

Monaco Breaks the RV Franchising BARRIER

Few concepts have been paid more lip service in recent years in the retail end of the recreational vehicle business than “franchising.” It’s a term that means different things to different people, especially considering the ways in which it’s been used before by fast food chains, automotive parts stores, furniture outlets, basket boutiques and so forth. Now one manufacturer, Monaco Coach Corp., is attempting to get beyond the talk by rolling out the industry’s first customized “franchise” program.

Frankly, there’s no franchising benchmarks here for Monaco or any other company because, again, there’s never been anything like it in the RV business. On the contrary, RV manufacturers and their retailers ordinarily operate with rather short-term, “dealer agreements” that often don’t hold either party’s feet to the fire in a significant, long-term way.

That’s just the way it’s always been. And to be fair about it, a lot of dealers and OEM’s have always preferred it that way in a sector in which multi-brand stores – small and large – are so prevalent.

Yet, there’s been a growing consensus that for the industry to grow to the next level there’s just got to be something more enduring for the manufacturers who desire a higher level of commitment and for retailers in search of a viable succession plan. Manufacturers, on one hand, often resent the fact that their relatively expensive motorhomes are generically marketed at dealerships, even though some of them sell for as much as a Cessna aircraft. RV retailers, on the other hand, see themselves laboring away for decades, only to find that much of the value they might have accrued over the years simply didn’t count when it came time to sell their stores to their



offspring or an outside buyer.

It was in response to these and other issues that Coburg, Ore.-based Monaco’s senior management went to work about a year ago with a clean slate to develop a first-of-its-kind franchise format for the company’s North American motorized dealerships. It’s a unique approach involving an array of holdbacks and incentives that the company plans to introduce to its dealer body June 27-29 at its Dealer Congress in Las Vegas. Although all of Monaco’s motorized dealers will become “franchise dealers” during the Vegas meeting, we’re told, a franchise format for towable dealers will follow at a later date.



MONACO MOVERS: From left, John Nepute, president; Kay Toolson, chairman and CEO; and Mike Snell, vice president, sales and marketing

Will Monaco's program, which is still in part a work in progress, turn out to be the complete answer to franchising in the RV business?

Only time will tell.

Initially, however, Monaco's leadership says the reception among the company's retail store operators has been quite positive, with a number of key dealers stepping up to embrace the new program.

How does it work?

Although it's too detailed to fully explain here, Monaco's new "franchise" program in general terms consists of two main components. First is an array of physical items available for lease or purchase and designed to significantly upgrade a

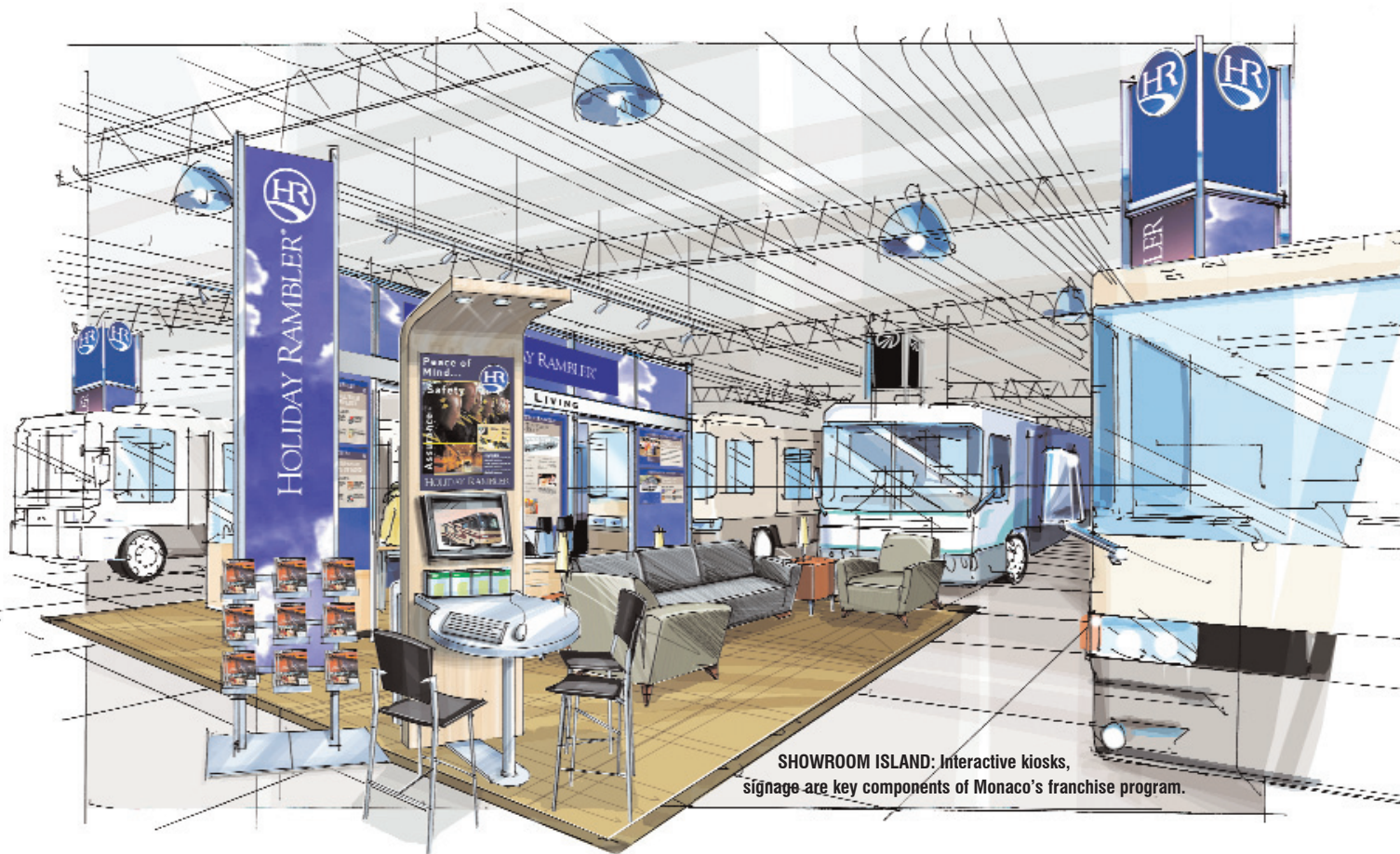
store's outward appearance. There's elaborate showroom "islands" with comfortable furniture. There's interactive "kiosks" programmed with detailed Monaco product information for use in sales and service areas. There's street-side dealer signage and 20-foot "pylons" that can be utilized inside or on the lot outside for setting off the company's Monaco, Holiday Rambler, Safari or Beaver products from competitive lines. "It's all about our dealers marketing our motorhomes and company as the elite manufacturer of premium brands," stresses Vice President of Sales and Marketing Mike Snell.

The other major component has to

OEM's Program Entails Better Retail Brand Identity Through Enhanced Dealer Training, Interactive Front-End Displays and Back-end Service and Care

by Sherman Goldenberg

photos by Shawn Spence



SHOWROOM ISLAND: Interactive kiosks, signage are key components of Monaco's franchise program.

do with making Monaco's branded dealerships more profitable, says Snell.

Beginning with the 2006 model year, Monaco is adding a marginal increment to its base prices with an eye toward greatly enhancing the company's holdback fee structure. Holdbacks, as most in the retail ranks well know, are post-sale payments paid by manufacturers to dealers in addition to the gross margins dealerships already get. From now on, these holdbacks are to be computed on a "variable" basis and are developed to reward dealers for committing to do things the Monaco way, so to speak. That includes training dealership personnel, utilizing Monaco signage, providing top-grade customer service, maintaining inventory levels and generally promoting Monaco's products over the competitors with whom it shares shelf space at a given dealership.

Monaco, in turn, hopes the enhanced holdbacks, which increased by as much as 285% in some cases, will encourage dealers to maintain realistic retail pricing, curtail discounting and help the manufacturer stabilize production

rates.

Also built into the franchise format are incentives for dealerships to keep sales within their own geographic territories. Plus, there's a potentially lucrative "salesman retention program" involving monthly "mystery shoppers" authorized by the company to anonymously visit dealerships. "We signed on with a mystery shopping company," says Snell. "Dealers love them. We do this not just for us - it's not to just see whether salesmen are trying to flip our customer to another brand, but to see if a sales person is willing to follow up on prospective sales. These are things we are going to have this mystery shopper do and report back to the dealer."

The service bonuses are partly linked to a new program through which customers are to receive a notice near the end of their first year of coach ownership informing them that their warranty is up and that they are eligible for a free wash and safety check, compliments of Monaco. Regardless of which dealer originally sold the unit, dealers are all expected to service these owners - and will be remunerated by

Monaco for their efforts - and to perhaps take advantage of the possible sales opportunity that accompanies these free, three-hour customer visits.

"The bottom line," says Snell, "is for our dealers to be successful. And for our dealers to be successful, we want them to sell Monaco brands not just as a commodity, but as a premium brand. We want to sell more than just slides, size, color and engine. We want to sell service, and we want people to be willing to pay more, like they would for a Lexus, for a Monaco-brand product. In today's RV world, that's not the way it is. They (retail buyers) expect the same discount on brand X as they do on Monaco. Yet, they are getting different things. They are getting better customer service and better quality in the Monaco brands."

In the following interview, Snell joins Monaco Chairman and CEO Kay Toolson and President John Nepute in a candid interview with RV Business Publisher Sherman Goldenberg regarding some of the thinking that went into Monaco's new franchise concept.



RV BUSINESS: Franchising has been a popular topic in this industry for quite some time. But, frankly, it's a subject that manufacturers for a variety of reasons have been reticent to do much about. What prompted Monaco's senior management to launch a franchising program of this magnitude at this time?

Toolson: We heard it for a long time from dealers – that 'we want franchising.' About a year ago we started taking a look at it, trying to figure out how we could make customers' experiences better. What are the weaknesses we have? We kept looking at surveys and seeing that people keep leaving the lifestyle because they've had a bad experience with a product or service. Dealers would not take care of customers who were traveling if they didn't sell to them. There were lots of issues.

“There are a lot of people in this industry whose idea of customer service is to give you the toll-free number of whatever component manufacturer sold them that part. That's not the approach we're taking.” – John Nepute, Monaco president

We started talking about franchising internally to try to figure out why not give dealers what they want? It would certainly upgrade the dealer body. It would make us partners with each of them, and that should be good for the profitability of our dealers as well as for the value of their dealerships. As a result, we decided, that would help us as a company.

“We truly think that other manufacturers are going to follow suit [with franchising programs]. I think they are going to have to. The dealers are demanding it.”

– Kay Toolson, Monaco chairman and CEO

When you say franchising, what do you mean?

Toolson: Franchising is where the brand gains some importance at the dealership. What happens is if you've got a place called XYZ's Burger Bar and you've got a McDonald's next to it that is a franchise, when XYZ's Burger Bar is ready to sell, it's not going to be worth very much money, even if it's the best burger bar in town. But there will be 10 people standing in line to buy the McDonald's because it is a proven successful franchise.

We are trying to do that same thing – to get our brand identity into dealers' locations to where it's not just Joe's RV Store. It is “Monaco Arcadia.” It is “Holiday Rambler Elkhart.” It is “Beaver Boston.” Certainly the dealers still want to have their names on their stores, which most car dealers do. But when you go into a place, you're looking for a Lexus or a Cadillac store to get service.

our whole industry has room to improve and, as a result, we've lost customers who decided they didn't like the experience. The whole thing is designed to upgrade the experience that customers have by giving the dealer incentives to provide better service and give some brand identity to the whole process.

You've maintained that this type of program could help improve the professionalism of the industry in general. How so?

Toolson: We mean that very seriously. Our whole industry has to be better because the people who are coming into our market now are not people who spend lots of time in service centers. The reality is that an RV has a lot more things than a car has that can go wrong. It's got everything a house can have, and it's in an (moving/shaking) earthquake zone all the time, basically.



So, you've got potential issues. And customers, if they've got problems, want to know it's going to be fixed by someone who can fix it.

Back to your point, though, how might this make the whole industry better?

Toolson: It is a whole training process for our dealers to undertake and be rewarded for what we offer in our

rebate programs. There are certain criteria that they have to live up to. Technicians have to be trained and have to reach certain goals. Their sales people have to meet certain goals and be trained so they know the products they are selling. And they are going to want to spend money to upgrade facilities because we are making that avail-



able to them. And we truly think that other manufacturers are going to follow suit. I think they are going to have to. The dealers are demanding it because it's giving dealers what they've asked for for years. And we think it's going to go a long ways toward upgrading the industry and the image of our industry, which is important.

In tackling all this, we understand that you've utilized the auto industry's model to an extent and that you've obtained input from a consultant familiar with the automotive arena.

Toolson: We did, actually. We didn't know enough about it to do it ourselves. So Mike (Snell) talked to (Monaco board member) Rick Rouse, and Rick introduced him to a franchise expert named Fran O'Hagan (of Pied Piper Management Co. LLC, Monterey, Calif.), who had worked with a variety of automotive companies, including Jaguar and BMW. He's worked for three or four other companies as a consultant. We thought he would be a perfect fit with our company, and he is.

Snell: There are so many brands and so many new (motorhome) models out there, and they are getting sold as commodities. We are going to give the salesman what we call "yardsticks" to help do more than just sell four-slide floorplans and 400hp engines and 40-foot

lengths. We want them to sell the warranties, after-the-sale service, all these yardsticks and values in the coach so the sales person in the dealership can ask for more money for the product. And we want to get an upgraded image with all the different things we are providing in order to get more value to the dealership and, again, more value and

image of their dealership. And it's going to allow them to expect more money when they sell our units.

What are the key components of a franchise relationship from the dealer's perspective?

Toolson: We realize that, in providing more value to the customers, the term "franchise" is more than just a word.

"When there are so many brands on a lot, salesmen don't really sell any one line like they should ... They [dealers] can't spend the time to train and sell like they could." – Mike Snell, Monaco vice president, sales and marketing

more money for our product when they sell it.

And this, of course, speaks to one of the chief criticisms that recreational vehicle dealers have today regarding their inability to sell their dealerships for a price that reflects all of the years they've invested in those stores, right?

Toolson: It absolutely does give them something to sell. With the holdbacks and the earnings potential, they should have more income and earnings, which gives them more to sell. And we are going to give them the right to sell that agreement to another dealer. Now, we will have the right of refusal, but it will give them something of value to sell. Right now there is little equity in dealerships because they have no franchise agreements. All they have is a dealership agreement that can be canceled with 30 days notice. It's silly the way our whole industry operates.

Snell: As part of this whole program, we've gone to an Ohio company, Design Forum, that was pivotal in designing the branded look of our in-store islands and lot pylons among other things. Now we know that the RV business is not exactly like the car business. But there are some neat concepts that the car business has utilized to make it a better industry. So, we've taken a lot of Fran O'Hagan's ideas, and tried to see where it would fit in the RV business. We spent a lot of money manufacturing pylons and brand islands and kiosks for on-line training – things that are going to help elevate the look of the dealers, and they are welcome to that. They (dealers) love seeing this because it's going to help upgrade the

Contractor Fran O'Hagan met over a year ago with many of our dealers during our dealer meeting in San Antonio. And he spent the entire first part of this year going around and visiting with our dealer body, talking to them and kicking around ideas as to what they wanted and what this could mean to them and how it could help them and he released some trial balloons. Would they like this? Did this sound good to them? And we ended up tweaking this thing many times along the way.

So, essentially, yours is a customized program?

Toolson: It's a work of art. It's customized. It's been a moving target. And right now we are just finalizing some of the last details with input from the road shows that Mike did with Fran and John and I to visit with some of our larger dealers. I can tell you, the dealer reaction has been overwhelming. It's been wonderful. They are very excited about it because they can see the benefit to them and benefit to the customers and to the industry.

There has been no negative response, and the reason for that is that Fran did his homework. He spent a lot of time working with our senior management team, kicking around what we wanted it to be. And then he started talking to the dealer body, and he spent time with other executives in our company so that he understood enough about the industry. He did surveys and went to the Harrisburg Show and the Pomona Show to find out what customers' likes and dislikes were so that we could make it better.

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To a great extent, this program is a culmination of ideas from the bulk of our dealer body and from consumer surveys and results from some mystery shopping that he did to see where the weaknesses were.

We assume, John, that there was plenty of hand-wringing that went on before launching a program of this magnitude.

Nepute: There is still hand-wringing. We've been kicking this around for an entire year now. And I think, as Kay was saying, one of the biggest positives for us right now is that we've got a lot of research behind the direction we are going. We surveyed customers throughout the entire country, actually, and we think customers can differentiate between the brands. And the real challenge, then, is when the customer gets onto the dealer's lot. Are there things when they get there that are going to affirm that brand identity – literature, signs and the like?

Or, on the flip side, is there a visual brand identity that might capture the attention of those unfamiliar with the brand?

What we found in our research was that once people became aware of our brands, they like the fact that we have more people on the back end of our business supporting their lifestyle than anybody else in the industry. That all feeds into the whole concept of trying to take care of the customer – making it a better experience for them.

So, you're comfortable with the calculated risk of introducing something so new into the RV sector?

Nepute: Risk? I'd say there's more risk in not doing all this. There are a number of newer players in the diesel market particularly, and I think that they can get by with selling these coaches as a commodity for a period of time. But, eventually, there's going to be that word-of-mouth factor that is so important in this industry, especially regarding service.

There are a lot of people in this industry whose idea of customer service is to give you the toll-free number of whatever component manufacturer sold them that part. That's not the approach we're taking. We'll have somebody on the phone 24/7 who will take care of that for them. Particularly among the younger customers, they don't want things to go wrong. They don't want to have a hassle with this or that. Kay's right.

What percent of Monaco's motorized products should ultimately be covered by a franchise-style arrangement?

Nepute: One hundred percent. There may be different levels of participation, of course, but basically if you are a dealer you are a franchisee.

Snell: There is no choice. We are implementing this, and with every dealer this is how our pricing structure is going to be. And we are going to offer all these resources that they can either lease or purchase to upgrade the look of their facilities. With our kiosks and brand-island pylons, we anticipate full participation. And with the reaction so far among the dealers we've asked, we see no reason it won't be 100%. Our dealers really want to help tailor this program for us. I can't emphasize enough what Kay said: We had this concept and it's changed and evolved a lot based on dealers' participation.

Nepute: We've been very responsive to their concerns and it's been a good exchange back and forth about what each of our interests are. In the end, the customer is going to be the one benefiting most because the buying process won't be as confusing as it is now. We've got to give them a reason, other than the fact that a given unit is 40 feet long and green has a certain floorplan, to decide on a purchase.

Dealers are entrepreneurial types, and they're often a pretty hard-nosed lot. We're somewhat surprised that you've already achieved this level of acceptance. What's catching dealer's eyes the most?

Toolson: Certainly the holdback is a big part of it. But the holdback is variable, based on how well they live up to the agreement and how well they take care of the customers. They have an incentive to do a really good job in their territory taking care of their customers, but it's part of the brand identity. Part of it is the excitement of the value of their dealership being worth more money because now they have a franchise agreement versus just a dealer agreement.

They have something that they can actually put their teeth into and sell. They've got a business that is worth more money than it was before because this franchise agreement allows the dealers to both make more money and build the business around the franchise, around the product. It brings more value. So, it's the whole package, from the sales training, the kiosks, the salesman retention thing and the mystery shopping so they know how well their people are doing on their lots. And dealers love the service side of it where customers will be coming back in and we can incentivize dealers to do a better job in service because they make additional money servicing our products.

So, this franchise initiative doesn't require dealers to be single-brand stores?

Snell: We want them to make the decision (to drop competitive brands) on their own. We did see this as a way to come in and force competitors off the lot. But we felt it would be too confrontational. We are so confident in this – and the dealers have shown such confidence in this program – that we hope that they will do it (cut out competitors) on their own. We hope that they see the value in this and that they make more money so that they make that decision on their own and decide that they want to become a bigger and better partner with us.

Nepute: We are not trying to force them into that decision, but the whole program is designed to help them make more money. And if they are going to make more money with our brand, it's hard to understand why they wouldn't be more receptive (to going single-line) over a period of time.

Snell: When there are so many brands on a lot, salesmen don't really sell any one line like they should. That's really a frustrating thing with our industry right now. They (dealers) can't spend the time to train and sell like they could if they were just exclusive to one brand. If you take it from the auto industry and go into a Lexus store, they are going to sell you one brand – a Lexus. They sell you 100% on the company, the service, the car. Just imagine if they sold Lexus plus Geo, Saturn and Porsche? And when there are all these different things and ways to sell, it gets cloudy. And you can't give it the effort or time to sell it correctly.

You've been outspoken about discounting and about how a program like yours might help slow the discounting habit. Would you comment on that?

Toolson: Price should not be the biggest reason to buy something. It should be if it satisfies what your needs are. The reality is, we have turned the RV industry into a price-buying industry, and it's wrong.

Nepute: It hurts not only the manufacturer, but the dealers as well. Right now, in the consumers' minds, not only is the product a commodity, but the dealerships are a commodity. There's nothing to differentiate one dealer from another. With the brand identity and the brand islands, a number of our dealers have spent a lot of money upgrading their facilities, and they have beautiful facilities, showrooms, lots and service centers. As long as they're forced to sell based on price, none of that gets taken into the equation either. That is something that we all want to move away from.Δ