

## So-So Performers At Risk

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The automotive retail landscape has become quite crowded.

Not long ago new franchises were available to anyone with a strong desire and a decent business plan, sometimes regardless of automotive experience or proven track record.

The prosperous era of automotive sales had an unintended consequence: it allowed some poorly skilled dealers and dealer personnel to continue operations. Now, the current economic environment is causing the skilled and experienced dealers and managers to rise to the top.

If you were a Toyota, Honda, Nissan, BMW, Lexus or Mercedes-Benz dealer or employee before 2007, you could make a good living, regardless of skill level.

With the sustained growth of the automotive industry as a whole, success at certain dealerships had more to do with the popularity of particular automotive brands; ease of financing; high residual values and an all-time high consumer spending.

While big profits are good, they do have one downside, and that is that they often cloud actual operational deficiencies and under performing individuals.

Countless dealers and employees are praiseworthy. In good times the top performers did exponentially better.

However, some people were swept up in the industry-wide expansion, and their own abilities were often overrated.

Many of these dealers are having the most difficult time adjusting to the current market environment. Auto makers used the growth of franchises as an opportunity to require dealers to meet extensive facility requirements, demanding significant investments.

Unfortunately, many of the facility requirements were based on overzealous growth projections. Worse, many dealers built or upgraded when real estate and construction costs were at their highest.

For luxury dealers, the challenges often are greater. There appeared to be a clear progression of consumers from domestic-to-import-to-luxury brands. That growth now seems unsustainable. The significant decline in the residual value of luxury cars stalls the primary engine for its rapid growth: the lease market.

It becomes even more devastating when you consider that consumer confidence is down, and consumers are gravitating towards value brands such as Hyundai.

Continued growth of the luxury brands will hinge on two factors: How much auto makers are willing to subsidize sales via their captive finance arms and how far down market will the move to lower-priced vehicles go.

From a dealership acquisition/investment perspective, Ford dealers may be best positioned to benefit from the current market. (General Motors and Chrysler dealers face too much uncertainty, with bankruptcy looming and the lack of a true captive finance company.)

Ford dealers have been in an economic crisis for more than three years. Unlike franchises that are currently experiencing a crash landing, Ford dealers have had a softer, but more prolonged landing.

The steady decline of the Ford franchise in recent years has forced dealers to maximize every customer and every aspect of their operations.

Ford dealers have cut costs, adjusted staffing levels and pay-plans, maximized advertising expenditures, managed cash flows and right-sized inventory to meet a declining

market environment.

If you're a Ford dealer or a Ford dealership employee, you have been subjected to several years of criticism and customer ire regarding the brand. Selling the product was far more challenging than selling import rivals. Additionally, there's a limited number of Ford dealers that took on significant facility upgrades.

Ford dealers are properly positioned to be the beneficiaries of a cyclical shift that the dealership industry typically experiences. While most of the import and luxury manufacturers have overspent while developing growth models that are no longer feasible, Ford has adjusted its operations to reflect a reduced market share environment.

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