

Celebrate? Well, Just a Bit

Don't get lured into false sense of economic security

By Phil Villegas

Ward's Dealer Business, Oct 1, 2009 12:00 PM

Despite welcome positive signs the recession may be ending, dealers should not become lured into a false sense of economic security.

Driven by the Cash for Clunkers program, the automotive industry is coming off its best couple of months in the last year. But this is certainly not a time to celebrate. The industry has been unable to show true unsubsidized signs of recovery.

For dealers who are planning to sell their operations once the economy recovers, the next several months are even more critical, and may determine the difference between success and failure. Many dealers who had anticipated exiting the industry this year have been forced to put their plans on hold.

With the collapse of retail auto sales and real estate values, dealership transactions that have occurred in 2009 have less to do with the desire of the dealer and more to do with the directives of their creditors or cash.

Unless a dealer already had a legitimate internal succession plan in which they sold their interest to a family member or to an employee/partner, those exiting the industry this year have done so under less-than-gracious terms.

Going into what is sure to be a continuation of the sluggish retail atmosphere prior to the Clunkers program, dealers need to take stock of their current operating environment and apply long-term strategies.

Those dealers angling to sell need to be extra cautious and strategic to ensure that their dealership is properly positioned once the acquisition markets stabilize. Here are some key areas for good planning:

Vehicle Inventories: If Clunkers left you low on inventory, don't go overboard in replacing it. As a dealer, if you're not personally overseeing the vehicle ordering, make sure you are in the months to come. The natural reaction, spurred by your manufacturer representative, is to reload inventory at pre-Clunker levels.

Exercise caution as you replenish your inventory. Ultimately, you should not exceed a 60 days' supply based on April sales numbers.

If you are looking to try to sell your dealership as soon as the market returns, don't risk getting stuck with inventory that you will have to sell at a deep discount. Most dealership buy-sell agreements have provisions as to the age and terms of inventory being acquired.

Personnel and Expense: If you were like most dealers, you were either compelled or forced to make cuts earlier this year in an effort to preserve cash or simply to survive. Similar to the inventory situation, the apparent return of the retail market due to the Clunker program may give dealers a sense that they are operating over capacity.

At this time, dealers need to ensure that they continue to operate as lean as in prior months. While the retail environment has improved, dealers need to use this time to capitalize on some of the operating efficiencies that they have created in recent months.

Despite the improved profitability compared with earlier in the year, keep in mind dealerships are bought and sold based on multiples. Any lack of financial restraint will cost you exponentially when it comes time to set your price.

At the end of the Clunkers program, many dealers were left with depleted vehicle inventories, bloated receivables

and a great deal of uncertainty regarding the state of the industry and collections of the government vouchers.

As the automotive retail environment begins to return to its more constrained pattern, a new sense of normalcy should once again begin to take hold. One of the keys to continued survival is to accept that the turn-around of the industry may not take months, but rather years.

Phil Villegas is a principal at Dealer Transactional Services, LLC, an affiliate of Morrison, Brown, Argiz & Farra, LLP in Miami. He is at PV@DTSAUTO.COM and 305-913-7198.