

SIGNER

BUICK • CADILLAC

March 18, 1993

Mr. T. E. Garove
San Francisco Zone Manager
Buick Motor Division
39465 Paseo Padre Parkway
Fremont, CA 94538

Dear Tom:

This is in response to the meeting at the Buick zone office on March 10. I wish to summarize some points I made, and add a few additional thoughts.

While I joked about being boxed into a corner at the meeting, it was an intimidating feeling I didn't appreciate. I had expected just you and Paul, then found three others at the meeting, against me. The only thing missing was the spotlight in my face.

At the outset I would like to make it clear that I greatly appreciate Cadillac's selection of me as their dealer, and feel an obligation to represent them well. I am proud to be a Buick and Cadillac dealer, and have invested my entire twenty-one year career with these products and their people, working some long hours through some very difficult times. I wish to remain with them for at least another twenty-one, and will not allow the pressures currently placed on me to overshadow this long-term relationship. It would be good business for General Motors to keep this in mind as well.

The Project 2000 program makes sense. With 34% of General Motors facilities built before 1950, I agree that an overhaul is necessary. And I would like to emphasize that I understand your desire to resolve my relocation issue, and regret that ongoing delays at the Mall have dampened my enthusiasm to move blindly forward with architectural plans as I had intended at this point. I, more than you, want to get the project behind me. I do believe, however, that due to expiring leases, the recent move of two dealers to the Mall, and resolution of other problems, Hank Torian's groundbreaking in the Mall is imminent, clearing the way for my move forward.

I have every intention of relocating to the Fremont Auto Mall when the time is right and "value pricing" concerns are allayed. None of my comments are intended to imply otherwise, but are only to share information that may help you better understand the situation.

In the following I will summarize discussions at the meeting:

Cadillac's desire for a new facility: Paul Thomason stated Cadillac's position that it would like a decision as to my plans to relocate, even if it is a decision to do nothing. He stated that Cadillac has been fair in allowing extensions beyond the original relocation date, allowing me to operate in my current "cramped" facility, which he acknowledged he had never been in. (It should be noted that my current facility has approximately 25,000 square feet, 55% larger than GM's proposed 16,000 square foot Newark facility.)

Newark property proposal: Dale of Project 2000 (I apologize, I didn't



write down his last name) offered a new proposal to accommodate my move to the previously-proposed Newark site. For the first time, this Newark proposal included Motors Holding funding.

The proposal included a 16,000 square feet on 3 acres, with a total rent factor no higher than my current one. He stated that he would offer me a "quick start" guarantee, by which my investment would be put into escrow and returned to me if for any reason I wanted out within six months. When I asked about the \$160,000 reimbursement for my Auto Mall expenses that had been previously offered to me, he replied that the "quick start" offer took care of that. He stated that he forecast my Buick sales would increase by 100 cars per year by virtue of the move.

History of Fremont Auto Mall: I reviewed my involvement of nearly six years in the development of the Mall. I had involved Cadillac since the beginning in 1987, being told initially that it was not yet ready to appoint a dealer in Fremont. In April, 1989, Cadillac issued me a letter of intent for a franchise in the Fremont Auto Mall. I continued to pay tens of thousands of dollars into Mall development expenses. In June, 1990, Cadillac appointed me its dealer in my current location.

I would like to add that I actively sought Buick, Cadillac, and General Motors assistance for purchasing the real estate and building a facility, but was declined. I then applied to Motors Holding and was declined. When it came time to close on the property in August, 1990, I was unable to secure financing. To that point, I had invested approximately \$160,000 in the project.

My concern about "value pricing": Two factors have changed since I became a Cadillac dealer. First, the market has declined considerably. According to the Network Planning Summary, the state average combined Buick and Cadillac registrations for my market were 453 in 1990, and 302 in 1991, a drop of one-third. When the 1992 registration numbers become available, they will probably be about the same as 1991.

The second, and most alarming, factor that has changed is the markup available at MSRP. I stated my new (since the introduction of the California Regal) concern about taking on the risk of a new facility, based on Buick's new trend of "value pricing." Even with only one model so priced, the California Regal has already had a substantial negative impact on my profitability. With the apparent probability of the pricing policy spreading across the board with General Motors in California in 1994, the economic viability of my business is severely threatened.

I furnished you and Paul an analysis of my new car sales and gross profits since I became a Cadillac dealer in mid-1990. The analysis shows a three-year average gross profit for Buick of \$1995, and for Cadillac of \$2701. The analysis also included a projection of the assumed grosses under the 1994 "value pricing" policy of \$1500 for Buick (more than \$100 higher than the total available markup in the current California Regal and 90th Anniversary LeSabre) and \$2300 for Cadillac (slightly higher than the grosses allowed for in factory lease promotion advertising.) Using these grosses and 1992 unit sales, the total gross profit reduction would be \$168,419. Since my new car department only made \$13,000 in 1992, the impact would be devastating.

I stated that through February, 1993, my Buick sales were down by 3 units, and gross down by \$20,000. I asked you what total retail Buick sales have been in California this year versus last year. You replied that Buick sales are down about the same as the industry. This reinforces the realism of my unit forecast, and refutes Buick's theory that "value pricing" will increase sales. It also underscores my concern about the questionable viability and risk of a new facility. In response to my stated concerns, Paul replied that I was using these facts as a "crutch" to avoid building a new facility, and that I will find a way to adjust to the new lower grosses. As an experienced expense-control-minded retail automobile dealer with my capital at risk, I take strong exception to these illogical statements.

It was stated to me that if I knew all the facts of the "value pricing" concept that I would see that my fears are unfounded. I requested the details of the plan, but was told that due to competitive secrecy, I could not obtain them. I was told, however, that retail prices would be based on state average gross plus \$200. Based on my knowledge that state average grosses are considerably below the Bay Area average of approximately \$1800 according to the GEM report, and even further below my grosses, my concerns appear to be well founded.

Furthermore, the new average grosses with lower MSRP's will be worse, as it is impossible to hold full MSRP forever when there is competition. To my knowledge, no industry has ever defied this basic law of supply and demand. Saturn has come close due to territorial dealer rights and a shortage of product. But even with these unique advantages, Saturn dealers in some areas of the country are now discounting. This will spread when supply catches up with demand as it always does eventually. It should also be noted that Saturns carry a 17% markup including holdback, more than double the markup on our "value priced" cars, and Saturn dealers average approximately 70 new units per month, many times that of Buick or Cadillac dealers.

In a short discussion with you and Dale after the meeting, you indicated that I am free to price the "value priced" cars at whatever I wish, and that some dealers are marking them up (we do not.) From a customer satisfaction (and possibly legal) point of view, additional dealer markup would be a dangerous thing to use. With such heavy factory and ad association advertising emphasis now being placed on MSRP, marking it up flies right in the face of GM's, and my, goal of exceeding customer expectations. Traditionally, we have been able to exceed customer expectations by selling most cars for less than MSRP.

My current performance: I indicated that I still plan to move to the Fremont Auto Mall when I see definitive progress in the construction of the Autowest stores, assuming my concerns about "value pricing" can be satisfactorily addressed. But I also indicated that I don't believe General Motors is suffering while I operate in my current facility. My facility was built for me in 1980, conforming to Buick's facility standards for the new point. It remains the newest Buick facility in the Bay Area. As mentioned earlier, it is 55% larger than GM deems necessary for Buick and Cadillac today, and is located in the best retail location in Fremont. The showroom has been divided to separate Buick and Cadillac.

I referred to the Dealer Network Planning Summary furnished to me at the Project 2000 meeting. I pointed out that my actual 1991 Buick retail sales were 279 versus the 188 shown on the Network Planning Summary to be state average, 148% of state average. Actual Cadillac retail sales were 103, 90% of state average. I stated that I am not happy with Cadillac below average and don't plan to remain there, but 1991 was my first full year as a Cadillac dealer. Furthermore, I have an inherent handicap as a new dealer, as Cadillac relies heavily on repeat buyers, as evidenced by the extensive owner loyalty direct mail programs. We have no owner body before June, 1990, to rely on. At the time of the temporarily closed Dublin point, my request for a geographical redistribution of Doty Cadillac's Gold Key list was denied.

Our most recent Buick CSI 12-month score is 95, with a 3-month score of 99. I believe that the 95 ranks second or third among the top 20 retail volume dealers in the zone. Our Cadillac 12-month score is 88, with a 3-month score of 100. While I have been unable to determine why our Cadillac score fell so far below Buick's, I am not satisfied with the score. We made some personnel changes in August, 1992, and have enjoyed five straight scores of 100 since that time.

Vorn Woodley indicated that the sales expectations for me were well above the averages shown on the Network Planning Summary, that dealer performance was judged against national averages. I stated that our 1991 effectiveness was 99%, and first half 1992 was 103%, well above the state average of probably 67%. Dale stated that 99% to 103% is just average, that I was a "C player." I asked you how many Bay Area Buick dealers were above 99% in 1991, and you responded that none were. I may be a "C player," but I'm apparently the best you've got in this market. How does GM talk to its lesser players?

When suggesting that some recognition of my performance be taken into account when putting me into this uncomfortable pressure situation, you responded that performance has nothing to do with it. Interestingly, in addition to our sales evaluation discussed above, the new GM service evaluation is based solely on CSI, with all facility evaluations of the past eliminated, which, incidentally, we had always met standard.

My plans for relocation: As has been the case since the beginning of the Auto Mall project in 1987, I plan to relocate there. I have no intentions of walking away from the \$160,000 and countless hours I have invested, the money for which I can receive credit toward my purchase in the Mall. But, as I stated at the meeting, it would benefit nobody for me to succumb to current pressure and relocate in the Mall before the Autowest stores, thus reducing the chance of success. Buick, Cadillac, and I would all suffer. I resent Dale's comment that I need to take control of my life and not rely on others. In the concept of a "Mall," by definition businesses rely on one another. Furthermore, it is the mutual reliance on the draw of other businesses that is the very basis of Project 2000.

Conclusion: It should be clear that I believe the meeting was not conducted in a way that is conducive to rational discussion. One of the basic complaint-resolution steps taught us dealers by General Motors is to listen to and acknowledge the customer's point of view, and empathize with him. In our meeting on March 10, there was an absence of even an acknowledgment of the validity of any of the points I brought up. In fact, constant invalidation

was attempted as noted above, and through statements of "maybe it's time we get a divorce," and "we'll find you a buyer," backed up with a "quick start" guarantee to get me out. The approach was offensive, and reminiscent of the one the General Motors Board of Directors used with straight-talking Ross Perot. By the way, I will accept the same offer made to Ross.

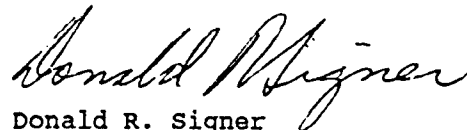
As I have stated, it is my intent to relocate in the Fremont Auto Mall when the time is right. I have a commitment from Catellus to build the building on very favorable terms. However, I am willing to consider a move to the Newark site if it is economically better for me than the Fremont site. If I am just as well off and the site better fits GM's network plan, so much the better.

So far, proposals made to me on the Newark site have been vague at best. The only written proposal I have received to date is merely a conceptual one involving a complicated joint-ownership, double leaseback arrangement. It included a sizable monthly markup to paid by me to General Motors, and would not allow me to ever own it 100%. It appears on the surface that the new proposal is simpler, but I have many questions.

I would be willing to meet with a GM representative (not five at once) who is able to give me details of the proposal and answer my questions. However, if the confrontational atmosphere of March 10 develops, my interest in your proposal will be gone. I believe I have done a good job for General Motors for many years, and wish for a healthier "partnership" approach toward resolution of the relocation issue.

Please contact me at your convenience to arrange a time for me to meet with your representative.

Sincerely,



Donald R. Signer
President

Certified Mail - Return Receipt Requested

cc: Mr. P. A. Thomason, Cadillac Northwest Zone Manager
Mr. A. L. Roman, Buick Western Area Manager
Mr. J. P. Fetzer, Cadillac Western Regional Manager