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Public retailers grow new crop of managers

Donna Harris

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Tom Price sold his 21 dealerships to Sonic Automotive Inc. in 1999. As part of the \$240 million deal, he became vice chairman of the public dealership group. But when his three-year contract ended, Price quit. He now operates eight privately owned dealerships in California.

"It's really hard, when you have worked for yourself for 20 years, to be in a corporate environment, reporting to other people and to a board of directors," says the 61-year-old entrepreneur.

Like Price, most dealers who sold to groups that started going public in 1996 have left the companies. The Big 6 public retailers no longer are fast-growing startups whose corporate cultures emphasize individual entrepreneurship.

Rather, they are large, stable corporations that look inward to standardize and improve their operations. The public groups are creating a breed of executives who are team players who follow orders as well as give them.

"We have a very specific management profile," says Sid DeBoer, CEO of Lithia Motors Inc. of Medford, Ore. "Our managers need to be complete team players who go along with our systems and processes and buy into what we are trying to accomplish."

The companies say their training and pay initiatives are paying off in reduced turnover, especially among dealership general managers and company executives.

Bureaucracy blues

Some dealer-entrepreneurs who quit public retailers complain about paperwork, long teleconferences, dictatorial regional managers and corporate constraints on their decisions about matters such as inventory and hiring.

Others rejected promotions to corporate headquarters. Many say they disagree with what they call public groups' focus on quarterly earnings rather than long-term growth.

"It's a different mind-set," says Steve Knappenberger. He sold his six luxury dealerships in Scottsdale, Ariz., to UnitedAuto Group Inc. for \$31 million in 1996.

Knappenberger was president of UnitedAuto's western division for four years. After rejecting a promotion to the company's presidency, he now heads a private dealership group in Santa Barbara, Calif. "It was a lifestyle choice," he says.

Sheldon Sandler, managing partner of Bel Air Partners LLC of Skillman, N.J., which brokers dealership sales, predicts public retailers may need at least 10 years to build stable management teams. Lithia and UnitedAuto have a jump on their competitors because they've been at it the longest, he says.

"The others were cobbled together to take advantage of the 'going public' phenomenon," Sandler says.

But in time, he adds, the public groups will attract better, more loyal managers. "Top people want unfettered career opportunities," he says. "The public companies provide a meritocracy for advancement to the top jobs and more opportunities to start with because of their size."

Inside jobs

The public groups say they are making big investments in executive training and development. Lithia promotes almost exclusively from within, says CEO DeBoer. Sonic hires just 25 percent of its managers from outside, says company President Jeff Rachor.

Asbury Automotive Group recruits college graduates for its management training program, says CEO Ken Gilman. It starts them as salespeople and exposes them to every department of a dealership. Enrollment in the program will exceed 50 trainees by fall, Gilman says.

Sonic and AutoNation Inc. operate management training schools. Sonic spends \$40,000 on each participant in its four-month dealer academy program, Rachor says.

"It costs a lot more to lose a general manager and have the dealership's performance drop," he says.

Many managers seek an ownership interest in a privately held dealership. None of the public companies offers such a stake. But grants of stock in a public retailer also can be an incentive, the companies say.

UnitedAuto, for example, offers restricted stock with long-term vesting provisions. "It makes somebody think twice about leaving because the restricted stock vests over time," says spokesman Tony Pordon. "You can make a lot of money."

Lithia's DeBoer says he also prefers stock as an employee incentive. Stock "can be better than a minority position in a corporate dealership environment, where the private owner determines the value," he says.

"We don't feel managers need an ownership interest," DeBoer says. "It would complicate our ability to move employees from store to store and to move up in the corporation."

Sonic's "Partners in Excellence" deferred compensation program simulates ownership for its most promising general managers, Rachor says. The program pays participants a percentage of the dealership's annual profits, as if the manager had a minority stake in the store. The company will have 30 managers enrolled in the plan by fall, he adds.

Says Rachor: "Sonic has a compelling offer."