

office

THE INDEPENDENT DEALER'S PLAYBOOK FOR SUCCESS

DEALER

DEALERSHIP

FOR SALE

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In the life cycle of the independent dealer, there's no status quo. Consider the once-vibrant cities of commerce, Venice and Genoa, which have evolved into cities primarily of tourism, and product manufacturers such as Wang and Digital Equipment Corp., which have evolved into extinction. Independent dealers aren't an exception to change. In order to sustain their viability, independent dealers need to consistently plan, organize, integrate, and motivate. Many can't, others won't. Dealers need to consider their exit alternatives now before any diminution in the value of their dealerships. By doing this in advance, the dealer owner is a trustee in his destiny.

EXIT ALTERNATIVES

There are numerous exit alternatives to consider, including selling to a third party,

transferring/selling to children, selling to other shareholders, selling to management, and liquidation. Before considering any of these options, the seller needs to determine his own objectives. Those objectives provide the benchmarks for judging the pros and cons of each exit alternative. These objectives stem from the answers to such questions as:

- Are legacy issues important to me?
- Do I have a part-time/full-time interest in "staying in the game"?
- What timing and dollar amount do I require on the receipt of sale proceeds to maintain my lifestyle?
- Am I willing to accept part of the purchase price paid to me over time?
- Will I change my lifestyle?
- How important to me is the profile of a prospective buyer?

The answers to these questions create the seller's objectives. But why do sellers sell?

DEVELOPING A SALES STRATEGY

Sellers sell for personal reasons and for business reasons. Personal reasons include retirement, liquidity/diversification of assets, and succession and/or partnership issues. Business reasons include capital requirements, varying profitability and financial distress, and lack of access to people, products, and markets.

Once the owner decides to sell the dealership, he needs to develop a sales strategy. This strategy includes the preparation of a selling memorandum, which highlights the dealership's attractiveness as an acquisition candidate. The strategy also determines how wide a net to cast—how much time, money,

and management resources are available to support the selling effort. It helps to identify only qualified, interested buyers and not just tire kickers; and helps those involved stay true to the seller's objectives and not get caught up in the "thrill of the chase."

Who are the prospective buyers? There are strategic buyers, those in your industry or related industries; financial buyers, those that look at your dealership strictly from a return-on-investment prospective; management groups looking to transition from the role of employee to owner; and individuals who have some equity capital available and are looking to buy a job.

The appropriate type of buyer for your dealership depends on the scale of your business. Individuals generally look at small dealerships, financial buyers at larger ones, and strategic buyers look more closely at your products, customers, and markets.

DUE DILIGENCE

Once a prospective buyer is identified, it's time for due diligence. To facilitate an orderly and cost-effective process, the seller should have his books, records, and management reports in order. The buyer will want to investigate the following:

- profitability analysis
- balance sheet analysis
- employee benefits
- accounting and tax issues
- legal issues
- commitments and contingencies
- integration issues.

GETTING YOUR DOCUMENTS IN ORDER

A successful transaction generally involves a set of documents, including a Confidentiality Agreement; a Letter of Intent outlining the basic agreed upon terms and conditions; an Asset Purchase Agreement, which contains the formal details of the

transaction; an Employment Agreement, if any employees are part of the agreement; any notes, if part of the purchase price is to be paid over a period of time; and a Covenant Not to Compete, which prohibits the seller from working for a competitor or attempting to take any customers included in the transaction. Other issues you may need to address are the assumption of existing leases and/or the development of new real estate leases.

Considering exit strategies early on is a key factor in planning for your business's future.

VALUING THE DEALERSHIP

The valuation of the dealership involves a combination of three types of analysis:

Operational review—dependent on the dealership's management practices, business development strategies, general systems and equipment, and the organizational structure

Income statement review—an analysis of the product mix, markets, customer profiles, sales and operating margins, growth opportunities, and the sustainability of the dealer's profitability

Balance sheet review—an assessment of assets and liabilities, identifying incorrectly stated or overlooked assets and liabilities and any contingencies not on the balance sheet.

Often the total value paid for the dealership isn't all cash, but rather a combination of cash, notes, perhaps some stock in the surviving company, an employment agree-

ment, and some contingent payouts based on the performance of the dealership after the sale.

Note that the perceived highest price isn't always the best price. Sellers must closely examine the possibilities of ever collecting on the contingent and deferred payments that may be part of the agreement. A seller with legacy-type objectives should examine the prospective buyer's management style, ethics, and business philosophies to assess their compatibility with those of the seller and determine the likely impact on the dealer's staff and operations once the sale has occurred.

OTHER OPTIONS

If the owner isn't comfortable with an outright exit from the dealership at this time, yet he recognizes the need to invigorate the operation or move towards a transition plan, there are other options. Consider selling only a partial interest in the dealership, forming a joint venture with other dealers, outsourcing some of the back-office functions, and hiring management that might, in the future, be possible buyers of the dealership.

Owners need to distinguish between the skills required to sell products and manage the dealership and the skills required to sell the dealership. When owners can't clearly communicate what their strategy is for supporting and operating management and enhancing the value of the dealership, and they have no plans to develop such a strategy, the time might be right for them to explore an exit alternative. **d**

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