



**Prepared Remarks for  
James Press  
Deputy CEO and Special Advisor  
Chrysler Group LLC  
House Energy and Commerce Subcommittee on  
Oversight and Investigations  
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Chairman Stupak, ranking member Walden, and Members of this Committee, I appreciate this opportunity to discuss why a realigned dealer network is important to the new Chrysler Group. Despite completing a painful restructuring, the New Chrysler Group will retain 86% of Chrysler dealers by volume, and 75% by location. I can empathize with the dealers who were not brought forward into the new company, and can understand their disappointment. This has been the most difficult business action I have personally ever had to take.

I'd like to begin by answering the four questions I've been asked most often here in Washington:

**First: Was discontinuing these dealers really necessary to Chrysler's survival?**

**ABSOLUTELY YES.**

- Today's automotive industry cannot support the number of dealers currently in the marketplace.
- We've gone from 17 million new vehicle sales in 2006 to less than 10 million today.
- As a whole, the Chrysler dealer network is not profitable, and not viable.
- In 2008, the average U.S. auto dealer sold 525 vehicles and made a profit of \$279,000
- But Chrysler dealers sold only an average of 405 vehicles...and on average lost \$3,431.
- Without profits, dealers can't invest in people, in training, facilities – and as a result, sales and customer satisfaction suffers.
- The old Chrysler's multiple dealer channel was also too costly to support - and I'll give you an example of that in a minute
- To complete our bankruptcy process and alliance with Fiat, we needed a realigned, new dealer network for the new company **on day one**.
- On June 9, the bankruptcy court authorized the discontinuation of dealer agreements as part of our optimization plan. In his order, Judge Gonzalez said that the dealer restructuring plan was (quote) “an exercise of sound business judgment ... made in good faith and for legitimate commercial reasons” (unquote). The judge also said in his ruling that the dealer reorganization was (quote) “appropriate and necessary”
- On June 10, the Fiat-Chrysler alliance was launched with a right-sized, new dealer network.

**Second: Dealers Don't Cost the Company Anything, Do They?**

**IN FACT THEY DO - THE COST TO CHRYSLER OF AN OVERSIZED DEALER NETWORK INCLUDES BOTH LOST SALES AND EXCESS SPENDING.**

- First, all dealers have a minimum sales responsibility every year – which is realistic and conservative

- Underperforming dealers cost Chrysler unit sales as well as revenue
- In 2008...of the 789 discontinued dealers, 80% of them failed to achieve their sales responsibilities.
- This translated into 55,000 lost sales, and \$1.5 billion in lost revenue
- Second, the old Chrysler dealer network included many dealers that sell only one or two of the company's three brands.
- This has led to redundancies and inefficiencies in product development and brand strategy-  
For example, we spent
  - \$1.4 billion over 4 years in product engineering and development costs for "sister vehicles" - or similar products in the same segment for different dealer channels
  - For example, Chrysler currently supplies dealers with
  - two similar minivans,
  - two similar full-size sport-utilities,
  - two similar mid-size SUVs, and
  - two similar sedans,
- Other cost inefficiencies include :
  - \$150 million annually in marketing and advertising costs, and
  - \$33 million annually in administrative costs.

**Third Question: My discontinued dealer says he's profitable....why not keep him?**  
**PROFITABILITY ALONE IS NOT AN ADEQUATE MEASURE TO DETERMINE A DEALER'S VIABILITY AND VALUE TO CHRYSLER'S FUTURE**

- Chrysler's discontinued dealers were, for the most part, the least profitable dealers in the network.
- On average, discontinued dealers lost \$73,000 in 2008
- Some of them are profitable...but their new Chrysler business may not be.
- In fact, most of the profitability of these dealers in question is driven from their used car business
- Several problems, beyond profitability, contributed to certain dealers being discontinued:
  - Many dealers are in the wrong location.
  - 555 are standalone only – and without all three brands they won't be viable.
  - 50% sell 100 or fewer vehicles per year
  - 84% sell more used than new vehicles
  - 44% sell competing brands from the same showroom...and of those dealers Chrysler is only about 12% of their business.
- Here's a typical example:
  - A Dodge dealer in the mid Atlantic region is profitable. However -
  - He also sells Buick, Pontiac, Subaru and Isuzu...and of his new car sales, Dodge represents only 3% of his total.
  - Last year, he achieved only 12% of his minimum sales responsibility for Dodge, selling only 24 **new** Dodge vehicles...while selling **210** used vehicles
- So while some of the 789 may be profitable, chances are they're making money selling used and competitive vehicles, and, by our assessment, drag down the profitability of Chrysler

**And Fourth: I heard You're Leaving Your Dealers High and Dry? ABSOLUTELY NOT TRUE**

- Every dealer was contacted and we are providing assistance
- We arranged financing - completed a comprehensive agreement with GMAC to provide assurances that allowed us to help redistribute inventory, parts and tools
- We have found buyers for EVERY SINGLE UNSOLD VEHICLE at discontinued dealers.
- Dealers requesting assistance have commitments for 80 percent of their parts inventory.
- Even though June 9<sup>th</sup> has come and gone, we're still going to work with our dealers to redistribute all inventory, parts, and special tools.

There's no question that Chapter 11 has been a painful process, but it was not Chrysler's first choice. Many of our stakeholders were required to make unprecedented sacrifices – including our dealers. Facing that reality, we used a thoughtful, fair process to select dealers for the new company, and we are working very hard to minimize the impact on everyone affected.

Moving forward with 75 percent of our dealer network is far better than the alternative of liquidation.

Rationalizing our oversized dealer network was a key part of preserving the Company and the hundreds of thousands of associated jobs. Members of Congress, the Treasury Department, and the President called for significant and dramatic restructuring at Chrysler, and a consolidation of our dealer network was one of the painful, but most important steps we have taken to ensure that the New Chrysler has a bright future.

Thank you.