



**WARDSAUTO**™

THE BIG STORY / APRIL 2017

# Does Cadillac Have **TOO MANY DEALERS?** Yes & No

BY STEVE FINLAY

**W**hen it looks at its dealers in the U.S., Cadillac sees strength in numbers.

The General Motors luxury brand didn't always see it that way. Quite the opposite. It thought it had too many dealers. It does, according to a conventional measurement that divides total sales by the number of dealers to get throughput, or average sales per store. It's often used as gauge for dealer profitability.

But Cadillac is working with what it has – 924 dealers – and attempting to leverage the positive side of having a lot of people pitching its products.



“If you came to the market today, you would not design a dealer network this large,” says Johan de Nysschen, who has headed Cadillac since 2014. “But it is the reality of Cadillac.”

As John Lennon said, “Reality leaves a lot to the imagination.” And Cadillac is getting imaginative.

“Everything in life has advantages and disadvantages,” de Nysschen says. Yes, having more than 900 dealerships selling about 170,000 units last year lowers Cadillac stores’ throughput compared with luxury competitors that have considerably higher sales and about half the dealers.

But while Mercedes-Benz, BMW and Lexus stores stick largely to metro markets, Cadillac dealerships can be found in Anywhere, USA.

“It allows us to reach into mar-

kets, particularly rural communities, where our competitors aren’t present,” de Nysschen says.

The fact that German luxury brands aren’t interested in opening outlets in Yeehaw Junction, FL, or Heckville, TX, is another matter.

To de Nysschen, who is spearheading a measured brand-revitalization effort centered on supercharging the customer experience, all Cadillac stores should adhere to high

established standards regardless of their size and location. But he thinks big-city and small-town dealerships should operate differently.

That’s why he proposes a distribution and retail system in which smaller stores would carry lean inventories and rely more on virtual-reality technology to highlight products to consumers.

## CADILLAC DEALERSHIPS CAN BE FOUND IN ANYWHERE, USA.

# DO IT RIGHT.

FINANCING  
PROTECTION PRODUCTS  
REMARKETING



**LEARN MORE**

© 2016 Ally Financial Inc.



**“If you came to the market today, you would not design a dealer network this large,” says Johan de Nysschen, Cadillac’s president.**

“We have small dealers that sell less than 50 cars a year,” he says. “For them to invest in dedicated facilities, have large fleets of demonstrator cars and have 100 vehicles on their lots is too daunting. It’s not economically sustainable.

“We wanted to give them an

option of looking at a new business model, one that recognizes our industry is at an inflection point. We need to work on a model that allows them to demonstrate the cars in a fascinating virtual-reality world, without the need to have tangible products.

DO IT  
RIGHT.

DO IT  
RIGHT.

DO IT  
RIGHT.

DO IT  
RIGHT.

DO IT  
RIGHT.

FINANCING  
PROTECTION PRODUCTS  
REMARKETING

ally®

LEARN MORE

© 2016 Ally Financial Inc.

## THE BIG STORY

New technologies will dictate how consumers experience luxury and shop for it.”

To accomplish all that, the automaker must retool production and vehicle-distribution processes, he acknowledges. “We need the ability to handle high degrees of variability in the manufacturing of vehicles, so the customers can configure their cars and we can deliver them faster.”

When asked whether bigger stores with larger budgets for new technology couldn’t offer virtual reality, too, de Nysschen agrees

they could. “You just scale it.”

But back to the little guys. “These are the business models we thought to explore, starting with the small stores. It would offer them the benefit of immediate cost reduction. I want our small stores to be profitable. This is where this whole thing came about.”

However when de Nysschen first raised the idea of bucking convention, some people jumped to conclusions. They figured his real goal was to kill off small operators.



Flagship CT6 introduced last year.

WARDSAUTO  
APRIL 2017



**Cadillac dealer Hamilton praises brand for tweaking its new Pinnacle project that rewards dealers for enhancing customer experiences.**

He bristles at that notion. “We never had a program to eliminate dealers.” He emphasized that point to Cadillac retailers during a closed-door franchise meeting at the recent annual National Automobile Dealers Assn. convention in New Orleans.

“He made it very clear they weren’t eliminating dealers,” says dealer Brian Hamilton of Midway Chevrolet, Cadillac and Buick in Kearney, NB. (“It’s called Midway because it’s midway between San Francisco and New York,” quips Hamilton, who is NADA’s Cadillac representative.)

But it’s not as if slashing dealership ranks is unthinkable. After bloating their dealership numbers over the years under a more-the-merrier strategy, General Motors and the former Chrysler Corp. axed thousands of them in 2010.

That happened under extreme circumstances, though. The recession had driven GM and Chrysler into bankruptcy, and the jettisoning of dealerships was called for as part of their reorganization plans.

Still, it was messy and done during tense times for the auto

industry. Vehicle sales had free-fallen from 16.2 million in 2007 to 10.6 million in 2009.

In contrast, auto sales set a record last year of 17.5 million units. If the systematic cutting of dealerships was difficult during hard times, doing so in the good times would amount to betrayal in the eyes of many dealers.

So de Nysschen is taking a softer approach. It’s basically this: We’ll sustain dealer ranks, but we’re going for the gold, and we expect everyone involved to do the same.

That’s the genesis of Cadillac’s Pinnacle Project that is due to start in April.

Pinnacle changes the system of financial rewards for dealers who meet Cadillac’s delineated expectations on such things as facility standards and customer-satisfaction levels. The program puts less emphasis on sheer sales at any cost and more on the customer experience both on the sales floor and service department.

The intent is to raise the customer-experience bar and reward dealers who demonstrably clear it.

DO  
RELATIONSHIPS RIGHT.  
DO PASSION RIGHT.  
DO INNOVATION RIGHT.  
DO TECHNOLOGY RIGHT.  
DO WHATEVER IT  
TAKES TO GROW  
YOUR BUSINESS  
RIGHT.

FINANCING  
PROTECTION PRODUCTS  
REMARKETING

**ally**<sup>®</sup>

DO IT  
RIGHT.

[LEARN MORE](#)



“Anyone who thinks we can maintain the status quo is misguided,” de Nysschen says.

For its end of the deal, Cadillac promises to provide dealers in the coming years with fresh products to sell, particularly in the red-hot CUV market where Cadillac offers just one: the XT5.

A smaller XT4 is due in 2018, according to *WardsAuto* data. It is the first of a family of premium CUVs, as the brand plans to introduce all-new and redesigned products every six months from 2018 to 2020.

Cadillac dealers are anxious to get more utility vehicles, saying

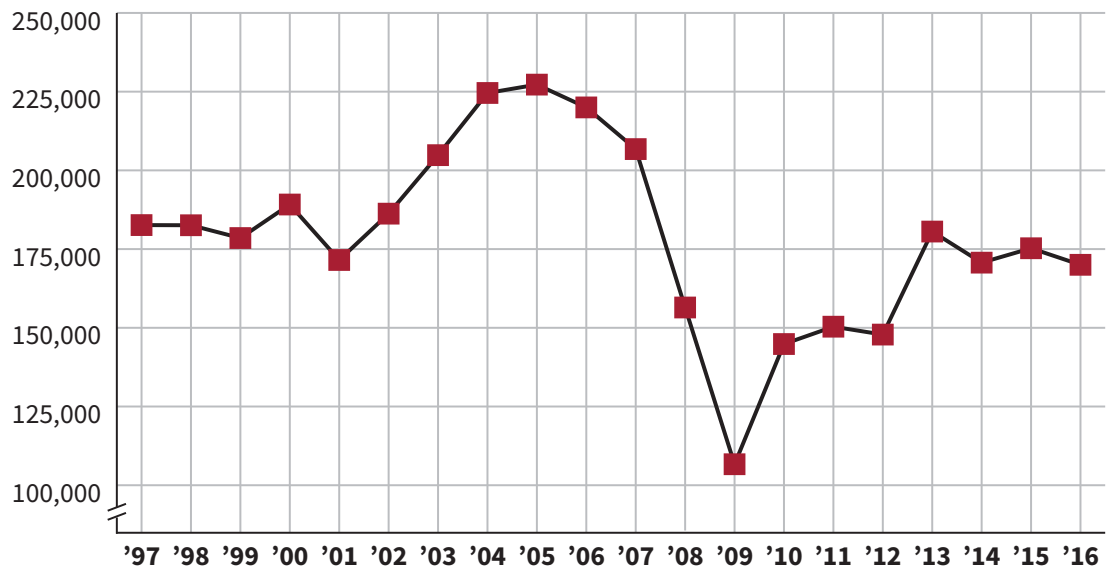
they are at a competitive disadvantage otherwise. Mercedes currently offers six, Cadillac two.

## THE RISE AND FALL

For years, Cadillac was the No.1 luxury brand in the U.S. with an envious stable of desirable large cars.

Its brand value was so strong, marketers of other products often made it a point of reference when touting their wares. For instance Baldwin in the 1930s referred to its musical instruments as “the Cadillac of pianos” and Huffy in the 1950s dubbed its bicycles “the Cadillac of the sand-pile set.”

### 20 YEARS OF CADILLAC SALES IN THE U.S.





## THE BIG STORY

Old (top),  
new  
Cadillac  
badges.



In the movie, “Get Shorty,” a rental car employee calls the now-defunct Oldsmobile Silhouette as “the Cadillac of minivans.” de Nysschen says his favorite is a reviewer who said, “This is the Cadillac of Mercedes-Benz.”

But the American brand began losing its top-dog status in the 1960s and 1970s when competitors from Germany started getting serious about selling cars in the U.S.

“BMW and Mercedes-Benz start-

ed gaining ground in the 1960s, taking market share that normally belonged to Cadillac,” says David C. Smith, retired editor of *WardsAuto World* magazine and a front-row observer to such shifts.

Toyota launched its Lexus luxury brand in 1989. “That was another blow,” Smith says. “They were all trying to get a slice of the pie.”

Compounding the situation for Cadillac is that the brand lost some of its coolness. “Young people, especially men, used to aspire to own a Cadillac,” Smith says. Its core buyer base got old. A cynic said even those customers were buying Cadillacs for old time’s sake.

If owning a Cadillac was once considered the ultimate American automotive dream, owning a Cadillac dealership was the ultimate in auto retailing.

“In the day, if you had a Cadillac dealership, you were an instant millionaire,” Smith says. “It was a coveted franchise.”

# DO IT RIGHT.

FINANCING  
PROTECTION PRODUCTS  
REMARKETING

ally

LEARN MORE

© 2016 Ally Financial Inc.





## 2016 TOP 10 COMPANIES Luxury Sales & Ranking by Brand\*

| RANKING | COMPANY       | SALES (units) |
|---------|---------------|---------------|
| 1       | Mercedes-Benz | 340,237       |
| 2       | Lexus         | 331,228       |
| 3       | BMW           | 313,174       |
| 4       | Audi          | 178,765       |
| 5       | Cadillac      | 170,006       |
| 6       | Acura         | 146,759       |
| 7       | Infiniti      | 138,293       |
| 8       | Lincoln       | 111,724       |
| 9       | Volvo         | 82,724        |
| 10      | Land Rover    | 73,861        |

\* Does not include Mercedes, Audi and Acura non-luxury vehicle models. Source: WardsAuto

The German luxury brands and Lexus garnered praise for their quality. Cadillac didn't, although Smith says, "I always thought Cadillacs had good quality," with one exception: the Cimarron, introduced in 1982 as Cadillac's version of a German compact luxury sedan. Instead, it bombed the brand. "It cheapened Cadillac's image," Smith says, recalling that power windows on the Cimarron were optional equipment. The car was put under in 1988.

Once No.1 in the luxury market, Cadillac ended 2016 in the No.5 spot with sales of 170,006 units, according to *WardsAuto* data. It

finished ahead of Acura (146,759), Infiniti (138,293) and Lincoln (111,724), but far behind segment-leader Mercedes (340,237), Lexus (331,228) and BMW (313,174). Audi (178,675) was No.4.

GM is on a mission to bring back Cadillac's glory days. The automaker has launched a \$12.5 billion product plan under luxury-car whiz de Nysschen, hired in 2014 to revitalize the division that dates to 1902 and is the name-sake of a French explorer who founded the City of Detroit.

De Nysschen is a South African native who has headed Audi in the U.S. and Infiniti worldwide.

It quickly was apparent things would be different for Cadillac with him in charge. It started with his job title. Traditionally, heads of GM brands are general managers, but de Nysschen hired on as president of Cadillac and was given rare lateral control that included product planning and input on design and engineering.

He convinced GM brass Cadillac should relocate from Detroit to New York City as a way of injecting a fresh perspective into the

DO IT  
RIGHT.

DO IT  
RIGHT.

DO IT  
RIGHT.

DO IT  
RIGHT.

DO IT  
RIGHT.

FINANCING  
PROTECTION PRODUCTS  
REMARKETING

ally®

LEARN MORE

© 2016 Ally Financial Inc.

## THE BIG STORY

brand and attracting top talent.

The idea also was to maintain some distance from GM's bureaucracy and give it the autonomy it needs to remake itself as a global luxury brand, although design

boss Andrew Smith said at last year's WardsAuto Interiors Conference Cadillac staffers are racking up more frequent flyer miles than anticipated.

Cadillac sales were off 3% in 2016 compared to 2015, but de Nysschen has won praise for the brand contributing more to GM's bottom

line, reducing inventory levels to avoid supply gluts and boosting transaction prices 14% to \$54,000, or \$11,000 higher than Lexus and \$6,000 higher than BMW.

"We have been able to achieve our goal of improving the business," he says. "We are not going to chase volume and erode the aspirational character of the brand."

Cadillac ended last year with

54 days' supply. That's lean, although it rose to 107 at the end of February, reflecting the brand's car-heavy portfolio at a time when CUVs are the rage.

Also on de Nysschen's prior-

ity list is the dealer-improvement project. Project Pinnacle has its roots in a similar quality-control system he implemented at Infiniti.

He sees the initiative as establishing brand standards for dealers that include product expertise and consultation, a clear separation of sales and service

areas and offering extra things luxury customers expect, such as free loaner cars and a car wash after every service.

Complying with the program will cost dealers more money, de Nysschen acknowledges, but adds compliance ultimately offers higher dealer profitability.

Pinnacle's performance-tracking element is intended to spot

### DE NYSSHCHEN'S PROJECT PINNACLE

- Changes the system of financial rewards for dealers
- Less emphasis on sales
- More focused on the customer experience
- Establishes brand standards for dealers
- Clear separation of sales and service areas





## THE BIG STORY

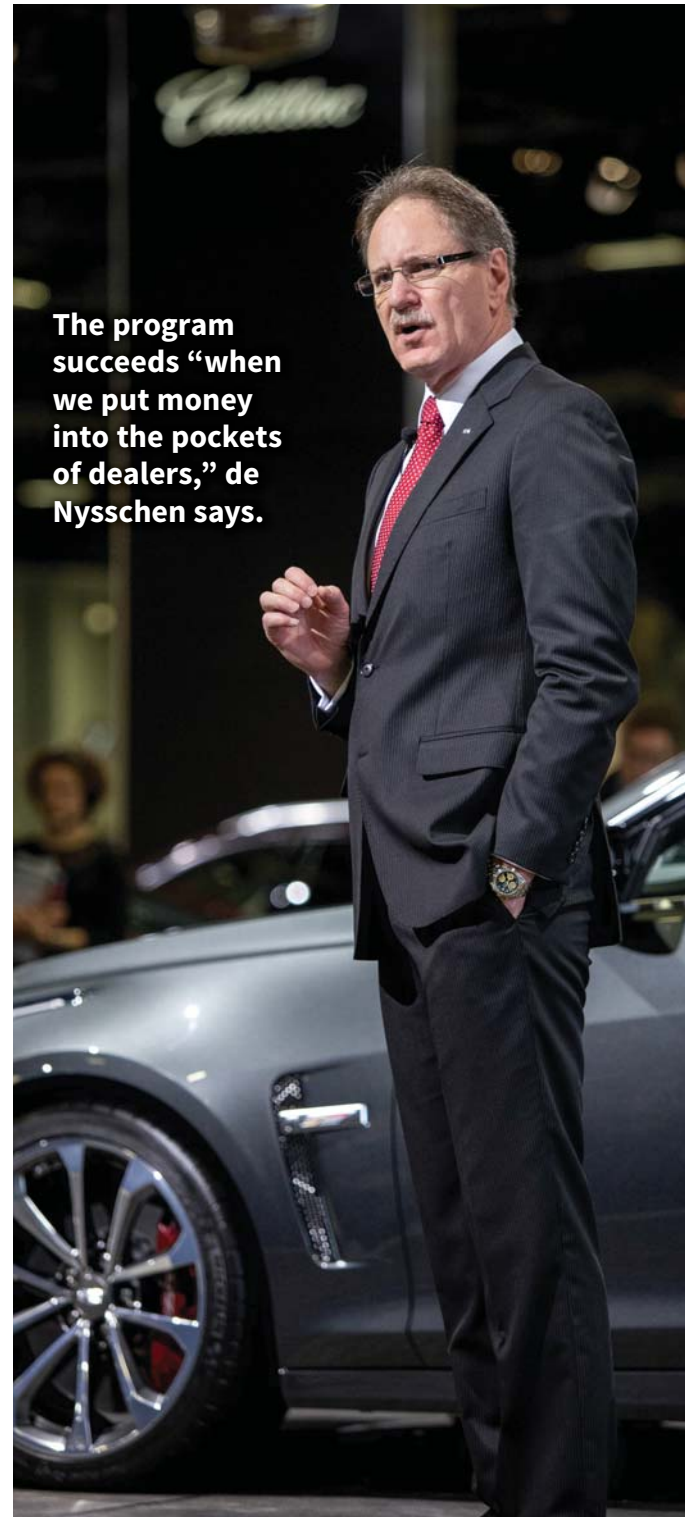
areas where individual dealers might fall short of standards, and then help them fix what's wrong. Financial incentives to dealers are tied to meeting those standards. It's not intended to be punitive. The program succeeds "when we put money into the pockets of dealers," de Nysschen says.

Execution of the program will cost Cadillac \$800 million over the next three years, money de Nysschen says will be incremental profit to dealers, some of whom are expected to get more money based on their level of compliance. Money left over from dealers who don't fully comply will go into a pool and distributed as a super bonus to those who do.

"And this isn't a discussion of sales targets," he says. "It's purely about brand enhancement."

The program eliminates "dealer holdback," which traditionally is the amount of money automakers pay dealers for each new vehicle they sell.

Cadillac worked with its dealer council the program's finer points, some of which ultimately were modified.



**The program succeeds "when we put money into the pockets of dealers," de Nysschen says.**



**“Dealers are not entirely confident with some of these changes,” Starling says.**

That included when dealers would get their bonuses. Dealers wanted them sooner than later, says dealer Will Churchill of Frank Kent Motor in Fort Worth, TX. He heads Cadillac’s dealer council.

Another point of contention was how strict the standards should be. “Some of the elements inside the brand standards have been modified to be a little more – I don’t think ‘lenient’ is the right word – but more realistic inside the business atmosphere we’re in,” Churchill says. He praises the collaborative effort that led to “positive progress points.”

Yet some dealer angst remains.

“Dealers are not entirely confident with some of these changes,” says dealer Alan Starling of Starling Chevrolet and Cadillac in DeLand, FL, near Orlando. He is a former NADA chairman.

“The dealer council is doing as well as they can, but the dealers aren’t the problem, truthfully,” he says. “Our facilities are great, we’ve got good people in our stores and we’re trying to deal with a lot of issues on a daily basis. That’s the discomfort.”

As for the elimination of dealer holdback, Starling says: “It’s difficult when you are talking about taking away things that have worked for a long time. You might say, ‘That’s an old guy talking.’ But I’ve got children in the business, and they are as apprehensive as anyone.”

### **DEALERS ANXIOUS FOR NEW PRODUCT**

At the franchise meeting in New Orleans, de Nysschen reportedly told U.S. dealers he wants them up to speed when the new product comes.

“Cadillac’s business is good in China, for sure,” Starling says. “In this country, the luxury segment is so competitive. Until we get the product, the additional SUVs and stuff, it is going to be tough sledding.”

The 7-vehicle brand went to market last year with the ’17 CT6, its new flagship sedan, and the ’17 XT5, a 2-row SUV that replaces the SRX. Dealers are anxious to get a 3-row utility vehicle positioned between the XT5 and the fullsize Escalade SUV. That could



## THE BIG STORY

be the XT7 expected in 2019.

The Escalade is the brand's best seller (23,604 units last year), which shares a platform with the Chevrolet Tahoe. A longer Escalade ESV, sharing a platform with the Chevy Suburban, sold 15,488 units in 2016.

A breakthrough vehicle for Cadillac was the ATS compact sedan that went on the U.S. market a couple of years ago. It readily won high praise for its technology, driving dynamics and quality, but it has not been as hot a seller as GM had hoped. Cadillac delivered 21,505 ATS models last year, a 20% decline from 2015, the car's first full sales year.

"The last 10 years, Cadillac has done a terrific job of bringing back great cars with advanced technology and incredible driving characteristics," says Smith, the retired automotive editor.

"A lot of industry people, including powertrain guys, know just how good today's Cadillacs are, although much of the general public doesn't know," he says.

Starling, who served as NADA's chairman in 2003, praises de Nysschen for "trying to resurrect the brand."

So does William Bradshaw, 2006 NADA chairman, who sells Cadillacs and other GM makes at Bradshaw Automotive Group in



**Escalade SUV ranks as Cadillac's top-selling vehicle.**



Greer, SC. But he also speaks of the need for new products to go up against the competition.

“We’re going through a pretty challenging transition now with the Pinnacle program,” Bradshaw says. “It’s really coming ahead of the new product. We’ve got another 18 months before we start seeing the products we really need. But looking beyond that, I’m optimistic.”

“Although (de Nysschen’s) goal is to raise everyone’s game and be on par with Mercedes, BMW and Audi, we don’t have the full lineup



**“I’m optimistic,” dealer Bradshaw says.**

like they do. We’re trying to get that.”

Nebraska dealer Hamilton praises dealer-driven tweaks made to the Pinnacle program “to make

goals more attainable” and, like his fellow Cadillac retailers, optimistically anticipates fresh product offerings.

“With the product portfolio and

the shift to SUVs and CUVs, they are right on top of that,” he says. “Their coming product mix and striving for quality makes me more optimistic.”

Does he think Cadillac can recapture its past glory? “I sure do.”



**Brand not there yet, says dealer D’Addario.**

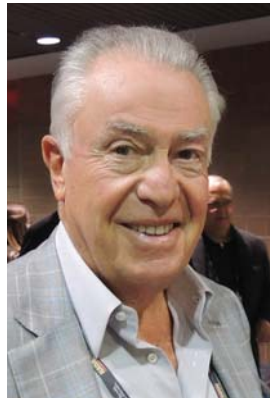
Less declarative about

that is dealer Thomas D’Addario of D’Addario Buick, GMC and Cadillac in Shelton, CT.

On whether Cadillac, can get its mojo back, he says, “Not yet. It’s still stalled.”

How does he think it can get it back? “Maintain your customer base. That requires incentives.” When does he think it might get it back? “I’m on the wrong side to answer that one.”

A believer in the brand is Ricardo Weitz, a Nissan dealer who acquired a Cadillac franchise about 18 months ago. The owner of Central Houston Cadillac in Houston, TX, is impressed with



**“Great things coming,” says new Cadillac dealer Weitz.**

the brand’s “new philosophy.”

He explains, “I strongly believe in Cadillac. They want to be really up-luxury. We’re happy with the leadership. I

don’t know how long it is going to succeed, but it will happen. They have great things coming.”

As a communicator, de Nysschen has something of a professorial air, yet without coming across as didactic. He seems to connect with existing Cadillac dealers – and potential new ones.

A positive sign for Cadillac is that some established dealers are interested in the possibility of adding Cadillac to their franchise portfolios. One of them is K.O. Murdock of Murdock Auto Team, based in Woods Cross, UT. He currently represents Chevrolet, Hyundai and Volkswagen.

“There’s an opportunity in the marketplace to buy out an exist-

ing dealer, and I hope to be able to do that, but it’s not for sure,” he says. “I haven’t always thought real highly of GM leadership, but I like it today.”

Murdock, a third-generation dealer, who got into the business in the 1970s, sees a future in Cadillac. “I’m impressed with its leadership. They are intelligent, forward-thinking and impressive.”

Also eyeing the possibility of adding a Cadillac showroom is Shaun Del Grande of the Del Grande Auto Group based in San Jose, CA.



**Del Grande looking into acquiring Cadillac franchise.**

It is No.61 on the *WardsAuto Megadealer 100* with 14 stores and revenues of \$923.3 mil-

lion. Shaun Del Grande, a second-generation dealer, is considered an all-star within the auto-retailing industry.

“I’m trying to learn more about Cadillac,” he says. “It seems like a brand with a lot of upside.” **WA**



Prestige Cadillac across street from GM Tech Center.

# IN A TWIST,

## Dealer Approaches Automaker for New-Store Design Ideas

Cadillac's Project Pinnacle focuses on customer-experience enhancements, business-culture changes and, to some degree, dealership appearances.

That said, "it is not facility-driven," says David Caldwell, Cadillac's communication director.

Still, he points to Prestige

Cadillac, a store that opened in 2016, as embodying design features reflecting the brand's overall revitalization efforts. Cadillac operates and partially subsidizes a store-enhancement program separate from Project Pinnacle.

Across from the General Motors Technology Center in Warren,





## THE BIG STORY



the new dealership is part of the Prestige Auto Group run by Greg Jackson.

When the blueprints for the Warren store were being drafted in mid-2015, Prestige asked Cadillac if the group might include what would later become finalized facility and brand-identity features in the plans.

“We worked with them to incorporate some work-in-progress design principles,” Caldwell says.

It’s an unusual story because dealers often resist when automakers try to get them to invest in the latest facility-improvement

program. In this case, the dealer approached the automaker, asking for design input.

“It’s unique in that way, no question,” Caldwell says. **WA**



*This story was written by WardsAuto Senior Editor Steve Finlay with additional reporting from James Amend.*

*Finlay can be reached at [sfinlay@wardsauto.com](mailto:sfinlay@wardsauto.com)*