



March 6, 2010

GM to reinstate 600 dealerships slated to be cut

By DAN STRUMPF (AP)

NEW YORK — General Motors Co. will reinstate 661 dealerships it sought to drop from its sales network.

GM executives said Friday that the dealerships — more than half of those seeking to stay with the automaker — will receive letters giving them the option to remain open. GM said it would not have enough time to negotiate with all 1,100 dealerships that appealed the automaker's decision to close them within a four-month window imposed by the federal government.

"By doing this we save a lot of time, energy and dollars," said Jim Bunnell, GM general manager of network support, saying the company wished to avoid a "very large arbitration process."

As part of its restructuring, GM last year told about 2,000 dealerships it would not renew their franchise agreements once they run out in October 2010. But the dealerships have said GM treated them unfairly, and last month Congress passed a law requiring an appeals process for the dealers.

GM's decision to keep the additional showrooms open effectively shrinks the number of appeals it has to contend with. Arbitration hearings for the dealers who didn't get offers but still want to stay with GM will begin later this month.

The cuts to GM's 6,000-dealer network were designed to compensate for much lower demand for cars and trucks, but some dealers have argued that lots that are still profitable are at risk, and that the automaker hasn't offered enough details about how it's choosing which businesses to shutter.

GM would not offer any details on Friday about which dealerships it was reinstating and where they are located. It said it chose the 661 based on a variety of criteria, including sales and other business factors.

The company said it hoped to have every letter of intent with dealerships by Monday. At that point, dealers have 10 days to respond and 60 days to meet a set of criteria that would allow them to stay with GM.

A spokeswoman with Chrysler Group LLC, which has cut 789 dealers, said the company was preparing a statement in response to questions about whether they also intended to reinstate dropped dealerships. Chrysler showrooms slated for closure are also appealing to stay open, though it remained unclear how many.

Michael Boudreau, an auto industry turnaround expert with O'Keefe & Associates, said GM likely saw the reinstatement of the dealers as the "lesser of the two evils" versus the costs of litigating their termination.

"It's not exactly what they wanted to do, and it's always I think a little embarrassing when you have to make changes based on an arbitration process, but they've had to adjust and move forward," he said.

Boudreau added that the decision could have ripple effects.

"The Chrysler dealers are taking a close look at this," he said.

Tammy Darvish of the Washington-area Darcars chain, which has three dealerships slated for closure, said she was encouraged by GM's decision.

"If they are genuinely, truly sincere, it's overwhelmingly heartwarming," Darvish said of the company's offer to allow dealers to demonstrate their eligibility to remain open.

But as of Friday, Darvish said she didn't know if her franchises are among those being reinstated. She said she plans to go into arbitration if they are not.

Congress-brokered talks between dealer groups and the automakers began in September. But those talks stalled over disputes about the review process for targeted dealerships and other issues. Looming over the fight has been the threat of federal legislation to deal with the closures. Lawmakers warned that if a deal wasn't reached, that legislation would move forward.

The White House has opposed the legislation over concerns that it could hurt GM's and Chrysler's efforts to rebound from their government-led bankruptcies.

AP Business Writer Jordan Robertson contributed to this story from San Francisco.

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