

Automotive News

Dealers, be cautious about the Chinese imports

SHELDON SANDLER | August 13, 2007

Will a Chinese import be the next Toyota?

That possibility has captured the imagination of many dealers, even though most experts believe that the first Chinese imports to the United States are years away.

Let's face facts. Importing vehicles with the proper design, quality and support is expensive. Experts say it could cost more than \$100 million to certify new vehicles and support them properly once they are here. Just the advertising to launch a brand can take tens of millions.

Many foreign manufacturers have tried and stumbled. Remember Alfa Romeo, Daewoo, Renault and Fiat among others? They failed because of quality issues or an inability to support their vehicles. Furthermore, what entrenched franchise in this mature, virtually stagnant market is going to give up sales without a fight?

Not to worry. At a time when some dealers are struggling to fill the void left by their moribund dealerships (read: domestic franchises), many believe the answer to their hopes and aspirations will be found with a new Chinese vehicle franchise. Capitalizing on the buzz, several would-be importers have concocted elaborate and sometimes convincing propositions.

Fact or fancy?

Experience has shown that when an investment idea gets hot, pretenders - if not outright predators - as well as legitimate players rush in to fill pent-up demand. That is not to suggest that any of the newly self-anointed importers are deliberately perpetrating a Ponzi scheme. But can the promise ever reach fruition? Memories of Internet "opportunities" in the late 1990s come to mind. What is real, and what is chimera?

With possibly one exception, the newly minted importers are hardly household names. In most cases, their resumes give no evidence of their suitability to overcome the enormous challenge of importing and distributing a new car line.

If Chinese manufacturers were capable of manufacturing vehicles appropriate for this market and were serious about their plans, wouldn't they want to find the best possible partners?

Why would a Chinese vehicle manufacturer - or any other foreign automaker, for that matter - entrust its entry into the richest but most demanding market in the world to an unproven and undercapitalized organization?

In fact, several established independent, multibillion-dollar international companies already distribute foreign vehicles in other countries. For example, Marubeni Corp. has long been a major Nissan distributor

COMMENTARY



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in many markets. And Penske Automotive Group will be the distributor for the Smart car in the United States.

Of primary concern are those propositions that require an investment in a newly formed distribution company for the retail rights to a geographic area.

According to the pitch, the dealer, as a shareholder, will participate in the profits and decision-making of the parent company. The dealer teams up with the distributor and finally has a say in his or her future. It sounds great to the long-underappreciated car dealer.

The contrarian view would suggest that that is just another way of launching an undercapitalized startup venture that can't attract legitimate financing from traditional sources. Lexus, Saturn and, most recently, Smart awarded franchises to those who would represent their brand properly. The ability to write a check with their name on it was not a consideration.

Dealers: Ask questions

Here are some questions that dealers should consider before leaping into the deep end of the pool.

- Who are your partners? Are they industry pros, or are they financial promoter types? What are their reputations in the industry, and what is their record of accomplishment? Are they adequately funded? How much capital has been committed to the project, and where did it come from? Are projections for the company and the dealer realistic?
- What are the reputation and background of the Chinese manufacturer? How will the vehicles be homologated or certified for U.S. safety and emissions standards? What commitment has been obtained from the manufacturer for production on a timely basis? Is the manufacturer capable of producing the quantity anticipated?
- What kinds of products are being offered? Will they be competitive or just cheap?
- What are the remedies if the manufacturer can't or won't deliver product? What if the vehicles are substandard?
- What are the details of the marketing and launch plan? What is the advertising budget?
- Have exchange rates been addressed? Have sufficient arrangements been made for ocean and land transportation, ports of entry and distribution depots?
- Will sufficient parts inventory be available on a timely basis?
- What safeguards exist to prevent overdealing? What will the margins be? What about warranties? Will there be arrangements for wholesale and retail financing? What tech training will be available? What investment in dealerships will be required?

In the final analysis, it's up to dealers to do the homework and decide. Is this a Toyota or a DeLorean?

One last thought. Maybe dealers should think hard about giving up too early on domestic franchises. They might turn out to be the better long-term investment after all.