

Is BHPH Right for Franchise Dealers?

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Franchise dealers enter 2010 with many of the same challenges they have faced for the last 24 months: a) excess facilities, b) slumping vehicle sales, c) decreasing average credit scores of their customers, d) tougher credit approvals from financing sources, and e) excess inventory challenges. In response, many are looking at entering by here, pay here as an alternative. Notice I used the word “looking.”

It is prudent for good business people to carefully analyze a major investment before making it. In fact, it is recommended. Therefore, franchise dealers may wish to utilize the following checklist before entering the BHPH business. It will greatly mitigate their risk and increase their chances for success.

1. Do your homework! Get educated on the BHPH industry. This can be done for free via the internet by accessing the NABD web site: www.bhphinfo.com. Log in, register, and get a free password. Here you will find industry resources, benchmarks, important updates, and information on training events.

2. Attend the NABD national convention for BHPH operators on May 11-13, 2010! This will allow you to network with others already in the industry, see all the latest technology, and hear industry experts. This conference features the industry’s best operators and experts who will identify the profit opportunities and help you capitalize on them. It is the only conference exclusively for BHPH.

3. Many franchise dealers are looking for a magic formula, which will guarantee them success. In reality, success is obtained by starting with a carefully prepared financial projection which includes anticipated sales levels, expected cash in deal, a realistic expense structure, and projects the capital required to do it. It should also identify the resources which will be needed and define an appropriate business model. If you don’t have historical data to prepare the projection, you may contact me and I can provide all the industry benchmarks for the last 12 years!

4. Read trade publications! They will alert you to important developments and give you insights into where to get the answers to your questions. Most of the subscriptions are free!

5. Don’t try to enter the business without making a real commitment. BHPH is not a business you can “dabble in.” It requires some separation from your franchise operations and certainly requires personnel with skills different from those used in franchise operations.

6. Organize your business properly! Select a qualified attorney and tax advisor. Your tax advisor needs to help you understand the need for a related finance company and other tax reduction strategies. Your attorney must help you be compliant and avoid regulatory mistakes that can cause you to fail.

7. Don't quit your day job! That's right, BHPH can compliment your franchise operations, but (at least initially) not replace them. Synergies from trade-ins, shared use of repair and make-ready facilities, and other franchise attributes will facilitate your transition into BHPH.

8. Success in BHPH is about managing portfolio risk and not buying and selling cars. You must quickly establish good underwriting and collection systems which are built around solid dealer management software. Pick a system which has strong portfolio management capabilities and one that can grow with you.

9. Utilize payment device technology to mitigate collection risk! Starter interrupt and GPS devices produce different results. Understand which is best for your operation. I just completed a comprehensive study on both. Contact me if you want to obtain a copy. Dual technology combining starter interrupt and GPS technology is the future.

10. Identify the capital you need and secure it before getting started. Although floor plans and lines of credit will ultimately be needed they are hard to obtain for start-up operations. Consider selling contracts to help supplement your initial capital needs and utilize some of the credit facilities in your franchise operations and your own equity to get started.

11. Join a twenty group! Organizations like NCM have groups especially for BHPH. You will learn many valuable things in twenty groups and they are well worth the investment.

12. Avoid trial and error mistakes which can cost you millions of dollars! This is best achieved by networking with successful operators and through dealer education. Become a student of the business. When you do suffer losses, analyze them and don't repeat them.

Sound simple? It is simple, but it's not easy. Success in the BHPH business is best measured over time and not overnight. Focus on cash flow, build solid systems and processes, hire and train your people, implement technology and don't get distracted. A good BHPH portfolio is a long-term annuity which requires time, capital, and skill to build. Good luck!

Kenneth Shilson, CPA, is President of the National Alliance of Buy Here, Pay Here Dealers (NABD), which will host its 12th Annual National Conference For Buy Here, Pay Here at the Venetian in Las Vegas, Nevada on May 11-13, 2010. For registration or for more information, visit www.bhphinfo.com or call 713-290-8171. Mr. Shilson is also President of Subprime Analytics (www.subanalytics.com), which performs electronic portfolio analysis and due diligence services for financial institutions which provide capital to the subprime automotive industry. NABD will be in Booth # 1357 at the NADA convention in Orlando on February 13-15, 2010.



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