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Auto dealership troubles ripple across the region The Boston Globe

Federal bailout expected to do little to stem local closings; state and municipal tax revenue will continue to feel pinch

By Dave Copeland, Globe Correspondent | December 23, 2008

Bob Fitzgerald knew [General Motors Corp.](#) was in trouble long before its executives went to Capitol Hill to beg for a government bailout. Until this past summer, Fitzgerald owned South Shore Buick in Quincy, a dealership that had been part of the local business community since 1963. But as part of a "realignment" intended to make the company more competitive, GM pulled Fitzgerald's franchise. Now, he sells used cars and is no longer affiliated with the auto giant.

"GM had a good plan," he said. "The economy just caught up with them before they could make it work."

South Shore Buick is just one of more than 40 new-car dealerships in the state that have gone out of business this year, according to the Massachusetts State Automobile Dealers Association. There are now 462, down from 533 at the beginning of 2007. Across the country, the National Automobile Dealers Association estimates, there will be 900 fewer dealerships this year than last, and a net loss of 1,100 in 2009.

And despite the \$14.7 billion rescue plan for GM and Chrysler Corp. unveiled by the Bush administration Friday, the number of area auto franchises will continue to decline, according to analysts and industry officials.

Locally, there's a lot more at stake than just where to shop for a car.

"We're not talking about losing a pizza shop," said Robert F. O'Koniewski, director of legal and government affairs for the state dealers group. "As the auto industry goes, to a certain degree, so goes the state revenue stream."

Robertson Chevrolet of East Wareham became the latest Massachusetts dealer to surrender to the faltering economy by filing for Chapter 11 bankruptcy protection recently. Last month, the Harr Motor Group in Worcester closed its Ford dealership. The Peter Fuller Auto Group of Watertown closed its [Mitsubishi](#) and Isuzu dealerships in September, following the closing of its Dodge franchise in March, leaving only an auto rental business.

"It's the same phenomenon you see in almost everything else - there are too many car dealers, there are too many shopping malls, and there are too many hotels," said Michael E. McGrath, an author and business consultant based in Boston who has advised the automotive industry. "Dealers are trying to cope with the fact that people simply don't have any money."

That's bad news for the state's economy.

Because they sell such big-ticket products, car dealers last year accounted for 17 percent of Massachusetts' total retail sales, while making up just 2.5 percent of all retail establishments. And while they made up 6.8 percent of the retail workforce, they accounted for 12.7 percent of retail employer payrolls. At the end of last year, new-car dealerships in Massachusetts employed 23,400 people, according to the National Automobile Dealers Association, about 49 per dealer.

The failure of a dealership also affects local and state government revenue. US car sales are off 40 percent this year, which means communities will collect less in excise taxes at a time when their finances already are stretched thin. Fewer cars leaving lots cuts into sales tax revenue, too - it's down about \$2 billion nationwide in 2008, according to McGrath.

He said the bailout for manufacturers, while needed, will do little to help owners of local, independent franchises. Increasingly, banks are turning away would-be buyers with solid credit scores and are instead opting to make loans to buyers who are capable of making a down payment of as much as 20 percent. Until recently, 94 percent of new-car buyers financed their purchases.

Dealers have also long been seen as civic pillars, whether it be sponsoring a Little League team or donating to a parade. For instance, Ray Ciccolo, president of Village Automotive Group, said his company's Boston Volvo dealership recently held its quarterly blood drive for Mount Auburn Hospital.

"We encourage all of our employees to participate and try to get as many of our customers as we can to donate blood. They tell us we're one of the most significant contributors to their blood drive," Ciccolo said. "Dealers are in every community and support all kinds of charities. Everybody knows if you're trying to raise money for something, the first place you go is to the local dealer."

Even Herb Chambers - one of the giants of the region's auto sales industry - is concerned. To cope with the faltering economy, he's reduced the sales force at some of his dealerships.

"My guys are doing OK, but that's because I've cut back so people can make a decent living," Chambers said.

Still, speaking by cellphone from the Burlington lot where he intends to open a [Porsche](#) dealership next year, Chambers sounded like a man whose ambitions are not deterred by the precarious state of the US auto industry. In addition to the Burlington showroom, Chambers detailed plans for two other new dealerships by next spring, and the expansion of a Mercedes-Benz dealership in Lynnfield that will double its size. And he is making the final preparations to open a truck and collision service center in Braintree.

"Is the time ideal to do these things? Not at all," said Chambers, who owns 45 franchises throughout New England with 1,800 employees. "If I could have postponed them for a year or two, I probably would have, but we had contracts in place and had to move forward."

Paul Taylor, chief economist for the National Automobile Dealers Association, said about two-thirds of the 20,770 new-car dealers in the United States sell Detroit brands, and the vast majority of closings will be dealers tied to those companies. But even some dealers not tied to the Detroit Three are closing or filing for bankruptcy protection. And the problems with the auto industry extend far beyond the United States - yesterday, once-invincible [Toyota Motor Corp.](#) said it would post an operating loss.

"There has already been a wave of dealers who have made the decision to leave the business because they have figured that the highest and best use of their real estate is not what they're doing now," said Dave Abatsis, owner of Acton Ford. "Now, most of the dealers left have done everything they can in terms of cutting costs and lowering prices to get through this period of business."

Abatsis said he has done relatively well, partly because of his location and lower real estate costs, and partly because the operation was already lean.

For Chambers, the shakeout in the industry recalls his early days in the business, in the late 1980s, when sales were slumping badly. That allowed him to start building his empire by purchasing struggling dealerships.

"There was an opportunity to buy some great dealerships at great prices," Chambers said. "I see that may be happening again now." ■