

M&A market is poised for growth

■ **Ross Fattori**

Since March 2020, new car dealers have demonstrated incredible resiliency and leadership in adapting to new business realities in light of COVID-19. From the rapid implementation of health and safety protocols and innovative appointment-booking options, to updating websites and embracing new digital platforms, dealerships have found a way to remain viable during the pandemic.

In addition to compelling dealers to become more efficient, the pandemic has also prompted many dealers to consider the prospect of selling and / or buying. Dealers have been evaluating a number of factors, such as economic trends, new automotive players, current valuations, evolving customer expectations and an increasingly digitized future in automotive retail.

Surprisingly, the Mergers & Acquisitions (M&A) automotive retail market in Canada has remained relatively consistent throughout the pandemic. Industry insiders suggest that the current level of transactional activity across the country – despite inventory issues and staffing challenges – should remain strong in the coming years.

According to Paul Stern, who recently launched a new entrant (Dealer Direct Canada) into the M&A retail automotive marketplace in Canada, a gradual acceleration of the market is expected over the next few years, in all dealer size categories, especially among dealer groups.

Stern, who has been involved in dozens of transactions and bought and sold multiple dealerships over a four-decade career, says that dealer profitability during the pandemic has been relatively healthy. This favourable development has led



to higher dealership valuations and steady activity in the M&A market.

Industry watchers note that the dealership landscape is shifting, as evidenced by an aging dealer body, increased competition (particularly with new EV players), emerging technologies, and more consolidation. Together, these forces are expected to trigger accelerated buy / sell activity among small, medium and large dealerships.

Two developments in the M&A market in 2021 are worthy of note. First, in August 2021, U.S.-based Lithia and Driveway announced its expansion into Canada through a new partnership with Toronto-based Pfaff Automotive Partners. This was Lithia's first international acquisition.

Secondly, in December 2021, Mercedes-Benz Canada sold its Toronto Retail Group of seven dealerships to the AWIN Group of Dealerships and the Zanchin Automotive Group. These developments indicate M&A activity remains brisk across the country as dealers large and small seek buying opportunities in Canada and the United States.

Samir Akhavan, managing partner at Templeton Marsh, believes that the Lithia/Pfaff deal could pave the way for more

U.S. dealer group expansion into Canada. The Toronto market, in particular, is attractive to U.S. buyers for its size and its proximity to the U.S. border.

M&A activity in the U.S. has been extremely robust during the pandemic, a development that could lead more U.S. dealers to set their sites on Canada. In 2021, U.S. dealers made record profits, and more than 75 per cent of dealers indicated they plan on buying one or more dealerships in 2022, according to a survey by Kerrigan Advisors.

The busy buy / sell market in the U.S. has promoted some Canada auto groups to acquire stores south of the border. Foundation Auto Group of Calgary have announced plans to expand in Canada and the U.S. Steele Auto Group (Nova Scotia) and AutoCanada Inc. have purchased stores in the U.S. in recent years.

Another development that could impact the M&A market in coming years is the 'agency model' that some OEMs are advocating. The agency model would have the customer place a new vehicle order directly with the manufacturer and name a preferred delivery dealer. The vehicle price and mark-up would be set by the OEM.

In Europe, some OEMs have already begun implementing an agency model for electric vehicles. Some dealers may view this move as an encroachment on their business and decide it's time to sell before the agency model is imposed on them.

As for what nameplates are expected to lead industry in transactional activity, Akhavan says it's impossible to predict with certainty. Brands go up and down in popularity, and M&A activity tends to be cyclical in nature. Buyers will always look at return on cash investment as an important criterion in deciding what nameplate to buy. **AWI**

F&I folks will have to adapt to survive in 2022 and beyond

BUT WITHOUT A PROFITABLE BUSINESS OFFICE, DEALERSHIPS CAN'T SURVIVE

■ **Lawrence Papoff**

TORONTO – These are challenging times for auto retail. They are a changing. And the F&I office is not being spared, warned F&I guru Duane Marino. The hope that once COVID fades, all will go back to the way things were, is fading.

The customer who wants to buy online is not going away, Marino continued. "This is a reflection of the change in people's lives and money situations due to COVID."

Taking the pulse

Marino has been taking the pulse of auto retail for many years as an F&I manager, lender, and a customer. His career as a sales and F&I trainer began in 1992. But it actually started at 16 when he began working, doing oil changes at a Canadian Tire store in London, Ontario. He has been in the car business in one capacity or another ever since.

His areas of expertise are sales, process training and motivation for sales managers, F&I and service advisors.

Among his credits are developing the first automotive CRM.

Marino has also penned three best-selling books: *Unstoppable Attitude*; *Unstoppable Sales*; and *Unstoppable Money*. He also trains via an online virtual learning platform and at a full-time, in-person training academy. His trainees come from dealerships big and small in Canada, the USA,

and Central America.

"I regularly consult, both live and virtually, with dealerships and dealer groups about a range of problems and opportunities in many markets, so I'm constantly exposed to trends and working through them," Marino explained. "And with my son being one of the top-performing F&I managers in a large dealer group, we talk shop all the time."

F&I managers' concerns

Marino said we are experiencing huge customer behavior and technology changes. There are easier-to-use online navigation tools, faster and easier approvals, less product variety, and streamlined paperwork.

The customer's ownership experience is also changing with people driving less and making fewer trips to the service department. All that means is many salespeople and F&I managers are having fewer and shorter interactions with car buyers and that could add up to fewer sales and lower commissions unless salespeople and F&I managers adapt, he warns.

However, Marino is an optimist. He continues to believe the F&I office is capable of change as it has in the past. And he knows that the front end can't profit if the F&I office isn't profiting. And that means dealers will rally round and get creative to ensure the F&I office will profit.

Marino's remedy

F&I managers will have to be as effective on

the phone, by video and online and master whatever other technology consumers choose to use to buy cars, he explained.

As an example, Porsche has been using virtual reality (VR) to let customers experience the Taycan with VR goggles in a virtual showroom. "So being flexible and effective with your presentation no matter how the customer wants to buy is key. Adapt or die!" Marino warned.

Transaction types are changing

His research reveals a growing number of cash deals and subprime customers while the number of middle range customers who get prime financing is shrinking. The cash customer is very price sensitive while the subprime customer is payment and approval sensitive.

The F&I manager will have to learn how to deal with the cash-rich and credit-challenged better using phone, text, video etc.

"F&I needs to integrate into the sales process earlier and more often and not be only an add-on at the end it," he continued. "The F&I manager must find timely and appropriate ways to meet, package and bundle the products and services into the initial quote, or the close, or after the purchase."

Marino added that means becoming involved in the entire transaction, supporting the sales team and "determining when and what to bring up with the buyer."

The F&I manager can't simply wait in their office for a turnover.



Duane Marino: Times are a-changing and the F&I manager must adapt to survive.

Opportunity knocks

Door may close, but others open.

EV sales are up as the OEMs vow to be selling only EVs by the middle of this decade. While EVs may need less regular maintenance, Marino pointed out that as they age, replacing parts such as the battery is very costly and that brings with it the opportunity for F&I sales – if not at the point of sale, then as the customer's EV ages. And of course, there's a huge market for F&I products in used sales, a market that will increase in size as ICE buyers turn from new to used rather than go EV. **AWI**

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