Floor Plan Financing Offers Many Benefits

Now more than ever, floor plan financing allows dealers to expand their new and used offerings, free up capital for other uses and make the best use of their time.

At first glance, it might seem like the topic of floor plan financing is old hat for motorcycle dealers. However, experience shows that there are some who still don’t fully recognize the many benefits it can provide when effectively utilized. Meanwhile, some industry newcomers could undoubtedly benefit from an article explaining what floor planning is, how it works and why they might want to consider using it.

As with any product or service, floor planning has evolved with the changes in our industry and the economy. Recent advances in technology – such as the use of mobile devices – have made floor planning a powerful tool for dealers, saving time and simplifying the process of buying and selling your inventory. Mobile technology allows you to conduct business anywhere and at any time, making floor planning easier for you.

While your first inclination may be to consider floor plan financing as simply a means to finance your inventory, there are many other benefits to floor planning. In today’s economic climate, dealers have a variety of options for financing their inventory purchases. In this article, I’ll provide some of the fundamental advantages to floor planning, describe how it benefits your business, and share what you should expect from a lender.

As a dealer, your time is at a premium. You need simple solutions to effectively and efficiently run your business, and your lender should be part of the solution, not the problem. With this in mind, you should consider how your floor plan financing options make your business more successful and your life easier, allowing you more time to run your business. Let’s review some of the key factors of floor planning that you should consider when deciding if it is a viable option for your business model.

The Basics of Floor Plan Financing
For those not familiar, “floor plan” is an industry term used to describe short-term inventory financing provided by a finance company, bank or private equity firm. Dealers use floor plan lines of credit to acquire and/or refinance inventory for their wholesale/retail remarketing operations. Generally, the dealer grants the lender a
security interest in the dealer’s assets and properties, including the inventory specifically financed with the line of credit, in order to secure repayment of the obligations.

When vehicles are sold, the sale proceeds may be sent directly to the lender to reduce or pay off the related loan balance. Either way, when a vehicle is sold or otherwise disposed of, the related advance must be satisfied. Further, depending on the terms of the floor plan agreement, the dealer may be required to pay off a specific advance before the vehicle is sold.

It is essential to understand the components of floor planning to fully realize just how beneficial it can be to your business. I cannot over-emphasize the ease of using a floor plan line of credit and the tremendous time savings it may offer.

**Floor Plan & Inventory Acquisition**
It is imperative that you are able to locate and purchase the inventory your clients are looking for. Keeping this in mind, it’s important to consider the following when evaluating and selecting a floor plan lender to support your needs:

**Types of Inventory** – Whether buying new or used vehicles, a flexible floor plan allows you to finance trade-ins, auction purchases, wholesale units, dealer-owned inventory, and even private owner purchases. These sources of inventory can be an excellent means to expand your selection of desirable offerings to your prospective clients.

Without the benefit of a flexible floor plan, purchasing from these sources can be a significant drain on your cash flow. A flexible floor plan line of credit may be the solution to cover these various inventory types without drawing on your cash reserves.

**Method of Funding (time value)** – Once the decision is made to purchase inventory, administrative factors must be considered. Will the source you are purchasing your inventory from be paid directly by the floor plan company, or will you pay for it from your reserves and then be reimbursed?

Having a floor plan company that can make that payment directly can save you time, reduce administrative costs and eliminate the negative impact on your cash flow. Below are some possible advantages to acquire inventory using floor plan financing:
The ability to floor plan vehicles from anywhere at any time is essential. Whether from your office, on your smartphone or from your tablet, you need that level of flexibility. Today’s technology offers dealers 24/7 access to floor plan services via mobile apps and online accounts.

With the continual strain on your time, and the constant need to address business demands, being able to conduct business on your schedule is an important consideration when selecting your floor plan provider.

Are they on the “cutting edge” of technology, offering the flexibility and service level you need? Assess your needs and determine if your provider meets them.

Online services that benefit your business. Does your floor plan provider offer the following online services that may help improve efficiency and save you time? The ability to create and view reports – outstanding balances, inventory types, auto make, etc.; the ability to view floored vehicle information and the status of titles; the ability to make payments; the ability to schedule payments; VIN barcode scanning and speech-to-text for vehicle book out.

Does your floor plan provider support purchases from the following sources, such as loan payoffs, trade-ins, off-street purchases, rollovers from other lenders, dealer-to-dealer purchases and auction purchases?

**What to Look for in a Floor Plan Provider**

The more flexible your floor plan line of credit, the better chance you have of saving time and money. It is strongly recommended that you pay close attention to the length of time taken by your floor plan provider to service your requests. You should expect and receive timely and efficient service.

If your floor plan provider is not timely in processing your transactions, your time investment becomes a burden, complicating the process for your business. Look for efficiency in how your floor plan provider serves you. Additionally, you should consider the following:

**Cash flow** – Cash is the lifeblood of your business. A flexible floor plan line of credit may help free up cash for other expenses. A flexible floor plan line of credit should help you continue operations without the added strain on your cash reserves.
Freeing up additional capital allows you to use that money to pay expenses or to purchase new equipment or facilities allowing you to increase your efficiency and productivity. You can reinvest in your operation, improving your ability to compete in the marketplace.

Additionally, using flexible floor planning can allow you to create a cash reserve for unexpected downturns. Cash reserves can significantly reduce the negative impact of lethargic economic periods. A strong cash reserve keeps you flexible and able to quickly react to market fluctuations.

**Dedicated assistance / customer service** – Last but certainly not least, is the all-important level of customer service your floor plan company provides you. It is important that the company you select has a vested interest in serving the industry.

You want a lender that has demonstrated a long-term commitment to providing financial services to the remarketing industry, not one that is simply a “lender.”

The majority of floor plan finance companies have been a reliable source of funding, even during our most recent economic downturns. Many of them remained stalwart supporters of their dealers, seeking creative ways to assist them during those difficult times. It is important for you to find a lender that will be there for you in good and bad times.

Your floor plan provider should also demonstrate a deep and sincere appreciation for your business, regardless of its size. They should have the resources and experience to serve all your needs in a timely and efficient manner.

As is the case in most markets, there is plenty of competition in the floor plan financing business, giving you the privilege of being able to demand the best in all categories. A floor plan lender that offers each of these products or services, and does so with a sincere dedication to your business and the industry as a whole, is worthy of your consideration. The simplicity of the service should help you free up time you need to focus on attending to other tasks and growing your business.

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