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Automobile battle: the fight for sales leadership

Strom Thurmond

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VITAL SPEECHES OF THE DAY

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International Community Living
BROTHERHOOD AMONG NATIONS
By Dwight D. Eisenhower
President of the United States—Page 642

Infiltration By Communist Agents
PLUG THE HOLE OPENED BY THE SUPREME COURT
By Francis E. Walter
Congressman from Pennsylvania—Page 643

The Real Meaning of Airpower
THE FACTS: PLAIN, SIMPLE AND HORRIBLE
By Arthur Godfrey
Entertainer and Salesman—Page 645

Your Duties to Society
PUBLIC OFFICE MUST BE MADE DESIRABLE
By Raymond R. Tucker
Mayor of St. Louis—Page 649

Leadership
THE BASIS OF MORAL CONVICTION
By Harold W. Dodds
President, Princeton University—Page 652

Seek-Think-Share
YOUR OPPORTUNITY AND YOUR CHALLENGE
By James Scott Kemper
Chairman, Kemper Ins. Cos.—Page 654

Religion and the Social Problem
POLITICAL LIBERTY MUST REST ON A RELIGIOUS FOUNDATION
By Edmund A. Opitz
Foundation for Economic Education—Page 660

Men and Women With Antennae
TO LIVE AS A RESPONSIBLE MEMBER OF THE HUMAN RACE
By Kenneth I. Brown
Exec. Dir., Danforth Foundation—Page 666

The Automobile Battle
THE FIGHT FOR SALES LEADERSHIP
By Strom Thurmond
Former Senator from South Carolina—Page 656

Advantages and Risks of Free Competition
WHAT MAKES A FREELY COMPETITIVE SYSTEM WORK?
By Charles F. Phillips
President, Bates College—Page 667

American Influence In Europe
PERHAPS EUROPEANS ARE TOO SKEPTICAL
By Henrik Kauffmann
Ambassador of Denmark—Page 670

IMPARTIAL • CONSTRUCTIVE • AUTHENTIC

THE BEST THOUGHT OF THE BEST MINDS ON CURRENT NATIONAL QUESTIONS
remind you of the comment of Pulitzer Prize winner Bruce Catton who wrote: "The cowards never started—and the weak died along the way." That, I am sure, was the philosophy of my great-great-grandfather, who with rifle in one hand and Bible in the other fought the elements and the autochthon population from Virginia through Tennessee and Kentucky to establish his home in this wonderful valley in 1783.

Of course you will have many disappointments. But those will be character-building and will fortify you for real accomplishment. Ben Franklin, not only because he was the founder of mutual insurance but because he was a truly great American, always has been a sort of patron saint to me. His reply to his sister, who was worried about vicious attacks on her brother, is pertinent. Franklin wrote: "As to the abuses I meet with, you must know that I number them among my honors. One cannot behave so as to obtain the esteem of the wise and the good without drawing on one's self at the same time the envy and malice of the foolish and the wicked."

And in much the same vein Lincoln said: "If I were to try to read, much less answer, all the attacks made on me, this shop might as well be closed for any other business. I do the very best I know how—the very best I can; and I mean to keep on doing so until the end. If the end brings me out all right, what is said against me won't amount to anything. If the end brings me out wrong, ten angels swearing I was right would make no difference."

VITAL SPEECHES OF THE DAY

The man who never wavers from the goal on which he has set his sights, who disciplines himself to resist temptation and who always gives honest measure for value received, seldom is long on one rung of the ladder.

Whether he receives recognition and fame or not, he knows that what is obtained too cheaply is esteemed too lightly. It is the cost, not in dollars and cents but in personal effort that gives everything its value.

America is the greatest nation in the world only because our fathers saw that through diligence they could preserve our heritage of freedom, liberty and opportunity. Every graduating class in this land for 300 years has faced the challenge of preserving that heritage.

You face that same challenge. But your equipment in technical knowledge, in social relationships and in understanding of the American economic pattern give you a distinct advantage in analyzing and meeting the problems that lie ahead.

And now in closing may I suggest that you apply to what I have said the same formula I have tried to outline:

SEEK—THINK—AND SHARE

Finally, have faith. The Master said: "Have you but faith as a grain of mustard seed and all things shall be possible unto you."

God bless you and keep you, goodbye and thank you very much.

The Automobile Battle

THE FIGHT FOR SALES LEADERSHIP

By STROM THURMOND, former Senator from South Carolina

Delivered before The South Carolina Automobile Dealers Association, Myrtle Beach, South Carolina, May 28, 1956

PRESIDENT ROSE, distinguished guests, members of the South Carolina Automobile Dealers Association, and other friends, it is certainly a pleasure to have this opportunity to speak to you. Certainly during the past year I have come into close personal contact with your problems, and I welcome this chance to discuss them with you.

First, however, permit me to commend Mrs. Ella W. Ford, your capable and efficient executive secretary, who has truly done an outstanding job for your organization, and who, I might add, has always been most kind and considerate, and has won many friends for your group. In addition, I would like to say that while in Washington it was my privilege to work with Ambrose Easterby, your able national director for NADA in South Carolina. He, too, has done a fine job on your behalf during this past year in which the auto business has been dragged back and forth across the front pages of the Nation. Your president and all your other officers deserve to be highly commended for their splendid service.

Looking back at 1955, we find it was a year of warning to the automobile business. These warnings were heeded by the industrialists of Detroit, and 1956 has become a year of decision. This year may go down in automotive history as a turning point in the battle of independent small businessmen—the cornerstone of our American free enterprise economy—for the right to run their own businesses in the manner they see fit. It may mark a turning point in the right of the American automobile dealers to resist the efforts of a few men in Detroit to regiment, standardize, document, and re-educate them, to suit the whim of some factory road man to get a gold star on his monthly report card.

America owes a great debt of gratitude to the men who make, and to the men who sell, automobiles. Julius Caesar, George Washington, Thomas Jefferson, and Teddy Roosevelt all used the same basic mode of transportation—a one- or two-horsepower convertible. Every chief executive in history from before Julius Caesar until 1921 used this type of conveyance for travel. Today, nearly everybody has a car. The people who make and sell cars have done the most amazing job of effective manufacture and distribution of a product that the world has ever seen.

You will notice that I did not limit the credit for this job to the manufacturers or to the merchants who sell the cars. The job could not have been done without both segments of the automobile industry. They are as inseparable as Siamese twins. If one dies, the other will also. When one goes hungry, even though the other may be temporarily gorging on the food at the same time, both will be anemic before long.

I think perhaps this fact has finally dawned on the men who make the cars in Detroit. With factory sales down as much as 40 percent and dealer sales correspondingly low, and with an 800,000 to a million car backlog of unsold new units, it should be occurring to someone, somewhere, in a responsible position in the automobile business, that the feast which the factories have spread before themselves for the last few years—marked
by profits on investment up to 66 percent before taxes and 33 percent after taxes—could not long last if the other half was in a period of famine.

And the amazing thing is this. As close as the connections between these Siamese twins of the industry were, the one couldn't hear the other.

The ivory tower of Detroit, with its fantastic array of research and talent and with its very walls supported by file cases containing dealer reports and reports on dealers—and you know what I mean—was too well insulated and sound-proofed to hear the problems of the dealers.

It was natural that if the manufacturers could not hear the problems of the dealers, then Congress could. Senator WARREN MAGNUSON, of Washington, chairman of the Senate Interstate and Foreign Commerce Committee, appointed Senator MIKE MONRONEY of Oklahoma, Senator FREDERICK PAYNE of Maine and myself as a special subcommittee to study these problems. This was in March of 1955.

Because of the magnitude of our assignment, we started out to acquaint ourselves thoroughly with all the information we could get about automobile marketing. One of the most complete and thorough studies of all phases of automobile marketing ever made was undertaken by the members of our committee and by its staff.

I cannot overemphasize how much help the dealer organizations, principally NADA and Admiral Bell, and James C. Moore, NADA's General Counsel, gave us during this period of our study. Without their fine cooperation, I doubt if we could have had the tasks so well advanced.

It became readily apparent in the course of this background study, that certain danger signs were appearing in the automobile marketing picture. Automobile installment paper was seriously and threateningly being overextended, both in volume and in length of terms. Unsold new cars were backing up in dealer showrooms to the point of nearly 800,000 units. Dealer profits were down to as low as six-tenths of 1 percent. Dealer mortality had increased by more than 200 percent. Frantic advertising was screaming from the back pages of every newspaper. All this was happening while automobile manufacturers were selling cars at a full profit, and at a record rate to dealers, feasting on 6 million units and licking their chops over an 8-million-car year for dessert.

The subcommittee pointed this situation out in a report in July of 1955. But this report was hailed by the manufacturing segment of the industry as so much poppycock. We were advised that amateurs shouldn't attempt to second-guess professionals, and that 1956 production and market would be even better.

Partially because of this conflict of opinion and principally because we wanted to establish direct contact with dealers—who, after all, are the real experts about their own businesses—we prepared questionnaires to go to the 42,000 dealers of America, and to provide for them a sounding board for their views. About 20,000 dealers answered these questionnaires in detail. Thousands with added comment on their business problems. I am told that this is the greatest return on a voluntary questionnaire ever sent out by Congress or by any executive agency.

The number of returns which we received proved beyond a reasonable doubt that dissension in the industry was widespread, and that all dealers of all makes felt the destructive effects of the wild race for percentage of price class supremacy.

While these were being tabulated, our committee and staff determined to implement the questionnaire with field checks. I met with dealers in South Carolina and other southern areas. The other members of the committee checked their own and representative areas. In these spot checks, we found mainly the same types of dealer trouble throughout the Nation.

To me, to other members of the subcommittee, and to the staff, the problems we found indicated a dangerous malignancy in America's No. 1 industry.

It appears to me, and I believe to the others, that if the drift continues as it has been going in the past 2 or 3 years, the basic pattern of automobile distribution through independent dealers will undergo a revolutionary change. This change will, I feel, in the long run, destroy the benefits of the most successful distribution system of a high-price consumer product ever known in the world's history. It will wipe out a system of locally owned and locally managed small business—in many cases now in the hands of the third generation of the same family. It will destroy the reliability, the responsibility and the respectability of dealerships, on which the sale of a three or four thousand dollar product must rest, if consumers and the buying public are to buy with confidence. And along with this change, the ethical standards that marked the growth of manufacturing and retailing in past years, will sink to the business morality of a county fair shell game.

So far, you have only the used-car dealer, or a few franchised dealers, to contend with, but when these leaders of your industry feel compelled, by economic circumstances, to quit the traditional system to protect their investment, then you are going to see supermarket operation with real high-power leadership.

Just one more year like the past several, and I am convinced that the big change will come to supermarket operation by these experienced dealers, unless the entire industry—and I mean dealers and factories—act now.

Supermarkets won't stay. These abortive sales efforts—the cut price, the phony trade-ins, the 4-year terms—finally will exhaust themselves; then salesmanship, service, and responsibility will again be required to sell cars and to maintain factory investments, employment, and reputations. But this will be too late for the experienced dealers, because they will have liquidated, gone bankrupt, or gone out of business. So the third stage will be the chain-store type of merchandising or the factory-owned distributorship. But the consumer, the town, the dealers, and the factories will lose by this transition. Also, of major importance to the public, is that greater economic power will be concentrated in the hands of fewer and fewer financial giants.

Our study has shown that this malignancy, which, in effect, affects our No. 1 industry, has 5 major symptoms in this order: 1, automobile bootlegging; 2, phantom freight; 3, bad factory-dealer relationships and one-sided contracts; 4, unsound credit terms; and 5, irresponsible, phony advertising. Like many ills, the germ of each of the 5 infect and aggravate the other 4. They are interrelated and self-accelerating.

The only note of cheer is that they are so easy to cure by men of good will if they are anxious and willing to find the cure. But these were the things that we saw when we lifted the hood.

The subcommittee's report was published with the compiled answers to the questionnaire showing how dealers felt about these things. Not until we announced our intentions to hold hearings on these matters—then and only then—did the people in the Detroit ivory tower begin to stop, look, and listen. The drawbridge banged down, the advance scouts rushed to Washington to the subcommittee hearing room to
find out how the privates in the front ranks—the dealers—felt about them and about these problems. And, believe me, they got an earful. So did the committee.

And let me pay proper tribute to the dealers and ex-dealers who came before our committee to testify under oath. Most of them were men who had been automobile dealers long before World War II. None of them were weaklings or ingrates. They were examples of the fact that in this great democracy of ours, the spirit of '76 still burns brightly in the hearts of American citizens, and cries out against any attempt to dominate or intimidate the American small-business free-enterprise system.

But what did the factories hear regarding bootlegging? They heard sworn testimony of incidents in which factory representatives actually encouraged dealers to bootleg, in their mad race to put their zone first in sales every month. They heard of discrimination against dealers who refused to bootleg or engage in other unfair, destructive, unethical, and irresponsible practices. They heard instances of capricious, arbitrary factory treatment of dealers that are almost unbelievable; instances of dealers with 20 and 30 years as loyal, faithful servants of the factory, who once would have fought anyone who said a bad word about their particular company, being canceled by brief, curt, one-paragraph letters, with no explanation except that their performance was considered unsatisfactory. We have sworn dealer testimony in the record showing that dealers were canceled for failure to get price class when they couldn't get delivery of cars to sell. One dealer attributed the death of his brother to the pressure of seeing his life's savings swept down the drain by factory cancellation because of the dealer's refusal to change his location. He wanted to stay in the center of town rather than to build a monument for the factory on the outskirts. The obvious sincerity of this man, as tears welled up in his eyes, wrung the hearts of every member of the subcommittee. The factory scouts and the subcommittee heard the testimony of a dealer from Beaumont, Tex., who was canceled after he failed to get the percentage of price class which his factory thought he should have. By how much did he fail? By one car. This particular dealer has written his facts many, many times regarding bootleg cars being sold in his area. He sent them the serial numbers and all necessary information so that the bootlegger could be identified by the factory. He received no reply. The subcommittee heard testimony that dealers in the low freight areas of Chicago and Detroit boasted of the cars they were bootlegging in distant areas, while other dealers in the same areas couldn't get deliveries. We heard of dealers being franchised in towns of 25—1 repeat 25—population, so that they could sell in nearby metropolitan territories. These stimulator dealers sold from superservice gas stations and sheet-iron barns with no service department, leaving the loss of warranty work to be assumed by old-time, conscientious dealers who had spent thousands of dollars in securing equipment to do such work.

What did we hear about phantom freight? We heard freight experts, employed by the National Automobile Dealers Association, estimate that the American public and automobile dealers were being charged more than $200 million a year in excess of freight costs by Ford Motor Co. and General Motors Corp. To be specific, General Motors Corp. admitted a profit of $151 million a year from freight alone. Ford Motor Co. admitted $50 to $60 million a year. Also, they admitted that the freight differential between the Detroit area and outlying sections of the country, which in some cases were just as close as assembly plants, was a factor in bootlegging.

What did the subcommittee hear about the third point of our study—Bad factory relations and bad contracts? Just like bootlegging and phantom freight go hand in hand, so do factory relations and contracts. I've already told you of some of the testimony the subcommittee received regarding cancellation pressure the factory is able to put on the dealer so that the dealer bootlegs cars. But more serious than that perhaps was the testimony about how the dealer was unable to sell his business at a fair price, even if he had bona fide offers from good faith purchasers.

Factories maintained that their dealers are independent businessmen with their own individual investments. The dealers have their own individual investments all right. But what kind of an independent businessman is it that can't sell his own investment on the open market?

Franchises in most towns mean economic life or death to the owner of the business. The constant threat of cancellation or competition from newly enfranchised dealers in the same community, or the humiliation of a once free and independent businessman, is a powerful weapon in the hands of the manufacturer, and fear crept into the hearts of these thousands of free-born American small-business men. The fact that over one-fourth—and I think this is important—of the 20,000 dealers who answered our questionnaires failed to sign their names was sufficient evidence that this fear of economic retaliation existed, even without the testimony which we received confirming the fact.

We heard that dealers were requested to make gifts of diamond rings and palomino ponies to zone and factory personnel—the men on whose whims the economic life of the dealers depended. The striking thing about this testimony was that these were not isolated cases, by any means.

What did the subcommittee hear of the fourth subject—that of finance and credit? We heard that the tremendous skyrocketing of automobile credit—its increase by 40 percent in the year 1955—from 10 billion to 14 billion, came at the same time that the sales race did. We heard that with the highly respectable, responsible General Motors Acceptance Corp. at the lead, finance companies had expanded their terms from 2 to 3 years, and now to 4 years. We have a perfect example of the effect of last year's wild credit jag on which the automobile industry embarked. Right now customers are so heavily in debt with new cars, bought last year, that the car market all over the United States has dropped by 20 to 50 percent. Certainly automobile credit has helped greatly in the matter of distributing cars. Without it we could not reach the market. But the destructive credit practices which have been growing up for the last year or two—with 3- or 4-year terms, and in some cases those are based on phony balloon payments at the end—can ruin the future prosperity of the industry. Crazy credit terms during the year 1955, brought about by the mad race for first place, oversold the market in that year by a million cars, and now dealers are having to pay the piper with nearly a million unsold new cars in inventory. In the credit race the factories have nothing to lose. They have their money before the car is even delivered to the dealer. As a matter of fact, the finance companies have very little to lose. The president of GMAC told us that only on 15 percent of its paper was that company responsible in case of default. Actually, it is your money. If the owner of that car goes to Mexico, you are there with a half a million or more in capital assets to pick up on the tab on whatever is due. Your name is on the back of those notes. They are playing poker with the dealer's money.

This skyrocketing expansion of 40 percent from 10 billion to 14 billion outstanding automobile installment credit in the year 1955, goes hand in hand with the fifth problem.
which the subcommittee considered, that is, the problem of false advertising. Dealers told us they had to engage in it as a matter of self-protection. You are familiar with the ad giving a thousand dollars for anyone's prewar car; giving three or four hundred dollars cash away with each purchase; trips to Paris; shares of stock, etc. You are familiar with the packing of prices on automobiles. One Pontiac dealer of 25 years' standing told us that his zone manager had insisted that dealers pack the price of new cars by exactly $225. He also told us the factories expected dealers to make their money from finance packs and insurance packs, and all the other antipublic practices which go on with false advertising.

George Romney, President of American Motors, and a real industrial statesman, described these methods as just like taking narcotics. One shot might be sufficient for this year, but next year it will take 2, and so on until the customer and the dealer are fully committed to more and more dope.

These, then, were the things that the factories saw and heard in the subcommittee's hearings. They also heard nearly 50 Members of Congress come forth to testify about the sentiment of dealers in their areas, urging the subcommittee to pass legislation to correct these abuses. We heard many other problems. I wish I had time to discuss them. We heard the problems of accessories, the problems of seat covers, the problems of special tools, the problems of unfinished cars coming from the assembly line in Detroit—incidentally, one dealer called cars nowadays do-it-yourself kits. I wish I had time to discuss them all, but I do not. We did discuss them all, however, in our 6 weeks of hearings, and the factories heard these things, perhaps for the first time. Not only did they hear these things, they promised to do something about them. Now, let's talk for a minute about what the factories have promised to do since our committee began its study.

First of all, all automobile manufacturing corporations have reduced freight charges to areas distant from Detroit. These charges were passed on to the dealer and to the car buyer, put into the finance of the car so that the customer had to pay interest on it and the dealer had to pick up the tab if the note went bad on repossession. Now they said they have cut this freight profit out. Of course, at the same time all factories raised the basic price of their cars. The committee is still interested in finding out whether the revenue gained by the increase in the list prices more than offsets the revenues lost by the freight decreases.

Actually, between the companies this has been of great benefit in the competitive picture. No longer will the smaller manufacturers, who have no outlying assembly plants and thus make no profit on freight, be at a freight profit disadvantage in the competitive market because of freight. So long as Ford and General Motors made an extra $200 million a year on freight to spend on advertising and other things they had a competitive edge over Chrysler, American Motors, and Studebaker-Packard.

Next, all automobile manufacturers have condemned the practice of bootlegging. Ford and General Motors Corp. have publicly announced that they will take positive steps to eliminate bootlegging of their products. Herefore they have always hidden behind the antitrust laws and said they could not. It is very significant that they now tell us they will take action.

Presidents of both Ford and General Motors have made strong, positive statements condemning false and misleading advertising and the Committee is informed that positive steps have been taken by both companies to monitor advertising which reflects on the goodwill of their product. It is significant that finally, after all these years, they have seen fit to step in.

On the problem of price packing, both Ford and General Motors have condemned its use, as well as the smaller manufacturers. If price packing is controlled and stopped, or even slowed down, this one thing will justify the existence of the subcommittee.

These corporations have also announced that they are opposed to gifts, which might influence the business decisions of the factory representatives.

Perhaps the most significant announcement of all is the formation of top management dealer relations positions. General Motors Corp. has announced its appointment of Ivan Wiles as vice president in charge of dealer relations. Henry Ford II announced that he has appointed a dealer policy board consisting of his brother, Benson Ford, as chairman, Walter Williams and Arthur S. Hatch. In both of these arrangements the assignments will be full-time responsibilities, and I hope that no Ford or General Motors dealer will be reluctant to call upon these men who have been appointed as your representatives at top management. I understand that Chrysler has recently made a similar arrangement. Studebaker-Packard and American Motors have also promised to hold meetings between top management and dealers to work out closer liaison.

In the finance area, General Motors has announced its new Release From Liability Plan, under which a dealer may maintain a reserve with the company of 3 percent minimum and 6 percent maximum—of outstandings—and be relieved of any further liability. Any excess is given back to the dealer. Ford Motor Co. has announced its intention to study ways of helping its dealers with finance, both retail and wholesale—this for the first time in nearly 20 years.

False registrations have been condemned by all companies.

A major announcement by the Ford Motor Co. is in its method of billing. Insofar as possible, payment will be due on the day vehicles are scheduled to reach dealerships, rather than on the day of shipment from assembly plants. I hope other manufacturers take this step, too.

Direct mail costs are to be assumed by General Motors, instead of requiring that these costs be borne by the dealer.

General Motors has announced that it will set up no new dealer points this year. We assume that this means that the so-called stimulator dealer, with a gravel lot and a sheet iron building, will not be placed in competition with dealers of long standing and downtown overhead.

General Motors has announced the appointment of an umpire rumored to be an ex-Federal judge, to supersede the dealer-relations board in cancellation cases, which previously acted as prosecutor, judge, and jury.

Possibly in order to soften the blow of immediate cancellation of franchise upon the death of a dealer, General Motors has instituted a billion-dollar group life insurance plan, which would allow dealers under 65 to be able to obtain $100,000 worth of life insurance without medical examination. Part of the cost of the policy will be shared by General Motors.

Also, General Motors has announced a program under which it may allow the widow to participate in the dealership for a 5-year period.

Ford Motors has also announced that it is studying such a plan, including health and hospitalization and pension plans.

Henry Ford, II, is in the process at the present time of holding meetings with dealers all over the United States. Perhaps some of you have attended one of these meetings. I urge every Ford dealer to speak with all candor and frankness with Mr. Ford and his top assistants in helping to forge a