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Could GM be at it again?

By Jonathan Michaels

In the world of automotive juggernauts, market share is everything. Perhaps this is true in every industry, but it is a particularly important topic among the Detroit 3, who have seen their global dominance wither away to market irrelevance over the past several decades.

There once was a time when many believed, "What's good for General Motors is good for the country." But those days are long past, replaced by contempt for taking billions from the federal government, or perhaps worse, genuine indifference for its product offerings.

Through decades of complacency, GM managed to give up acres of market share to newcomers who many thought did not have a fighting chance. In 1965 — the year that Toyota sold its first car in the U.S. — GM controlled 49 percent of the U.S. market. Today, GM's market share has dwindled to 19 percent and Toyota has become the largest automotive manufacturer in the world.

If it sounds as though the building was ablaze without anyone taking notice, all was not lost on GM's executive brass. In the 1990s GM hatched a plan to regain its market share by rolling up private capital dealerships into consolidated factory owned stores. This, GM reasoned, would allow the manufacturer to put financial strength into operating the dealerships and enable it to steal back its market share from the competition.

From the surface, factory owned stores might sound like a fine idea.

However, most states, including California, have enacted strict legislation prohibiting automakers from owning dealerships under most circumstances. The policy behind the rule is that private dealerships, which have significant investment capital at risk, would not have a chance of competing against the factories, which have billions at their disposal and could manipulate product allocation.

California's approach to the issue is to prohibit manufacturers from owning a dealership within 10 miles of a privately held dealership of the same line-make, with two limited exceptions. First, a manufacturer may temporarily hold a dealership for less than a year, such as when a dealer surrenders the franchise back to the manufacturer. Second, a manufacturer may own a dealership as part of a bona fide "dealer development program" — a program designed to enable those who lack the capital or experience to become part of the dealer network.

Under California's dealer development program, the manufacturer owns the vast majority of the dealership business, with the dealer development candidate making an initial investment and then buying out the manufacturer over time. As the Legislature stated, "A dealer development program has the sole purpose of making franchises available to persons who lack the capital, training, business experience, or other qualities required of prospective franchisees and who have no other method of acquiring the franchise."

In its 1990s effort to recapture its lost market share, GM sought to roll up several private dealers in the San Fernando Valley into consolidated factory owned stores. To avoid

California's prohibition against company dealerships, GM officially held the stores as part of a bona fide dealer development program.

Specifically, in the late 1990s GM enlisted the support of mega-dealer Wes Rydell, who was to play the part of the inexperienced dealer development candidate that could not break into the industry. However, Rydell was anything but, having built a chain of 30 dealerships in

ible act of indiscretion, spurred by fear of falling market share. But recent activities with GM dealerships in the San Francisco East Bay market have many wondering whether GM is making another attempt at consolidating a vital market.

In an industry where it frequently takes years, if not decades, to establish oneself in a dealer network, Inder Dosanjh has built a GM empire in the San Francisco East Bay

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the Midwest. GM then purchased nine dealerships in the San Fernando Valley, closed four of them and consolidated the remaining five with its partner Wes Rydell — with GM investing \$18 million for a 90 percent share of the enterprise.

GM's actions set off a firestorm of trouble, with dealers objecting, the Department of Motor Vehicles launching an investigation and the California Senate Judiciary Committee conducting hearings. GM admitted to the Judiciary Committee that its ownership of the dealerships did not involve a dealer development situation, but claimed that its actions were necessary to recapture market share.

The Legislature blasted GM for its actions, amending the law to prevent a manufacturer from ever being able to abuse the system again. In what has become known as the "GM Amendment," the Legislature took the exceptional act of codifying its Legislative intent by stating that the law should never be used for "any improper purpose, including the consolidation of privately owned dealership by a sophisticated investor or operator posing as a dealer development candidate."

If the story ended there, this could perhaps be chalked up to an incred-

virtually overnight. From 2008 to 2011, Dosanjh acquired nine East Bay GM dealerships, closed four and is operating the remaining five — a pattern strikingly similar to that of Rydell's in the San Fernando Valley. Adding to the twist, in 2010 long-time GM employee Jim Gentry reportedly left the automaker to become Dosanjh's chief financial officer.

Dosanjh's instant empire has raised objections from many and resulted in at least one dealer suing GM for conspiring to steal their dealership. The lawsuit alleges that GM is covertly using Dosanjh as another front man to consolidate dealerships in another important market. Other dealers in the area are promising to similarly file claims of conspiracy and fraud.

Time will only tell whether Dosanjh's miraculous story is a repeat of GM's insidious plot to gain market share at all costs, or whether it is just that — a miraculous story of individual success that is fortuitously tied to strikingly similar events of a decade gone by. For the sake of GM, the dealers involved and the integrity of the legislative process, we should all hope that this is nothing more than an eerie coincidence, and that GM is not up to its tricks again.



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