SIGNER

BUICK • CADILLAC

January 2, 1998

Ms. Susan Koerber
Zone Manager
Buick Motor Division
39465 Paseo Padre Parkway
Fremont, CA 94538

Dear Susan:

I read with disbelief your memorandum of December 16 concerning LeSabre allocation. The memo contains a number of inaccuracies, distortions, and illogical calculations, and is written in a disciplinary tone inappropriate for the circumstances. Furthermore it ignores the fact that we consistently exceed LeSabre market share versus national, and seems to shift the focus to how much inventory is carried. Following are reasons I believe the memorandum was inappropriate.

Allocation distortions: It appears that the large number of LeSabres earned by us recently may have been due to a higher than average LeSabre sales month for us in October, as well as distortions in allocation created by East-West units taken out of normal zone allocation. Since I understand that earn rate is based on 60-day sales rather than a more stable longer period, volatile swings in allocation can result. Buick apparently recognizes this distribution flaw, and has developed VOMs which should have positive benefits to which you allude in your memo. So, it appears that with this improved system that the allocation distortions of which I have become a victim will be reduced if not eliminated.

Inaccurate "refusal" calculation: Your criticism of my business decision is based in part on your calculation that I have "refused" a total of 20 LeSabres over two preferences. This, I believe, is an inaccurate account of the actual number, as if I had taken all 14 the first preference, it is unlikely that I would have earned any on the second preference. So the actual number of cars declined (a more accurate term than the adversarial term "refused") was 12.

Illogical "missed profit" calculation: Your calculation of 20 units at $1707 per unit totaling $34,140 is an accurate mathematical calculation. If we had been allocated and declined 100 units, the "missed profit" would have been $170,700. However, the implication that stocking excess inventory will result in a corresponding increase in sales is ludicrous. I would hope that Buick does not use this method of forecasting for it's production levels. There is a relatively finite market for any product which cannot be altered by any significance with excess inventory, unless accompanied by prohibitively expensive marketing efforts. After many years of attempting unsuccessfully to force a market, General Motors has wisely adopted the philosophy of restricting production to a level that can be sold profitably with reasonable marketing efforts. It works the same way in a dealership.

Sales and registration effectiveness: You indicate that the loss of sales and registration effectiveness would result from not taking the full allocation. You fail to note that in 1996 we sold 65 LeSabres, which is 138% of registrations required to equal the national average of 47 for our market. Also, for 1997 through March, the latest report I have received, we sold 13 versus national average basis of 12. During this entire period we have normally carried a total availability of no more days supply than we currently have, and have frequently had less due to unavailability of product.

39639 Balentine Drive • Newark, California 94560 • (510) 226-1234 • Fax (510) 226-6545

It is generally agreed among dealers, industry analysts, GMAC, Twenty Group guidelines, etc., that a 45-60 day supply of cars in stock is the desirable level, and is adequate to maintain market share. Many makes, including the successful imports, prosper with much a much lower days supply. Cadillac's Custom Express Delivery guidelines state "Inventory size will depend on the rate of sale: 30-40 days supply should be adequate." As long as a representative inventory of popular colors are maintained, in the event of not having a desired color or equipment level we have the ability to dealer trade for a Buick for next day delivery. Not only will excess inventory cause unjustified carrying expense, the inevitability of old dead stock can prevent earning fresh new merchandise needed to maintain sales flow.

Through December, 1997, we sold 49 LeSabres, an average of 4 per month. While our monthly sales have ranged from 2 to 8, the quarterly sales are as follows: 1st - 14, 2nd - 10, 3rd - 12, and 4th - 13. This is a relatively predictable flow of sales. As of the last preference, or availability was 16 LeSabres, which is a 120 day supply base on 4 per month. Using industry guidelines of 45-60 days, and adding 45 days for vehicles in process, the desirable total days supply would be 90-105 days. So, our current availability is more than adequate to achieve desired market share.

An exception to the above guidelines of course is at buildout, when additional inventory is necessary. If we had taken the additional 20 cars as you suggest we should have, that would give us a total availability of 36 LeSabres, or 270 days supply. This 9-month supply would take us through September, the end of the model year. However, it was not my understanding that the last two preferences were buildout allocations. According to the allocation/production schedule, there are five more LeSabre preferences between now and mid-March, and I'm certain more after that. If history is any guide, there will be adequate opportunity for us to obtain additional LeSabres on those preferences, and receive them on a timely basis.

In addition to the above availability, the East-West cars, predominately LeSabres, will be available in mid-January, adding to the days supply. When the allocations were short during the weeks the East-West cars were being preferenced, Chris told me that the cars came out of regular zone allocation. Then when discussing the last preference, he told me the East-West cars should be considered a bonus. Since these cars are either regular allocation or a bonus and cannot be both, I would appreciate a clarification as to which is correct.

"Help us work towards our mutual goals:" During the 1997 model year our District Managers asked my help in taking Skylarks and Rivieras that I didn't need. They asked for help, while acknowledging my response that we didn't need the number we earned. Based on this amicable approach, I took most of what they asked me to take, primarily in the interest of good relations.

By the time we sold all the Skylarks, the cars had averaged 219 days in stock. Our average gross was $1045, with an average flooring and insurance expense per car of approximately $1038. With an average commission of approximately $200, we netted a loss of approximately $200 per car. The Rivieras averaged 209 days in stock, including one '96 we still have. Our average gross was $1384 per car, with an average flooring and insurance expense of approximately $1740. With an average commission of approximately $250, we netted $1134 per car, for a loss of approximately $600 per car. Furthermore, it is highly unlikely that even with the excessive inventory we carried that we will have achieved national average market share in 1997 for Skylark and Riviera. While this experience was on lower volume cars, the penalty of excessive inventory would be the same for LeSabres. So, taking excess allocation of LeSabres does not constitute a good "business case."

So, it is apparent that the excess inventory of these units did nothing to increase sales for us or Buick Motor Division, but merely increased our cost of operation. Costs must be tightly controlled if a dealer is to survive with the limited markup available on Buick products today. While to my knowledge we have not yet had a customer mention GM Buypower to us, if that should happen it will only further erode gross profits.

VOMs: Further adding to my irritation was an article in the December issue of "Inside Buick." It describes the new Vehicle Order Management system and the benefits to Buick and its dealers, largely reinforcing my comments. A feature box in the article, reproduced below, cites the flaws in the old system and compares it to VOMs. I believe that further comment is unnecessary.

What's new with VOMs?
VOMs is a more market-driven order management process. Here's how it compared to Buick's previous way of doing business.

The Old Way	The New Way
Separate systems and processes	Common systems and business processes
Reactive "push" system	Proactive "pull" system
Outdated technology	Cutting-edge technology
Disjointed, confusing marketing strategies	Brand management-driven; consensus planning
Free-flow order submission	Pattern-order generation
Manufacturer-driven	Market-driven
Minimal dealer input	Full dealer involvement

In summary, I believe that my dealership has served Buick well for 17 years. We have consistently exceeded state average market effectiveness, and in some years national average. Our CSI is consistently above average, and currently among the top in the district and zone. Largely through tight expense control, we have survived some very difficult years while dealers around us have come and gone. With Value Pricing and now GM Buypower, survival has become even more challenging.

We have always maintained good and cooperative relations with zone personnel, and wish to continue to do so. It is unfortunate that the tone and illogical content of your memorandum work against this relationship, and furthermore are based on an acknowledged flawed allocation system that is in the process of being replaced.

In light of the above, I ask that you reconsider your comments.

Sincerely,

Donald R. Signer

Donald R. Signer
President

cc: Chris Huddleston
Mark Thomas
Buick Motor Division File