

There's Nothing Old Fashioned About Retro Plans: How Profit-Sharing can Boost Your Income

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Retro plans have nothing to do with how your store was set up in the 70's! They're a lucrative—if misunderstood—tool for helping you earn more money *today!*

A lot of dealers have heard the terms “retro” and “dealer participation,” in reference to service contracts; but many of you are unfamiliar with the details of these plans—and their potential to make you money!

Dealer participation programs come in many forms but they all share common characteristics. At their core, all participation programs allow the dealer to keep (profit from) some of the unused reserve. Reserves are the money set aside to pay claims on the contract, and as with any “insurance company,” a VSC takes in more money than it pays out.

Think of it like this: a retrospective (retro) or dealer participation program is a reward for selling good cars. You earn a partial rebate of the unused service contracts reserve, based on lower claims losses and production. This is a reward for doing business the right way.

A lot of you are thinking that these programs are only for new car stores and the largest independent dealers—the “Big Boys.” Well your wrong! And you can thank AIADA Director Randy Jones for reaching out to Peak Performance Team to investigate retro plans and how they can best be tailored to benefit the independent dealers Alabama.

Randy felt that independent dealers were missing out on the rewards enjoyed by the Big Boys, even when they do business by serving their customers with consideration, pride, and integrity. For example, independent dealers who recondition their inventory; put a warranty on each vehicle; sell the customer a service contract; and use their initiative to care for the customer, proactively, after-the-sale should enjoy the same rewards as the Big Boys!

Since full-on reinsurance (another dealer participation model) takes about \$200,000 per year in net written premiums—and can be complex as well as expensive—it seemed that a retro program would be a better fit for smaller dealerships. One of the qualities that better suit retro plans to independents is that they are established with no outlay of cash; which is a basic requirement when setting up reinsurance. And, with this in mind, Randy and PPT have come up with the following retro plan for the independent dealers of the AIADA:

- As little as 5 contracts per month (or 60 contracts, annually)
- 3 month limited warranty to 5 year/100,000 miles, included (for qualifying contracts)

60 contracts per year (just 5 contracts per month) will earn you 25% of the remaining underwriting profits. As you add contracts, that percentage grows:

- 90 contracts per year (about 8 contacts per month) will earn you 35%
- 120 contracts per year (10 contracts per month) will earn you 50%
- 240 contracts per year (20 contracts per month) will earn you 75%

So, even a small dealership that sells 60 to 70 contracts per year will qualify for retro profits! Here's an example. Let's say you sell 150 cars a year and you put a 3 month/3,000 mile limited warranty on every vehicle. On average, \$75 is going into reserves to pay claims. If you multiply \$75 by 150 units, you have \$11,250 in annual reserve. The national average of claims loss runs about 70% (which means that 70 cents is paid out for every dollar the service contract company takes in). So, at the national average claim loss rate, there would be \$3,325 left over at the end of the

contract. Peak Performance Team is going to hand you a check for \$1,687.50, for just the 3/3,000 limited warranties. This is *your* money and it goes back into *your* pocket. Just think of the great things you can do with that cash. That can be a nice vacation for you and your family! And what did your current provider give you last year? Donuts! There's nothing wrong with Donuts. I love donuts! But I love checks *more* than donuts! Don't you?

The big thing is that the AIADA and Peak Performance Team want to see you rewarded for your hard work. This business we are in has its ups and its downs. I've been at it for 30 years and I love it! It has given me a great life, just as it has you. Peak Performance Team and the AIADA want to make it a little better and reward you for your efforts.

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