ByScott Silverman and Josie Martinez

How Much Are You Willing to Pay for 'Luxury?'

Ford has been surprisingly transparent in its plans for the Lincoln brand. Essentially, Ford has advised those who want to participate that if they want to be a luxury dealer, they need to act like a "luxury dealer" (whatever that means). However, this seems to be a classic case of putting the cart before the horse.

Ford does not currently have the requisite market share, customer demand or luxury vehicle inventory readily available, yet it is asking interested dealers to step up to the plate now and commit to investing in the future. By way of example, the Lincoln situation seems in stark contrast to the natural growth that has occurred over time with Lexus and Mercedes Benz. Lexus and Mercedes Benz have made demands that, although exorbitant, are arguably justified by the market share, sales volume, and profit margins that are achieved by dealers representing those brands. There is a history of success and a trend of brand loyalty in the marketplace that provides confidence when dealers prepare the pro formas to analyze potential facility investments. Not so with Lincoln. Frankly, Ford's actions are rather ironic in light of that fact that recent history, through the General Motors and Chrysler bankruptcies and the ensuing report of the Inspector General, has disproven the notion that fewer, larger dealerships have a direct link to more profitability and the generation of more retail sales.

Presumably, manufacturers have learned that they simply cannot terminate dealers that are hesitant about making unnecessary facility investments when such a move is not financially justified by current or expected financial performance. The new strategy is economic coercion - with various manufacturers rolling out programs that warrant serious scrutiny under applicable franchise laws that regulate illegal sales incentives and promotions. Audi's incentive program, for example, has a foundational requirement for certain levels of facilities. If a dealer's planning volume is "X," then the dealer must have a separate showroom. If the dealer's planning volume is "Y," then the dealer needs to have a completely exclusive facility; otherwise, the dealer will not receive the same money per vehicle as its competition. Of course, planning volume is a number unilaterally set by the manufacturer and is wholly derivative of its national sales objectives.

While it may seem that a manufacturer is acting reasonably when correlating facility requirements to something concrete like planning volume, this is simply not so. The best example may be Nissan who, at least for a vast number of dealers, has for many dealers issued the exact same planning volume in 2010 that it issued in 2005 while it is on pace to sell approximately 500,000 less vehicles than in 2005. Despite this drop of more than 40% on an individual dealer basis, Nissan apparently expects its dealers to sell the exact same number of vehicles. Essentially, Nissan has continued to make facility demands and set sales metrics/objectives based upon expectations that are entirely outdated and unrealistic.

While objectively less onerous, Volkswagen has had similar programs in recent years that required minimum facility requirements for qualification into incentive programs that, absent participation, would have left non-participating dealers in an incredibly unenviable position when competing with fellow dealers that were receiving incentive monies. Meanwhile, General Motors is now threatening to penalize dealers by withholding incentives for those that have not removed non-GM brands (i.e. Saab) even though it was GM that was pushing the same dealers to combine the same brands just a few years ago.

While it is uncertain that the SAR may increase from its current level of approximately 11 million back to what was seen in 2005/2006 of 17 million, until that type of volume is actually achieved it is incredibly more difficult for a brand to grab market share and increase its volume with fewer sales to go around. Through the first eight months of 2010, Lincoln's market share was down from .8% in 2009 to .7%. Putting volume numbers aside, this .7% market share is the exact figure that it closed with in 2005.

However, during this same time period, Lexus, Mercedes Benz, and BMW have all increased their market share with all three currently hovering around 1.9%. This presents yet another issue: Haven't these luxury brands defied logic in increasing their market share during an economic downturn, and if so, wouldn't it further defy logic for there to be room for growth by yet another luxury brand? It would seem with these statistics and Ford's current game plan, it may take a Herculean effort over the next few years for Lincoln to accomplish its goals and for dealers' investments to be justified.

So, under these circumstances, what happens to a Lincoln dealer that does not invest? In other words, what is the punch line? What Ford dealers can likely expect is the same strategy that other manufacturers have implemented, namely, a heavy hand in the form of overly aggressive sales incentives as explained above, or as it is often called when such action crosses the line of abuse, Price Discrimination.

Are sales incentives available on equal terms to dealers when one dealer potentially needs to invest over a million dollars in facility upgrades to qualify? That is certainly not the way it is suppose to work. Dealers would be smart to turn to the regulations within their franchise law provisions that govern sales incentives and promotions for some guidance and clarification as to what a manufacturer can and cannot do.

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