

Patience Is a Virtue

By Phil Villegas

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With the sharp downturn in vehicle sales, dealers (both foreign and domestic) have watched the value of their stores decline.

So what does this trend mean if you're looking to buy or sell in the near future?

While most dealers are focused on weathering the current environment, many dealers and dealer candidates view the current market conditions as an opportunity to grow.

However, if you're looking to buy, you need to be fiscally and emotionally disciplined in times like these.

Many attractive acquisition opportunities are available on the market, but the question is, has the market hit bottom yet? After all, the key to any investment is to buy low and sell high... so is this the best time to buy a dealership?

I believe the best opportunities have begun to surface and will only get better in the next 3 to 9 months.

We're probably very close to hitting the bottom of retail sales, but that doesn't mean we're seeing the bottom yet in dealership values. The unfortunate truth is that even if we're at the end of the sales downturn, many dealers that made it to this point will not be able to survive the coming months, even with increases in sales.

For several dealers, the "hit" they have taken over the last year will be insurmountable.

There are dealers that essentially are out of business yet are managing to keep the doors open by tapping into cash reserves, absorbing used-car equity, going out of trust with flooring, maxing out lines of credit, putting off vendors, cutting back on personnel and stopping advertising.

I've found dealerships can continue to have the appearance of being in normal operational condition for up to 90 days

despite literally being "out of business."

The truth is dealers that fail to plan in advance an exit strategy will miss the opportunity to maximize the value of the dealership.

This is not because dealers don't recognize the changing market condition or the deterioration of their financials; it's simply that dealers are a hard-working and impassioned group where failure is not an option. Most dealers believe they can sell themselves out of most problems, and while many have and some will sell out of the current situation, the changing retail landscape has made it unattainable for other dealers.

Unlike in previous market down-turns dealers are battling a lethal combination of lower margins, higher operating costs, decreased volume, increased competition, lack of credit facilities and limited manufacturer support.

Dealers looking to acquire a store should do so only if it is strategic or a steal.

For an acquisition to be strategic, the dealer should have an existing base for which an added franchise/location would enhance existing operations. As an example, a strategic acquisition would be an existing dealer who acquires a local competitor and is able to leverage their existing dealership to run multiple locations while limiting cost to a centralized location, realizing significant savings in personnel and other variable costs. A strategic acquisition also applies to the acquisition of a like franchise in an effort to eliminate a local competitor.

Defining a steal is subjective. When analyzing a transaction, look beyond the franchise Blue Sky and real estate prices — the capitalization and financing of a dealership acquisition plays a big role in determining if a transaction is a steal.

Any transaction in which you recover your total investment in two to three years (not including real estate) and manage to earn a 12% return on your real estate investment is a great deal and worth pursuing.

So if you have the means and motivation to acquire a dealership, be financially and emotionally disciplined and know the best deals are yet to come (unless they are strategic or a steal). Allow the Year-End 2008 statements to be issued and you will find that 2009 will be a great time to buy a dealership.

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