WARD'S Dealer Business

What Do Dumped Dealer Do?

They can scout 2nd-tier brands for 1st-rate opportunities

By Phil Villegas
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Some terminated General Motors and Chrysler dealers are not ready to simply hang it up and quit. Some have the ability to move forward and continue operations with other franchises they own.

But for many others, the only foreseeable options are either to become a used car operation or shut down. That latter is not an option for many dealers, because the financial and emotional costs are too great.

Had these terminations occurred a few years ago at the peak of economic good times, many of these dealers would have fared well. A fevered commercial development market had raised values of many large dealership properties in urban markets.

It was not uncommon for appraisals to determine that an automotive dealership was not the "highest and best use" for the real estate compared with a potential retail/residential development.

But the real-estate market has clearly changed. Retail automotive sales and service are the "highest and best use" for the vast majority of dealership properties. Without a new-vehicle franchise associated with the property, the value of the real estate now plummets.

There are limited alternative uses for dealership facilities other than selling cars, boats, RVs or heavy equipment — all of which are at their lowest sales point in over 20 years.

In many cases, the price of the property is limited to the value of the land, which can often be less than half of the total appraised value. So for many dealers who are now sitting on a piece of real estate but lacking a franchise, the cost of going out of business is too great, particularly if they have a high loan-to-value mortgage.

The best alternative for most dealers who are losing a franchise is to attempt to acquire another.

Even if a dealer has the ability of cashing out of the real estate and walking away with retirement in hand, the prospects of selling dealership real estate in the current market are dim, a reality that can cost a dealer millions of dollars.

In most regions, the only available franchise will be a second-tier import brand, many of which are either open-points or "tuck-in" franchises for other local dealers.

For some dealers, the prospects of operating a second-tier brand appears to lack financial merit. But dealers need to counterbalance short-term risks against long-term opportunity.

Exiting the industry now could potentially cost a dealer more today than it will a year from now, due to the continued weakness in the real-estate and credit markets. Waiting for the commercial real-estate market to turn in the next year or two can prove to be well worth the investment in time and capital.

Even with the prospects of paying some Blue Sky, a good financial and operational case can be made for a dealer to pursue a second-tier brand from a local competitor.

In many areas of the country, dealers will find that brands like Hyundai, Kia, Mazda, Mitsubishi, Subaru, Suzuki, and Volkswagen have been "tucked-in" with other first-tier franchises. These "tuck-ins" often do not get the operational attention or the facilities that the primary franchise receives.

Even though they are considered second-tier and often lacking in facilities and support, each of these brands has

had staying power within the U.S. and has proven to be successful in select markets.

The individual success of some of these stores can be directly linked to the owner's focus on the brand and an ability to operate a balanced new, pre-owned and fixed operation.

Unless dealers who are losing their franchises plan to use their vacant dealerships to sell pumpkins and Christmas trees in the future, they need to reach out to underrepresented brands and overrepresented dealers to create the opportunities now.

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