



**UNIVERSITY OF CALGARY**  
HASKAYNE SCHOOL OF BUSINESS

# Corporate Finance

## Point-of-Sale Finance

René Wells

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How to achieve firm's goals

Point of sale finance

An example of POS finance

How large is automotive finance in Canada?

# Using finance to achieve firm's goals

A firm is pursuing **multiple goals all the time**.

- Strategic goals (e.g. best brand)
- Tactical goals (e.g. 90% of satisfied customers)
- Operational goals (e.g. decrease product returns from 3% to 2%)

Reaching operational goals contributes toward achieving tactical goals, which in turn contributes toward achieving strategic goals.

- If you decrease product returns (e.g. by way of better quality and better information provided to customer for a better product-need match), you are likely to increase customer satisfaction, which in turn contributes toward the value of your brand (and likely better financial performance).

**Finance can be used to support pursuing such goals, and even to actively contribute toward achieving them.**

This presentation outlines how finance is often used to support the sale of equipment and capital goods.

# A basic sales and marketing issue

The aim of firms manufacturing equipment and capital goods is to sell these to end-users.

- e.g. cars to households, airplanes to airlines, etc...

Firms have competitors, all trying to sell to a finite number of customers.

- Your firm has a certain market share made-up of customers of various degree of loyalty toward your brand.
- Your market share is eroded as customers are lost to your competitors or simply 'disappear' (i.e. no longer need the product, move to another country, die, etc.).
- So, your **market share need to be 'replenished' all the time** by finding new customers and by selling more to your existing customers.

The key metrics of success are **sale volume** (in units) and **average net selling price**.

- Revenue equals number of units sold multiplied by the average net selling price.
- Firms would like to simultaneously improve sale volume as well as average selling price... However, typically **one works against the other** (i.e. increasing your selling price is likely to negatively impact your number of units sold as some customers decide to switch brand).

# A few basic solutions to increase revenue

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There are two basic solutions which can be used to increase revenue.

- Increase average net selling price without negatively impacting sale volumes.
  - ▶ By increasing the net price offered to the customers who value highly your product (e.g. the loyal customers or the customers with high buying power).
- Increase sale volumes without negatively impacting average net selling price.
  - ▶ By decreasing the net price offered to the customers who do not value highly your product (e.g. new customers or the customers with low buying power).

The above describes a [price discrimination strategy](#) (see [Khan Academy video](#)), which can be implemented in various ways (e.g. offering a 'base model' car, then trim level, then various 'options'; offering a free limited-time trial, offering targeted discounts, etc.).

Another kind of strategy is to study carefully the customers' [buying decision process](#) and find ways to influence it, notably by 'lowering barriers' (e.g. use prices ending with 99, pay in four times, etc.).

# Point-of-sale finance ('POS')

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Point-of-sale finance consists in offering to finance the purchase of the equipment or capital good at the **point of sale** (e.g. in the car dealership, alongside the proposal when selling an airplane).

- By providing a worked example of how much the periodic repayments would amount to for an **installment loan**, the customer can figure out if the purchase can be financially supported budget-wise.
- If the customer cannot afford the loan periodic repayments, the loan could be substituted with a **lease** (lower payments, but no automatic ownership of the asset at the end of the lease term).
- The above can be marketed as such (website, newspaper), with an emphasis on affordability.

The objective is to simplify the decision making process for the customer.

- e.g. a car dealership can make the sale and close the sale at the same time, as opposed to making the sale and then letting the customer walking out of the dealership to find finance on its own (with the obvious risk that the customer will never come back to the dealership).

# Point-of-sale finance (cont.)

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But, point-of-sale finance compete against other sources of finance (e.g. banks).

- A common practice is to offer 'preferential interest rates', below what other sources of finance would or could offer. It negates the incentive for the customer to 'shop around' for a lower rate.
- Such 'preferential rates' requires a 'subsidy', typically provided by the manufacturer, but only available through a lender/lessor associated with or owned by the manufacturer.

A subsidized point-of-sale finance offer lowers the all-in cost of the purchase.

- It is particularly attractive to budget-constrained customers (typically new customers or customers with a low buying power).
- However, the subsidy is not available as a cash rebate to customers with high buying power.
- It therefore allows for the implementation of price discrimination in an efficient manner.

# Point-of-sale finance (example)

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[National new vehicle offers](#)[Vancouver new vehicle offers](#)[Toronto new vehicle offers](#)[Montreal new vehicle offers](#)

## 2019 Audi A4 Sedan

[Build and price](#)[Estimate payments](#)[Search Audi Inventory](#)[Locate a dealer](#)[Contact a dealer](#)

Lease from

**1.98%\***

up to 48 months

Finance from

**2.48%\***

up to 60 months

With up to a

**\$2,000**

Audi Credit



## Point-of-sale finance (example cont.)

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**Lease** example: 2019 A4 Sedan 45 TFSI quattro Komfort S tronic with base MSRP of \$46,717 (including \$ 2,095 freight and PDI), at 1.98% APR for 48 month term with **\$414 monthly payment**. \$5,000 down payment or equivalent trade-in, a security deposit of approximately one month's lease payment and first monthly payment are due at lease inception. PPSA, licence, insurance, registration, options, duties, any dealer or other charges and other applicable taxes are extra. See dealer for details. Total lease obligation: \$24,862 (excluding applicable taxes). Kilometre allowance of 16,000/year; charge of \$0.25/km for excess kilometres.

**Finance** example: 2019 A4 Sedan 45 TFSI quattro Komfort S tronic with base MSRP of \$46,717 (including \$2,095 freight and PDI), at 2.48% APR for 60 months, with monthly payments of **\$742 per month**. A down payment of \$5,000 or equivalent trade-in is due at signing. PPSA, licence, insurance, registration, options, duties any dealer or other charges and applicable taxes are extra. See dealer for details. Cost of borrowing is \$2,587 for a total obligation of \$49,540

# Point-of-sale finance (calculation of manufacturer's subsidy)

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Inputs ('settlement' is the cash to be received from the lender by the dealer to settle its invoice)

- Settlement =  $(\text{MSRP} - \text{Discount}) \times (1 + \text{GST}) - \text{Downpayment from buyer}$   
 $= (\$46,717.00 - \$2,117.18) \times 1.05 - \$5,000.00 = \$41,829.81$
- PV of cash flow from buyer = monthly \$742, term of 60 months and APR of 2.48% = \$41,829.81
- But assume the all-in cost to the lender for providing the loan is 3.9% (including spread for ROE)
- PV of cost of loan to lender = monthly \$742, term of 60 months and cost of 3.90% = \$40,388.80

The manufacturer has to provide the lender with a subsidy of \$1,441.01 to close the shortfall between what is required for settlement (\$41,829.81) and the present value of what will be received by the lender from the buyer from the perspective of the lender (\$40,388.80).

	With customer	Real finance	Subsidy req.
Loan amount	41,829.81	40,388.80	1,441.01
Term	60	60	
Payments	742.00	742.00	
APR	2.48%		
Cost to finance		3.90%	

## FEATURED SPECIAL OFFERS



### 2018 BMW 330i xDrive Sedan



Lease rate* <b>1.9 %</b> APR 48 months	Monthly lease payment* <b>\$ 388</b> Down payment \$6,500	Includes delivery credit of** <b>\$ 3,000</b> Exp. May 31, 2018
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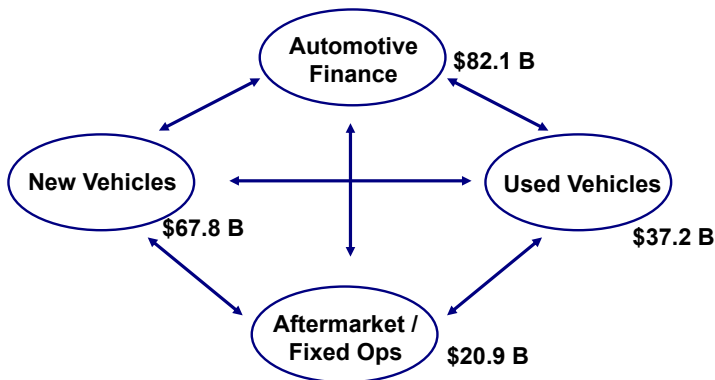
Lease rate* / Term	1.90 % APR / 48 months
Monthly lease payment*	\$388 / \$6,500 down
Includes lease delivery credit of**	\$3,000
Includes finance delivery credit of*	\$3,500

# Respective size of Canadian automotive sectors

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**desrosiers**  
AUTOMOTIVE CONSULTANTS INC.

The Automotive Sector is Huge and Represents near Unlimited Opportunity



**2015 - Final Retail = \$208.0 Billion including Financing**