

CAR DEALER

The Auto Dealer's Management Briefing**INSIDER****May 15, 2007**

Trend spotting

Volkswagen is rumored to be working on a new rear-engine, water-cooled small car that mimics the original Beetle in both style and purpose. The new "people's" car is likely to have the engine positioned on top of the transaxle but with a radiator up front. Two variations are slated for U.S. dealerships: a 130-inch-long reincarnation that will compete with the smart for two and a no frills, four-door that will be positioned as a smaller, less expensive version of the Jetta. MSRPs are likely to be in the \$10,000 - \$14,000 range. To keep the price down, the new VWs will not have power steering, but ABS and satellite navigation will be available. While this is mostly a car for the third-world, U.S. versions will be powered by a turbocharged, direct-injection, three-cylinder engine.

Ford, about a year ago, debuted the 500-horsepower Shelby Mustang GT500. Once again, Carroll Shelby has topped himself with the GT500KR (King of the Road), as a new addition to the Mustang stable. The GT500KR puts out 540 horsepower and 510 pound-feet of torque from a supercharged 5.4-liter power plant. Other features are a carbon composite hood with twist-know hood pins, a shorter rear-axle ratio, and some unique suspension tuning. Only 1000 are expected to be built, so competition among dealers will be keen when the GT500KR arrives in showrooms in Spring 2008.

Mercedes-Benz marketers apparently think that 518 horsepower isn't enough. So they've come up with the CL65 AMG. This is a bi-turbo, V-12 that generates up to 604 horsepower. And there is a 40th anniversary edition of the CL65 with a special paint job and an MSRP close to \$200,000. Look for it to hit dealer showrooms in October 2007.

Franchise consolidation helps boost dealership value

by Nancy Phillips

There are definitive and substantial changes in franchise value since my last *Car Dealer Insider Benchmarks* report at the end of 2006. For the first time in my 25-year career in this industry I have felt compelled to advise dealers with certain franchises to terminate, rather than hire us to sell their dealerships. For some, regardless of whether they are profitable or not, there simply is no intangible value to be paid.

When it comes to the amount of goodwill paid for a franchise today, Toyota, Honda, BMW and Mercedes continue to deliver the highest value. In terms of second tier imports, Subaru is up and coming particularly in the Northeast region. While values for domestics as well as certain imports have declined substantially, the inverse of that is true in the case of consolidation.

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In this quarter's **Benchmarks** it is interesting to note the amount of Business Value paid for the Chevrolet and Kia dealerships mentioned. Even Lincoln-Mercury, a marginal franchise these days, commanded some goodwill when sold to a local Ford dealer for the purpose of market area consolidation. In these

cases, the opportunity to consolidate resulted in considerably higher sales prices than would otherwise have been obtained. It is important to understand that in certain circumstances, selling to effect realignment of your market area may be your only choice.

Dealership Transaction October 2006 through April 2007						
	Franchise	Buyer Type	Trade Area	Region	Business Value	Business Value PNVR
1	Toyota	Large Dealer Group	under 250,000	North Central	15.2%	\$6,822
2	Chevrolet-Cad.	Small Dealer Group	1,000,000 +	Southwest	8.6%	\$4,016
3	Kia	Large Dealer Group	under 250,000	Northeast	5.4%	\$2,013
4	Nissan	Small Dealer Group	under 250,000	Northeast	4.7%	\$2,632
5	Subaru	Large Dealer Group	under 250,000	Northeast	3.5%	\$2,143
6	Lincoln-Mercury	Small Dealer Group	250,000 - 500,000	Northeast	1.4%	\$829

Benchmarks Chart Information Description:

Business Value (BV) – As a percent of total revenues – Means the percent of intangible business value exclusive of the actual value for all other business assets.

Business Value PNVR – Per new vehicle retailed – Means the dollar amount of intangible business value (exclusive of all other business assets) per new vehicle retailed.

Trade Area – Population within 20 mile radius.

**** Relative to the Chevrolet-Cad., Kia and Lincoln-Mercury dealerships listed above, there are other factors effecting value:**

<i>Chevrolet-Cad.</i>	<i>Consolidated with Buick-Pontiac-GMC Dealer</i>
<i>Lincoln-Mercury</i>	<i>Consolidated with Ford Dealer</i>
<i>Kia</i>	<i>Incorporated into Dealer Group</i>

In many cases these days, the value of dealership real estate outstrips the value of the franchises. For those situations, it makes sense for dealer/principals to sell or terminate their franchises and put the real estate to more profitable use.

We expect this trend to continue over the next five-year period and our firm has aggressively addressed these monumental changes in the marketplace by stepping up our real estate division and cementing relationships with primary-use real estate developers and alternative non-automotive franchisors. This has allowed us to effectively orchestrate the sale of our clients' franchises out of their facilities while placing

their real estate in the hands of the best end user.

Dealers who act early enough will benefit by being able to sell both sides of their business. Those who wait too long may ultimately receive no value for their franchise.

Nancy Phillips is a regular contributor to Car Dealer Insider. Her firm provides comprehensive and highly personalized professional brokerage and valuation services for franchised automobile dealerships. For more information, visit www.nancyphillips.com or call Nancy Phillips Associates at 603-658-0004. ❖