

A New Deal for Auto Dealers

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Over the course of the last several months, there has been a great deal of debate about the nature and amount of any federal assistance for auto makers, with tense discussions focusing on sources of funding, terms of financial aid, and plans for restructuring and future success.

In all the debate and discussion, however, there has been relatively little focus on the future of domestic auto dealerships, and their essential role in the turnaround of the automotive industry.

In order for federal assistance for auto makers to be truly effective, it must be offered in concert with a plan to solidify and strengthen the domestic auto dealer network. Financial assistance for dealers should certainly be part of the equation, but a new framework for dealer operations should also be considered.

On the financial side, it should be reasonable to believe that a minimum of 10% of any financial assistance should be allotted to improve and strengthen dealers. But ultimately, no financial aid plan can be truly comprehensive without taking into consideration the improvements that need to take place in the domestic dealer network, including:

1. **Define the Dealer Network:** Enough speculation and cannibalization of dealers. Auto makers should define exactly which dealers and locations are part of their long-term viability plan. Dealers that are considered non-viable should be offered a buyout of real-estate and franchise. Real estate should be determined by appraisal and franchise based on a 2.5 multiple of the average of the last three years earnings, but with a minimum of \$250,000 value.
2. **Secure the Footprint of the Dealer Network:** Once viable dealers are determined, manufacturers should ensure these dealers can truly sustain operations. Dealers that are at risk of failing due to lack of

profitability should be given the option to sell the real estate to the manufacturer and then lease it back at sustainable terms. The dealer should have the option of repurchasing the property without penalty. This will provide the manufacturer with site control in the event the dealer fails.

3. **Finance the Dealer Network:** All viable dealers should have access to both working capital and floor plan financing at competitive terms. Viable dealers that are in a distressed situation and pose a credit risk should be rolled into a dealer development style program where the manufacturer will provide assistance and oversight to safeguard the franchise and its investment.
4. **Invest in Dealer Technology:** Current dealer technology is not only expensive, it is inefficient. Manufacturers need to invest in dealer technologies that make dealers efficient and competitive. For decades, the main DMS providers have limited the ability of dealers to keep pace on technology advancements as realized in other industries. Dealers need systems that are affordable and easy to integrate with emerging technologies in process, customer, financial and inventory management.
5. **Listen to the Dealers (this one doesn't cost anything):** A good part of the success of Honda and Toyota was their willingness to simply listen to their dealers. From product development to marketing, Honda and Toyota made their dealers integral parts of the management and decision making process.

In the end, it seems likely that Detroit will get needed federal funds. Just how much of those funds will find their way to dealers is unknown. But whether required by Congress or not, manufacturers would be well advised to

take a good look at the needs of dealers and the vital role they must play in the future of the industry. In the same way, dealers would be well advised to pay close attention to the nuts and bolts of their own finances, and to be prepared to participate in a wholesale realignment of the automotive industry.

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