

Who's Your Buddy?

Understanding and Managing Factory Relationships

Lane Gorman Trubitt Controllers' Roundtable Dallas, TX June 19, 2026

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Actions initiated by OEM/Distributor

- a. Terminations
- b. Add Point or Relocation
- c. Denied Buy/Sell
- d. Denied Succession
- e. Warranty Chargeback

Dealer Initiated Actions

- a. Disparate Allocations
- b. Disparate Incentive Programs
 - i. Facility Programs
 - 1. Exclusivity
 - 2. Visual Identity Program
 - ii. Performance Based
- c. Warranty Reimbursement
 - i. Compliance with statutes
- d. Assignment of Dealer Area of Responsibility
 - i. Modification of Dealer Agreement

Venues for dispute resolution

- a. Administrative Hearing
- b. State Court
- c. Federal Court
- d. Arbitration
- e. Mediation

Terminations

- a. Preemptive Measures
 - i. Responses to Notice to Cure
- b. Protest
 - i. Time limit to file protest
 - ii. May or may not be time limit for hearing to occur
- c. Discovery
- d. Hearing

Add Points and Relocations

- a. Preemptive Measures
 - i. Requests for input prior to a market study
 - ii. Requests for input following a market study
- b. Protest
 - i. Standing to protest
 - 1. Relevant Market Area
 - ii. Time limit to file protest
 - iii. May or may not be time limit for hearing to occur
- c. Discovery
- d. Hearing

Performance Based Measurements*

1) Sales Performance

2) Customer Satisfaction Performance

a) Purchase CSI and/or

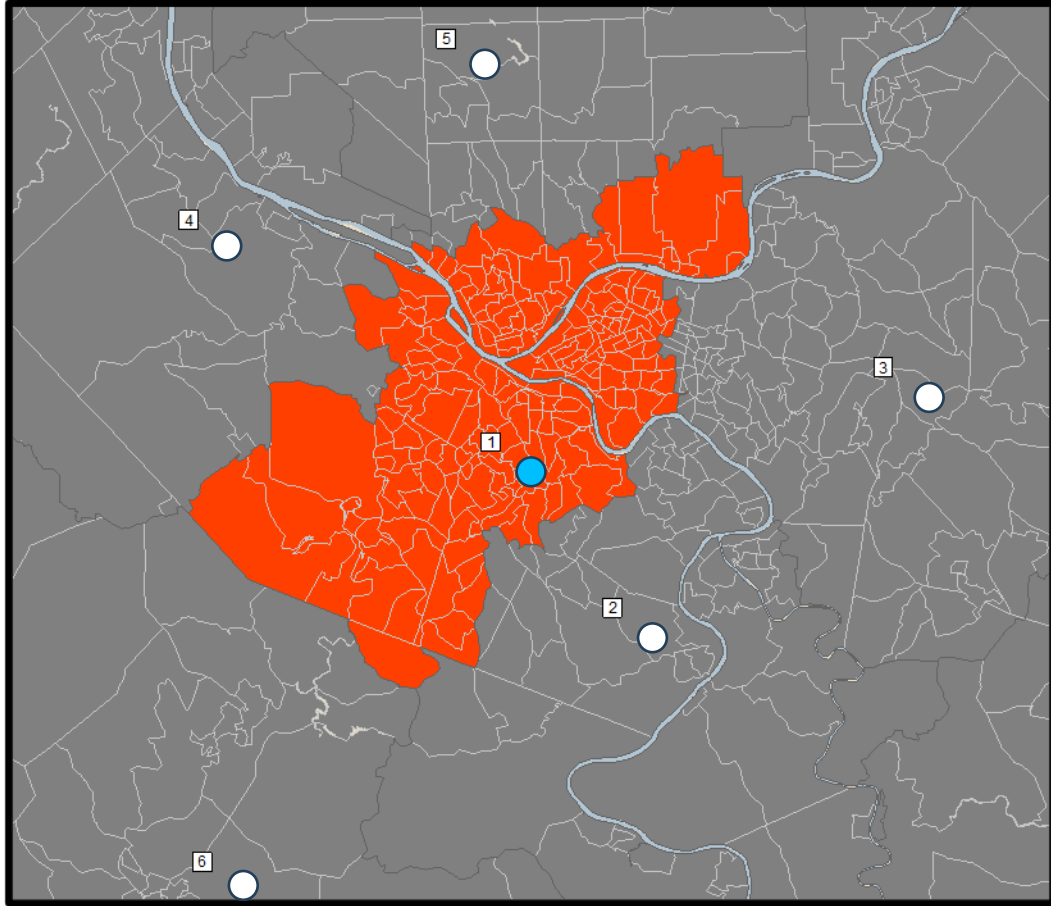
b) Service CSI

* Including attempted Termination of Dealer Sales and Service Agreements or Denied Buy/Sells or Denied Successor Agreements

$$\text{Registration Effectiveness} = \frac{\text{Registrations in the Area}}{\text{Expected Registrations in the Area}}$$

$$\text{Sales Effectiveness} = \frac{\text{Dealership's Nationwide New Retail Sales}}{\text{Expected Registrations in the Area}}$$

Primary Market Areas



Definition of a PMA: A PMA is a geographic area in which a dealer enjoys a competitive advantage over all other same-line dealers due solely to geographic factors.

- Collection of geographic units (“GU”)
 - Data usually reported to OEM at GU level
- NOT EXCLUSIVE - dealers are allowed to sell products and services to customers anywhere in the United States
- Used to measure the opportunity closest to the dealership

Other Names for Primary Market Areas

- **AGSSA**: Area of Geographic Sales and Service Advantage
- **APR**: Area of Primary Responsibility
- **AOR**: Area of Responsibility
- **ASA**: Area of Statistical Analysis
- **DL**: Dealer Locality
- **PAI**: Primary Area of Influence
- **TZ**: Trade Zone
- **SOA**: Statistical Observation Area

Geographic Units

Census Tracts

- County subdivisions
- Typically contain between 2,000 and 8,000 people
- Defined United States Census Bureau every census
- Last census was 2020; Occurs every 10 years
- Most frequently used to define PMAs

ZIP Codes

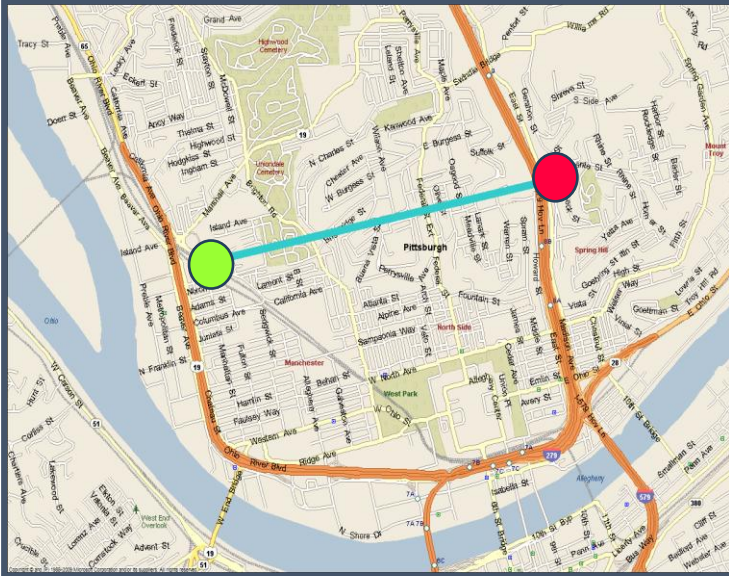
- Created by the United States Postal Service for mail delivery
- Based on mail delivery routes and do not necessarily follow any geographic boundaries
- ZIP Code definitions can change anytime

County

- Political / administrative district within a state
- Agriculture equipment data only reported at county level

Measures of Proximity

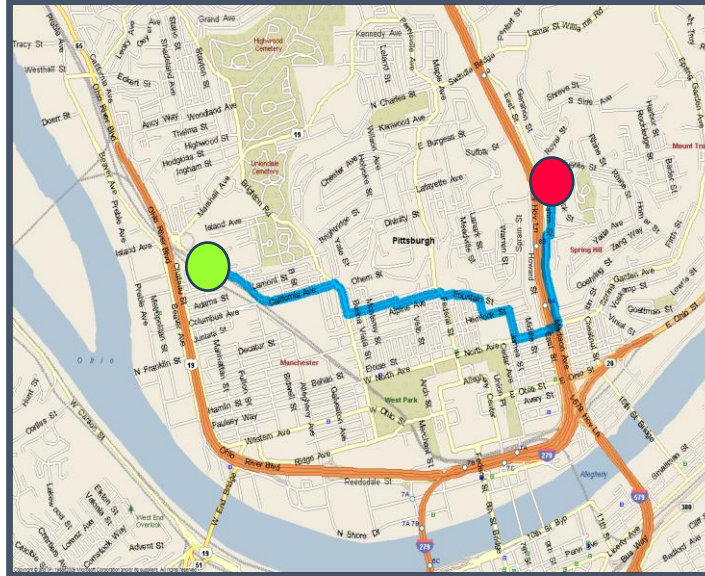
Air Distance



Based on straight-line
(as the crow flies) distance

- Repeatable and simple to calculate
- Rarely an actual route

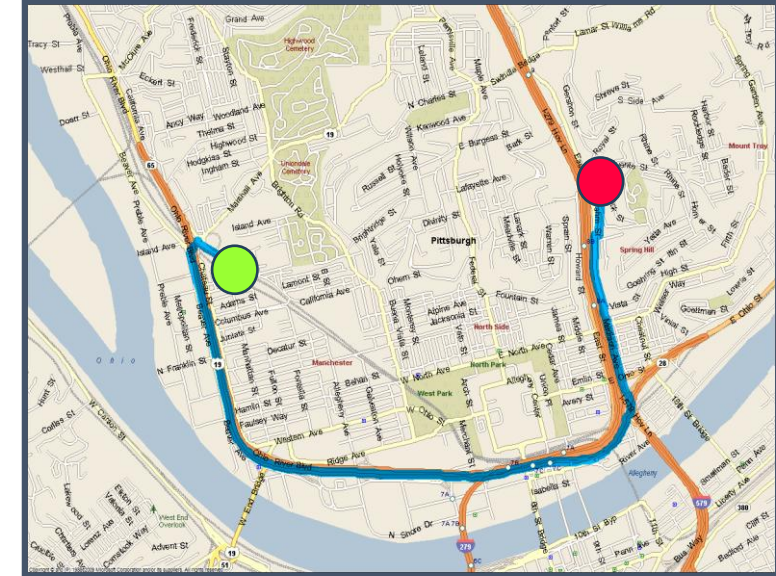
Drive Distance



Follows road network and
finds
the shortest path

- Consistent regardless of road and traffic conditions
- Requires specialized software

Drive Time



Follows road network and finds
the quickest route

- Relies on road speeds
- Requires specialized software
- Speeds vary based on time of day / day of week

Potential Uses for PMAs

Some Ways PMAs Used by Manufacturers/Distributors and Dealers:

- Evaluate sales effectiveness relative to opportunity in the designated area of geographical advantage
- Evaluate brand effectiveness (i.e., market share) relative to the opportunity in the designated geography
- Evaluate service effectiveness relative to opportunity in the designated geography performance and retention (greater of 50 miles of the selling dealer or is within the dealer's PMA)
- Determine UIO and evaluation of “planning potential” for facilities (i.e., land/building)
- Assignment of customer leads
- Other

Expected Registrations

State			
<u>Segment</u>	<u>Brand</u>	<u>Industry</u>	<u>Share</u>
Small Car	10,000	100,000	10.0%
Large Car	<u>40,000</u>	<u>200,000</u>	20.0%
Total	50,000	300,000	16.7%
PMA			
<u>Segment</u>	<u>Industry</u>	<u>State Share</u>	<u>Expected Registrations</u>
Small Car	5,000	10.0%	500
Large Car	<u>5,000</u>	20.0%	<u>1,000</u>
Total	10,000		1,500

Cautions to Using Segmentation Analysis to Calculate Market Potential

Differences between your market and the chosen benchmark:

- Demographic Differences not controlled by segmentation
- Weather and Terrain
- Competitive Representation
- Import or Domestic Bias
- Competitive Manufacturing/Research Facilities/Suppliers

Additional Factors Affecting Performance

- **Allocation** of Vehicles
- Brand Loyalty
- Open Points
- Disparate Incentives



June 12, 2026

Subject: Introduction of Local Sales Efficiency Metric

Dear Toyota Dealer Principal and General Manager,

Toyota is committed to maintaining performance measures that are fair, data-driven, and reflective of the competitive realities our dealers face in their local markets. To support that objective, Local Sales Efficiency will be introduced as a complementary performance metric for assessing local market effectiveness.

Currently, Toyota measures Sales Efficiency using a segment adjusted state average. This metric is widely-used and accepted in the industry, and it provides an accurate and consistent framework for measuring dealer sales performance. As part of Toyota's commitment to continuous improvement, however, we are implementing Local Sales Efficiency as an additional sales performance metric designed to provide a more localized view of a dealer's market opportunity and expected sales.

What is Local Sales Efficiency?

Local Sales Efficiency calculates a dealer's performance using the competitive segment adjusted market share of the dealer's Primary Market Area (PMA) together with a local geographic zone consisting of the target dealer's PMA, plus the PMAs of the 10 closest Toyota dealers, subject to a maximum radius of 200 miles. These local groupings are determined by air miles from primary dealer locations, regardless of state or region.

As with the state average methodology, expected sales are calculated by applying the competitive segment adjusted market share of this local geographic zone to the competitive segment industry registrations in the dealer's PMA. Total expected sales are then summed across all competitive segments, and Sales Efficiency is calculated as actual dealer retail sales divided by total expected sales.

How this metric will be used

Toyota will apply a "Best of Both" approach, meaning that no dealer will see a decline in performance from the new measurement. For all applicable performance evaluations, **Toyota will use the higher of the dealer's State Sales Efficiency (SSE) score or Local Sales Efficiency (LSE) score.**

This approach is intended to allow Toyota and each dealer to even more effectively assess the dealer's sales performance across potentially differing market conditions, while at the same time preserving continuity with our existing and well-established methodology.

Examples of some ways that Toyota may use SSE and LSE include the following:

- Dealer Agreement Term
- Acquisition Eligibility
- Dealer Performance Reviews
- President's Award



**Southeast Toyota
Distributors, LLC**

BRENT T. SERGOT
President

Why this change is being made

The addition of Local Sales Efficiency is intended to provide a complementary sales metric that more explicitly incorporates a dealer's local competitive environment into the measurement. In some cases, local market conditions may contribute to measurably different performance levels than those reflected results on state averages.

What this means for dealers

This new metric (LSE) does not replace the existing sales performance metric (SSE), but adds flexibility to how Toyota will measure dealer sales performance. By adding Local Sales Efficiency, Toyota aims to ensure that dealers operating in unique or border-market environments are evaluated using metrics that align with their respective market contexts.

Next steps

Current Local Sales Efficiency performance data will be included in Dealer Performance Evaluations starting July 12, 2026.

Your District Manager will be available to answer questions and provide additional details regarding the Local Sales Efficiency methodology, including details of your local dealer group, your current performance, and how the measure may apply in your specific situation.

We appreciate and value your continued partnership and your commitment to serving Toyota customers in every market across the country.

Sincerely,

A handwritten signature in black ink, appearing to read "Brent T. Sergot", written over a light gray background.

Brent T. Sergot
President, Southeast Toyota Distributors, LLC

Availability and Allocation of Product

Distributor agrees to use its best efforts to provide Manufacturer Products to Dealer in such quantities and types as may be required by Dealer to fulfill its obligations with respect to the sale and servicing of Manufacturer Products under this Agreement, subject to available supply from Importer, Distributor's requirements, and any change or discontinuance with respect to any Manufacturer Product. Distributor will endeavor to allocate Manufacturer Products among its dealers in a fair and equitable manner, which it shall determine in its sole discretion. Distributor agrees to provide Dealer with an explanation of the method used to distribute such products and, upon written request, will advise Dealer of Distributor 's total wholesale sales of new motor vehicles, by series, in Distributor 's area and to dealer individually, for a reasonable time frame.

The Goldilocks Syndrome: Dealers Want Inventory Just Right

What Happens if You Have Too Much (the carrying cost nightmare):

- The job of every DSM is to sell cars to dealers
- Forcing inventory on dealers was in part the basis for the very first dealer laws
- Resulting statutory protections allow dealers to reject allocated vehicles and/or prohibit manufacturers from shipping unordered vehicles
- Texas - Tex Occ Code § 2301.451 - May not require a dealer to accept delivery of vehicle, part, or accessory unless voluntarily ordered

The Goldilocks Syndrome: Dealers Want Inventory Just Right

What Happens if You Have Too Little (the death spiral):

- The most common dealer complaint is too few new cars allocated, or at least too few of the good cars
- Under the turn and earn system this is the chicken and egg problem
 - If you start with low inventory you have nothing to sell/turn
 - If you do not turn you cannot earn more inventory
 - If you do not earn your inventory continues to dwindle
 - If your inventory continues to you have even less to sell
 - Etc., etc., etc.
- Resulting statutory protections require manufacturers to implement allocation and distribution systems that are fair and equitable
- Texas - Tex Occ Code § 2301.473(1) - May not refuse to allocate vehicle models manufactured for a line-make; (2) May not condition allocation

The Goldilocks Syndrome: Dealers Want Inventory Just Right

What is Just Right?

Definitions

Shortage: a state or situation in which something needed cannot be obtained in sufficient amounts

Allocation: an amount or portion of a resource assigned to a particular recipient

Discretion: left to individual choice or judgment

Honda Scandal

Voluntary Restraint or Voluntary Export Restraint

Kickbacks/Bribes

Prison Terms for Executives

Allocation

New Points

False Reporting

Company Cars

Make Them Small

No Soup for You!



Turn and Earn Allocation

Dealer Sales % Area Sales (Region/Port/Nation)

Dealer 90 Day Sales of Compact Cars = 120

Area 90 Day Sales of Compact Cars = 8,000

Dealer's Share of Sales = $120/8,000 = 1.5\%$

Area Allocation = 1,400 Compact Cars

Dealer Allocation = $1,400 * 1.5\% = 21$ Compact Cars

Modified Turn and Earn

In addition to actual sales, can use sales forecasts, planning guide, or other measures of market size

Examples:

- a. 90 day sales weighted 50%
90 day forecasted sales weighted 50%
- b. 90 day sales weighted 70%
Competitive registrations in Dealer Area weighted 30%

Balanced Days Supply

Allocation brings all dealers to average Days Supply of each Series/Model

Key Terms

Allocation Date - Locks sales and inventory data

Days in Allocation - Number of days of sales considered - Can be weighted

Travel Rate or Daily Sales Rate - Sales in period / Days in period

Stock - Inventory considered in formula, typically On Ground plus Vehicles Assigned but not yet delivered

Days Supply - Stock / Daily Sales Rate

Days Supply Calculation - Sales

Sales

	<u>90 Day Sales</u>	<u>Daily Sales Rate</u>
Area	8,000	88.89
Dealer	120	1.33

Days Supply Calculation - Inventory

Inventory

	<u>Assigned/In Transit</u>	<u>Ground Stock</u>	<u>Current Allocation</u>	<u>Total Inventory</u>
Area	2,000	2,400	1,400	5,800
Dealer	35	30	n/a	65

Days Supply Calculation

	<u>Total Inventory</u>	<u>Daily Sales Rate</u>	<u>Days Supply</u>	<u>+/- Area</u>
Area	5,800	88.89	65.25	n/a
Dealer	65	1.33	48.87	16.38

Balanced Days Supply Calculation

	<u>Days Supply +/- Area</u>	<u>Daily Sales Rate</u>	<u>Allocation</u>
Dealer	16.38	1.33	22 (21.79)

Discretionary Allocation

Typically, 10% - 15% of distributed vehicles

Series/Models

Colors

Drive Trains

Option Packages

Advertising Campaigns

Rebates/Special Pricing

Additional Factors

Pipeline/Inventory Protection

Turndowns & Reassigned Turndowns

Preferencing

Minimum Fill

Color and Model Selection

Swaps

Dealer Trades

False Reporting

Customer Satisfaction Index

- Sales Satisfaction Survey
- Service Satisfaction Survey
- Can be independently assessed or combined
- Typically, “Average Based” or “Top-Box” or “NPS”
- Can be tiered



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