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More Car Dealers Shut Down

Auto Sellers Turn Off Lights as Sales Slump, Credit Tightens

By KATE LINEBAUGH

With credit drying up and new-vehicle sales slumping to a 25-year low, car dealerships from New Jersey to California are going out of business at an accelerating pace, threatening greater economic pain for communities around the country.

The National Automobile Dealers Association estimates 700 new-car dealerships will close this year, up from 430 last year, and taking with them an estimated 37,100 jobs. That is a heavy blow to a key piece of the U.S. economy. The country's 20,700 dealerships accounted for \$693 billion in sales last year, or 18% of all retail sales, according to NADA. Dealership wages and salaries make up 13% of the nation's retail payroll.

The rapid disappearance of dealers could also complicate the challenges facing [General Motors Corp.](#), [Chrysler LLC](#) and [Ford Motor Co.](#) After years of market-share losses, each has been left with more dealers than they need, and have been pushing dealers to consolidate. But a sudden loss of some of the bigger players could make it harder for the Big Three to maintain sales. GM, for example, suffered a setback recently when [Bill Heard Enterprises Inc.](#), one of the largest sellers of Chevrolet-brand vehicles in the country, filed for bankruptcy-court protection and closed its chain of 14 stores.

"The most serious concern for dealerships at the moment is liquidity," said Paul Melville, a partner at consulting firm Grant Thornton LLP. "That's worse for the Detroit Three because of the high amount of lease sales." Auto dealers tied to Detroit have struggled amid falling sales and leases of Big Three vehicles. Tightened credit in the past few months has made it difficult for many to stay in business.

Joseph Pfeffer, owner of Bigelow Motors, a Chrysler and Jeep dealer in Belleville, N.J., closed shop Oct. 4 after his bank decided to exit automotive financing and cut him off from \$5 million in inventory financing. He had been in business since 1942, getting his start selling DeSotos and Plymouths. "I always survived," said Mr. Pfeffer, 92 years old, "but nobody ever cut off my line of credit before."

Like many dealers selling Detroit's brands, Mr. Pfeffer found no buyers for his franchise. "Why would somebody want to get into this now?" he asked.

Mr. Pfeffer said he approached three banks about providing financing but none was interested. In September, he sold only seven vehicles, compared with 40 the previous month. When he closed, all 26 employees were terminated.

Similar scenes have been playing out around the country. According to NADA, 590 new-car dealerships this year closed through September.

The markets most vulnerable to dealer closings are California, which has the most dealers of any state, followed by Texas, Pennsylvania and New York, according to NADA. In Michigan and Texas, dealer sales accounted for 20% of total retail sales in the states last year, the highest percentage of any states.

GMAC LLC, which provides financing for most of the nation's General Motors dealers, recently notified dealers that it was revising terms of inventory credit and interest rates on revolving credit lines. Chrysler Financial took similar steps. Both raised dealership costs.

Write to Kate Linebaugh at kate.linebaugh@wsj.com

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