

Recognize, Take Good Advice

Listening to advisors helps you tackle buy/sell transactions

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

Dealers who have been through either the purchase or sale of a dealership know the stresses associated with executing that.

From the seller's perspective, stresses can come from the thought of exiting the business, informing employees, negotiating the purchase agreement, tax implications of the sale, winding down operations and the ability of the buyer to close the sale.

From the buyer's prospective, stresses can come from the price of the dealership, its future viability, having the right employees and management in place, having the necessary capital/financing to buy and operate the dealership, obtaining manufacturer approval, and many more.

The challenge for most dealers is not the ability to get good advice, it is the ability to recognize and take good advice.

I used to believe that when buy/sells transactions would take unnecessary and difficult turns, it would be mainly attributed to dealers not having access to sound advice. I would dismiss poor decisions and missteps taken by dealers as inexperience in transactional matters.

I've come to realize poor decisions and missteps taken by dealers in buy/sells transactions are not so much due to inexperience or inaccessibility to good advice. Rather, they are usually due to the dealer's inability to recognize and take good advice.

People with "type A" personalities, common among successful dealers, will take it entirely upon themselves to negotiate and manage every aspect of a transaction.

When they may solicit other's advice, their assertive personality can often hamstring the advice they do get.

While most dealers are exemplary at buying and selling cars, those skills often don't transcend to buy/sell transactions.

The strategic flaw that some dealers make in the latter is failing to surround themselves with objective and relevant advisors. Often dealers will go at it alone or surround themselves with "yes men."

Some dealers limit their focus to the key terms of the transaction, blue sky and real estate. They fail to exercise equal carefulness on smaller, yet integral components of the transaction.

Those include facility requirements, due diligence, fixed-asset valuation, limitations on inventory purchases (new, used, parts and other), lease assumptions, pre-pays, and work in process. These can total over a \$100,000 on a small deal.

Dealers who enter into a buy/sell transaction should have the following three advisors on their team:

1. **Attorney:** Have one whose primary practice relates to automotive dealers. Dealers will often use their general legal practitioner, who may have some dealer experience, but is not dedicated to automotive issues. This can be costly in the long run and threaten to jeopardize the transaction. Recently, we witnessed a situation where the non-dealership attorney stalled the deal to the point where the buyer went elsewhere.
2. **Accountant:** Once again, this is a requirement similar to the attorney. Getting an industry expert is critical.

Simply using your general accountant may not be enough unless they have an in-depth expertise in dealership buy/sells. While your accountant may be the best tax person, they may not be the best qualified to protect your interest during a buy/sell. We've seen dealers get burned because their accountant didn't complete a proper due diligence or didn't know how to calculate all credits on a closing statement.

3. Friendly Colleague: There's nothing like having a fellow dealer as a good sounding board to discuss the various events within a transaction. While privacy is a key component with most transactions, it's well worth bringing a trusted dealer into the inner circle, particularly one with buy/sell experience.

In any buy/sell transaction, a dealer needs to: 1) Have relevant and objective advisors. 2) Listen to them.

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