

Factory exclusivity plans spur more buy/sell deals

New pressures mean resistance could be futile for dealers

It's an old axiom that remains true: Don't sign onto a factory retailing initiative until you've fully studied the costs and benefits it'll bring to your operation.

But, as more factories push for exclusive stores, there's another reality emerging: Dealers who resist factory plans for exclusivity may be putting themselves in a bind when it comes time to sell. In addition, recent factory exclusivity initiatives have come with additional financing terms that can put dealers who resist at a short-term disadvantage when making deals.

Buy/sell experts note the exclusivity push is spurring an uptick in buy/sell activity for three reasons:

1. Dealers who are looking to sell off a franchise that they've historically dualled with another to fit a channel strategy;
2. Dealers who are looking to buy out a competitor to meet factory requirements;
3. Dealers who are executing their exit strategy rather than face additional capital expenditures to comply with factory programs.

Dealership broker and valuation consultant Nancy Phillips, Hampton Falls, N.H., says she's seeing more business stemming from factory exclusivity programs. (For a look at one of the latest pushes, see sidebar, this page.) "Dealers are saying, 'I think I can get top dollar because I can comply,'" Phillips says.

At the same time, she's concerned that dealers who ignore factory pushes may be making their stores less attractive to buyers in coming years because they don't meet factory channel requirements.

Chrysler ties 5-Star to exclusivity

Chrysler has taken a step some dealers saw coming: If you want to be a 5-Star dealer, you can't do it if your store's dualled with a competing franchise.

That follows a January 19 memo to Chrysler dealers from vice president Gary Dilts that requires dealers to submit plans by year's end for undualing stores with competing franchises to remain in the factory's 5-Star program or sign up for it.

"That's going to be very difficult for us," says a Southern dealer who's dualled and land-locked. "They're pushing the limits of what we can do."

The dealer notes he'd lose the economies of scale he gets from shared administrative and parts operations—on top of hoping to build more business to pay for the multi-million cost it would take to undual his store.

Dealer attorney Eric Chase of Bressler, Amery & Ross, Morristown, N.J., says the memo's one of the more aggressive moves he's seen from Chrysler, and expects it will trigger legal challenges.

Another issue: Dealers note that Chrysler has already fumbled on its channel strategy, with its Project Alpha program reversing a previous channel plan to group its three main lines together—and in some cases creating more retail presence in markets that some consider over-dealered.

Another consideration: Some factories have stepped up the financial incentives they offer for exclusive stores, such as \$300 to \$500 incentives on new vehicle sales. That can create a short-term competitive disadvantage for dealers who aren't on-board the factory program.

But all this doesn't mean you should bow down to factory pressure. You do have the protections of franchise laws to resist factory programs that don't make sense based on market conditions such as land costs, population shifts, the presence of other dealers, etc. And buy/sell experts and dealer attorneys expect more battles between factories and dealers in the coming year.

Even so, some observers acknowledge that the pressures are different on both factories and dealers now than they were a few years ago—and that may require a more conciliatory and cooperative approach going forward. Don Ray, president of Dixon Odom Dealer Services Group, says that a dealer's individual circumstances will determine the best tack to take when it comes to complying with factory initiatives. "There are times when it's in everybody's interest to undual a store. And there are times when the factory plans to undual don't work."