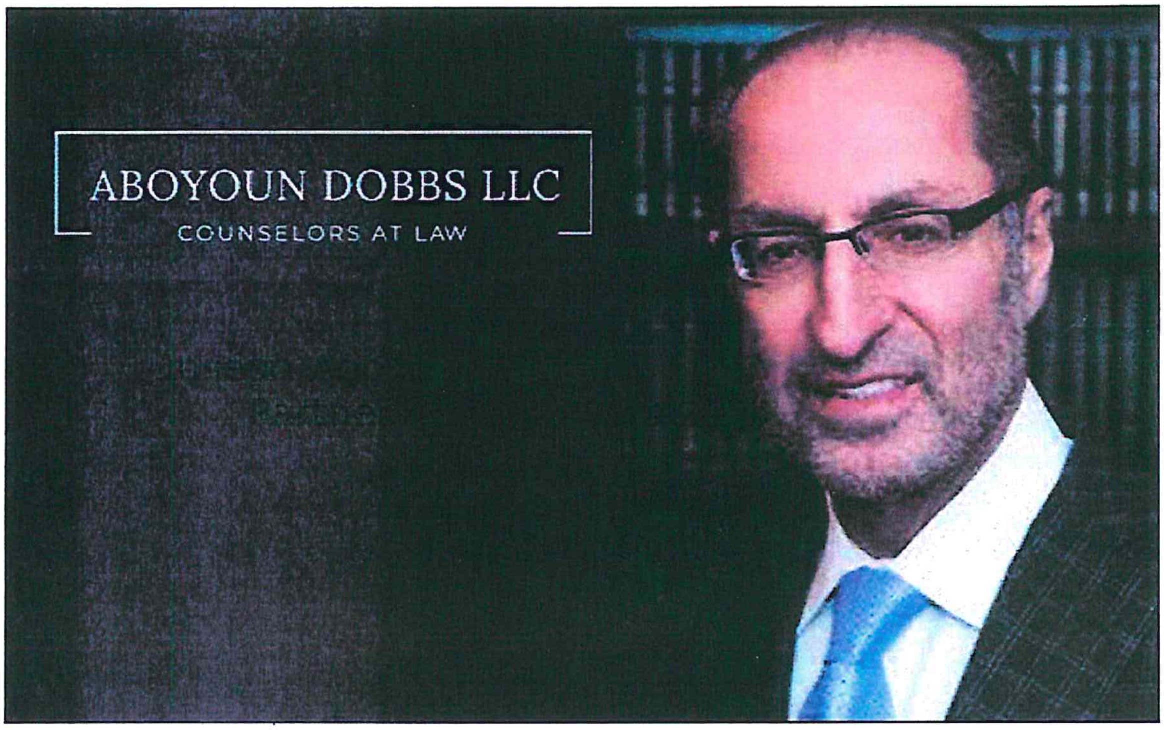

Optimize your dealership group's value through strategic buy sells

Posted By: Joseph S. Aboyounon: May 15, 2019In: Contributors
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By Joseph S. Aboyoun, Esq.

The many years of growth and significant profits appear to be behind us. The SAAR has retreated, profits are down, inventories are piling up, and competition is as stiff as it's ever been. At the same time, the manufacturers continue to erode dealership profits with their unattainable stairstep objectives, unreasonable facility demands, and aggressive and unfounded chargebacks.

In this climate, there is no room for complacency. Clearly, the successful dealership or dealership group will be the one that addresses these concerns. The ones that stand pat or ignore these realities are likely to be the dealerships that falter in the long run.

To stay competitive and, equally important, to maintain value, a dealership group must be able to market itself effectively and successfully. To do this, it must have the right brands (products) and must be in the right markets, including optimal locations. As such, it is incumbent upon the dealer group to consistently evaluate its operations and to consider strategic acquisitions to bolster its position.

The days of just buying any store that comes along or sitting still are over. Strategic buy-sells are the key. This strategy is not limited to particular franchises or product lines. It should and must also focus on location.

There are some obvious moves that can be made:

- The domestic dealer or group heavily invested in domestic product should consider import franchises, and vice versa.
- The high-line dealer can look for a complimentary broad-based product line – e.g., a Lexus dealer buying a Toyota store, or a Mercedes-Benz dealer buying a Subaru dealership. Of course, the reverse is also true – e.g., a Ford dealer purchasing Lincoln, or a Chevrolet dealer, Cadillac.
- A dealer not fully invested in the factory's "channel strategy" may acquire a dealership to fill this void – e.g., a Chrysler-Jeep store purchasing Dodge, or a Land Rover store, Jaguar.

There are also more subtle or tactical acquisitions:

- A dealership group may be lacking in a particular area, such as management, employees, or service operations. Acquiring a store or group that can fill this void or correct this deficiency may be a wise decision.
- A dealership may have franchises that are waning in market share or have a less than optimistic outlook in terms of manufacturer management or policies, or products in the pipeline. These are difficult hurdles to overcome – even for a strong organization. The acquisition of a stronger franchise can be a huge hedge against this problem.

The enhancement of your operations can also take the form of a location adjustment. This can occur by the purchase of another dealership more strategically located or, more simply, the purchase of real estate in a prime location. This aspect (especially the latter approach) must be carefully examined to ensure that your state franchise statute gives you the right to relocate your franchise. A relocation requires franchisor approval. However, state statutes can impose objective criteria for approval and prohibit an arbitrary or bad faith rejection of the relocation by the factory. Without statutory protection, the approval can be an uphill and costly battle.

Finally, a strategic deal can also take the form of a divestment. As the old saying goes, less is more. Selling off loser franchises or stores, whether you replace these or not, can be an effective way to improve your holdings.

A candid assessment of your operations and an evaluation of market trends is a never-ending process. An adjustment in your holdings may be the difference between mere survival or success, as well as a hedge against failure.

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