

## Trend spotting

**Variable pay rates for technicians** are slowly making their way through the ranks of franchised car dealers – with a twist. The old variable pay schemes called for techs to earn lower hourly rates for doing lower-rated jobs. For instance, an LOF would pay C- or D-rate wages, while transmission or complex electrical repairs might pay A-rate and then some. A- or B-rate technicians bristled at the idea of taking a pay cut regardless of the skill level needed for a job. A better approach is to leave the hourly pay scales alone and adjust the number of flat-rate hours paid for a given job. What's driving the shift? The increasing customization of service menus. As jobs get bundled in menu offering, it is easier to make the case that the flat-rate hours for a bundled job add up to less than the sum of the parts, so to speak. Less diagnostic time and less time spent moving vehicles in and out of stalls are just two of the rationales for adjusting the labor times on the common menu items.

**Mercedes-Benz** rolled out its updated 2009 SL sports car set to hit dealer showrooms this May. Amenities include a 4-gig music hard drive and an optional "Airscarf" neck warmer. While the SL550, SL600, and SL65 AMG models will return, the SL55 AMG is being replaced by the more muscular SL63 AMG. But the version people are waiting to see is the so-called "Black Series." This ultra-high performance model will debut in November. It has a fixed roof similar to last year's CLK Black Series, with much wider fenders, 19-inch front and 20-inch rear wheels, stronger brakes, and an adjustable rear wing. A supercharged V-8 will generate 670 horsepower. Only 400 will be built. The Black Series will compete with Porsche's 911.

## Buy/Sell benchmarks

# Today's trend is: Consolidation, Re-alignment or Termination

By Nancy Phillips

**S**ince the last edition of *Benchmarks in Car Dealer Insider*, there have been some radical upheavals in our industry, yet not a lot has changed when it comes to the franchises receiving the highest values. They remain, in no particular order, Toyota, Honda, Mercedes and BMW. However, for second tier imports, with the exception of Subaru, Nissan and VW, there simply aren't many franchises delivering much goodwill at all and several are nothing more than "throw-aways."

The most assertive impetus in our industry right now is the increase in *consolidation, re-alignment or termination* of certain franchises and market areas, both metro and sub-metro. It is important to know that if you are earmarked for one of the above, you may still be able to get out relatively unscathed. The goodwill factor for atypical sales, even in today's downtrodden market, exceeds goodwill paid for the same franchises a year or even two years ago, prior to the onset of increased aggressiveness on the part of benefiting dealers and their franchisors. The momentum behind this trend has come on like a tornado within the last ten months – so if you are in line for any one of these industry-paring moves, don't delay.

### "Why" is more important than ever

At this point in time, how much dealerships are selling for is not nearly as telling as which dealerships are being sold and why they are being acquired. Of the twelve dealerships Nancy Phillips Associates sold in the last annual period, 60 percent of them were either consolidated or re-

aligned into the purchaser's automotive portfolio or terminated in one form or another – resulting in a *net decrease of seven entire dealerships*. This is astounding data and these ratios transcend the projections made by some industry professionals for anticipated decreases in the national dealership counts.

Values obtained for domestic dealerships in this category range from 1 percent to 8 percent for goodwill as a percent of total revenue and, in my opinion, were higher across the board than the Seller would have received under today's market conditions in a transaction where either consolidation or re-alignment was not an essential element.

This data is profiled on the following chart (page 7).

### Import stores holding value

A sampling of import sales taking place in the same period reflects greater goodwill consistent with the goodwill obtained in similar import dealership sales over the previous twelve month period.

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**Dealership Transactions**

**April 2007 through January 2008**

Seller	Buyer	Action	Point Deleted	Business Value PNVR	Business Value
*Chevrolet-Cadillac	Pontiac-Buick-GMC	Re-Aligned	-1	\$ 3,886	8.3%
Chevrolet-Cadillac	Chevrolet	Re-Aligned	-2	1,894	2.6%
Lincoln-Mercury	Ford	Re-Aligned	-1	1,422	2.4%
Chrys.-Dodge-Jeep	Manufacturer	Terminated	-1	968	1.8%
Dodge	Chrysler-Jeep	Re-Aligned	-1	502	1.0%
*Dodge	Manufacturer	Terminated	-1	0	0.0%

\* Note that the 8% Business Value for Chevrolet-Cadillac took place in a premier West Coast market area and the 0% for Dodge resulted from a sale in which the franchise was terminated and the dealership facility sold for major development.

**What conclusions can be drawn from this data?**

■ **Import Dealers** - If you own one of the import franchises cited herein, your investment will probably remain stable for at least the ensuing 12

to 24 months.

■ **Domestic Dealers** - You need to seek the market configuration designated by your franchisor through acquisition or through sale. Return on investment in a domestic dealership has been diminished and that trend will most likely continue for the duration of the consolidation movement. ❖

Franchise	Buyer Type	Business Value PNVR	Business Value
Toyota	Small Dealer Group	\$ 7,384	19.5%
Subaru, VW-Audi	Small Dealer Group	2,955	5.4%
Nissan	Individual	2,632	4.8%
Subaru	Small Dealer Group	2,344	3.5%

**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.

*Nancy Phillips is president of Nancy Phillips and Associates, an automobile dealership brokerage firm headquartered in Exeter, New Hampshire. To contact Nancy or to comment on this article, call Nancy Phillips at (603) 658-0004 or send an e-mail to [auto@nancyphillips.com](mailto:auto@nancyphillips.com).*

## Car dealers moving quickly to use online video and Web 2.0 marketing

**A** new study indicates that franchises car dealers are embracing new Internet technologies, especially the use of video on their websites.

More than half the auto dealers who responded to a survey by The Kelsey Group said they plan to include online video clips on their company Web sites during the next 12 months. Only one-third of the dealers said they currently have video on their sites.

Additionally, the research company learned that dealerships are “rapidly adopting” Web 2.0 marketing efforts, such as online reviews and social media involvement, like blogging. The Kelsey Group said these interactive methods are “becoming an integral element of the marketing mix” for auto dealers.

In the online survey conducted last month, 59 percent of the responding dealerships said they plan to use online video on sites during the next 12 months, up from the current 33 percent.

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