

EPISODE 47

The Used Car Business: Inventory, Margins and Customer Experience, with Brad Boehme

[INTRODUCTION]

[0:00:05.3] Benjamin Felix: This is the Rational Reminder Podcast, a weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix and Cameron Passmore. So today we had someone that you know from GRECO.

[0:00:20.6] Cameron Passmore: Yes, the exercise place I go to. Based on a conversation we had about you when you lease your car a few months ago, we had so much interest, we started to think about who could we talk to about the car market?

Someone I know from the place I work out at is in the used car business and quite a thriving free location enterprise, it was a lot of vehicles. I asked him if he'd be willing to come on the podcast.

[0:00:47.3] BF: There was information that he spoke about in the conversation that it was just stuff that I had never really thought about with when you start thinking about used cars. We talked about leasing versus buying used, yeah, there were just details that I've never really thought about.

I found his positioning of who is taking the risk with the least versus buying used, where if you lease, the manufacturer is taking the risk that they get the residual right. Because if you lease a \$50,000 car and the manufacturer decides residual's 25,000 and then they take possession back, they can only sell it for 20, the delta, they're on hook for. Not the consumer.

[0:01:27.7] CP: I was also quite taken by how efficient the marketplace is.

[0:01:32.0] BF: Fascinating.

[0:01:32.6] CP: Just in how they now buy used cars on the open market from car rental agencies that are sending back fleets to used cars that committed dealers to other dealers that

may have a certain quantity in excess of a certain model. It's all automated. It's absolutely fascinating how efficient the market is that he can go and check the marketplace around his locations for what those models are selling at.

[0:01:56.3] BF: They've got software that takes the vehicles in their inventory, finds the exact characteristics based on the vin and then within a 50 kilometer radius, we'll find the price of all of the other cars in that radius and then they'll price based on that. I mean, it's like the stock market.

[0:02:17.2] CP: Yeah, it was amazing conversation and went in directions I was not expecting at all.

[0:02:20.9] BF: I think just on the one hand here, just talking about a market efficiency, the way that they're doing the pricing is so tight that he said that a good chunk of the margin that's coming from or that used dealerships are earning is coming from financing.

Not from the price so if you think that you're going to go in and haggle and get a good deal on a used car, they don't have the room. It's just not there. That's not where the margin is. They get the margin from or a lot of the margin from financing.

[0:02:48.6] CP: Anyways, good guy, good interview, I think you're going to enjoy it.

[0:02:51.1] BF: Yeah, really interesting conversations and a little bit different from what we usually talk about obviously. Hopefully enjoy it.

[INTERVIEW]

[0:02:59.1] CP: Brad, welcome to the Rational Reminder Podcast.

[0:03:01.7] Brad Boehme: Thank you very much.

[0:03:03.9] CP: So, can we start by you describing your background, how you got into car business and basically what you do?

[0:03:09.3] BRAD: Sure, I was born and raised in Ottawa and had an opportunity way back in the day when I was in university. I studied marketing at university, I thought it was always something of interest for me and cars have always been something of interest to me and a friend of mine who owned a body shop at the time actually said she'd check out this company called Enterprise Rent-A-Car which I'm sure a lot of people are familiar with.

They were just cutting them in their infancy stages in Canada at that point and I knew that at that time they were one of the biggest hirers and still are one of the biggest hirers of university grads in North America. When I knew they had a pretty good management trainee program and what have you so rented a university, I started with Enterprise and they have a management trainee program which kind of can work your way up the ranks with that.

[0:03:53.2] CP: This is on the car rental side, right?

[0:03:54.1] BRAD: The car rental side, yeah, exactly. Naturally, they are very much of a company that they want you to move and grow with the company. I had done quite well with the company and my wife was pregnant at the time with our first son, I had an opportunity to move to northern Ontario with the expectation that I was going to move to the US in a larger capacity with Enterprise.

Anyhow, with that, I took over a corporate manager role with Enterprise and then eventually went into the remarketing department with Enterprise which kind of brings me to where I am today. In the remarketing department, I basically was responsible for fleet planning, pegging residuals on cars, selling and you know, all of the exhausted cars that were in the fleet for Enterprise to most of the car dealer's ownership structure in Ottawa and surrounding area. That being said, I had a relationship with a lot of the owners.

Then I took a role with a local dealership, a Suzuki dealership at the time actually, learn kind of the ins and outs of the car business from there, I started off in a small little office working credit and finance deals and then had an opportunity to transition into the general sales manager, general manager role on the Suzuki side.

Kind of learned the business from the ground up there for a retail perspective and then back in 2008, I was approached by my partner who I since bought out from my car. He owns the

building that we currently operate at of our Richmond store here and we just basically got together and thought there was an opportunity for a large used car store in Ottawa which at the time there was very few.

[0:05:30.9] CP:: In the crisis time, the financial crisis that's going on.

[0:05:33.6] BRAD: Yeah, there was, but the used car market was very strong, it's very cyclical so 2008 was probably the last time where used cars were extremely cheap and the dollar at that point was almost at par. There was a massive opportunity for us to buy some products in the US. Unlike as it is today, everything is going south where as in 2008, 2009, everything was coming up here.

We had an opportunity to do that and as they say, the rest is history. We've been here for almost 11 years now and started off with our Richmond store here and then went to open our North Bay store a couple of years after that. About a year or so after that, we opened up our Kingston store.

[0:06:15.2] BF: Fascinating. I want to ask you about the used car market in general. But before that, maybe if you can just talk a little bit about the kind of volume that you're seeing through your dealerships just to give people context for where you're coming from.

[0:06:28.2] BRAD: Mycar.ca which is obviously our website as well. Our whole business goal has always been to move volume of vehicles at lower margins and with that being said, obviously, how do you do that? For us it started off being price driven and has recently transitioned into more of the buy and experience which is where we feel the industry is going.

The dynamics, yeah. Everyone always wants to obviously the best price for a car, they want to know where somewhere they can trust and obviously have a good experience doing it. That's kind of always how we have marketed ourselves in the industry. Obviously having a large selection, we typically try to keep at least 500 cars in stock between our three locations so when the client comes into our store, they have the opportunity to drive multiple different brands at the same time.

The average car buying experience usually for most consumers, well, we'll start with say, I'm looking for a Mazda 3. They'll go on the Internet, they start looking for Mazda 3 so then they may go to ABC Mazda dealerships or used car to drive that Mazda 3.

By going to a Mazda store, typically, all you're going to have is Mazdas to drive. Whereas you come to MyCar, we'll have, you know, all the competing brands and similar class car sizes so a Mazda 3 or a Chevy Cruz or a Hyundai Elantra or a Kia 40, et cetera. It gives the people an opportunity to kind of test drive everything and while it's still in fresh in their minds, because we found doing surveys with clients that over time, for example, if they went on Tuesday night.

They brought the family to look for a car and they drove a Mazda 3 and you ask them the same, what color was that car when they went and drove another vehicle on a Thursday night, they probably won't even remember because they have so many different experiences and types of vehicles in your mind where as they come here, we have a lot of clients, we actually encourage them to spend the entire day at our store.

Drive 10 or 15 vehicles and then our sales representatives will actually help them narrow down and help them with the buying experience versus selling them a car.

[0:08:26.3] CP: But you were saying before we started recording that the market has changed where it's really tough for you to get enough supply and having tried to buy used cars for my kids, it's tough to find the car. Given that as a back drop, what should used car buyers like go for, it strikes me you really have to know what you want to decide quickly because the next day, the car's gone.

[0:08:45.4] BRAD: Absolutely, that's a very good point. When we go looking for cars, we will typically source from the normal types of areas so we will go to X daily rental companies as they have a certain hold requirement that manufacturers. They will buy a brand new 2019 and they're legally required to keep that vehicle for six months and a certain amount of mileage on it and then they will open that car up for sale.

That's a large source of our inventory for current model year stuff. 2018, 2019 for example now.

[0:09:16.6] CP: But you're competing with other people on the buy side as well are you not?

[0:09:19.1] BRAD: Absolutely. We compete and that's kind of where it comes into place. My opinion and expression towards the car business, especially in the used side, it's always been buying is what makes the business run versus selling the cars. How you buy your cars is absolutely the most important and crucial aspect of running the business.

That being said, when we look at all of our inventory, we also look at lease returns. We deal with some pretty big major dealer groups in Ottawa and on the other side of Ottawa that will bring back lease returns, you know, a three year or four-year lease. Then they have the option to purchase that vehicle from the manufacturer.

For example, it's a Mazda 3. I'll use Mazda 3 as an example because we sell a lot of them, they're a very popular car. That vehicle will come back and ABC Mazda will say yeah, we want to buy that car and keep it for our own use, car inventory or we're going to purchase it ourselves because we see there is a profit opportunity there and then they'll sell that to the open market and it goes on the used market.

That's another way where we source a lot of our vehicles. Another one is the car business just like most other industries has gone very digital. We deal with a few different applications, one being a digital platform called E block. Another one is TradeRev.

EBlock is probably the one we deal with by far the most, it's basically a dealer to dealer application, strictly on the wholesale side of things that we can buy and sell cars. For example, if we have a vehicle that we would determine wholesale, meaning that we're not going to keep it for our retail lot. We would put it on that platform.

The nice thing about this is that the industry has gotten so good with respect to disclosure laws and transparency that you can buy with confidence in all of this platforms now without any issues after the sale. That being said, I can run you through the process of kind of how that works.

If I was to buy a Mazda 3 again on this platform. I would go on the application; I would look at all the pictures that were posted of the vehicle.

[0:11:14.2] BF: Who is posting this car, another dealership that took it as a trade?

[0:11:17.3] BRAD: As a trade or it could even be something that they currently have in their inventory that they haven't been able to move and they want to resell it. That's kind of the beauty of that site and the timeframe that which you can do it because you can do it kind of the confines of your own dealership and going a step further, we actually work with a company called Guaranteed Trade.

Where the actual consumer can now load their car on this application. We actually send the application right directly to the clients through text message or email. They can download the application right on their phone and in their own driveway, they can take pictures of their car and we will send that out to a network of over a thousand dealers and then we will put live money on their vehicle.

They know their trade value. Again, this is kind of goes on our business practice as far as full transparency and customer experience. Because a lot of the time when you come in here, there is the traditional back and forth at a used car dealership with negotiations and you know, what's my trade worth and et cetera. We can kind of take the guessing work out of it.

Providing that all of the documentation that the client has provided to us on the application is accurate, we obviously verify that when we see the vehicle when they come in to do a deal and then we can move forward from there.

[0:12:23.3] BF: I did that when I sold my old car before getting the one that I have now. I went through that exact experience and it felt great because like you said, they put the card on open market and there's no haggling.

[0:12:33.5] BRAD: Exactly. Yeah, this thing in the car business, you know. It's only worth what someone's willing to pay for it, right? Everybody, whether it's your home, your car, whatever like that, everyone has a sense of pride and ownership when you own something and they always think it's worth more than it really is.

We, a lot of the time will let the market exactly accept and show somebody what it actually is worth.

[0:12:53.3] BF: You talked about how supply's pretty tight, the buying side is the biggest constraint for you which makes me think okay, you pay more for the cars but then of course the market's got to bear whatever price you've got to sell it for to make some money. The question that I want to ask is, where are the margins in this business?

[0:13:11.0] BRAD: That's a great question because everybody should again going back to my previous comment of this business is made off buying cars. Everybody technically should be on the same equal playing field, right? If I spend a 2015 Mazda 3 with 50,000 kilometers on it. Everyone should know what they should pay for that car and then it comes down to how much do they need to make on that car.

You got to dig in a little bit as far as the what overhead's that company now has? Dig in a little bit deeper and it will be another back end of what dealerships do. Dealerships will sometimes have what's called lot packs. What lot pack means, if they bought a car for \$10,000, the dealer for example would say put a lot pack of a thousand dollars on that car.

That automatically will go to the owner of that dealership regardless of profit or loss on that car. [inaudible 13:59 becomes an expense to that unit and then they will mark up the car for retail off of that number. For example, we don't have that that's why we can kind of afford to be ultra-aggressive on pricing with respect to our total inventory.

We don't price a car based on what necessarily the market bears. We price a vehicle on based on what we feel we can get for it. We don't arbitrarily pick a number of what a car can retail for, it's actually, we use a system called V Auto which basically is a software program that you plug in the car with the vin number, it decodes the vin of that car with all the specific options on that vehicle and there's an algorithm that actually shows you how much that you should be paying for that car.

How much you should be retailing that care based on what's currently in the market. I can look at anyone of my competition for example, I'm going back to a Mazda 3 again because it's a very popular car so I can look out to exactly what distance I want to put range for my dealerships. For example, my Kingston store, we have a very different market than the Ottawa store and my North Bay store also has a very different market than my Ottawa store so that being said, for

example, we usually use like a 50 kilometer radius from our store and it will tell me in the market how many 2015 Mazda 3 GS with sun roof with heated seats are in that market.

What they're priced for and how I am priced relative to those other cars in the market.

[0:15:27.9] CP: Does a consumer have access to that information as well? I've heard about blue book and car facts and things.

[0:15:33.1] BRAD: No, it's software program that we have access to and pulls out of our inventory system and it does a scrape of our inventory system but we certainly can generate reports for clients which we do out of that system that shows how we compare to others in the marketplace with the same kind of mileage, same vehicle, same option.

[0:15:49.8] CP: You get to know based on your inventory if you have Mazda 3's that you know are in high demand, does that enable you to raise your price because the market's efficient in pricing that. Do you get a bit more margin?

[0:15:58.0] BRAD: Some people will do that but we don't. We price it based on what's competitive in the market and we always want to be kind of low cost providers. If there's 10 vehicles exactly the same in the market, we will guarantee to always be top three. That's just kind of the strategy we've adopted to ourselves.

[0:16:14.3] BF: For someone buying a car, if you're pricing it that way, is there any room for someone to say, well, I want to pay a little bit less?

[0:16:20.4] BRAD: Certainly, I mean, everybody deserves a deal but that's why we've kind of taken the negotiation out of that for clients and we become you know, a one price store based off of that. Areas of negotiation, you know, that we tell clients is obviously, we're not going to lose your business over a couple of hundred dollars a tank of fuel.

Because you know, where you're comparing it against, we already are the best price but that being said, there's certain little add-ons like condition of the vehicle for example, if there's any reconditioning of the vehicle, we tend to prefer to do that reconditioning on the vehicle prior to client picking it up.

Our main focus is customer experience and buying experience, especially in the last couple of years. We really pride ourselves on Google reviews for example, we've got a very good rate in Google reviews, we're A plus credit with the Better Business Bureau.

All these types of things are very important to us so we'd rather have a client picking up their vehicle with brand new tires and brakes on it and use that as a negotiating factor so that when they show their friends, hey, look at my awesome, brand new used car and yeah, it's cool, it's got branded tires and branded brakes on it. You know what I mean?

The client is – doesn't have to do any service of that vehicle for X period of time, right?

[0:17:32.1] CP:: Can we talk about new cards for a bit. On a podcast a few months ago, Ben talked about how he leased a new vehicle and we had quite a bit of interest from listeners. Can you give some general advice to someone who is shopping for a new car?

[0:17:46.1] BF: I just want to say something real quick. My philosophy used to be buy used car and drive them to the ground and then I needed a bigger car and I kind of changed my philosophy where I decided to lease but I've always kind of seen those as the two sensible options. Buy a used car and drive them to the ground or if you want a new vehicle lease. So maybe if you can just speak to that that would be interesting.

[0:18:05.8] BRAD: Well I think you just nailed it on the head there Ben, a lot when you said that people's lifestyles change and leasing can certainly have its advantages. Generally for years, the reason why people would lease is either one they have the ability, they have a company or something they could write off the payment, or two, the biggest one being that the payment is generally lower and how does that payment determined.

Well how that payment is solely based off of the residual that they put or peg on that vehicle which is done by the manufacturer. So let's use a Mercedes for example. Mercedes, I am going to use it as an example because I know that the residuals are extremely high on their vehicles right now. So you could go lease a brand new C300 let us just say for zero money down and 600 bucks a month. Let's just for example, taxes in.

Well they get to that payment although the vehicle may have NMSRP of well excess of \$50,000. They put like a very high residual, which could be up to 55 or 60%. So what residual means is that when that car comes back after the lease is over, let's say for example the standard of lease is a 36-month lease, when that vehicle comes back, the customer or the client has made payments that are equivalent to let's just use 60% of residual.

They have made 40% of the payment of the MSRP of that vehicle essentially plus tax, and the rest of it is assumed by the manufacturer at that point or the dealer. So when you look at that, it is a very attractive payment to the person leasing the vehicle but as we all know back in, you eluded to it before, you know '08-'09 kind of stuff when all of these vehicles were coming back in particular GM, Ford and Chrysler. They were coming back with the ultra-aggressive residuals on the cars.

But they were coming back and they were substantially less than what the residuals have been pegged at thus, the car crisis and the crash happened. So is there a fear for that to happen again? Probably not because a lot of manufactures now actually own their own financing companies whereas before it was outsourced to various leasing companies like Financial Links as an example is one of them but now for example, Mercedes Benz Financial, BMW Financial.

A big player that just in recent years came into the market was Hyundai. Hyundai always used to outsource their leases to third party but now they have their own finance company and do everything in house. So they have a lot more control over the funds that they leased out. Typically what we found is the banks have also tightened up a little with regards to the credit of the client. So you've got to be an A plus credit rating in order to qualify for the zero percent's out there or the leases or etcetera that kind of thing.

[0:20:46.5] CP:: But who is assuming the liability for the lease residual if the show is up and it is worth less than the residual?

[0:20:52.4] BRAD: The manufacturer.

[0:20:52.8] CP:: Who is eating that loss, the manufacturer is eating that loss.

[0:20:55.2] BRAD: Yeah because they are the ones that set the residuals on the cars in order to make it attractive to the end user to lease a vehicle versus purchase, but getting back to your first point when it makes sense, yeah everyone has lifestyle changes. So the average lease might have 20 to 24,000 kilometers a year. All of a sudden if you change jobs and you require more travel for work and all of a sudden you're in the car for a 100 kilometers a day and you are 12 months into your lease.

And you know you have 24 months left and all of a sudden you are driving 40,000 kilometers a year then it doesn't make so much sense when you have to bring that vehicle back and spend \$5,000 in over mileage penalties, right? So the ability to get out of a lease is quite difficult if you ever have to get out of a lease. I mean there's ways to do it, a lot of people utilize like for example a company called LeaseBusters and that type of thing.

[0:21:45.1] CP:: But in Ben's case even in three years' time if he loses a vehicle, he can just buy it out and keep it than drive it into the ground.

[0:21:50.2] BRAD: Absolutely. So with that being said, so when you do buy that out a couple of things to be aware of at the dealer. One is that they may charge you with administrative fee to do that just to process the paperwork. Two is you have to pay obviously whatever that residual it is, let us just say it's 20 grand. It is plus tax because you've only paid tax on the current payments that you have made on the vehicle and third, you also require because it is transferring names from the –

You require safety of that vehicle so you have to take it either to the dealer that you are currently buying it out from or another garage in order to obtain an Ontario safety standard certificate for that vehicle. So there are certain expenses there that are potentially can arise from doing so.

[0:22:31.4] BF: So it sounds like it boils to with a lease the manufacturer is taking on the risk of the residual when it is time to sell but the consumer is taking on the risk of being stuck with that lease, whereas on the used side, the consumer is taking on the risk of the price of the vehicle when they want to sell if they want to sell but they get more flexibility. So knowing with that information and then plus what you know about the used vehicle industry, do you have in general would you tell people that it is a better idea to lease or it is a better idea to buy used?

[0:22:58.6] BRAD: I wouldn't really say anything as far as – I think it is very situational, whatever you feel is best for you. I'll go to the opposite of the spectrum. You go to the new car side of things and you go to the zero percent. We get a lot of people who are coming to our store here and say, "Well I can get a new one at zero percent." Well zero percent essentially is a manufacturer buying down that rate two to zero percent. So Hyundai Canada will go to Scotiabank and say:

"Here, we need \$3 billion at zero percent. Where are we in capacity and rate, can we get the money at X and then it is going to cost you X amount?" so for example, they don't pass that savings onto the consumer. They pass you know because they have added incentives for cash purchases on new cars whereas in the used car business, we are not allowed to do that. We're all governed by OMVIC, which is the Ontario Motor Vehicle Industry Council.

We are on the used car side in particular. We are all in pricing, meaning that when we advertise a price, the only thing we can add to that vehicle is obviously taxes and any licensing to that vehicle. We cannot add any additional fees to that vehicle. So we see a price on our website of \$10,000, it's \$10,000 plus taxes and whatever cost you to license that vehicle but getting back to the new car side of things, so if you were to go buy a brand new Hyundai Santa Fe for example.

And the MSRP of that is \$30,000, well you could finance that to zero percent but now it is price is \$32,995. So that \$3,000 is added to basically cover the buy down to the rate of the zero percent.

[0:24:30.2] CP:: So let's assume I want to go buy a new car, do you have any recommendations as to should I buy it at the end of the month because sales quotas are up? Should I be flexible? Should I make an offer and walk away? Are there certain tactics that work or is market so efficient now that you really don't have that kind of leverage anymore?

[0:24:47.6] BRAD: I mean I can't speak a whole lot to the new car side being that I am on the used car business. So it is very different for us. We used to be very cyclical in the sense that as soon as March break hits, the light switch turns on. It gets crazy busy. So if I was to say anything on the used car side and I guess this could translate to the new car side as well as that

certain times of year that are typically slower for all of those dealers from a volume aspect of things.

That would probably be a better times or there would be maybe a little bit more incentive to make the deal on the dealers end of it to pay the proverbial bills throughout the year, the rougher months like the December, January, February and the car behind –

[0:25:26.3] CP:: It is not the time to buy a car in the winter timeframe typically?

[0:25:29.3] BRAD: I wouldn't say it is the best time to buy, but it is again you have to also look what is important to you as far as the vehicle. Do you want something? Do you want a current year model vehicle? So are we sitting here in September for example is when they usually have the blow out of the previous model year, right? So you know for example this September 2020 is going to be around the corner. 2019 is going to be the big push on it and that is where usually the manufacturers will incentivize the cars even more.

Either from a cash purchase of things or finance rates or that type of thing or added accessories but that is on the new car side.

[0:26:04.7] BF: So I think the used car business has in general maybe not the best reputation, kind of like financial services. Do you have any tips for people on how to find like if I am going to buy a used car, how do I go make sure that I am not going to get screwed in air quotes?

[0:26:21.4] BRAD: So for example us, our business, I love the whole business just like this but from a transparency aspect, meaning that the second a client walks into our store for example, they are greeted, showed, "How did you hear about us?" et cetera. They will start looking at some vehicles and we try to simplify the process to the client, meaning that if they are interested in for example using our financing options with the banks that we currently use.

We will actually sit that client down prior to them even looking at a vehicle and discuss with one of our business managers you know and establish a proper budget to make sure that that worked. Their budget is realistic with the car that they're potentially looking at. So you know it is the old putting the cart before the horse scenario. Some people will come in here and they're

really hot set on buying a \$35,000 BMW but when it comes down to it they said they've driven the car.

They looked at the car, they love the car and they sit down, "Okay yeah I want to make a deal on that car. Yeah, I would like to finance the vehicle." Okay what is your budget? "Well I want to spend \$200 a month" right? And you know that way it is not a good experience for anybody. It's not an experience for the dealer because you know they have spent three or four hours with this client and that is not a good experience for the consumer because they have fallen in love with the car that they just necessarily can't – may not be able to afford or don't want to afford at that point in time.

And so on that lines then we will sit down and we will actually disclose any previous accidents on a car. So we used to pull what is called Car Proof was a Canadian company that now actually they sold to CarFacts out of the US. So now we always prefer to call and pull in a Car Proof but now we pull a CarFacts. They have kind of amalgamated and basically they are essentially just a data time relation company. So they pull from various sources.

You know the RCMP, insurance records, various service departments, insurance companies, all these types of things. They tabulate and collect all these data. They have first party data access to this, which will show that if there is any previous accidents on the car but taking that a step further for example, we are also legally required to disclose for example two panels have ever been painted on the car to adjacent panels. Whether that shows on a Car Proof or CarFacts report or not.

And if we know about it, we are required to disclose that to a client. So we disclose what we know. Basically it is just we disclose what we know.

[0:28:47.2] BF: So when you are talking about the requirement to disclose that leads into another question that I wanted to ask, are there protections for consumers who are buying used cars say on Ontario?

[0:28:56.7] BRAD: Well OMVIC has a compensation fund should there be a scenario that arises that is of unethical nature. OMVIC will open up a claim on it and determine if it is something that warrants compensation, assuming that the dealer hasn't been able to fund some

former resolution with the client but yeah, I mean there's protection. I mean everyone refers to cooling off period and I think that a lot of the time it is really at the discretion or at the policies of that dealership.

For example, we look at everything from – because every scenario in our business, every transaction is unique to itself. So to give an example of if we had a client in here that had made multiple trips to the store. They had sat down with our business manager multiple times to go over all of the need, the parameters and the deal and financing. They sign all of the documentations, initialed, where they all should be. They are fully aware and everything has been disclosed to them.

And two weeks later they call us up and say I just don't want the car anymore. Well that, you know there is also protection on the side of the car dealer as well. It works both ways. You can't just say here is my car back because a lot of the times especially if it was financed through a bank, the bank has now assumed liability of that loan and they can't just "unwind" that deal. That is one example, a scenario where it could benefit the client.

Again at the discretion of the dealer, if somebody came in and said, "Yeah I will buy that car and just get it ready for pickup and I will pick it up on Wednesday" they leave a deposit on the car, don't even buy a bill of sale, walk away, they call us up Wednesday after we have safety the car and stuff, "Yeah, I don't want that car anymore." The client has full right to make that decision and we would not obviously pursue the client any more than that.

We'd obviously asked them the reason behind their decision not to move forward with the purchase but at the same time, we respect their decision and move on right?

[0:30:49.4] CP:: So I have an investment question for you. We have a number of clients that own some pretty high end cars like Porsche and some of them believe that the price, the value of their car will increase overtime. Are there any cars that you view as investments with an expected growth rate on it?

[0:31:05.5] BRAD: Absolutely, yeah. I mean I collect cars separate from my current business here from on a personal nature. Yeah absolutely. High end cars I would say 99.8% of them we'll never appreciate whether it be Porsche, Audi, BMW, it doesn't really matter what it is. It is

usually the numbered cars or one of those that will have an opportunity to potentially an increase in value. So for example, if you want to use Porsche as an example.

The Porsche GT3RS for example, you know they make usually Porsche comes out every three years and they redo an RS. So for example 2016 they had RS, 2019 or 2020 they just came out with a new RS. So those vehicles right there are very hard to get number one. So for example here in Ottawa what a dealer the allocation they will get from one of those cars will be probably less than three vehicles just based on the total volume that Porsche does on a national or international scale.

Whereas you go to a large Porsche dealership in Miami, they might get 20 of them just based on sheer volume of that vehicle but with that being said, there is a certain limited production of that vehicle and there is a high desirability for that vehicle and if you can buy that vehicle at MSRP at normal sticker, chances are that vehicle will be worth more than MSRP the second you drive it kind of off the lot but with that being said, most people that have those vehicles, if their intention is driving it.

As a normal car to drive every day, well then the opportunity for that to increase in value will go down based on the mileage on the vehicle because it is fair. Those vehicles are very mileage specific.

[0:32:43.0] BF: So you are obviously passionate about cars, what would you say is your favorite part of the used car business?

[0:32:48.4] BRAD: Probably people. The day to day I find that it is a very unique business. Coming from both sides of it, I was on the new car side for a while. I like the opportunity to one, be an entrepreneur but at the same time have an impact on many people's lives either that work for me or I love seeing the happiness on somebody when they have just picked up their new to them vehicle but at the end of the day, we all run our businesses. We all have things to do.

All we do is want to provide for our families, go home, have a good time at the end of it all right? So with that being said, I would say that is probably the most important thing of ever what I like most about the business is just kind of the ability to make people happy because cars are an

emotional connection for most people. You know at the end of the day, you hear it time and time again like, "I wish I never bought that car." Well you know what?

There is a small percentage of the population that will drive around in a vehicle because it is just a form of transportation A to B but the lion share of the individuals will like to get in their vehicle in the morning and like what they are driving. They want to feel what they are driving. They like what they are driving. There is an emotional connection. There is a reason why people call it and make names for their cars. There is all that kind of stuff right? So that is what I would say is what I like the most about the business.

[0:34:03.0] BF: All right, I've got one more question and Cameron you can finish it off. So you've mentioned customer experience a few times and I completely agree that is the future of business in general. Based on that, how much emphasis do you put on knowledge for the people that are selling cars for you? How knowledgeable do they have to be to sell a car?

[0:34:22.6] BRAD: They need to know their way around the car. I encourage them to obviously stay quite in tuned with our inventory and what vehicles we have. For example I do a lot of our car buying. We do have a few other buyers here but I do a lot of the car buying myself and I pride myself on knowing exactly what we have in inventory, how many just so we can obviously differentiate with vehicle selection or what have you.

But as far as them know, I mean let's be honest. People do their due diligence now when they come looking for a car. A lot of the times people come in here and know truthfully more about the car than we know. You know they come in here, I mean if you look at our dealership here for example in Richmond for example, we're a destination. We are not off the beaten path. People don't normally just take a drive out to Richmond just because, right?

So they say, "Oh yeah, I was just on the area." Well I live 10 minutes from the store here and I hadn't been in Richmond in 15 years prior to that. So you know everyone used to come to the famous Richmond Bakery here in Richmond and that closed down a number of years back now so.

[0:35:28.5] CP:: So last question for you Brad, how do you define success?

[0:35:32.9] BRAD: Having the flexibility to do what I want when I want is a big thing for me. I look back to almost eleven years ago. My kids, my son is 14, my daughter is 12. My son was just little when I look back at the first probably five years of my business here where I probably didn't see them all that often or as much as I should have. That was an eye opener and I always envisioned myself having the flexibility and the opportunity to spend more time with them later in life.

To be able to do the things they want to do as well as the things I want to do. I think this business has fortunately given me the opportunity to be able to do those things. Yeah, as far as defining success that is just at the end of the day I just like I have eluded to before, just be able to go home at the end of a long day, enjoy, spend time with my family and this business has allowed me to do that, which I am very appreciative for.

[0:36:29.0] BF: Great, thanks a lot Brad. This was great.

[0:36:30.4] BRAD: Thank you very much.

[END]

The ideas, opinions, and recommendations contained in this document are those of the authors and do not necessarily represent the views of PWL Capital