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## **Toyota Files Suit Against One Of Its Best Customers**

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Through May of this year, Group 1 Automotive's Toyota sales have jumped 21%, almost double Toyota's national average. The public dealer group also has spent \$140 million improving its Toyota facilities.

Yet, during a conference call on June 29, Toyota executives Bob Carter and Mark Templin informed Group 1 CEO and President Earl Hesterberg and Pete DeLongchamps, its vice president of manufacturer relations and public affairs, that it was filing a lawsuit in federal court to block the group's purchase of the Gene Reed Toyota and Lexus stores in Charleston, SC.

Toyota followed through on the threat filing the lawsuit a few hours later.

Frankly, it's a crazy headline. Toyota sues one of its best dealers who also has been one its most vocal supporters this year while the recalls were front and center in the press – what are those folks in Torrance, CA smoking?

Neither side is saying much about the suit. Group 1 put out a press release Wednesday evening June 30 publicizing the lawsuit. Toyota, meanwhile, in an email to Dealer Communications late on the same day, says, "Toyota does not comment on pending litigation or speculate on the potential outcome."

This could be one of the biggest stories of the year. If there is no settlement, the outcome could determine the future of the automotive retail industry and how much control automakers will have over how many of their stores any one dealer can own.

The "underlying" issue is the validity of framework agreements automakers have with large dealer groups.

Toyota claims in the lawsuit that the acquisition violates terms of its framework agreement with Group 1.

Most automakers have framework agreements with large dealer groups in which the terms of the agreements are tightly protected. "We are strictly prohibited from commenting on framework agreements," DeLongchamps says.

Automakers began requiring framework agreements years ago out of a fear that public dealer groups would gain control over their retail networks by acquiring a lot of stores. The agreements vary by manufacturer and dealer group, but essentially, they all have put in place numerous performance requirements that a dealer group has to meet if it wants to buy more of that brand's stores. The agreements also dictate how many of that brand's stores you can own nationally and in any one market.

Having read through the lawsuit, and using some of the scuttlebutt I've picked up, I'm going to connect a few dots. First, I suspect Toyota is worried. I've heard that Toyota did not attempt to negotiate with Group 1 before filing the lawsuit. That makes me think it believes renegotiating the terms of a framework agreement with one of its dealer customers weakens its position with other dealers.

Toyota claims in the suit that all of Group 1's Toyota stores are out of compliance. Talk to any executive from a large dealer group and they will complain that many of the metrics in their framework agreements are old and out of date. From many examples I've heard the last couple of years, those executives are right.

The truth is, though, most dealer groups are out of technical compliance with their framework agreements. And, most automakers – even Toyota, when it suits them – look the other way.

One thing is clear from the lawsuit, Toyota wants to limit how many dealerships any one entity can own and it's using the framework agreement terms to play hardball. It has a history of being one of the more difficult automakers when it comes to dealers making acquisitions.

It's interesting that Toyota allowed Group 1 to acquire Harrelson Toyota Scion in Rock Hill, SC (considered part of the Charlotte market) in April without any objection. What changed from April to June? If Group 1's Toyota stores are out of compliance now, they were then.

Also, many of Group 1's Toyota stores are President's Award winners – those are given to dealerships out of compliance?

From a business perspective, Toyota's fears are unfounded. Any well run large dealer group will take great strides to make sure it's not overly dependent on any one brand. And Group 1 is a well run company. I suspect it merely sees this acquisition as a piece to fill out its portfolio in a specific market.

Toyota is risking a lot with this case. It risks damaging a relationship with one of its top dealers and strongest supporters. And if it loses, it's possible that framework agreements will lose their validity entirely.

When you think about it, Toyota is suing one of its best customers. With friends like that....