

Adapt, Improvise, Overcome

By Phil Villegas

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An estimated 1,000 dealerships will close this year, primarily due to the economic crisis gripping our nation. That means roughly one of every 20 dealerships may close its doors. If you are a domestic dealer, your odds are even less favorable.

In past years, if the odds were stacked against you, selling your dealership was still a viable option. In today's climate, selling your dealership on the open market is a sign of weakness that will hurt the value of the store.

Unless you are approached by a buyer or aware of a buyer that would benefit strategically from acquiring your store, this is not the time to sell, unless you are prepared to accept a give-away amount.

Dealers who believe they are in peril of surviving this economic crisis basically have two options if they don't have a buyer knocking on their door. 1. Sell far below normal value or 2. Figure out how to survive this storm.

If you do decide to sell, make sure you have very well capitalized buyers or be prepared to personally finance the transaction due to illiquidity in the markets.

I don't have a silver bullet for the second option. I would take an approach similar to Ford CEO Alan Mulally's, and as a dealer see myself "racing against the clock," with the goal of making it to July 2009.

My hedge would apply to the stores that cannot survive this environment. They have begun to close and will continue to do so over the next six months.

While sales forecast for 2009 are expected to be slightly lower than 2008, domestic dealers that survive will benefit from decreased dealer competition and from improved products that compete better on fuel economy.

It's important to know not only where you stand, but for

how long. I recommend the following:

1. Try to forecast the next few months' sales based on further declining sales. Take current year-to-date sales and compare them to last year. If you are down 40%, create a sales forecast based on being down 60%. Apply your gross profit expectations based on those revenues.
2. If you don't know already, figure out your monthly "nut" (operating costs).
3. Complete a cash analysis with your controller to determine the dealership's cash position. How much cash does the dealership have to live on.

Due to timing and cut-off issues, do this during the month-end close.

- a. Start with a current bank reconciliation. It is imperative that it be reconciled through the day this analysis is completed.
- b. Make sure all accounting transactions are posted (i.e. deals, invoices, receipts, statements, etc.).
- c. Review all payables and accrued liabilities. Categorize these based on immediacy. Consider certain spending freezes.
- d. Review all receivables. Forecast realistic collections with next 30 days. Collect all aged balances and consider limiting new or increase credit lines.

Based on the three steps above, as a dealer losing money I would be able to determine:

- How long I can continue to stay in business at this rate.
- How much in monthly cuts do I need to make to survive until July 2009.

As a former U.S. Marine, I do not believe in surrender. But there is such a thing as a tactical retreat. For many dealers, this means scaling back operations to the point of basic survival.

It is a matter of adapting, improvising and overcoming with the goal of maintaining operations until the market returns.

Challenging times bring out the best in Americans. In the end we will have a much stronger domestic manufacturer and dealer body.

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