was the early 1960s, and there was no distribution network in America. Bill Harrah of Harrah's Casino distributed them in Reno. We would go there, pick them up, and drive them back."

After importing Italian cars, Ron Tonkin made the move toward Asia. "My father wrote Honda for years asking for a dealership, even though we didn't have any affiliation with the company, because we were not a motorcycle dealer," says Tonkin.

His father's persistence paid off. "Eventually they thought, 'Get this whiny Tonkin off our back,'" says Ed Tonkin speaking of his father's relationship with Honda during the late 1960s. "We became the first non-Honda motorcycle dealer to get an auto franchise."

Did his father's vision ever misfire? "Yes, we have made some mistakes. Yugo was a mistake, but you never know what is going to be the next Honda or Toyota. My dad's attitude is, 'Let's try everything.'"

~

Greg Goodwin is the CEO of Kuni Automotive, the privately held company that has a dozen dealerships in Washington, Oregon, California, and Colorado. The luxury car dealer's most profitable year came in 2007. "Last year was a wonderful year for us. We've had improving sales and profitability since 2001."

Life looked good, until 2008.

"This crisis is different," says Goodwin. "It is way beyond anything I expected last year for 2008. In the past we would be looking at a 10 percent downturn during a recession. Now I think 25 percent would not surprise me."

Due to Kuni's reputation, joined with strong management and a diverse product line, Goodwin's dealerships are in a better position to handle the current financial storm. "Our company is very strong financially, and we are still profitable."

Like Tonkin, he credits the diversity of their products as a potential strength going forward. “Larger groups that are diversified like ours are in a better position than sole proprietors who have a domestic dealership.”

He adds, “In many cases, single dealerships are no longer able to compete and continue. The loss of those kinds of businesses in towns across the country is a tremendous loss to the country, because they have a lot of community involvement and it’s also a lot of jobs.”

Goodwin says he noticed some unusual buying trends in 2007 that made him suspicious of where the economy might be heading. “By late third quarter and fourth quarter of ’07, I began paying attention to the decline in housing values. I had been concerned for some time about home equity being such a popular financing mechanism for car buyers. We sell to people of various income levels, but what we saw was our customers using home equity differently, more frequently that at any time in the past, and this was going on in a major way.”

Why did the use of home equity to purchase a luxury car raise suspicions in Goodwin’s mind? “Because anytime people are borrowing for 15 years to purchase a five-year asset, it raises concerns.”

How does Goodwin feel about the Big Three bailout? Although Goodwin is impressed with Tonkin’s leadership position with the NADA, he admits to being a little more accepting of congressional aid to the Big Three. “I might have a different position on government assistance for the the Big Three if I didn’t see so much risk for the economy. I think it is appropriate for Congress to say to the automakers that we need to see a plan that is viable.”

Goodwin points to the Big Three’s dealer networks as being part of the problem. “GM had too many dealers when they had 50 percent of the market. Now it is just 20 percent. So it’s not just a UAW problem about retirees; it’s a dealer network problem.”

Like the Tonkins, Goodwin has kept his company healthy over the years by keeping his eye on the future. This fall he traveled with Oregon Gov. Ted Kulongoski to visit car companies in Japan and China. Goodwin was impressed with what he saw. “I accepted the invitation to go because I am very interested in what’s occurring with plug-in hybrids, battery technology and the new entrants into the field in China,” says Goodwin. “I went along to learn because President-elect Obama has set very aggressive targets for plug-in hybrids.”

Goodwin was impressed that Nissan and the state of Oregon announced a partnership in which the state would purchase a number of hybrids for their fleet and Nissan would agree to pilot the vehicles in Oregon. “Gov. Kulongoski wants the state of Oregon to be in the leadership role in the transformation of vehicle production.”

Whether the state of Oregon will gain more than a public relations moment out of the purchases of the plug-in hybrids remains to be seen. But either way, both Tonkin and Goodwin promise to look past the current tough economic times. That's how good companies stay in business over generations.

Sid DeBoer, CEO of Lithia Motors, Oregon's only publicly traded auto company, declined an interview request for this article. DeBoer spokesman Robert Stacks replied to *BNW* with the following statement: "The current state of our industry is too fluid for anyone to try and prognosticate. We are going to hold off doing interviews until there is a little more stability."

That could be a while. But in the meantime, and with gas prices down to rock bottom, Oregonians will keep on driving, and Oregon car dealers with an eye on the future will keep on selling.

***BrainstormNW* December 2008**