

Want a Smart Franchise? Line Forms on the Right

By Cliff Banks
August 1, 2006

Dealers are lining up for DaimlerChrysler AG's U.S. Smart franchises, following the auto maker's announcement it is bringing the tiny vehicle to the U.S. in 2008, using the UnitedAuto Group dealership chain as the brand's distributor.

With only 30-50 initial franchises slated to be available, with possibly a second wave of about 50 more should sales prove strong, competition will be tough.

UAG stores and dealerships in the DaimlerChrysler family likely will get first shot at Smart, and then other dealers must fight for what's left.

Roger Penske, UAG's president and CEO, does not envision a preponderance of UAG dealerships getting the franchise.

“Hopefully, we'll have some (UAG) stores qualify in some markets,” he says.

Candidates for the franchise must have extraordinary customer satisfaction scores and a proven record as an automotive retailer.

“We'll be looking at CSI (customer satisfaction index), location and facilities,” Penske says. “Let's get the right dealers in the right marketplace.”

Despite what likely will be strict requirements, dealers are showing a lot of interest.

“We have received a lot of response from dealers about it,” says Anthony Pordon, senior vice president-investor relations for UAG. More than 400 dealers have contacted UAG requesting information about obtaining a franchise.

Sheldon Sandler, founder of Bel Air Partners in New Jersey says dealers have been calling his firm asking about Smart. “Not that we have any influence with that,” he says.

Christina Dawkins, owner of Cos BMW in Loveland, CO, says she would love to obtain a Smart franchise, having missed out a few years ago on getting a dealership for Mini, a small car that Smart is intended to compete against.

“It would be perfect for us,” Dawkins says of Smart. “We're in one of the country's fastest growing areas and we're just a few miles from a large college (University of Colorado at Boulder).”

Nancy Phillips, a dealership broker in New Hampshire, considers Smart an intriguing opportunity for dealers. “I would certainly advocate trying to get one of those stores,” she says.

Even some other public dealer groups have expressed interest, according to Penske. “We've seen some very interesting proposals,” he says. “It's going to be a lot of fun for me to determine who the best dealers are.”

Dealers will have to wait a few months though, because, as of July, the Smart distributorship was not yet licensed to do business in the U.S.

“It is very early in the process and maybe even too early for us to talk about how we are going to set up the brand,” Pordon says.

Dealers will have to invest from \$200,000 to \$250,000 in the Smart franchise, and that includes signage and facilities, says Penske.

For DaimlerChrysler-brand dealerships, Penske says the model will follow what Toyota Motor Sales U.S.A. Inc. did with Scion, setting aside a separate area in existing showrooms. Other dealerships likely must maintain separate facilities for Smart.

Dealers will have three completely redesigned Fortwo models to sell. The brand also will push accessories and personalization, which helps increase dealers' profits. The Scion network is noted for that.

UAG plans to announce its Smart dealers in mid-2007, with vehicles hitting the showrooms in early 2008, says Pordon.

While UAG officials refrain from talking about specific markets, key areas will include urban areas such as New York City, Seattle, San Francisco, Los Angeles and southern Florida.

Pordon hints at other areas, saying UAG has “learned not to ignore secondary markets.” Probably, they will be areas exploding in population growth and either have a college or a strong creative segment.

Not everybody is convinced, though, that Smart is a good move for Penske.

A *Forbes.com* article argues that Smart was designed to solve a European problem of tight roadways and parking spaces, an issue most Americans do not face.

Forbes.com also contends small cars will be an old concept by the time Smart makes it to

the U.S., and questions whether Americans will want to sacrifice size and convenience when there are other, bigger fuel-efficient vehicles available such as a new wave of subcompacts that hit the U.S. market this year.

Industry analyst Jerry Marks, in his newsletter, *AutoRetailStocks.com*, says Smart will create “incremental revenues” for UAG but wonders if “having to oversee dealers outside of their network may create more headaches five years from now than it was worth.”

Another issue is whether Americans will consider the Smart to be a safe vehicle. Even Phillips, who thinks the brand is a great idea, questions whether she would want her children driving one.

UAG officials already are on message touting the advancements being made to the new models, including powertrain, suspension and safety features. UAG will begin showing European versions of the new models early next year.

Penske, one of the industry's most successful entrepreneurs, believes he has a hit. He points to strong sales in Canada, where Smart has been available. Interest appears to be high in the U.S. In the two weeks following the announcement, Smart's U.S. website received more than 200,000 hits, with 8,400 people registering for more information.

Another good development for Smart is Hollywood's treatment of the vehicle in recent movies such as *The Da Vinci Code* and *The Pink Panther*.

“We were very happy with how they treated the vehicle in those movies,” Pordon says.