OUTSIDE *the* BOX

A NEW APPROACH TO FLOORPLANNING – A TRUE EQUAL PARTNERSHIP BETWEEN DEALER AND LENDER – CAN HELP ACCELERATE SUCCESS

BY RANDY DOHSE

Access to financing has been essential to help dealerships improve their cash flow and acquire the right inventory for customers.

But things are changing, and changes in the industry are requiring dealers to rethink their approach to how they finance their inventory – especially when it comes to floorplanning.

It is no longer suitable for lenders to simply have a transactional relationship with dealers. And dealers should expect more than just a line of credit from their floorplan lender.

Instead, dealers should identify out-of-the box floorplan providers that deliver innovative solutions and serve as vested business partners with an interest in increasing the dealership's overall bottom line.

Finding an ideal floorplan lender that aligns with your dealership's goals can help transform your margins into a sustainable, more profitable business.

WHAT MAKES A GOOD FLOORPLAN LENDING PARTNER?

So where should a dealer start when looking for a floorplanning partner?

Dealers have their fair share of financing choices to pick from – notably regional banks, national banks and floorplanning companies.

From those options, dealers should seek a partner that focuses on superior customer service and is able to understand an automotive dealership's complex business needs.

But they also should look for a lending partner willing to create new financing solutions and invest in new technology that can help increase dealership efficiencies and assist in driving profits.

Most dealers don't have the luxury of wasting time with various administrative tasks. There are deals to be made and cars to be sold.

A lending partner today should have a funding process that is quick, well-organized, transparent and easily integrated into existing operations. A dealer's top priority is identifying a partner that can quickly and simply floor a vehicle, request and review titles and process payments, all in a convenient manner.

The technology offerings and solutions of a lender also should be a guiding factor when selecting a new partner.

Key among those technologies are accessible account management tools across all devices, which provide dealers with real-time updates on account status, vehicle information and payment history.

Another benefit for dealers with tech-savvy lending partners is the streamlining effect technology has on their business.

Today's technology allows staff to spend less time on administrative work, such as title management, and instead focus on improving the areas that help impact their bottom line the most – inventory management, sales and customer service.

In addition to efficient floorplanning technologies, other strengths dealers should look for when selecting a lending partner include flexibility in paying for specific inventory pieces, payment extensions and, when needed, credit increases.

If a lending partner offers all those options, more likely than not it will have a satisfied dealer partner.

But there are even more options financial partners can provide their dealers – ways they can go above and beyond to rewrite the traditional rules of lending to provide further flexibility for their dealer partners.

REMOVING RESTRICTIONS

Despite having some sense of what they are looking for in a financial partner, many dealers still lose out on potential profits because certain lenders place limitations on the type of inventory that's allowed to be purchased on a line of credit.

Too often, dealers focus solely on their financing rates. Though getting favorable financing rates can certainly affect profitability, not being able to get fully funded for the right type of inventory for your dealership's market can wipe out any benefits of an attractive rate.

To completely rewrite the playbook of lending partners, dealers need to find lenders that are flexible on the type of inventory that can be financed. They should look for a partner that understands the importance of speed in funding and provides options tailored to their unique needs.

Some examples of lender flexibility include:

Floorplanning non-auction inventory: Most dealers use their floorplan for auction purchases. But they also use other methods to source needed inventory and they don't always want to use cash for those purchases.

Floorplanning non-auction inventory allows dealers to finance and be compensated for transactions like dealer-to-dealer purchases or trade-ins from consumers.

When lenders allow for non-auction purchases to be prioritized, dealers can often receive their funding faster, leaving breathing room for overall dealership cash flow.

Expedited funding: Dealers should look for a lender that truly understands the concept that "time is money."

Expedited funding allows dealers to receive payments faster – often in a day or two – as soon as they can show proof of a title. It removes the traditional restriction of waiting on a physical title before funding is processed.

Flexible financing options: Independent dealers especially need financing solutions that are tailored to their specific needs. A floorplan that allows dealers to finance any type of unit – retail, wholesale or salvage – with credit lines that can be customized and flexible is worth the investment.

Monitoring transactions in real time: Access to the most current information about your business is more important than ever.

Dealers should look for lenders that provide real-time monitoring of transactions through a secure online portal. That helps keep dealers organized and up to date on the status of their deals and lets them manage their transactions when and where it's most convenient for them.

By removing restrictions, dealers can open new opportunities. They can gain new insights about what their customers want and have the financing to move more quickly to acquire the right vehicles.

FORMING A TRUE PARTNERSHIP

As dealers rethink the options provided by their lending partner, they also can take a fresh look at their own floorplanning management practices.

The relationship should be an equal partnership, one in which both dealer and floorplan lender look out for each other.

Dealers can get the most out of their partnership by keeping in mind a few basic tenets.

Focus on managing cash flow: While floorplanning frees up dealership cash for other expenses, dealers need to be careful to floorplan and spend savings responsibly.

Dealers should always think about how new spending will help improve their bottom line.

Don't get overextended: With access to a new line of credit for floorplanning, dealers occasionally will purchase more inventory than they can sell, putting themselves at risk of not being able to pay back their loan.

Many lenders recommend a 70/30 mix of floorplan usage and dealership savings to ensure dealers are covered.

Communicate regularly: Dealers should be up front with their lending provider on changes, updates or issues with their business. The more you communicate honestly with a lender, the more likely it is to help you solve any potential issues.

Don't raise red flags: Dealers should be aware of three specific actions that tend to raise red flags for floorplanning lenders: NSFs (non-sufficient funds), collateral audits (lenders have to verify that funds were spent on inventory) and turn times (how fast you can sell your inventory – usually a red flag if inventory is sitting on your lot too long).

A good lending partner will often work with dealers to avert these issues.

Proper account management: It is absolutely imperative dealers understand the terms and expectations to which their lending partners hold them.

Leverage the tools your lending providers offer – valuation tools and scheduled payments – to make it easier to run your business.

Those steps are simple guidelines that will help dealers be great partners to their floorplan lenders. In turn, floorplan lenders will be able to better optimize their services to the dealer's needs.

THE PAYOFF

Let's take a look at one example of how a new approach to floorplanning – one in which the dealer and lender are working together to think outside the box – can pay off with great results.

CIA Autoplex, based in Brandon, Miss., has successfully used floorplanning to grow its dealership business.

Located 20 minutes from the state capital of Jackson, the dealership's business started with a fairly small inventory of 10-15 vehicles.

Cliff Awabdy, president and owner of CIA Autoplex, felt there was an opportunity to grow business operations by stocking in-demand inventory. He needed a partner he could trust, one that understood his dealership's specific needs, had local market expertise and expressed willingness to grow as CIA Autoplex grew.

Today, the dealership stocks 150-180 vehicles and its goal is to increase that number to 200.

CIA Autoplex is also in the developmental stages of opening a new location in Madison, Miss., another suburb of Jackson, where Awabdy plans to stock an additional 200 vehicles.

"It was fairly simple," Awabdy said. "I had good credit and basic financials, so they gave me a shot to manage a small floorplan and [the relationship] has grown from there."

MOVING FROM TRANSACTIONS TO TRANSFORMATION

Dealer success relies on more than just funding. The dealers who strive to find a financial partner they can trust, one that wants to grow alongside them, offers the latest technologies and removes restrictions that hinder business, will be in a much better position to build a thriving and successful dealership. ■

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