General Motors' Bankruptcy: The Impact on Griffin Motors

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Abstract

General Motors faced severe economic problems in 2008 and 2009. To improve their corporate viability GM took Federal bailout funds as loans. They were further assisted when the US government took an equity position in the company. Consequently, GM took drastic actions including eliminating brands and dealers. GM franchisees were forced to make early loan payments, some losing their franchise.

This case focuses on a local car dealer (Griffin Motors) and the decisions that need to be made in response to GM's actions. These include the importance of having exit strategies as well as legal and ethical issues impacting the financial well-being of numerous constituents. This teaching case is based on events as they occurred with GM and a dealer in the Southeast United States. This teaching case is based on facts as they occurred with GM and a dealer in the Southeast United States. The names, company data and circumstances are factual although they have been modified to construct helpful learning goals.

Keywords: automotive, bankruptcy, franchising, ethics, morals, exit strategy

INTRODUCTION

Automotive giant General Motors (GM) was in big trouble in 2009 (US Vehicle Sales, 2004-2009). In the midst of the worst recession in over 50 years, US auto industry sales had dropped almost 40% between 2004 and 2009 (See Appendix Table 1). More consumers were keeping their vehicles longer partly due to overall unemployment rates rising from 6% to 9.5% during that same epoch ("Consumers Keep," 2008; "Labor Force," 2011). In the 1950s, GM enjoyed a 46% share of the North American auto market. By February 2009, GM's market share sputtered and stalled to less than 19% (See Appendix Table 2). General Motors (GM) was merely surviving in a tough market. The company was stressed for cash, faced diminished market share, and their products were not selling as well as competitors.

Commercial financial markets were no longer willing to lend to GM. Consequently, GM looked to the US Federal Government for a bailout. First came the Federal loans in late 2008, then as the economy continued its downward spiral on June 1, 2009 GM declared bankruptcy claiming slightly over $82 billion in assets and nearly $173 billion in debt ("Humbled GM Files," 2009; "GM: What Went," 2009). GM cited "high production costs, the collapse of both credit markets and consumer spending" as reasons for their bankruptcy" (Fortson & Rushe, 2009).

An important component of GM's corporate structure was their partial ownership of the General Motors Acceptance Corporation (GMAC). GMAC was General Motor's financial lending arm providing retail auto financing and leasing, dealer lines of credit for vehicle inventory, equipment and facilities, and commercial insurance (Dash & Bajaj, 2008). Historically, GMAC had been "the one stop" financial source where franchise car dealers obtained financing necessary to obtain automobiles from GM. In return for their financial support, the US government obtained controlling interest in both GM and GMAC in 2009. As such, the US government dictated internal company policy forcing corporate changes and budgetary cuts in exchange for these funds. As part of the bankruptcy proceedings, a judge allowed GM to void contractual obligations to dealers under state franchise laws to speed the elimination of thousands of GM showrooms across North America (Vlasic and Bunkley, 2009). This resulted in twenty eight Alabama dealers along with another 2000 dealers in North America receiving franchise termination letters of one type or another (Clifford, 2010a). GM cited the bankruptcy court ruling for this action as well as to allow GMAC to force changes in their dealer financing practices. These dealers were told to close by October 2010 (Clifford 2010b). Seven hundred dealers would be partially shutdown. As part of the GM restructuring process, the company determined it would eliminate some of its least competitive brands (i.e. Pontiac, Saturn, Saab). A partial shutdown meant that some franchise dealers' brands would be discontinued while they would still retain the right to sell other GM brands (i.e., Chevrolet, Cadillac GM, Buick) ("GM To Discontinue," 2009; Vlasic and Bunkley, 2009). A shut down contract (i.e., a requirement to close down the business and / or quit selling a given brand) with fulfillment by October 2009 would provide dealers a payment incentive of $116,000 from GM corporate ("Bulletin To," 2009; GM's Dealer, 2009; T.Griffin, personal communication, May 20, 2010).

HISTORY OF A GRIFFIN MOTORS

Mr. Tom Griffin was the second generation owner of Griffin Motors - (GMC/Buick/Pontiac) which opened in Alabama in the 1970s. He began working for John Track, the original owner and his eventual father-in-law, in 1993. With 14 years of dealer experience, Mr. Griffin purchased the dealership from John Track in 2007 for three million dollars. The dealership was located on the corner of an older business district in a small town. The town boasted a population of approximately 27,000 inhabitants within a Metropolitan Statistical Area of 135,000 people. Although Griffin Motors had a defined exclusive geographic franchise territory, five GM competitors were located within a forty mile radius. The closest dealer was six miles away in a larger, faster growing town. Ten major new car dealers (e.g., Chrysler, Ford, Honda, Hyundai, Mazda, Toyota) and 22 used car dealers were located within 30 miles of Griffin Motors ("Annual Estimates," 2009; T.Griffin, personal communication, March 16, 2010).

Unlike other franchise models, the GM franchise Mr. Griffin purchased from his father-in-law did not have a franchise initiation fee nor required royalty payment on revenues. Traditionally auto franchise agreements had two components (Starling 2010). One was the requirement of the franchisee to invest and maintain an infrastructure financed outside of the purview of the auto manufacturing company (i.e., GM). The infrastructure was composed of land, dealer show rooms, service shops, offices, etc. The second required the franchisee to purchase vehicle inventory and parts as well as participate in corporate directed promotional strategy in the region. This second requirement created two revenue streams for GM. Profit margins were obtained on vehicles and parts sold by GM with additional margins obtained by mandating the franchisee finance these products through GMAC (Dash and Bajaj, 2008). In this way, General Motors did not share in the infrastructure risk placed on the shoulders of their car dealers (T.Griffin, personal communication, March 16, 2010).

About the time Mr. Griffin obtained full ownership, the 7000 square foot showroom and additional service building were over 35 years old and in need of updating. Mr. Griffin was unfortunate in his timing of this business venture. He purchased the dealership when real estate values were at top of the bubble. The infrastructure was appraised at 1.7 million dollars in 2007 falling to 1.4 million dollars in 2009. This included 7.6 acres of land, a service shop, and a show room. Mr. Griffin exclusively stocked and sold a target volume of GM authorized motor vehicle brands and parts on the new car lot. These were the GMC, Buick and Pontiac brands. Approximately 80% of his vehicle revenue came from new GM vehicles. He could sell other brands on the used car side of the business accounting for 20% of vehicle revenue. As with most dealers, 60% of gross profits came from the vehicle business, 40% coming from parts and service. The deal with his father-in-law for Griffin Motors was to be an ongoing concern. Mr. Griffin had estimated that it would take ten years to payback the $3,000,000 he borrowed to purchase the dealership in addition to his invested savings. Mr. Griffin did not put much thought into an exit strategy when he presented his business plan to Southern Bank in 2007. Two years after purchasing the dealership, Mr. Griffin received his termination letter from GM; a complete shutdown was ordered (T.Griffin, personal communication, May 20, 2010).

While speaking with John at a breakfast meeting, Tom was upset that neither he nor any other dealers were notified of the criterion GM had for selecting dealerships for closure (Alphen 2010; Duggen 2010). It was not made clear whether the reasons for Griffin's termination were the condition of the physical infrastructure, location, cash position, dealer profitability, or levels of customer service provided ("Bulletin To," 2009; T.Griffin, personal communication, May 20, 2010).

While attending a regional meeting of GM dealers, Mr. Griffin learned that many dealers' loans and lines of credit had been called pressuring them to repay GMAC loans early ("GM's Dealer," 2009). At the same time the financial credit crunch hit GM, the overall US Financial markets were making credit harder to obtain. Many of Mr. Griffin's peers were upset with their bankers. They had reduced dealer credit limits from ten to thirty percent below original agreements. Tom read an article implying that on a national basis, 55% of the 1,100 franchisees sent complete shutdown termination letters were going to file for their right to arbitrate and appeal their contract cancellation (Clifford, 2010c; T. Griffin, personal communication, May 20, 2010).

In April of 2010, a lawsuit was filed against GM by the Canada Auto Dealers Association. It requested that GM release the metrics used to determine which dealers were targeted for termination (Alphen, 2010). GM failed to respond or release these metrics, saying they could not do so while arbitration was pending. A few weeks after receiving his termination letter, Tom Griffin thought to himself, "No one ever told me, nor any other terminated dealers, the decision criterion or the individual dealer score that determined our fate. This just doesn't seem right" (Clifford, 2010a; T. Griffin, personal communication, March 16, 2010).

Mr. Griffin was strongly opposed to the decision that his dealership should be closed. From a business perspective, Mr. Griffin paid his bills on time to GM and GMAC. Although his sales were down, so was the overall car market. His dealership had longevity in the market and he was still running a successful business (See Appendix Table 3). He wondered why he was being singled out to close.

Until 2007, a growing sustainable market contributed to Griffin Motor's historical success. It was comprised mostly of loyal GM customers 55 years of age and older, the majority nearing retirement living within a 50-mile radius of the dealership. Some of Griffin's customers had been with the dealer over 30 years, some were second generation customers, and approximately 80% were repeat customers. Mr. Griffin believed this to represent an average customer life of five years with a lifetime value of approximately $3000 per customer (T.Griffin, personal communication, March 16, 2010). Although a trip to a larger city may have resulted in larger selections, customers like Brian Prentice noted they, "purchased locally because of the convenience of the service options available at Griffin Motors."

Mr. Griffin believed that the financial pressure put on GM dealers to pay back loans early in addition to cash flow and attrition problems would close the doors of many dealerships. Mr. Griffin couldn't get it out his head, "When GM filed for bankruptcy, the bankruptcy laws allowed GM to make the final judgment. This allowed GM total control over their franchisees without accountability and oversight concerning their business resolutions" ("GM's Dealer," 2009).

THE DOWNWARD SPIRAL

Prior to receiving the letter from GM, car sales revenue began to decline for the Griffin Motors in the Fall 2007 and Winter 2008. Along with a decline in new car sales of almost 40% by 2009, came an increase in expenses and business adjustments (See Appendix Table 3). Mr. Griffin had already made a tough decision in April 2008 to lay off employees thus reducing his operating expenses 18%. In the car business, compensation for most sales staff is based on a commission. By the summer of 2008, the market had begun to stabilize, but by August, GM's financial status had further deteriorated. In January of 2009, Mr. Griffin further reduced his workforce. He cut another 20% of his operating expenses by laying off salesmen, office staff, and under-utilized service personnel. Springtime is traditionally a major selling season for automobiles. However the Spring of 2009 proved to be the worst time for all car dealers with statistics showing April sales to be 65% of those the year prior (T.Griffin, personal communication, March 16, 2010). With the economy in rough shape, GM sending their termination letter, cutbacks already being made, Mr. Griffin asked his father-in-law for advice. "Should I close the doors or fight to stay open?"

WIND DOWN AGREEMENT MANDATES

In order to comply with GM's criteria for closing, dealers received letters explaining the sequence of events they must follow to receive buyout compensation of $116,000. GM required dealers to ensure that all signs revealing or implying that the place of business was previously a GM dealership had to be removed. To ensure compliance, dealers were required to send before and after photos. Other items that had to be changed were letterhead, signage, and advertisements. Dealers were required to provide proof that the former dealership was current on all state sales tax and that the dealership legally changed the name of the business. Mr. Griffin understood that all GM car inventory must to be sold or transferred to another dealer before the business closed its doors ("Bulletin To," 2009; T. Griffin, personal communication May 20, 2010). Once the wind down agreement was in place, any car that was not sold was to be transferred to other dealerships. What seemed to be most unfair and illogical to Mr. Griffin was the stipulation that, "the dealers surrender their customer database to GM headquarters." Tom Griffin and John Track spent many years building and nurturing relationships, building a clientele and servicing their customers. *They knew what the lifetime value of each name on that database represented to whoever controlled it.* The thought of being forced to turn over years of hard work that resulted in many loyal customers and repeat buyers was causing Mr. Griffin to lose sleep ("Bulletin To," 2009; T.Griffin, personal communication, May 20, 2010).

COSTS OF FIGHTING THE TERMINATION

Given the upcoming deadline, Mr. Griffin pondered his option to fight the termination, but felt the odds were not in his favor for several reasons. It would cost $50,000 to $75,000 to hire a lawyer. The court venue mandated by the bankruptcy courts required him and the attorney to travel to New York for court dates (Krisher, 2010; T.Griffin, personal communication, May 20, 2010). Several obstacles stood in the way of the dealers who received termination letters and wanted to be reinstated. Even if a dealer was reinstated or won in arbitration, the wind down agreement money had to be returned to GM. To stay open the dealership had to follow GM's new criteria (“Bulletin To,” 2009). These criteria included potential drastic changes such as moving the dealership to a GM approved location. Congress stated that arbitration had to be completed by mid-June, an approximate window of four months. In addition to having to pay off this loan, he believed he would need to sell the land and building, as well as purchase another site for his dealership to sell GM products. To keep his dealership under these rules, Mr. Griffin believed he would need a capital outlay of approximately $4.5 million dollars for a new location and infrastructure. Adding this to his outstanding note of approximately $2.4 million dollars left Mr. Griffin feeling anxious. According to his rough optimistic calculations this would mean a new payback period of 15 years not taking into consideration the discounted value of future cash flows. For Mr. Griffin to be successful, both he and GM would need to work themselves out of the hole they had dug for the overall brand image and vehicle product quality (T.Griffin, personal communication, May 20, 2010).

Researching a situation similar at the Chrysler Corporation, Mr. Griffin found the court upheld Chrysler’s treatment of its dealers, the venues, the mandates, etc. (Bauer, 2009). Mr. Griffin understood that once a dealership received its termination letter from GM, it also lost its line of credit with GMAC. This line of credit was used to buy new vehicles for the dealership. Once this line of credit was shut down, the dealership would have to reapply, which would more than likely be a way for GMAC to continue to add pressure to the dealership to shut down. This was the future that Mr. Griffin faced (“GM’s Dealer,” 2009; T.Griffin, personal communication, May 20, 2010).

ACCELERATED COURSE IN CLOSING A BUSINESS

Never having to close a business before, Mr. Griffin didn’t really know what to do. The idea of an exit strategy was not something he thought about when he purchased the business. To receive compensation from GM, he had four months to officially shut the doors. In June 2009 there were still 40 new cars in stock. Issues he had not thought about were his other contractual obligations. Griffin Motors had some 50 contracts including soft drink venders, uniform service, utilities, insurance, and advertising. Many vendors required a 60-day notice to discontinue services. However, Griffin had 12 multiyear contracts to deal with if he was to close his business. He had to decide on whether he could, in good conscience put the remaining 28 people on his staff out of work. Mr. Griffin felt he could bounce back, but eight of his employees had been with him over 20 years - three mechanics, one parts employee, one detail cleanup employee, and three salespeople. Mr. Griffin believed if he acquiesced to GM, losing the dealership, he would have his personal retirement set back 15 years. Mr. Griffin was very active in the town council. He knew closing Griffin would result in the city losing $70,000 per year in sales tax. Over $1.1 million per year in company and employee spending would be taken out of a small town with a ripple effect across its economy (T.Griffin, personal communication, May 20, 2010)

Other concerns were healthcare, quarterly sales tax filings, and 401(k) plans. Many employees had worked at the dealership so long they were not familiar with Consolidated Omnibus Budget Reconciliation Act (COBRA) insurance. COBRA is health insurance for terminated employees or those who lose coverage because of reduced work hours that are entitled to buy group coverage for themselves and their families for limited periods of time through their current health insurance provider. Not only were quarterly sales tax filings still required for shutdown, fees had to be paid on any 401(k) plans that had not been closed, even if they were to be transferred and there was no money in them (T.Griffin, personal communication, May 20, 2010).

Although there was loyalty to the GM brand, given all the rumors in the marketplace, many of his former GM customers had begun seeking other locations to have their cars serviced. Once loyal GM purchasers, many customers Mr. Griffin ran into in civic meetings told him directly, "Tom, I have lost faith in GM, not you. Most likely I will visit other dealers for my next purchase."

LEGAL ACTIONS

Tom Griffin read with interest the updates on legal actions against GM by dealers. He read a report noting that, "in March 2010 GM reinstated 661 dealerships to avoid arbitration. That still left approximately 400 GM dealerships with options for legal action" (Clifford, 201c). On May 17, 2010, Mr. Lariche, a GM dealer in Detroit, won the first publicly known arbitration decision and his dealership was reinstated. The dealer, Mr. Lariche, was shocked to learn that although his sales were constantly in the top 100 of all dealers nationally, he still received a termination letter from GM (Duggan, 2010).

Lariche's retail sales index – a score of 100 being the best - was stated by GM to be less than 70. This low score was the reason given for termination. According to Lariche, his index was a 97, far above the minimum score of 70. Other reasons given by GM for sending Lariche a termination letter were working capital, assets, and profitability, all of which Lariche successfully argued against (Duggan, 2010). Another dispute from GM was that Lariche's dealership needed to move to a more desirable location as well as spend more on advertising (Duggan, 2010).

Reviewing these reports, his financial data and reading the current Wall Street Journal did not make Mr. Griffin's decision any easier. The local real estate market was down, banks weren't lending, except for what was left of his retirement savings, Mr. Griffin's capital was tied up in the dealership. To stay on as a GM dealer, he would have to follow their rules. He figured he had a 55% chance of winning in arbitration (T.Griffin, personal communication, May 20, 2010).

QUESTIONS FOR DISCUSSION

Define moral, ethical, legal? Was it moral and ethical for General Motors to change the terms of their contracts with Griffin Motors? Explain the pros and cons of running a franchise business. Why is it important to develop exit strategies when initially starting a business? What should Mr. Griffin do? Why?

TEACHING NOTE

This note is for aiding classroom instructors in the use of this case. It provides questions and analysis intended to present alternative approaches to deepening student's comprehension of business issues and to motivate classroom discussion.

GENERAL MOTORS BANKRUPTCY: THE IMPACT ON GRIFFIN MOTORS

SUMMARY OF CASE

The core of the debate is whether it was ethical for the courts to allow General Motors to change the terms of their contracts with franchisees, benefiting GM, while putting 10% to 20% of their franchisees out of business. The protagonist's dilemma in the case lies in whether to accept the offer from General Motors of a $161,000 buyout, ethical or not. To take the offer assures Griffin Motors of being out of the General Motors dealership business by October 2009. To fight the buyout in arbitration has a high probability of success. Yet, winning the case may require a significant and unsustainable level of debt operating under General Motors new franchise requirements in a declining car market. Issues relating to how a business goes about shutting down provide background issues.

TARGET AUDIENCE AND USE

The case may be used in undergraduate level entrepreneurship, management, marketing, accounting or finance courses. It is a good fit for MBA introductory marketing or entrepreneurship courses. It has enough data for some analysis, yet may be used to cover general discussion areas. The case works well by having student teams take the side of General Motors or Griffin Motors regarding the ethical and moral actions required of each entity. The case is best employed in an open forum / class discussion context or in group settings for oral discussion. It may used as an individual written assignment. This is a factual case using real companies supplying the protagonists with disguised names. Data has been modified due to non-disclosure agreements.

LEARNING OBJECTIVES

To develop an understanding of the distinction between what is legal and what is ethical in business. To develop a better understanding of the risks associated with running an auto franchise business. To understand the effects of the national economy a on local business. To understand the importance of contingency planning and exit strategies in business plans. To understand the details of closing a business.

SUGGESTED QUESTIONS FOR DISCUSSION

Define moral, ethical, legal? Was it moral and ethical for General Motors to change the terms of their contract Griffin Motors? Explain the pros and cons of running a franchise business. Why is important to develop exit strategies when initially starting a business? What should Mr. Griffin do? Why?

CASE DISCUSSION PROCESS

Time	Discussion Item	Teaching Notes
5 minutes	Introduction and situation analysis / PEST	Board plan # 1, 2
15 minutes	Definition and discussion of ethics	Board plan # 3
10 minutes	Pros and cons of franchising	Board plan # 4
5 minutes	Importance of exit strategies	Board plan # 5
10 minutes	Discussion of alternatives - decisions	Board plan # 6
5 minutes	Synthesis of what was learned	

Board Plan #1:
What is the current situation: S W O T?

	Positive	Negative
	Strengths	**Weaknesses**
Internal Factors	• Management expertise • Strong, effective staff • Excellent customer database	• Credit availability is limited • GM brand image declining • Location of Griffin dealership in less than desirable location • Aged facilities in need of updating • Financial situation is critical
	Opportunities	**Threats**
External Factors	• History of satisfied customer base (80%) • Changing customer preferences • GM bankruptcy offers Griffin potential to upgrade and move dealership • Griffin may seek a different brand of auto to market	• Overall economy in rough shape • Changing customer preferences • Increase in unemployment rate - Overall demand for GM-branded vehicles declining • Other vehicle brands show a trend of increasing their market • Access to credit & financing is limited for customers • Strong competition for vehicle sales and service in close geographic proximity • No barriers to customers for switching dealers for vehicle servicing

Board Plan # 2
What is the current situation: PEST?

Political - The US government / legal system allowed GM to go into bankruptcy. US government deemed some companies and institutions more important than smaller companies. The government supported them with financial help while other companies were left on their own.

Economic - US unemployment is rising. Access to capital and credit is difficult for both business and consumer markets. The auto industry is in a downward trend. At the company level, employees are being terminated.

Social - At the Griffin dealer level, employees are being let go, what will they do for employment? Closing the business will greatly impact small town financially.

Technological - not an issue in this case.

Board Plan #3
Is it ethical for the government to support GM at the expense of smaller businesses?

Definitions to frame the discussion
See **http://www.merriam-webster.com/dictionary/**

Moral - standards of behavior relating to the principles of right and wrong. These are standards deemed reasonable by the majority in the society in which they originate.

Ethical – conforming to moral principles (Ferrell, et al 2010).

Law – rule of conduct or action established by customer or laid down and enforced by a governing body.

Legal – according to the law.

Ethics is composed of two areas (Velasquez et al. 1987). Ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Ethical standards include those that enjoin virtues of honesty, compassion, loyalty, and rights such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons.

Secondly, ethics refers to the study and development of one's ethical standards. Feelings, laws, and social norms can deviate from what is ethical. It is necessary to examine standards to ensure that they are reasonable and well-founded. Ethics also means the continuous effort of studying our moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based (Fraedrich and Guerts, 1990; Velasques, et al. 1987).

Components of Business Ethics

Utilitarianism or consequentialism is a general term for any view that holds that actions and policies should be evaluated on the basis of the benefits and costs they will impose on society (Velasques, 2002). In any situation, the "right" action or policy is the one that will product the greatest net benefits or the lowest net costs (when all alternatives have only net costs). The end justifies the means as long as positive consequences exceed negative or immoral consequences. The negative consequences of GM going out of business completely and its effect on the overall US economy were deemed by the courts at the most prudent outcome

Students will argue

Negative: GM should not have been allowed to alter dealer franchise contracts. The argument is that it is unethical. It is not right to have the power to change the business model without the agreement of the franchisee / Griffin Motors.

Positive: It was "ethical utilitarianism principles" in action. GM benefits overall society more than it the costs it imposed on the displaced individual dealers. The ends justifies (and outweighs) the means (the cost to individuals).

Board Plan #4
What are the risks of running an auto franchise business?

This is an area most students do not consider in terms of wholesaling and retailing. What impact does a manufacturer / service provide overall brand image have on the retail entity selling that product? An auto franchisee is at the mercy of the major franchisor. A large portion of their revenue comes from new car sales and support. Listing the negatives and positives students better understand the issues of engaging in a franchise business.
See: (Zimmerer and Scarbourough 2005; pp116-130).

Cons - Negatives	Pros - Positives
• Start up costs are high depending on location; buildings, land upward of two million dollars • Necessity to have access to high level of operating capital (cash) depending on size of floor plan • Products available / assortment / quantity is dependent upon franchisor • Lack of flexibility in product range to floor plan • Franchisor problems are franchisee problems • National image of brand can help or hurt local sales • Retail product price is high; products are more luxury than necessity in down market • Trends are for consumers to keep cars longer bad for new car dealers when sales represent about 60% of business margin	• Marketplace knows the brands • Exclusive geographic territory • Franchisor provides proven training, marketing and operations support • Franchisor has on-going R & D to support franchisor • Owners can make a good living • Overall business ROS historically averaged 4% to 5% • Real estate should appreciate over the long term • Credit available from franchisor • Typical interest is 1% to 2 % above prime rate • Trends are for consumers to keep cars longer good as older cars need servicing which represents about 40% business margin

Board Plan # 5
The Importance of an exit strategy

Contingency and succession is suggested as an important component of original business plans. This is one of the least addressed components. As with most entrepreneurs, Mr. Griffin assumed his business would keep growing at its historic pace. Exit strategies and contingency planning required periodic reviews of the competitive and economic environment (Allen, 2009).

A suggested format may have been for Mr. Griffin to identify potential risks, select a probability of occurrence, calculate the cost of the loss to the business, assign importance weights to the loss to the business, finally calculating the risk to the business (Allen, 2009).

Board Plan # 6
What should Mr. Griffin do?
See Appendix Figure 1

There is no best answer given the uncertainty in the market and the entrepreneurial nature of car dealers. It is suggested that the professor allow the options to be considered. Leaving the students to ponder what they would do. Statistically, Mr. Griffin has a 100% chance of taking the buyout losing $839,000. Students should note the overall US economy, numerous vehicle competitors in close geographic proximity, GM continuing to lose market share with their product line and Mr. Griffin's desire not to want to have a loan of approximately $6.9 million dollars with an expected payback of 15 years.

Statistically, Mr. Griffin has: 1) a 27.5% chance of being able to maintain his current business and, 2) a 27.5% chance of winning arbitration resulting in him having to purchase new infrastructure at a new location of GM's choice. Mr. Griffin has a 45% chance of losing the arbitration, paying $75,000 in attorney fees and having to close his GM franchise for a net loss of $914,000. Astute students may suggest Mr. Griffin say goodbye to GM and deal in used cars only. He has the infrastructure. However, there are 22 competitors in that product space. He would still have a service component of his business that traditionally accounted for 40% of his revenue. Twelve percent of his revenue came from used cars (60% * 20%) (See Appendix, Figure 2).

PROLOG

Mr. Griffin took the buyout, the facilities sit vacant one year later with no interested buyers in a depressed economic location. Mr. Griffin took a job at a Ford Dealership as an assistant manager. He is still paying on the outstanding bank note for Griffin Motors.

POTENTIAL TRIGGER QUESTIONS FOR OPENING AND ADVANCING THE CASE

What impact did the 2008-2010 recession years have on the automotive industry, GM and Griffin Motors? Did GM act in a business ethical manner? Why, why not? Why was the measurement process and metric criteria fair / not fair? What impact will closing Griffin Motors have on the local community? Is the wind down compensation amount offered adequate? Why, why not? Is the timeframe to make decisions and complete the wind down adequate? Why, why not? Is the response from GM on metrics used to facilitate dealer franchise termination adequate? What can Griffin Motors do in the short run to keep their margins in the black? What must Griffin Motors do to terminate employees legally and financially?

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APPENDIX

Appendix Table 1
US Vehicle Sales 2004 – 2009
Source: http://wardsauto.com/keydata/historical/UsaSa28summary/

Year	Cars	Trucks	Total
2009	5,456	5,145	10,601
2008	6,813	6,680	13,493
2007	7,618	8,842	16,460
2006	7,821	9,228	17,049
2005	7,720	9,725	17,444
2004	7,545	9,753	17,299

Appendix Table 2
US Vehicle Sales Market Share by Company by percent 2005-2009
Source: http://wardsauto.com/keydata/historical/UsaSa28summary/

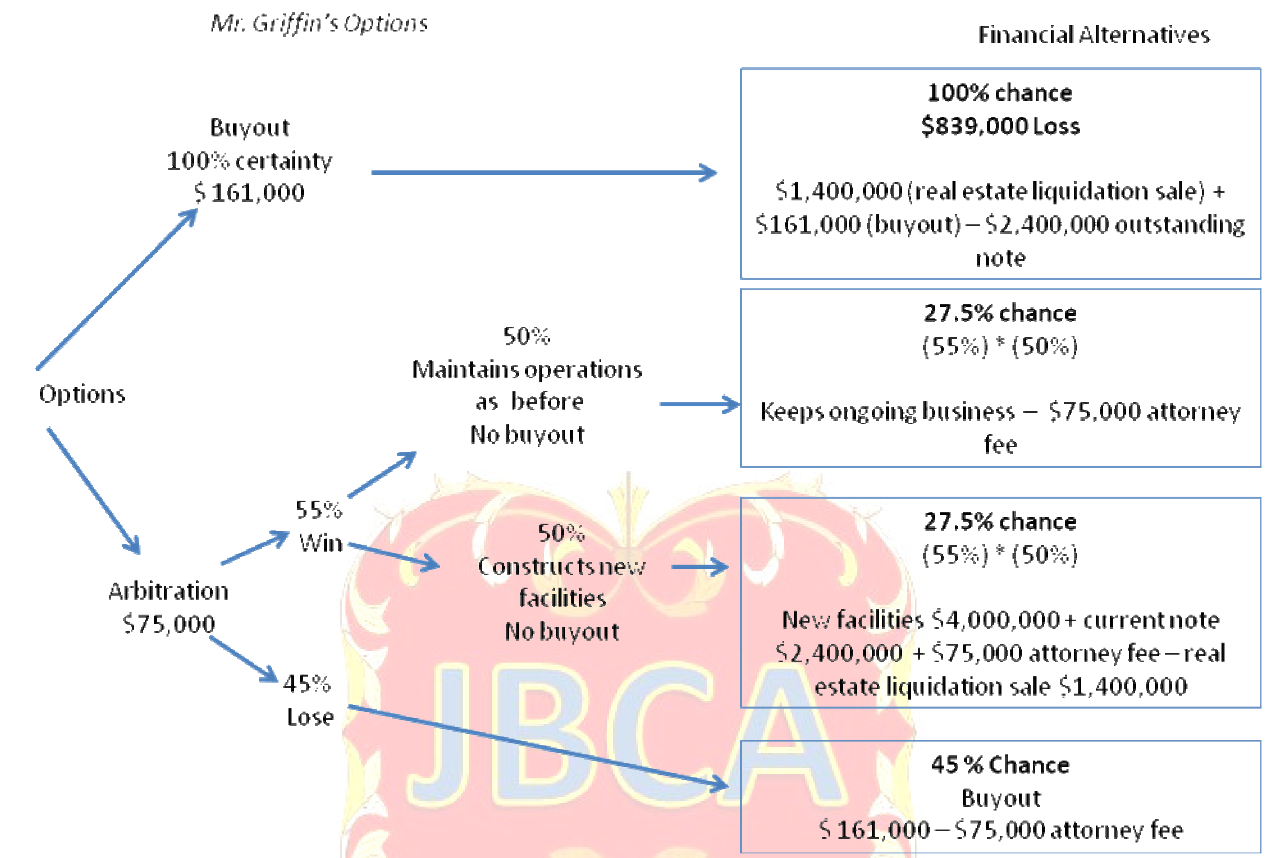
Company	2005	2006	2007	2008	2009
BMW	1.76	1.84	2.04	2.25	2.28
Chrysler	13.21	12.57	12.62	10.77	8.79
Daimler	2.16	2.37	2.14	2.41	2.43
Ford	17.01	16.04	14.59	14.19	15.29
GM	25.59	23.89	23.24	21.93	19.58
Honda	8.38	8.85	9.43	10.59	10.86
Hyundai	2.61	2.67	2.84	2.98	4.10
Kia Motors	1.58	1.73	1.86	2.03	2.83
Mazda	1.48	1.58	1.80	1.96	1.96
Nissan	6.19	5.99	6.50	7.06	7.27
Subaru	1.12	1.18	1.14	1.39	2.04
Toyota	12.98	14.95	15.96	16.47	16.73
Volkswagen	1.76	1.91	1.97	2.30	2.79

Appendix Table 3
Financial Information - Griffin Motors*

	2005	**2006**	**2007**	**2008**	**2009****
Dealership Revenue (Autos, Trucks, Parts, Service)	$12,000,000	$11,760,000	$ 11,410,000	$ 9,350,000	$ 7,390,000
Cost of Goods Sold	$ 9,000,000	$8,820,000	$ 8,557,500	$ 7,012,500	$5,542,500
Gross Profit	$ 3,000,000	$2,940,000	$ 2,852,500	$ 2,337,500	$1,847,500
Administrative & Overhead Expenses					
Operations	$ 1,080,000	$1,058,400	$ 1,026,900	$ 841,500	$ 665,100
Infrastructure (Land, Buildings, Shops)	$ 230,000	$ 230,000	$ 230,000	$ 230,000	$ 230,000
Inventory Line of Credit (Floor Plan and Parts)	$ 160,000	$ 160,000	$ 160,000	$ 84,000	$ 50,000
Advertising & Dealer Promotion Fees	$ 840,000	$ 823,200	$ 912,800	$ 888,250	$ 739,000
Total Expenses	$ 2,310,000	$2,271,600	$ 2,329,700	$ 2,043,750	$1,684,100
Net Profit Before Tax***	$ 690,000	$ 668,400	$ 522,800	$ 293,750	$ 163,400
Net Profit	$ 448,500	$ 434,460	$ 339,820	$ 190,938	$ 106,210
Return on Sales	3.7%	3.7%	3.0%	2.0%	1.4%

* T.Griffin, personal communication, May 20, 2010
**Estimates based on the first six months of the year
*** Corporate tax rate of 35%

Appendix Figure 1
Mr. Griffin's Options



Appendix Figure 2
Griffin's Source of Revenue