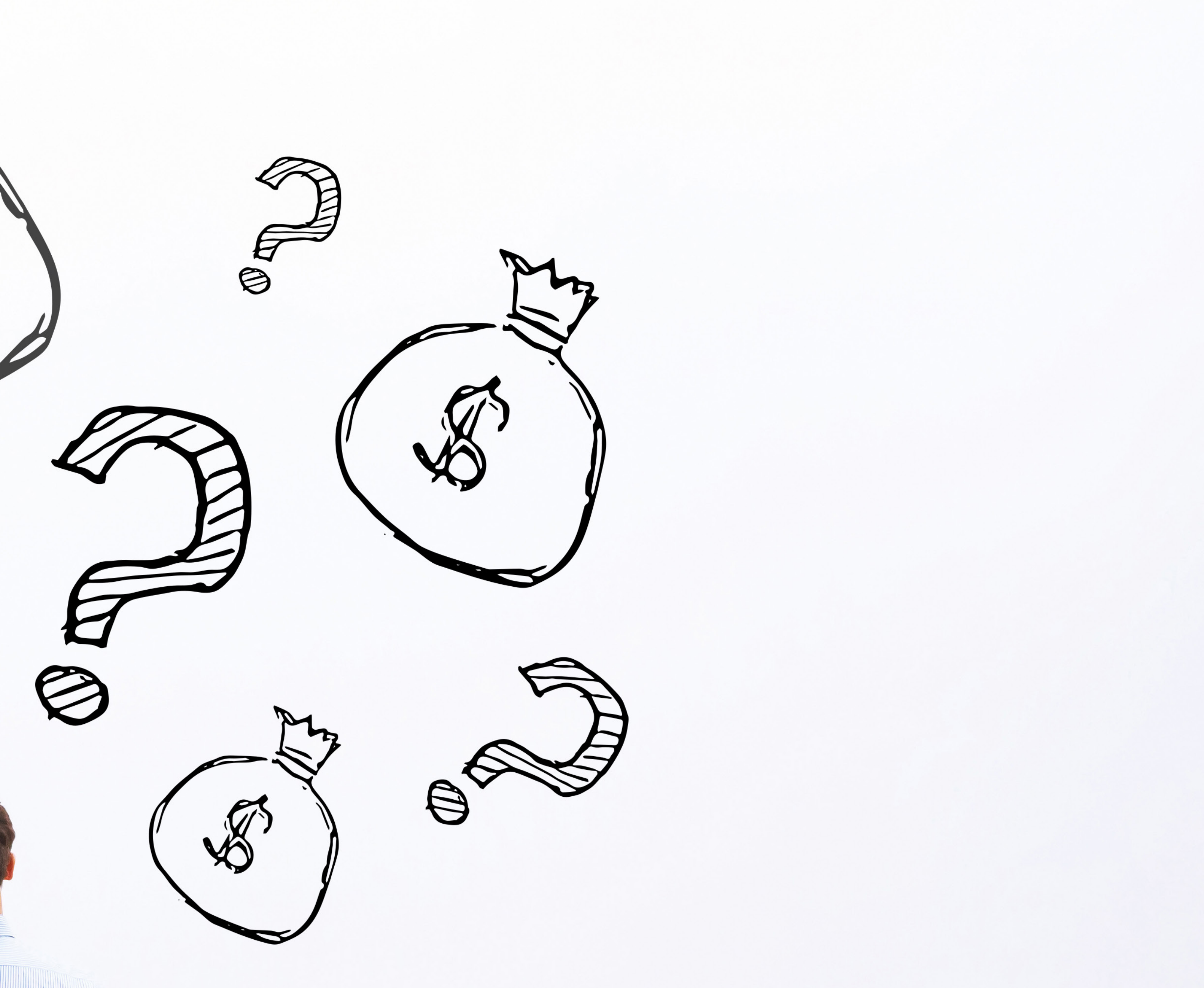
Floorplan Questions?

If you are considering using a floorplan, but want to understand the process better, here are the answers you are looking for.

By Doug Marohn



The idea of using a floorplan company to help finance your inventory can be a bit daunting, but using a floorplan provider can be very beneficial, too. How does it work? Is it expensive? Which provider should I choose? What could go wrong? These are all excellent questions and ones that should be asked before you jump into a line of credit with any floorplan provider.

Let's take them one at a time.

How does it work?

Simply put, a floorplan provider acts as your line of credit to buy inventory. To get started you will need to complete the application for credit with the floorplan provider. Each company has different policies and standards (years in business, credit of the owner(s), references from auctions, etc.) so be sure to ask what the key factors are with any floorplan company with which you apply for credit.

Once approved, the provider will set up a line of credit for your dealership. Once that is active, you simply purchase units at approved auctions, the auctions get funded by your floorplan provider, you transport the car for reconditioning and eventually retail sale just as if you had paid cash, and the provider holds the title until you sell the unit and pay off the floorplan balance. Pretty straightforward.

In exchange for financing your inventory, floorplan companies will charge you interest on your principal outstanding on your line of credit, charge you a monthly fee per unit and/or charge other amounts depending on their program and product. Each provider structures their program a little differently. Some simply charge an interest rate and fee structure with no additional costs or charges. Others use low introductory rates and fees but make up for it in other ways.

Is it expensive?

The short answer is it that all depends on your perspective. If you want to avoid all fees and interest through a floorplan company, you will need to pay cash for your inventory. That typically means less inventory and therefore fewer sales (and lower profits). Floorplan lines of credit do come with costs, but the ability to leverage your cash and increase your inventory leading to more sales will typically offset any expense associated with financing some or all of your inventory.

The better question is "What are the costs?" as opposed to "is it expensive?" Whether or not a line of credit is expensive or not is really in the eye of the beholder.

To decide for yourself if using one provider or another is expensive, it is important to know what you are actually going to pay. For example, most dealers ask about the rate or the monthly per-unit fee to determine if one provider is more or less expensive than another. But beyond the published rates and fees, there are a whole host of other "hidden" (or at least not-so-obvious) fees that a floorplan provider may charge. They include a monthly admin fee, a per-unit payoff or title fee, mandatory monthly lot audit fees, surcharges on overnight fees, electronic payment processing fees, etc.

The other main expense associated with floorplan facilities is the curtailment or the amount required to be paid toward the principal balance at a time dictated by the floorplan company. The questions related to a provider's curtailment policy should be "When are curtailments due?" and then "how much is my curtailment?" Floorplan facilities can have terms as short as 45 days and go as long as 180 days. Some companies require curtailments each month where others will let you go 60 or 90 days or more without a curtailment. Providers can charge as low as 5% to as high as 30% on each curtailment due. Others will deploy a tiered curtailment system that increases the longer a unit stays on the line of credit. Regardless of the provider you choose, it is important to look at the entire program being offered and all the terms and conditions of the line of credit. Don't just look at the interest rate or fee structure but look at the total cost of flooring a unit on this line. What will you actually pay each month to keep that unit open?

Which provider should I use?

The answer to this question really depends on what is important to you as a dealer. The fact is about 80% of what all floorplan providers do and offer is basically the same. They all finance units to go in your inventory. They all do it for some cost whether it be on interest rate or a whole host of other charges and fees. The remaining 20% is what sets each floorplan provider apart from the others and what makes one provider more attractive than another to your dealership. Surprisingly, what makes one floorplan provider a better partner for your dealership than another provider is not just about cost. Sure, cost is important and something you as a dealer need to understand. But even after you get comfortable with the total cost of floorplanning a unit, there are other things a dealer should consider when using a line of credit for their inventory needs.

What types of units does the provider accept?

Some only do certain ages (5 years and newer, 7 years and newer, 10 years and newer, etc.), whereas others do much older vehicles. The same is true with mileage caps. Some providers are much more stringent than others when it comes to maximum mileage allowed on a unit floored.

Are there caps on purchase price?

Many floorplan providers have caps on the per unit purchase price. If you are looking for higher-end luxury units, just make sure your floorplan provider will allow you to finance vehicles that cost $30,000, $50,000 or more in the lane. Also, even if they allow higher-dollar purchases, make sure you understand any surcharges or increased fees they may assess on larger ticket purchases.

What auctions will the floorplan provider allow?

Are they on Auction Access? Do they work with local and regional auctions as well as the national brands? Will the provider finance units sold through wholesalers, bought from other dealers, acquired as a trade-in or any other direct ("street") purchase? If they do, what are their terms and conditions for those versus a traditional auction purchase?

What could go wrong?

Now that you have decided to integrate floorplan financing into your business, and now that you have chosen a company that has a cost structure you can live with and a program that works for you, you are ready to go, right? Hold on a second! You are almost there, but there are a few things you will want to consider before you jump in.

You now understand that a floorplan line of credit can be an excellent tool to increase your inventory and manage your cash flow so you can offer more units to a wider range of customers. But you need to also be fully aware of what could go wrong if that line of credit is not managed properly.

Make sure you not only understand exactly what your costs on that line of credit are, but also when payments are due. The easiest way to get into a trick bag with a floorplan line is to miss an interest payment or curtailment. Every company has different consequences for missing payments - ranging from at minimum late fees to account suspension all the way to recovery of inventory and action against the personal guarantee. Just like a personal credit card or other form of individual credit, it is important to make sure you do not get overextended. Only finance what you believe you can sell within the timeline parameters of that floorplan.

Manage your purchases to align with the business cycles of your dealership. Since curtailments are typically due at the same intervals with the same floorplan company (day 31, 61 or 91) be careful not to buy too many units on the same day. If you purchase 15 vehicles on the 10th, in 60 days you may very well have 15 units with curtailments due on the same day.

Being able to show where your inventory is at any given time while a unit is on your line of credit is important. Most (all?) floorplan providers audit their dealer partners at varying intervals to ensure the units financed are accounted for properly. Just because a unit is not at the lot does not mean a dealer is doing anything wrong – just be able to prove where that unit is If not sitting on the front line ready for sale. Is the unit getting body work done? Have the name, address and contact information available for the repair shop. Is the unit getting new brakes and an oil change? Have the same available for the mechanic. Was the unit just sold yesterday and you are waiting for funding from the retail lender? Have that deal jacket readily available.

The bottom line is a floorplan line of credit can be a great tool for your dealership. Just be sure you are asking the right questions and you understand all aspects of the program to get the most benefit and avoid any unintended negative consequences.

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A Few Things to ask a Floorplan Company

Ready to start interviewing potential floorplanners? Start with these questions:

What are your current rates?

What fees are involved? Are they one-time or recurring?

When are payments due? What is the fee schedule?

Are there penalties if I can't sell all of my inventory?

Am I required to insure my inventory against theft or natural disaster?

What stipulations do you have regarding management of my inventory?

Will you pay the auction or the wholesaler directly? How does this work?