

# The Perils of the Independent Car Dealer

“Business at buy-here, pay-here dealerships is picking up as bigger, nationwide subprime lenders tighten credit, or quit the business... As other lenders raise their standards, buy-here, pay-here dealerships are the only option for thousands of high-risk borrowers who need a vehicle...”

These are not headlines or words from an article today. They are from an old article I dug up in Automotive News by Jim Henry back in November, 2002. The only difference is that these same words carry a more pertinent meaning in the industry today. In fact for many independent dealers, they are words of survival.

I’ve seen the numbers and read the reports about the demise of the franchise dealer during the last year; that we are losing as many as 2 franchise dealers per day to the recession while many others struggle to survive. And I agree, it’s sad to see and painful to watch. But, what you don’t read much about is what is happening to independent car dealers across the country. And I will tell you, my heart goes out to many of my fellow “indies” with corner lots in Smalltown, America because that number is as high as 10 per day who are going out of business.

## ***5 Dangers for Independent Dealers***

- 1. Lost Sales** – Just like every other dealership in the country as well as many large retailers, sales have been off for several months. This hits the independent dealer particularly hard because whenever new car sales are off, franchise dealers put more effort into selling used cars and keep more of their old trades. Lately many large auto groups around me are now a competitor of ours since they have jumped head first into the special finance pond and just muddy up the water for everyone, especially the customers.

But just like I told my staff, patience, persistence, fundamentals and good old fashioned customer service will win out in the long run. These times remind me of when I first started out in the car business. In order to stay in business, I had to sell to less desirable, lower income, credit challenged customers, the ones who naturally showed up at the door from word of mouth. Ironically, it’s these same customers who are paying the bills for us today. They put me in business and are keeping me in business.

**Lesson:** Know exactly who you are, understand your niche, and remember to take excellent care of the customers who brought you to the dance.

- 2. Floorplans** – Many independent dealers, even the more conservative-minded, started floor planning their inventory when sales and profits were up. We all wanted to grow. We were making money and a floor plan created a shortcut to rapid growth. However, what happens when sales stop? The bank wants their money and the inventory you bought 90 days ago has depreciated faster than Lehman Brothers stock.

Many floor plan companies waste no time with independent dealers who are late on their payments today. I know of several dealers who had their inventory repossessed the moment they became delinquent which just compounds the depreciation problem when their inventory is dumped at auctions, driving the prices down even further. The good news is there are great deals for those of us who have the cash.

**Lesson:** A strong reminder of something that every independent dealer knows – Cash is king! Growth is great. But remember; don't grow too big for your britches. The seams may come undone at the worst possible time. Always have an exit plan to de-leverage your debt.

- 3. Lost Lenders** – If you've ever wondered what it's like to be an outcast or the black sheep, try being an independent car dealer today that specializes in sub-prime sales and finance and you will know first-hand. We must be the "least desirable" customers in the banking industry because nobody wants to do business with us.

Now, to give the Devil his due, we are paying for the sins of several less than ethical dealers who got their backs against the wall and left the banks holding the bag, or paper I should say; spending the loan advances on cars they hadn't yet paid for. The end result has not been pretty for those who have enjoyed years of strong relationships with the top lenders.

To solve this problem, undoubtedly the one common issue we all face today with the hugest impact, we have relied more heavily on our own Related Finance Company (RFC) or Buy Here Pay Here (BHPH) as it's better known. And for those customers who warrant a more expensive vehicle, we have worked out a recourse agreement with a local credit union to finance them and the combination is working great.

**Lesson:** Again, Cash is King! 1,400 payments per month at \$90 each is an excellent reminder of what business I should be in. Take matters into your own hands and control your own future by relying less on outside vendors and lenders. But also treat the existing relationships with your closest banks, lenders, and credit unions like they are the most important to your business, because they are. Lastly, take a good look at BHPH. It's not for everybody but it is the core of Special Finance and I can't imagine not being it, especially today. It was the best business decision I ever made!

- 4. Legal Compliance** – It's not enough that we have multiple battles to fight on several fronts but this one called legal compliance can go unnoticed for years, slowly building up until one day, Bam! It hits you like a Kamikaze sneak attack that can instantly put you out of business. It's an issue that simply cannot be overlooked, ignored, or put off until you have more time to deal with it.

The new Red Flags Rule, Gramm Leach Bliley, Truth in Lending, OFAC, Fair Lending Act, and all the State and DMV requirements make doing business that was once a walk in the park, like walking through a mine field today. Pay attention and be careful. The consequences are just too costly.

**Lesson:** Don't overlook or underestimate the significance of becoming and staying legally compliant. Know the rules, stay up on the knowledge, and mandate that it becomes instilled in the culture of your organization.

- 5. Managing the Budget** – Remember a car dealership is a business, and for many of us, it's our way of life. If your budget gets out of whack there is no time to hesitate. There is no time for blame, nor time for sulking about the economy. You can lose \$50K or \$75k or even more, in a blink of the eye and before you know it, there's no money in the checking account.

And, if this happens, don't look for Uncle Sam, your banker, or anyone else to bail you out. You're not General Motors! It's not going to happen. Instead, you have to be proactive. Know your financials and manage them daily.

It's too easy to get comfortable with all the toys, gadgets, latest software and services, and even the people who become like family but cost you money. If it's not making you money, saving you money or saving you time, you probably don't need it. Get rid of it and do so in a hurry. Because time is money and every day you hesitate could be costing you a fortune.

**Lesson:** There is a huge difference between needs and wants. Keep what you truly need to operate your business and get rid of the rest. Check and manage the budget daily. And when you see problems, act immediately. Don't hesitate. Because an unprofitable dealership is an unsafe place to work.