# GM dealers feel better as shortages ease

**David Barkholz**
dbarkholz@crain.com

Inventory shortages that had many General Motors Co. dealers complaining about lost sales this summer largely have abated in the past two months, according to an Oct. 25 dealer survey by *Automotive News*.

GM has been increasing production to alleviate shortages stemming from its 2009 bankruptcy and the subsequent reinstatement of 806 dealerships that the automaker had planned to eliminate.

GM has about 4,500 U.S. dealerships.

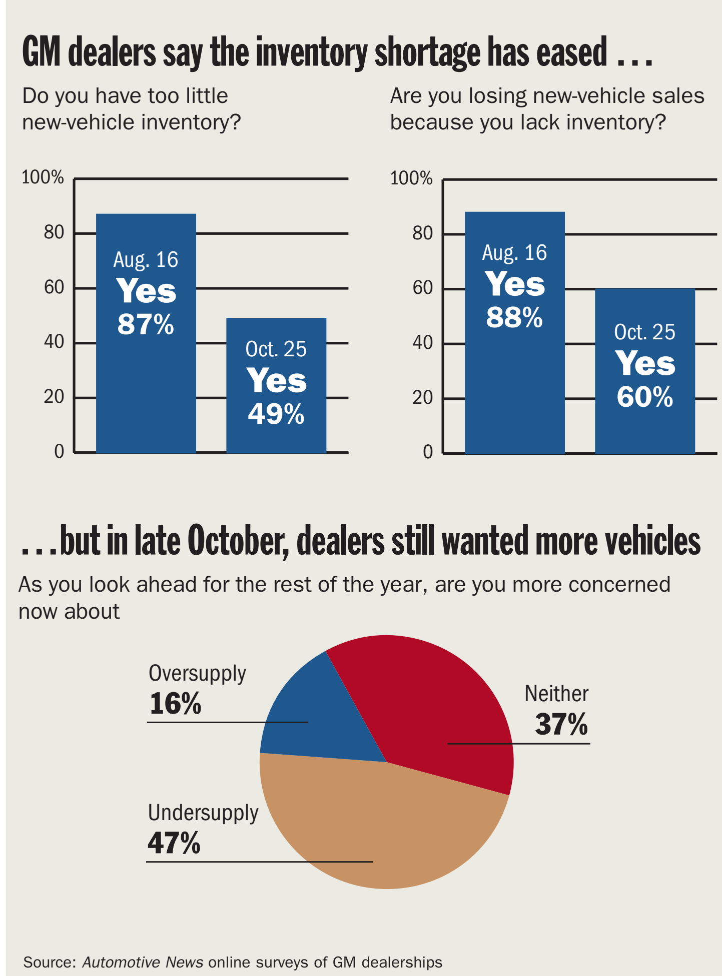
Tom Krebsbach, general manager of Merit Chevrolet in Maplewood, Minn., near St. Paul, feels better about his inventory today than he did in May. With 175 cars and trucks at the dealership and 85 scheduled to arrive by early December, Merit has 50 percent more inventory than it had in May, Krebsbach said.

The 144 GM dealers who responded to the *Automotive News* survey tended to agree.

Asked whether they had the right amount of inventory, 43 percent said they did, 47 percent said they still had too little, and 8 percent said they had too much.

In a similar survey Aug. 16, 87 percent of 84 respondents said they lacked sufficient inventory.

In the Oct. 25 survey, 65 percent of respondents said new-vehicle inventory had increased at their stores since July, while 35 percent said it had not.




Merit, which sold 711 new vehicles last year and 770 used vehicles, needs about a 75-day supply to keep customers happy, Krebsbach said. With less than that, customers may be unable to find the vehicles they want and may shop elsewhere, he said.

Moreover, a lack of inventory could keep Internet shoppers from coming in, he said. If those shoppers don't see the vehicle they want listed in inventory online, they search until they find it at another dealer, Krebsbach said.

That's crucial, given that 85 percent of buyers start their quest online, he said.

Broome Cadillac in Independence, Mo., has a little more inventory than the store typically likes to keep, said dealer Paul Broome.

He said that when he ordered vehicles from the factory this year, he expected a little faster sales pace than has materialized. Also, a nearby competitor that was scheduled to close kept its franchise. Broome expects to sell about 170 new Cadillacs in 2010 and 300-plus used vehicles.

He said he has about a 120-day supply of new vehicles, which is several days more than he'd like to have.

"We're going into a slower selling season," Broome said. "We may have to tweak things depending how we finish the year." AN

# Small suppliers are starved for capital

**Michelle Martinez**
mmartinez@crain.com

Chuck Dardas has a wish list of laser-cutting and milling machines he would like to buy to help his company compete with other suppliers in the automotive, defense and alternative-energy markets.

But for now he's just window shopping.

"The only way to get at it is to fund it ourselves," said the COO of the Alpha Group, of suburban Detroit. "There's not a pool of funding available to us, like the big guys."

Alpha had $22 million in revenue in 2009 and expects to record about $30 million by year end.

"We weathered last year, and we think that we are coming to the banks with a strong business plan. But the banks tell us that our gains aren't 'seasoned.' I'm very frustrated. We don't have a voice."

Many Tier 1 suppliers emerged from last year's crunch with restructured costs and healthy books of business, as well as the wherewithal to access credit markets, said David Andrea, vice president of industry analysis and economics for the Original Equipment Manufacturers Association.

But as the turn in fortunes has been trickling its way down the supply chain, smaller suppliers still find it difficult to access credit lines to retool or diversify.

### Skittish banks

That's especially true for companies with revenues of less than $100 million a year, Andrea said.

Banks recovering from battered portfolios are skittish about lending to auto suppliers that don't have several years of solid financial performance under their belts or enough collateral to back the loans, analysts say.

Property, plant and equipment loans plummeted by about 80 percent during the past two years, said Paul Brown, manager of capital markets development for the Michigan Economic Development Corp. For many suppliers, new appraisals designate them as high-risk, even if they've had a long relationship with the bank.

Federal regulations require banks either to remove such loans from their portfolio or increase reserves to support the loan, "which they don't have the capital to do," he said.

For small suppliers, accessing capital can mean the difference between winning new business and withering. Many suppliers are just recovering from the deep trench in business in 2009, when many slashed costs to the bone to survive, said Steven Melnyk, a professor of supply chain management at Michigan State University. Now that business is returning, suppliers are discovering it's not exactly business as usual.

Automakers are building their futures on a smaller number of global platforms and are seeking suppliers that have sophisticated technology and design skills, as well as the ability to juggle multiple platforms, said a 2009 report by Grant Thornton, a Chicago consulting firm. Equally important is a geographic footprint that matches automakers and large suppliers in North America and beyond, the report said.

### Barrier to growth

Such requirements are difficult to meet without access to capital, Melnyk said.

"Supposing the economy turns around, they're not in a position to expand quickly," he said. That's particularly true compared to German and Chinese suppliers that have been sharpening their skills and investing in their facilities, anticipating an upturn in business, he said.

Quarterly reports from large suppliers have given reason for optimism. BorgWarner Inc., Visteon Corp. and Lear Corp., for example, all saw third-quarter sales jump.

Smaller suppliers see smaller victories but also more troubled times ahead.

"During the last three or four months, it has steadily improved," said Tom Mullen, owner of TNT EDM Inc., a Detroit-area tool and die shop. "We're starting to get jobs back from customers we haven't heard from in a year."

About five years ago, the company diversified into medical equipment, aerospace and power generation and bought a five-axis machining center.

"If I had to make the investment today, we'd be in trouble," he said. "I've heard a lot of war stories."

Automotive still represents about 70 percent of TNT's business. And although business is improving, Mullen says it's hard not to feel as though surviving this long is only half the battle.

"We're the ones that have survived," he said, "and we're paying the price for it." AN