

An Open Letter to Small Market Dealers

Exit Stage Right

According to NADA, over half of the almost 17,000 dealerships in the USA sold less than 500 new vehicles last year and 93% of all dealership principals own between 1 and 5 stores. And with the graying of the baby boomers, it is estimated the average age of an auto dealer is now over 60 years old. Conclusion: There are a lot of small, single point dealerships in the USA that will transition over the next decade and the consolidation wave is already underway.

But selling a car dealership is a more complex and challenging proposition than selling a car!

The “Small Dealer” Challenge

Selling any small business today is a challenge – it’s a significant financial decision that often involves an emotional life-stage change impacting the owner’s family, employees, and customers. One of the most critical aspects of this transition involves maintaining confidentiality, which on the surface seems to be in direct conflict with the goal of finding a suitable buyer. ***But selling a small market dealership is even tougher!*** In many cases, higher prospect standards, facility improvements, and significant working capital requirements will come into play during the OEM’s review of the transaction ... that is, after you negotiate the purchase of the dealership assets.

Metro Stores vs Smaller Dealerships

The 21st century dealership transition process is changing and there are more sellers in the market now and buyers are becoming more selective and much better informed. Strategic acquirers, individual buyers, private equity funds, public companies, and regional consolidators ... the diversity of potential buyers is overwhelming. With the advent of technology, these buyers are now equipped with more information than ever, including access to your employees and vendors, valuation comparables, 3rd party information resources, and alternative acquisition opportunities.

Larger, metro market dealerships are generally sold “quietly” through the dealer’s personal network or in the conference rooms of the dealer’s CPA or Attorney. Demand exceeds supply for these stores, so if an advisor is hired, most of their effort is spent on negotiation – not the more challenging tasks of buyer identification, qualification, or factory approval. Smaller, single point dealers are in a much different position. Arguably, they have spent years creating dealership value but have to work harder to find the right buyer ... one that meets the factory criteria, has the necessary capital resources, and wants to operate a store in a smaller community. ***What happens when there is not a qualified, interested family member to pass on the small dealership torch?***

How Do I Land This Plane?

Most small market dealers know how to fly the plane well, but many don’t know how to land it. To properly prepare for exit, small market principals should partner with an experienced, trusted business advisor (the air traffic controller) who can help the dealer remain objective, maintain confidentiality, and navigate through the complexities of the selling process while enabling the dealer to retain focus on running the business. Here are a few of the challenges dealers have “flying solo” ...

Before the Sale

Valuing the Business
Preparing the Dealership Materials
Developing a Marketing Plan

During the Sale

Identifying the Right Buyers
Qualifying Buyers
Negotiating Terms of the Sale

Before the Close

Gaining OEM Approval
Managing Due Diligence
Contract Review & Closing Prep

A Plan to Land

All of this change breeds opportunity, and the good news is when it comes to selling your small market dealership ***there has never been more opportunity:***

1. Buyers are active and plentiful
2. Cash flow multiples remain steady
3. Banks have capital to lend and are aggressively positioned
4. Interest rates are near historical lows which improves buyer affordability
5. The near term macro-economic environment is stable and positive

Choose your advisor wisely. Selling a smaller market store requires a great deal of study and insight. Select a trusted advocate who will place your interests first, sweat the end-to-end details, including working with other brokers (“co-broking”), and assemble a “deal team” to protect and preserve your hard-earned proceeds.

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