

# CAR DEALER

Profit Making Secrets for the Competitive Dealer

## INSIDER

January 1, 2006

### Trend Spotting

**GM says it wants to turn back the clock** to the days when exciting design sold cars. There was a time, for instance, when a big Chevy was considered cool. Now GM is looking back to the 1950s for inspiration as it tries to recover from declining market share and a seemingly unbreakable reliance on cash incentives to sell cars. Not that future Chevrolets will necessarily sprout tail fins or dozens of pounds of glittering chrome, but they won't look like every other car on the road either. While no images of the vehicles have been publicly released yet, a look ahead at upcoming Saturns and a look back at the classic Chevys of the 1950s provides an idea. Saturn's new lineup of cars, beginning with the two-seat roadster called the Sky, will be followed by the Aura sedan. The Vue SUV will also get a new, futuristic look and Saturn will be introducing a larger crossover SUV as well. Chevrolet will get things rolling with its own version of the Aura sedan. The next generation Malibu will be much more aggressive-looking.

**Lincoln's Aviator SUV** never quite got off the ground. It was, after all, only a dressed up version of the Ford Explorer. The 2007 model, though, will come with uni-body architecture, front- or all-wheel drive, and a 3.5-liter V-6. Look for it in September 2006.

**Honda has delivered** its first FCX fuel-cell car to a California family who will lease the car for two years. The FCX is the first fuel-cell vehicle in private hands.

## New benchmarks for dealership buy/sell valuations

What's the value of a single-point Buick store these days? Or a money-losing Saturn dealership? How about VW or Pontiac-Buick-GMC? Three dealership valuations experts say the old guidelines on dealership valuations have been replaced by newer, more realistic benchmarks.

"Everyone says he's a buyer, but nobody's buying," is how dealership advisor Sheldon Sandler sums up the current state of buy/sell activity among car dealers. That may be something of an exaggeration, but Mr. Sandler with his firm, Bel Air Partners (609-252-1125, [www.belairpartners.com](http://www.belairpartners.com)) is in a good position to judge the market, especially as it relates to the larger, higher profile transactions. When Mr. Sandler speaks before groups of car dealers, he always asks which of them is looking to buy additional franchises. Invariably, nearly every hand in the room goes up. When he asks how many of those "buyers" have actually closed a deal in the last 12 months, however, nearly every hand goes back down.

Nancy Phillips, president of Nancy Phillips and Associates (866-929-0006, [www.nancyphillips.com](http://www.nancyphillips.com)) is a dealership broker handling less high profile transactions than Mr. Sandler, but she comes to much the same conclusion as Mr. Sandler. It's not that dealerships aren't being bought and sold, they are, but there are fewer transactions, and buyers and sellers have had to adjust their thinking about the traditional benchmarks used in dealership valuations.

"Dealers who stick with the old benchmarks, the multiple-of-earnings method for calculating blue sky, are likely to find that everything on the market looks too expensive," notes Ms. Phillips. Likewise, selling dealers find that no one will offer what they think their stores are worth.

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## A holistic approach

The old “rule-of-thumb or multiple-of-earnings approach is a good starting point,” observes Greg Gilmore, president of dealership advisory firm The Apex Group ([www.apexgroup.net](http://www.apexgroup.net)). But he adds that to accurately establish the value of a deal, the “true potential” of a store needs to be determined.

The true potential method will take into account factors beyond the type of franchise and historic earnings performance. Other factors, like a dealer’s market share, location, market demographics, and the quality of management need to be included in the equation.

Among the factors Mr. Gilmore likes to consider are the manufacturer’s and dealership’s overall inventory levels and unit sales. The manufacturer’s average vehicle days supply has a direct correlation on dealership valuation, he finds. The lower the days supply the manufacturer carries, the more profitable the dealership. That’s one good explanation for the fact that Lexus and Mercedes-Benz dealerships command such high valuations, while domestic franchises have been laggards.

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## Location, location, location

Real estate has also taken on greater significance in dealership buy/sell transactions. Where once dealership real estate was considered an entirely separate transaction, some active dealership buyers have made the real estate a critical part of their decision making.

The CFO of a large, 32-dealership group told *Car Dealer Insider* that, because the old benchmarks no longer work, his company has taken to appraising the potential value of a dealership’s real estate as the deciding factor in whether or not to proceed with a deal. All of this group’s recent acquisitions have included the dealership real estate, a departure from past practice.

“Everyone wants to buy a Toyota, Lexus, or Mercedes franchise,” notes Bel Air Partners’ Mr. Sandler. That’s not news. But when those franchises do come on the market, they take longer to sell, he says. Mr. Sandler acts as intermediary in buy/sell transactions, although he actually represents the selling dealers. “You have to know who’s who (among the buyers), and be able to separate the serious players from the poseurs,” he says. While Mr. Sandler’s firm puts together an extensive appraisal of a dealership or dealer group to present to the serious buyers, he finds that he now has to temper the selling dealer’s expectations somewhat to get both parties to the table.

## Blue sky doesn’t matter

“Blue sky doesn’t matter these days,” says Mr. Sandler. “What really matters to the buyers is the potential ROI.” To illustrate his point, Mr. Sandler relates the story of a \$200-million transaction (including real estate) he was involved in early in 2005.

“The dealership group had historic earnings of \$20 to \$25 million a year, so the seller had some high expectations even without throwing the real estate into the mix,” recalls Mr. Sandler. With the real estate, the selling dealer was asking upwards of \$250 million for his business. “By the time everything was added up, though, \$250 million just didn’t “pencil” for the buyer. The buyer couldn’t realistically see hitting his ROI targets at that price.” It took a lot of handholding and time to convince the seller that his expectations just weren’t realistic in today’s market.

With the public dealer groups essentially on the sidelines, the bigger deals have gotten much more complicated.

**New benchmarks**

Nancy Phillips, as a broker, gets paid only when transactions in which she plays a hand actually get closed. Ms. Phillips, understandably, watches trends in dealership valuations very carefully. She has provided *Car Dealer Insider* with figures from eleven actual transactions from her portfolio for 2005. The names of the dealers, of course, are not included. But the buy/sell deals provide an interesting glimpse at a new methodology for valuing car dealerships (see chart below).

In this example, the **trade area** refers to the population within a 20-mile radius of the dealership.

The **business value** is similar to “blue sky.” It’s the percent of the intangible business value paid for goodwill exclusive of the amount paid for all other business assets.

**Business value PNVR** is the dollar amount of the intangible business value exclusive of the amount paid for all other business assets divided by the number of new vehicles retailed.

The Business Value and PNVR figures were not the starting points for negotiations in these sample transactions. They were calculated after the dealers closed and, therefore, are arguably a better guide for car dealers in the buy/sell market than the traditional multiple-of-earnings benchmarks.

Nancy Phillips has agreed to supply more data on actual buy/sell transactions on a quarterly basis. In addition, we are lining up additional sources willing to provide the same abstracted data so that our readers can keep abreast of market conditions. Watch for these quarterly reports in *Car Dealer Insider*. □

Dealership Transactions (without real estate)				
Franchise	Buyer type	Trade area	Business value	Business Value PNVR
Mercedes-Benz	Small dealer group	500,000 - 1,000,000	26.0%	\$20,000
BMW	Large dealer group	500,000 – 1,000,000	23.3%	\$14,286
Toyota	Large dealer group	1,000,000+	28.0%	\$8,800
Chry-Dodge-Jeep	Small dealer group	250,000 – 500,000	8.7%	\$4,186
Pont-Buick-GMC	Individual dealer	1,000,000+	3.7%	\$2,100
Subaru	Individual dealer	under 250,000	4.1%	\$1,968
Kia	Individual dealer	under 250,000	4.2%	\$1,957
Mitsubishi	Individual dealer	250,000 – 500,000	2.3%	\$1,752
Nissan	Large dealer group	500,000 – 1,000,000	5.1%	\$1,600
VW-Mazda	Individual dealer	500,000 – 1,000,000	1.9%	\$ 515
Mitsubishi	Individual dealer	500,000 – 1,000,000	0.6%	\$ 225

**Auto Team America brings all-star lineup to their pre-convention forum**

Lou Holtz, Malcolm Bricklin head list of speakers for CFO/CEO Forum.

For the 12<sup>th</sup> year in a row, Auto Team America (ATA) will host an educational and networking session in advance of the NADA Convention in Orlando, Florida. The ATA event will be held Friday, February 10 at the Peabody Hotel. Kick-off time is 2:00 p.m.

Kickoff is an apt term this year since one of the featured speakers will be Lou Holtz, former college and professional football coach. During his long

career, Mr. Holtz took six different teams to bowl games, won five bowl games with different teams, and led four of his teams to Top 20 final rankings.

Mr. Holtz’ presentation will focus on the people and the values that make relationships and organizations excel.

For more information or to register for this always informative gathering call ATA at (800) 848-5816. □

## Six topics that should be in your dealership anti-harassment policy

Recent court cases reinforce that employers can be liable for all forms of harassment, not just sexual harassment. Make sure your anti-harassment policy covers the six topics that can help limit your organization's liability.

In the past, many car dealers have focused mainly on sexual harassment since it receives the most legal and media attention. However, any form of harassment undermines dealership operations and is prohibited by discrimination laws.

The trend in recent court decisions reinforces the fact that federal civil rights laws prohibit harassment and work environments that are abusive to employees because of their race, color, gender, religion, national origin, age, and disability. While the most common harassment claims do involve allegations of sexual harassment, dealership managers should be aware that the same legal analysis applies for other offensive behavior against any protected class.

### Six topics to include in your anti-harassment policy

At a minimum, the policy should include the following elements:

- 1. A statement prohibiting all forms of harassment in the workplace.** Specifically, dealer/principals should prohibit sexual harassment and also harassment based on race, color, gender, national origin, religion, disability, pregnancy, age, and military status. In addition, the policy should include any other categories protected by a state's equal opportunity laws, such as sexual orientation in California.
- 2. A definition of harassment and, in particular, sexual harassment.** This section should include the EEOC's legal definition of both "quid pro quo" and "hostile environment" sexual harassment.

*Quid pro quo* harassment is unwelcome conduct that is a condition of an individual's employment, academic advancement, or receipt of a legiti-

mately requested service. *Hostile work environment* refers to harassment, speech or conduct that is "severe or pervasive" enough to create a "hostile or abusive work environment" based on race, religion, sex, national origin, age, disability, veteran status, or, in some jurisdictions, sexual orientation, political affiliation, citizenship status, marital status, or personal appearance.

- 3. An explanation of what conduct is prohibited.** The policy should prohibit at least the following conduct:

- Quid pro quo threats or promises by a supervisor (loss of job or promise of job, promotion, or other employment benefit);
- Offensive touching;
- Verbal harassment (lewd comments, sexual jokes or references, offensive or inappropriate personal questions, or negative comments based on the person's protected class status);
- Offensive pictures displayed in the workplace; and
- Offensive or inappropriate written materials (letters, e-mail messages, or graffiti).

Note that some of the prohibited conduct included above may not technically be considered illegal harassment by a court or agency, but it still warrants disciplinary action since it can have a negative effect on the workplace environment. For example, dealership managers can discipline an employee who uses obscene language or tells off-color jokes, even though that conduct generally would not be considered illegal harassment unless the employee engaged in it on an ongoing basis.

**4. A complaint and resolution procedure.**

This procedure should include a bypass mechanism so that an employee does not have to complain to a supervisor or other person who may be involved in the harassment. It also should provide for an investigative process and a specific time frame for resolving complaints. If the dealership already has a complaint procedure in place, use that as long as it includes these safeguards.

**5. Specific disciplinary procedures.** The policy should make clear the consequences for any violations. For example, it should specify that discipline, up to and including termination, may be imposed depending on the nature and severity of the situation and the number of occurrences.**6. A “no retaliation” statement.** This reassurance helps employees trust the policy and believe that they will be protected if they make a complaint or cooperate in an investigation.**Training, implementation, and enforcement**

The courts are regularly churning out decisions that find fault with employer harassment policies and set new compliance standards. As a group, these cases clearly demonstrate that having a well-written policy is not enough. Car dealers must go further to train their employees on its application and procedures for filing a complaint.

*Car Dealer Insider* has an excellent anti-harassment training video produced specifically for car dealers. Call Mike Bowers at (800) 321-5312 or send an e-mail to [mbowers@dealersedge.com](mailto:mbowers@dealersedge.com) for more information.

And, as always, dealers need to implement the policy consistently, making sure that all complaints are taken seriously and resolved quickly and fairly. Also, as a final safeguard, legal counsel should review the policy on a regular basis to ensure that it continues to meet evolving legal standards. □

## HR Briefs

**Labor Department starts compliance assistance Web site.** Understanding Labor Department rules just got a little bit easier. The department set up a new Web site designed to help employers obey federal employment laws and regulations. Unlike previous compliance Web sites from the Labor Department, this one will guide users to information outside DOL’s jurisdiction. For example, even though DOL doesn’t regulate certain equal opportunity laws, it will direct users to the Equal Employment Opportunity Commission, if appropriate. The site also will inform users if there is no federal law that covers a particular issue. Additionally, users will find links to the compliance assistance mailbox, [compliancehelp@dol.gov](mailto:compliancehelp@dol.gov), and to a service that updates subscribers by e-mail every time there is significant compliance information.

**Health Savings Account (HSA) users may need enrollment and tax help.** 2005 was the second year for HSAs and it uncovered some issues that employers are attempting to resolve. Hewitt Associates, observes that 2005 was a modest year for HSA enrollment. For example, Colonial Pipe Company in Alpharetta, Ga.,

launched an HSA for active employees and pre-65 retirees this year. The HSA attracted 9% of employees this year and 12% for 2006. In addition to the humble enrollment numbers, many employees who successfully enrolled in a high-deductible health plan didn’t realize that they had to fill out more paperwork to open a bank account for their HSA. The next challenge is to help limit confusion for workers as they file their tax forms for the first time with an HSA.

**American workers are beginning to catch on** to retirement planning, if two new reports are any indication. Workers have increased their average contribution to their employer-sponsored 401(k) plans from 8.4% in 2004 to 9.9% in 2005, reveals a survey of nearly 2,000 employers and employees by Transamerica Retirement Services. The percentage of employees saving for retirement outside the workplace rose from 58% in 2004 to 66% in 2005. Additionally, more employees are rolling over those increased retirement savings to new accounts when changing jobs, according to an analysis of census data by the Employee Benefit Research Institute.

## Case study

# How setting common sense goals produced additional 17 percent in service profits

A service director uses communication and internal competition to solve his profit problems.

**The situation:** A high-line dealership service department with 26 line technicians turns 4,400 flat-rate hours in its best month on record.

**The problem:** At 4,400 hours, the department only breaks even financially.

**The solution:** Let all departmental personnel know that the new target is 5,000 – 5,500 FRH per month; use a standard “white” board to post daily progress toward the goal; hold a service advisor sales meeting first thing every morning.

During a consulting assignment with a luxury import store in the Southwest, *Car Dealer Insider* editor Mike Bowers was interviewing technicians to get a sense of how the mechanical shop functioned. When one tech was asked “how’s business?” he responded, “business is very good, in fact we produced just over 4,400 labor hours last month for the first time.” The consultant then asked, “How do you know 4,400 hours is good?” The technician said, “That’s the target the service director told us to shoot for.”

## Wrong targets caused misdirected efforts

So problem number one was a service director who set what he thought was an aggressive target for shop production, but did not know that achieving the goal would still not put his shop in the black. Another roadblock was the dispatcher, who thought the primary purpose of his job was to let the techs know that the dispatcher controlled their incomes. Twenty-six technicians producing 4,400 hours means each tech averaged eight flat-rate hours per day, but at that level the shop should at least earn a profit. Some expense cutting was obviously in order. But Mike Bowers noticed another odd phenomenon.

Interviews with the service advisors indicated that the advisors were turning away customers who called the store inquiring about bringing their cars in for service. The computer dispatch system had been overridden so many times that its data wasn’t even close to being accurate. It was apparently telling the advisors that the shop was sold out by noon on most days. Yet Mike Bowers noticed that by two o’clock most afternoons, many of the technicians were packing up their tools and going home because there wasn’t enough work to keep them busy. The shop actually had 15 to 20 percent more capacity than was reflected in the dispatching system.

## Common sense prevails at last

Several solutions to the service director’s profit problem presented themselves. They all involved some simple, straightforward, and common sense moves. First, the shop-loading data in the computer system had to be corrected. Technicians and service advisors were reorganized into production groups. The dispatcher’s job was eliminated and responsibility for dispatching became one of the service advisors’ functions.

Then, during a shop meeting, the techs and advisors were given new targets. To reinforce the goals, a “white” board, similar to those found in every dealership conference or training room, was set up on the wall of the shop where everyone (except customers) could see it. The names of each tech and service advisor were listed on the board along with slots for each person’s monthly production goal and a running total of production to date. Seeing this scoreboard every day inspired a sense of competition among the service staff. They wanted to see how quickly they could reach the goals each month. Production-based incentives were added to technician and service advisor pay plans.

Finally, each morning just before the doors opened, the service director called his advisors together for a 15-minute sales meeting to discuss targets for the day. The service director also positioned himself on the service drive for an hour or so each morning. He spent the time greeting customers and acting as a service sales

manager, prompting advisors when he saw obvious upselling opportunities. If the service director wasn't available, the shop foreman took his place.

**The result:** Within three months the service department went from breakeven to a profit of between \$40,000 and \$50,000 per month. □

## *F&I-deas*

# Price discrimination and why your dealership should reject it

**By Becky Chernek**

Advertising one vehicle price on the Web but selling in the showroom at a higher price is a common dealership practice. It's also illegal.

It's not easy being green. It seems you blend in with so many other ord'ary things. And people seem to pass you over 'cause you're not standing out...." Kermit, the Muppet frog, made his song so well-know throughout the country that hundreds of businesses and causes have taken it on as a theme for their newest endeavor.

It is a fitting theme song for some dealership F&I departments as well. Successful ones. They stand out from all their competition and they get little or no credit. Except from their customers. These finance department managers utilize menus to present every customer with one hundred percent of their products with a consistent pricing matrix. And, amazingly, the system works! These managers – who have dared to go against the industry standard of pricing discrimination – have seen their dealerships' profits climb and, in return, have earned ample rewards for their efforts.

Why are they so successful with this "green" method of selling? Because product pricing consistency supports confidence and creditability. Customers of every ethnicity, gender, age, and financial ability appreciate the no-nonsense approach and recognize it as being honest and straightforward, compared to the expected high-powered and questionable sales pitches used in other finance departments.

## **Price discrimination defined**

Exactly what constitutes price discrimination? Dealerships have done it for years. Whenever the same product or service is offered to a customer at a different (usually higher) price than other customers are charged, selective discrimination against that customer has taken place.

It's against the law to charge a customer a higher price for the same product, especially when the price differential doesn't accurately reflect a difference in cost from serving other customers. Period. Dealers are good at defending discriminatory practices. They can cite "logical" reasons for charging some customers more for the same menu product or for the same car advertised at a lesser price on the dealership Web site. Some customers have a slow-pay history. Every other dealer is doing it. It's the only way to make up for taking a hit on the sale price of the vehicle. It's still against the law.

Customers come to a dealership in good faith. If they later learn that the identical car they purchased was advertised on the dealer's Web site at a discounted price, they aren't simply disappointed, they are furious. They return to the dealership and loudly voice their contempt for the manager who took advantage of their trust. Some of these customers see their lawyers first. Some are more quiet, but also just as deadly – the simply tell their friends and family, starting a very damaging

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“word-of-mouth” campaign against doing business with you.

### **Avoid lawsuits and make money too**

A retail-pricing strategy for cars and menu products is the only sensible and risk-free way to do business in today’s litigious climate. Profits do not have to suffer. Not when a dealership purposefully and aggressively markets itself as trustworthy and non-discriminatory. Compliance doesn’t begin in F & I; it begins on the lot when customers are first greeted and serviced. And compliance isn’t the only reason for retail-price offerings. The practice promotes guilt-free sleep at night and it sells cars and menu products in volumes.

Do your homework. Determine the recommended markup for reasonable profit and set that price in stone for every product on the menu. Have it in print. Have a copy available to place in the hands of every customer, without exception. Be able to prove to anyone – at any time and for any reason – that no discrimination of product price has taken place. Of course, dealers can always negotiate the retail price of a product at any time and make changes to the stated price.

Most stores that operate on a consistent product pricing strategy experience higher profits both in sales and in finance. It’s easier to be ethical and aboveboard than it is to agonize over having your tricks discovered and undermining the sale. Successful and profitable dealerships support principled and lawful business techniques.

### **Online service appointments**

*Car Dealer Insider* is interested in hearing from franchised car dealers that have successfully implemented a true online service appointment system.

If your store has gone beyond the traditional exchange of e-mails for setting service appointments, please contact Mike Bowers by e-mail at [mbowers@dealersedge.com](mailto:mbowers@dealersedge.com) or by phone at (800) 321-5312. □

## **New Ideas**

**Stant Manufacturing, Inc.** announced that its InStant Fill™ fuel cap is easy to install and features a convenient trap door mechanism, which accommodates the gas nozzle and eliminates the hassle of removing and replacing the cap when refueling. With three part numbers available, it provides coverage for a wide range of popular vehicle makes and models, the company states, adding the InStant Fill fuel cap also meets onboard diagnostic (OBD) emission specifications. Visit [www.stant.com](http://www.stant.com).

**Manheim Auto Auctions** reported that its global automotive remarketing innovation center, Manheim DRIVE, has surpassed expectations for customer acceptance, research and development breakthroughs and innovative thinking since opening one year ago. The 145,000-square-foot research and development facility is a test and concept center for new technologies and processes. It also serves as a unique event venue for the industry and creates a forum to inspire collaboration and out-of-the-box thinking. More than 10,000 guests attended more than 600 events during Manheim DRIVE’s first year, including two industry conferences/events, nine live sales, 166 training classes and 270 employee and customer meetings. For more information visit [www.manheim.com](http://www.manheim.com).

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