THE CAPITOL FORUM

Vol. 5 No. 200 June 20, 2017

Snap-on: Takeaways From Franchisee Interviews and "Bare-Ass-Minimum" Report; End-Customers Not Required To Pay Contractual Obligation; Franchisees Regularly Cover Delinquent Accounts to Maintain Platinum Status

Company Update

In order to get a better understanding of Snap-on's credit practices, we recently spoke to sixteen current franchisees. The franchisees we spoke with worked as Snap-on franchisees for different periods of time ranging from three to 42 years. Several of the franchisees we spoke with owned more than one Snap-on franchise or had owned more than one franchise in the past. We specifically inquired about collection practices, how much end-customers are required to pay in order to be treated as current by Snap-on Credit, and whether franchisees cover their customers' extended credit delinquencies.

In response to our inquiries, one current franchisee provided us with a copy of his region's Unresolved Report for the week of June 11 through June 16, which includes "all past due, and potentially past due, customers." The Unresolved Report is commonly referred to by Snap-on franchisees as the "Bare-Ass-Minimum" or "BAM" report and represents the minimum amount that an end-customer must pay on their extended credit account to be treated as current by Snap-on Credit. The minimum payment is less than the contractual amount the end-customer is required to pay.

In this article, we provide takeaways from interviews with current franchisees as well as our analysis of the "BAM" report. We reached out to Snap-on for comment on the topics covered in this article, but did not receive a response as of publication.

A Closer Look at the "BAM" Report

Snap-on does not use contractual accounting to calculate delinquencies. The document contains the following columns from left to right: CLIENT NAME, ACCOUNT, NAME, EMP NAME, BALANCE, PROMO ID, COL MTD, MM, AGING, LST PAY DT, and LST PY AMT".

The first four columns include identifying information about the franchisee and the franchisee's customers. The "CLIENT NAME" column identifies which franchisee is responsible for each account. The "ACCOUNT" column contains the customers' account number. The "NAME" column identifies the customer who signed the Extended Credit (EC) contract, and the "EMP" column identifies the business the customer is associated with, if any.

The last seven columns are about the contract itself. The "BALANCE" column contains the total outstanding balance for each account. The column "PROMO ID" identifies which promotional code or program the contract included. The number in the column "COL MTD" is the amount that the customer is contractually obligated to pay each month, and the amount in the column "MM" is the "Monthly Minimum" (aka the "Bare-Ass-Minimum", according to multiple Franchisees) the customer needs to pay to be considered current. As the disparity between the two columns shows, customers are not required to pay their full contractual obligation in order to be considered current.

© 2017 The Capitol Forum. Direct or indirect reproduction or distribution of this article without prior written permission from The Capitol Forum is a violation of Federal Copyright Law.

The “AGING” column identifies whether the customer is current or some number of days delinquent. The options in this column are current, 1-29, 30, 60, and 90. The column “LST PAY DT” indicates the last date a payment was made on that account, and the “LST PY AMT” column identifies the amount of that payment.

A former Snap-on franchisee also provided us with some additional information regarding the “BAM” list. The former franchisee told us that the “Bare-Ass-Minimum” is always just slightly more than two weeks’ worth of a customer’s weekly payment schedule, or just over half of a customer’s required monthly payment. Additionally, in an interview before we received the “BAM” report, a current franchisee told us that customers could be considered current by Snap-on Credit by paying 51% of their required EC monthly payment.

In addition, our review of the data in the columns labeled last payment amount, last payment received, status column indicates that, in some cases, customers who have not made a payment in the last 30 days—and in some cases more than 120 days—are treated as current.

According to the current franchisee who provided us with the “BAM” report, when a customer makes a monthly payment below the contractual payment, the difference between the two is added to the next month’s contractual payment. Because monthly minimum payments are set at just over half the contractual payment amount, paying only the monthly minimum amount each month results in a customer’s monthly minimum payment increasing dramatically month-over-month.

For example, suppose a customer has a contractual payment amount of $100 per month. Instead they pay $50 during month one, which satisfies the “Bare-Ass-Minimum” requirement to be considered current. In the next month, their contractual payment amount will rise to $150 and their “Bare-Ass-Minimum” payment will rise to $75. If they pay the $75 for that month, the next month’s contractual payment amount will rise to $225 and the minimum payment will rise to $112.50. Because of this process, a customer’s payments can quickly spiral out of control.

Takeaways from Interviews with Current Franchisees

Snap-on franchisees cover their customers’ EC delinquencies. Fifteen of the sixteen current franchisees indicated that they had personally paid off a customer’s EC balance in order to create the appearance that the customer was current under their EC account with Snap-on credit.

One franchisee did not confirm or deny that he made payments on his customer’s EC accounts. Notably, several of these franchisees claimed to be very successful, were happy with Snap-on, and had been with the company for a significant period of time, which indicates that the practice of covering a customer’s EC delinquencies is not limited to newer franchisees and franchisees struggling to make sales.

According to the franchisees, franchisees often pay thousands of dollars a week to keep customers’ EC accounts with Snap-on credit current. One franchisee indicated that he paid $5,000 a month, in some months, on behalf of his customers and that in extreme circumstances, franchisees could pay more than $20,000 a month. The franchisee told us that he decided to stop this practice one month—and, as a result, 22 of his customers became delinquent on their EC accounts in that month. He went on to tell us that “all the top dealers pay off their customers’ balances.”

The Platinum Program incentivizes franchisees to pay their customers’ minimum payment to appear current. When asked why a franchisee would pay off some of their customers’ minimum monthly payments, most current franchisees cited continued access to the Platinum Program as the biggest incentive.

© 2017 The Capitol Forum. Direct or indirect reproduction or distribution of this article without prior written permission from The Capitol Forum is a violation of Federal Copyright Law.

As we have previously reported, the Platinum Program has three levels—Platinum Plus, Platinum Premier, and Platinum Elite. The primary benefit the Platinum Program provides to the franchisees is the Platinum Overturns, which allows a franchisee to overturn a declined credit decision by Snap-on Credit to write the customer an EC contract.

There are two main elements to the program that differ between the three levels: the maximum contract amount, and the number of Platinum Overturns the franchisee is permitted to use each month. At the Plus level, franchisees are permitted to overturn 2 declined credit decisions each month and write contracts up to $3,500; at the Premier level, franchisees are permitted to overturn 4 declined credit decisions each month and write contracts up to $6,000; at the Elite level, franchisees have unlimited Platinum Overturns and are permitted to write contracts up to $8,500. The maximum allowed contract amount is an important factor for the franchisees, as many of the products sold on EC contracts cost more than the maximum contract under the Plus and Premier levels.

Recent Platinum Elite changes will likely result in franchisees increasingly covering customers' EC delinquencies. The Platinum level a franchisee has access to is determined by that franchisee's customers delinquency rates. A current franchisee told us that Snap-on has recently reduced the maximum delinquency rate permitted for Platinum Elite franchisees from 3.00% to 1.00%. As he put it, if more than 1 out of 100 of a franchisee's customers are delinquent, that franchisee will no longer have Platinum Elite status.

According to this source, the Platinum Elite level is significantly more valuable to the franchisees than the Plus or Premier level, as franchisees who have Platinum Elite status can overturn as many declined credit decisions as they want and they can write contracts for more expensive products. As a result, franchisees are heavily incentivized to keep their customers' delinquency rates below 1% so they can overturn an unlimited number of declined credit decisions and subsequently make sales of big ticket items—such as toolboxes and diagnostic equipment—on those overturned credit contracts.

This change may result in franchisees increasing the level of payments they make on behalf of their customers. As one current franchisee noted, there is not a loan in the world that has a 1.00% delinquency rate. And stakeholders should keep in mind that by its own admission, individuals who take advantage of financing through Snap-on Credit are "heavily subprime," as stated by Snap-on CEO Nick Pinchuk at the Oppenheimer 12th Annual Industrial Growth Conference on May 10. In order to maintain Platinum Elite status and keep delinquencies low, franchisees will likely have to make even more payments for their customers.

Snap-on Credit modifies and extends loan terms, and gives franchisees discretion to roll old loans into new ones with different terms. While Snap-on may not restructure loans in the traditional sense, the current franchisees all indicated that Snap-on Credit employees extend payment terms at the request of the franchisees. Indeed, the 2016 Operations Manual includes a section entitled "Extension of Time on EC Payments" that includes the following language: "the Snap-on Credit Account Manager may grant an extension, at Snap-on Credit's sole discretion, for various reasons."

Current franchisees also indicated that new loans and EC sales are often used as a mechanism to refinance existing loans. Several franchisees indicated that they were permitted to write new loans for customers who may have been delinquent and roll the outstanding balance of an older loan into the new loan. Typically, the new loan, according to our sources, would have longer payment terms than the prior loans on which the end-customer was having difficulty staying current.

© 2017 The Capitol Forum. Direct or indirect reproduction or distribution of this article without prior written permission from The Capitol Forum is a violation of Federal Copyright Law.

Franchisees explained the process for requesting a payment extension from Snap-on credit as follows: the franchisee or the customer simply needs to call the Snap-on Credit Account Manager and request an extension. The Snap-on Account Manager has complete discretion over whether an extension is granted.

If an extension is granted, the franchisees indicated that the Account Manager simply moves the current payment due to the end of the note, so there is an additional month added to the length of the loan. Our sources have indicated to us that this practice is very common, and that the franchisees and their customers do not need extenuating circumstances to get extensions granted. Because extensions are granted completely at the discretion of the Account Manager, it is difficult to gain insight into how widespread this practice is, and it likely varies between region.

© 2017 The Capitol Forum. Direct or indirect reproduction or distribution of this article without prior written permission from The Capitol Forum is a violation of Federal Copyright Law.