BUSINESS INSIDER

The tool company Trump just visited has an unsettling relationship with its blue collar franchisees

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Kevin Lamarque/Reuters

Did anyone in the White House vet this?

Donald Trump just visited the headquarters of Snap-on Inc., a Kenosha, Wisconsin maker of tools sold to auto repair shops and mechanics.

On paper, this looks great. The business dates back to the 1920s and makes tools used by blue collar workers.

But that's not the whole story here.

Snap-0n uses franchisees to sell its tools and it has an unsettling relationship with these small business owners.

These franchisees accuse the company of keeping them trapped in a cycle of debt, by taking advantage of its position as a lender, charging rates of 17.9% to 19.5%.

The company has said that those rates are commensurate with the quality of the borrower — which is to say, they know that their franchisees are not in the best financial position. It has drawn other complaints and lawsuits from its franchisees, and some on Wall Street find it disconcerting that this tool maker's fastest growing business segment is its lending business.

Oh, and it manufactures some of its tools overseas, including in China. Snap-on did not respond to Business Insider's request for comment on this story.

Never Google yourself, ever.

If you read Snap-on's public documents, you won't find much about its issues with franchisees. Just a short boilerplate message:

> "Snap-on is involved in various legal matters that are being litigated and/or settled in the ordinary course of business. Although it is not possible to predict the outcome of these legal matters, management believes that the results of these legal matters will not have a material impact on Snap-on's consolidated financial position, results of operations or cash flows."

Okay then, nothing to see here.

Luckily, there is a fairly extensive log of Snap-on's settlements and alleged misdeeds on the Internet. Here's one from 1988, courtesy of the Los Angeles Times, when a group of Southern California franchisees accused the company of making their routes too small for them to make a profit:

> The dealers claimed at a Claremont news conference that the Kenosha, Wis.-based producer of socket wrenches and other automotive tools creates uneconomically small sales territories for new dealers while seeking to break up the territories of existing dealers. By making each dealer sell to fewer and fewer mechanics, the company ensures that every dealer will give the maximum possible sales effort, but without necessarily showing a profit, the dealers said.

And here's another — a 2004 suit filed by the wives of Snap-on franchisees who alleged the company hurt them by making "'false, fraudulent and misleading representations' that not only led to the collapse of their husbands' franchises but also resulted in the loss of the wives' own money and family savings."

Google will also lead you to the charming parody site, Crap-on.com. It hosts a litany of complaints from franchisees, including that the company refused to honor thousands of dollars in warranties. You can also take a look at what is purported to be the 475-page franchisee disclosure document you have to sign before joining Snap-on.

That document includes a list of allegations made against the company — we're talking everything from slander and defamation to fraud, breach of contract and negligence in handling plaintiff's inventory insurance claim.

It's not the only place you can learn about disgruntled franchisees. Front and center on another site — UnhappyFranchisee.com — is the story of King Regian and his wife Sally, who are suing Snap-on.

Regian, who did $1,025,784.00 in "collections" for the company in 2015 alleges that Snap-on went sour on him after he spoke at a trade show and advised franchisees not to invest their entire savings in the company and to, instead, diversify.

When he started to return new items that he no longer wanted to sell, he and his wife contend that Snap-on made that as difficult for them as possible. Here's what they wrote on UnhappyFranchisee.com.

> In August 2014, we were sent a letter detailing a “newly created return procedure” for especially for King to use when sending in warranties. This letter was a direct violation of the contract with Snap-on. The warranty process does not include the ridiculous procedure that Snap-on regional manager Mike Doweidt outlined. We tried on numerous occasions to compromise with Mr. Doweidt on the special “King Regian” return/warranty policy he instituted just to hurt us and keep his bonus from being decreased.

The Regians say they are in possession of over $110,000 worth of lifetime warrantied Snap-on tools that the company refuses to take back.

Now, to be fair, the Regians obviously have an ax to grind and they're grinding it in a very public way. They also have a Facebook page where they sell t-shirts to fund their fight with the company.

Wall Street's problem

Markets Insider

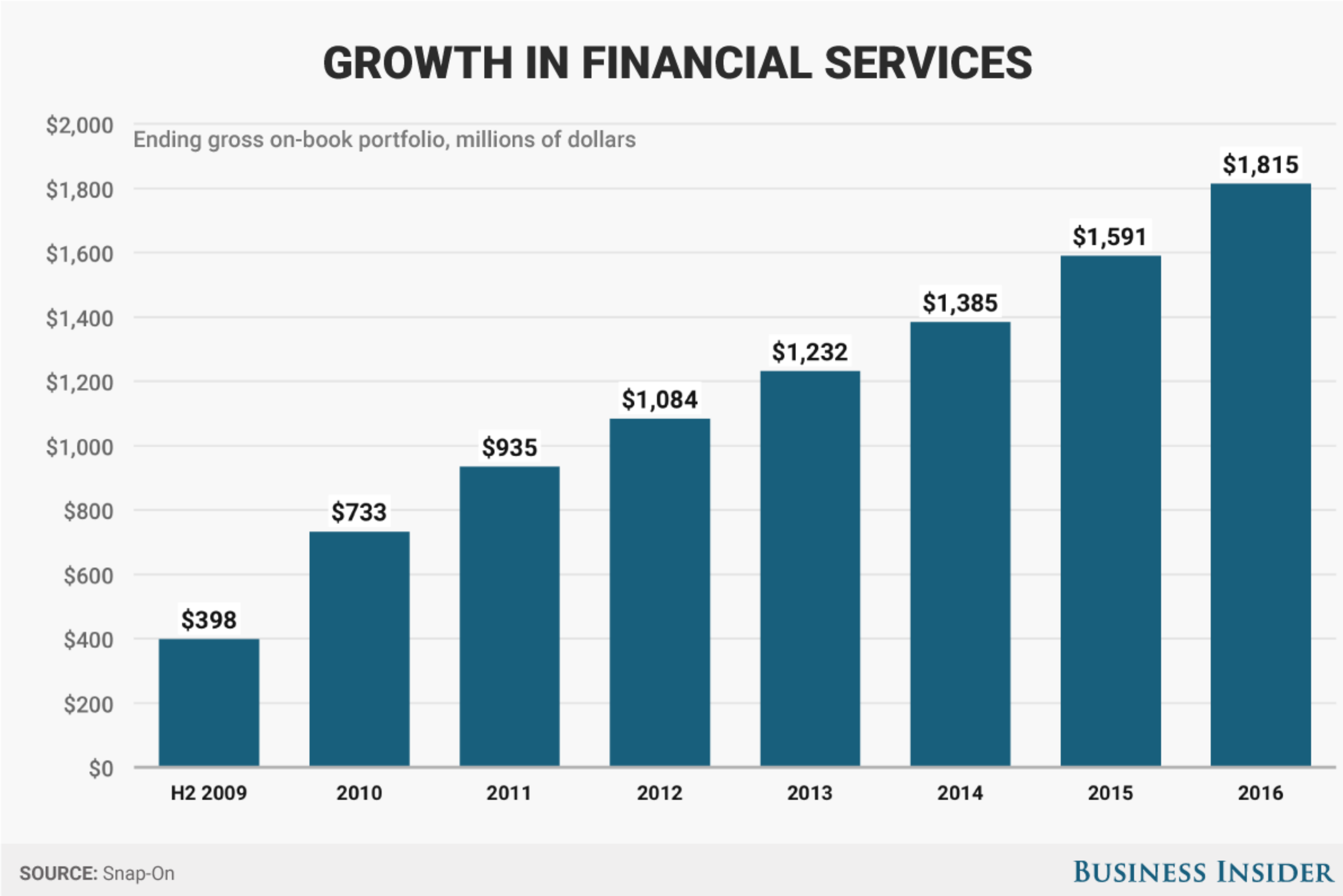
But it's not just the franchisees who have something to say here.

Snap-on happens to be one of those stocks that short sellers whisper about at conferences and trade information about over e-mails and phone calls. Grant's Interest Rate Observer wrote about the company in June of last year comparing it to a multi-level marketing firm, and highlighting the company's dependence on its in-house credit facility.

"Vendor financing dominates the portfolio. As of April 2 [of 2016], net finance receivables, i.e., loans to customers, footed to $1.3 billion vs. $349 million for net contract receivables, i.e., loans to franchisees. And the finance operations are hardly insignificant to the bottom line. In the first quarter, Snap-on Credit chipped in 23.2% of total operating income," Grant's noted.

Think of it this way, the number of mechanics in the US is growing at a meager 1.6% according to government data. Meanwhile, Snap-on's sales have grown at a steady 6% the last few years, as Bret D. Jordan, an analyst at Jefferies pointed out in a note last year.

“We are seeing a contraction in service bays nationally. Independent small shops are going out of business because they can’t work in new technology," Jordan wrote. "Again, they are selling a product that is super premium and lasts forever. Once a guy buys a socket-wrench set from Snap-on—unless he is losing his sockets—he will probably never need to buy another one. How do you sustain that growth rate?”



Snap-on

You do it, it seems, by lending to your subprime franchisees (who make up your contract receivables) so that they can lend to their subprime customer base (finance receivables).

"Over the past five years, finance receivables have grown at a compound annual 16.7% growth rate, almost double the 8.6% annual growth in Snap-on Tools Group's sales. Contract receivables have grown by 15.9% per year over the same time period," noted Evan Lorenz, another Jefferies analyst.

So in sum Trump, who is pushing a "buy America, hire American" message, did a photo op at a company that has ceased to make all its tools in the United States, has a shady relationship with its blue collar franchisees, and is being targeted by investors who think it's network will collapse under a pile of its own debt.

I'll ask again: Who thought this was a good idea?

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