GET WITH THE PROGRAM

A Primer to Help You Find a Capital Funding Program That Meets Your Needs

Most Buy Here-Pay Here dealers use an outside capital provider to help grow their business, whether that's a floorplan company or a third-party capital provider specializing in our industry.

With the high costs of vehicles, dealers with access to capital have a better chance of filling their lots and growing their business than those self-funding.

There are dozens of options in the marketplace with a mix of programs that should be matched to your needs.

Providers of capital might use different names and terms, but the basis of the programs in the marketplace are often similar. The differences come in the advance amount, terms and the structure of the payback.

Knowing the program's pros and cons really depends on the dealer's objectives – a positive point for one dealer can be a negative point for another.

BY GARY PAGE AND LEN TABUCHI

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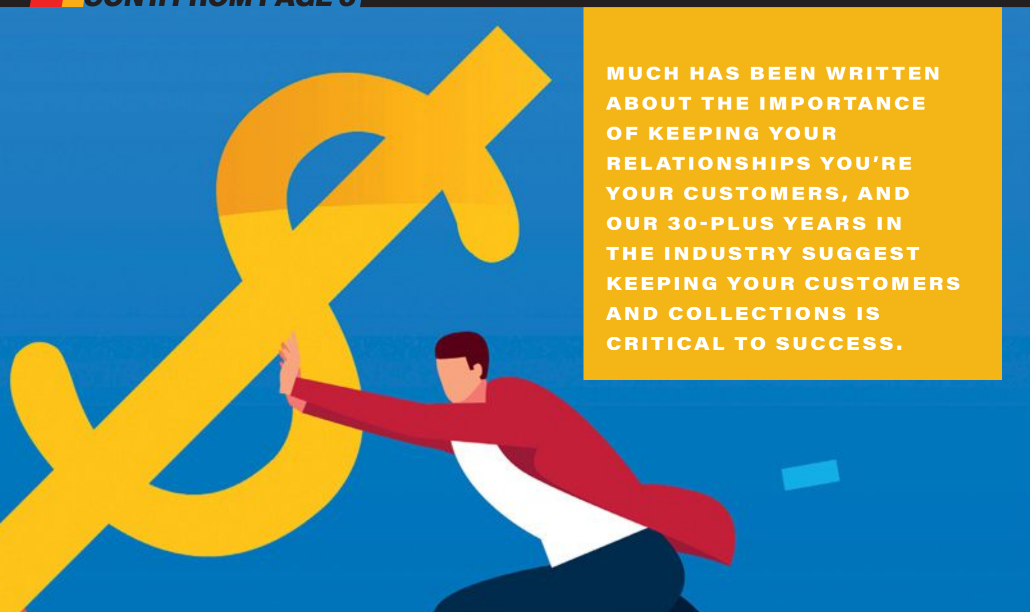

MUCH HAS BEEN WRITTEN ABOUT THE IMPORTANCE OF KEEPING YOUR RELATIONSHIPS YOU'RE YOUR CUSTOMERS, AND OUR 30-PLUS YEARS IN THE INDUSTRY SUGGEST KEEPING YOUR CUSTOMERS AND COLLECTIONS IS CRITICAL TO SUCCESS.

For example, take program term. Some dealers want short program terms and others want a longer payback period.

DEALER GOALS AND OBJECTIVES

The first question is: What are the goals and objectives of raising outside capital?

Typical goals include things like funding expansion, addressing cash flow and building inventory.

Based on those goals and objectives, and the current financial health of the dealership, certain program attributes might be more viable than others.

So let's look at a few of the attributes that should be considered when determining the best fit. For simplicity, this analysis addresses most programs in the market today, other than bulk purchases and lines of credit.

Term: Deciding between a longer term and a shorter term is often what dictates the type of capital program available to you.

Dealers looking to bridge a short-term financial need may opt for something referred to as an "income stream" program. Those programs offer terms as short as three months but can be configured longer as needed and are often renewed at the end of the initial term.

The program calculates the value of customer payments during the term and advances a percentage of that up front.

Shorter term programs can be beneficial to help address a cash flow challenge or bridge a gap in financial obligations. Shorter terms are attractive to many dealers as they get a decent advance amount without the burden of a long-term payment.

Longer terms are also popular as they typically couple the advantage of a higher advance amount with a smaller payment – although for a longer period. Given they are typically 24 to 48 months in term, the total amount advanced can be higher than that of income stream programs.

Programs with longer terms typically provide dealers with cash from each customer payment, as capital providers tend to share in the back-end payment stream to pay back the advancement.

Those programs are often referred to as "payment sharing" programs, given the structure of sharing in customer payments.

The key to understanding the differences in the marketplace is determining the amount of the upfront advancement vs. the percentage the dealer gets from sharing the customers' payments.

These programs are ideal for stable customer bases in which vehicle churn is minimal.

Vehicle cost: Another attribute of capital programs is the consideration of vehicle cost.

With the rising cost of inventory, new programs have been introduced that consider the vehicle's auction cost in determining the amount advanced. The objective of these cost-based programs is to allow dealers to break even quickly so the funding can be used to replenish inventory.

Cost-based programs can be very beneficial if the inventory is newer and more expensive, as it will provide a higher advancement.

Based on their higher advances, these programs typically are longer term, allowing dealers to share in the cash flow of each customer payment and spread the payments over a longer period.

Collections: One attribute that requires serious consideration is the structure of customer collections once accounts become part of the collateral in a capital funding program.

There are two models in the BHPH industry – one that allows the dealer to continue to service and collect payments directly from customers and one that transfers collections to a third party.

Much has been written about the importance of keeping your relationships with your customers, and our 30-plus years in the industry suggest keeping your customers and collections is critical to success.

Titles: Titles and the associated paperwork are a necessary evil in our industry. Every state seems to have a different method for handling titles, including electronic, paper or non-title states.

Capital providers usually require titles to serve as collateral in their funding programs. As such, it's critical to understand providers' requirements for titling to avoid any additional delays in financing or extra fees for having accounts re-titled.

Stuff happens in this industry. Dealers find themselves in need of getting a title or account back from a finance provider to address a repo, total loss or early payoff by a customer.

Find out your capital provider's policy in advance so there are no surprises when you need a title.

Advance amount: The most asked-about attribute of a capital program is the advance amount – how much money you'll be advanced from each account.

Yes, that's important to know. But it must be combined with the other items discussed here to adequately weigh the pros and cons of each capital provider's programs.

Stability of finance source: You must be able to rely on your financing source.

Many dealers have patterned their buying and deal structure to maximize the benefits of a specific capital provider's program. Your staff has been trained and understands that capital funding process. A relationship gets established, allowing you to sleep better at night knowing you have access to capital.

The stability of that provider is critical, as sudden changes to a financing program can impact the health of your entire dealership.

Our industry has seen several major capital providers and banks come and go, so this factor is real.

Find a capital provider that understands your business and is in it for the long haul. Having multiple capital sources is wise – in fact, you should have a plan A *and* a plan B.

The good news is there are plenty of options in the marketplace.

Though capital providers do take away a little of the vehicle profit, they can help you grow quickly to dramatically increase your *overall* dealership profits.

With everything going on in the economy, now is the time to find a program that can support your business. ■

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