

Buy-Here, Pay-Here Chains Continue Expansions

By Ted Craig

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A pair of the nation's largest buy-here, pay-here chains continue to expand.

America's Car-Mart has opened six new stores in the past year, with plans to open another eight in the next year.

The Bentonville, Ark.,-based company is also growing market share by replacing smaller existing stores with new, larger facilities.

DriveTime, a Phoenix-based chain, is on pace to have 90 stores by the end of the year and top 100 by 2007.

The time is ripe to expand in the tote-the-note business.

There are plenty of consumers with blemished credit, and fewer options to fund them as finance companies have tightened their requirements.

Even software provider CarBiz Inc. has expanded its small chain of company-owned buy-here, pay-here stores, adding a third Florida location.

But along with opportunity comes risk.

"That growth phase, whether you're Southwest Airlines or Wal-Mart, always tests you," said Ray Fidel, DriveTime's CEO.

Today Chuck Bonanno is a buy-here, pay-here trainer with dealer consultancy Leedom and Associates, but a decade ago he

their stores this kind of leeway, it must have faith in its staff.

"Our challenge is always to find the right human capital," Fidel said.

DriveTime avoids hiring people with automotive backgrounds. The company has just begun recruiting from colleges.

"The stigma of going into the used-car business, much less buy-here, pay-here, is slowly evaporating," Fidel said.

As companies grow, they need to choose the right markets. DriveTime is changing its focus away from the biggest cities to secondary cities.

While the company is still adding sites in places like Los Angeles and Houston, more of the focus will be on cities like Austin, Texas, and Jacksonville, Fla.

"It's organic growth throughout the strongest regions," Fidel said.

For Car-Mart, expansion has to make financial sense.

"Ideally, we like to get into a town as inexpensively as possible with the expectation that we'll outgrow the facility," Car-Mart president Hank Henderson recently told a group of analysts.

For example, the company recently abandoned plans to open a store in Mountain View, Ark., because it couldn't find an affordable piece of property.



— file photo

GROWTH: DriveTime and America's Car-Mart are two national chains that are successful because, despite their size, they've managed to maintain the personal touch, a vital component in any strong buy-here, pay-here operation.

DriveTime tries to find locations that match the company's image of being a franchise store and an average used-car store.

"We don't have to be on auto row, but we don't like to be on buy-here, pay-here row," Fidel said.

No matter how big a buy-here, pay-here operation is, the business only works if there are cars to sell and inventory today is short.

"That's probably the most difficult part of the buy-here, pay-here business

today," Bonanno said.

The more lots to stock, he said, the bigger the challenge.

DriveTime has tried a variety of approaches to solve this problem. Before Daewoo collapsed, it was buying blocks of off-rental cars from the Korean automaker.

Buying in blocks like that is more difficult today, Bonanno said.

Companies have to spread a wider net to get cars from more sources and hire more buyers.

DriveTime and Car-Mart take opposite approaches to obtaining inventory.

Auctions are the primary source for DriveTime. The company also buys from new-car stores and manufacturers, but avoids wholesalers.

Car-Mart buys almost entirely from wholesalers and avoids auctions except when tax time creates a need for more vehicles.

"We try to keep that at a bare minimum," Henderson said.