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Buy-Sell Mistakes to Avoid

BEFORE YOU THINK ABOUT SELLING OR EXPANDING YOUR OPERATION, CHECK OUT THIS BUY-SELL PRIMER FOR AVOIDING FOUR POSSIBLE LANDMINES ON THE ROAD TO A SALE.

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The industry's dealer count definitely took a hit through the economic downturn, with the National Automobile Dealers Association estimating that more than 3,000 dealerships shut their doors from 2008 to 2010. What you may not realize is that while market challenges may have signaled the end for some, they also created a nice opportunity for many to expand their current operations.

Whether you're in the market to buy or sell a dealership, it's important to understand which pitfalls to avoid if you're planning to step into the fast-moving buy-sell arena anytime soon. In a recent Compli Webinar, Mark Johnson, president of MD Johnson Inc., a dealer-centric financial advisory services firm, discussed how many mistakes in buy-sell situations could be avoided with due diligence and a little transparency. Here's a sampling of points to consider from that Webinar.

Mistake No. 1: Communication Breakdown

A breakdown in communication between dealer principals and their key staffers is a common problem. Owners are often afraid to tell their people what they're planning to do, which can be a huge source of problems. Remember, your people will figure out what you're doing no matter how secretive you think you're being, especially in the age of social media. And if you don't get out in front of what's being said, rumors can spread quickly.

Just remember to be upfront with your key staffers and make sure they know how you will accomplish your task, the amount of documentation you will need and who will be involved. Selling a dealership takes a lot of work and you need to have everyone on the same page to ensure you are productive, successful and able to properly execute the deal.

Mistake No. 2: Inadequate Data Accumulation

Accumulation of key data in a single place is a process that's been used by banks and law firms for years. Unfortunately, the same can't be said for most auto dealers. You need to accumulate every single piece of due diligence prior to putting your operation on the market. This is the key to driving — and keeping — your sale price.

Remember that every document you give a buyer after you negotiate a price could change the terms, so make sure all the information is disclosed upfront. Conduct an exhaustive search of all due diligence pieces, get them posted and have the buyer take a look prior to negotiating any sort of deal.

An example of a typical contract that sellers should make available and buyers should ask for are the dealership's computer-related contracts. Let's say the dealership uses ADP or Reynolds and Reynolds. If the buyer doesn't need the system, it can cost him between $100,000 to $150,000 in penalties and fees to get out of the assumed obligations of the contract. That could mean the sales price you think you can get will be whittled away during the due diligence process.

Here are three other items you need to put together during the due diligence or data acquisition period:

• Fixed-asset schedules: Often-times, these schedules have not been worked. For example, if you are closing in September, a fixed-asset schedule for August may lack depreciation, additions and deletions. Clean up all entries and get all postings completed for the financial statement that will be used for the closing entries.

• Inventories: Add-backs are simply one-time expenses. You also need to understand your tax exposure, so get your accounting firm involved with a financial review and audit. Your lawyer also should be involved.

• Special tools: Be sure to get a copy of your special tools list and provide it to the buyer.

Unfortunately, there are not a lot of audited dealerships out there, so it's critical you make sure your accounting firm has not taken the financial information straight from the dealer without conducting its own review. A buyer will often come back and say the review documents are meaningless, which could create an embarrassing situation.

Mistake No. 3: Mispricing

Mispricing assets, the store and real estate can stretch out the time it takes to sell a dealership. It could also mean lower-than-expected offers, especially since the first couple of people that look at the store are usually the buyers.

It's important to get your financial house in order before you go through a buy-sell situation, because most buyers are extremely thorough in this market.

Mistake No. 4: Prepaid and Lifetime Problems

Prepaid programs can be a major landmine on the road to a deal, especially if they are not backed by an insurance product.

One dealer I know gave away free oil changes for life. He hoped that the more customers used his service department, the more money the dealership would make. Instead, he lost money every month. So, again, understand the programs, quantify them and put together everything that supports those expenses. You must understand what the actual costs are — and try to limit them — before asking a buyer to take them on.

Once you've got your team, your finances and your programs in order, the hard part should be over. You'll be better prepared to sell, and you can take comfort in knowing you have put your best foot forward with any prospective buyer.

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All of the issues discussed in this article are addressed in the "How to Prepare for a Buy-Sell" Webinar. To watch for free, select "On Demand Webinars" under the "Events" tab at www.Compli.com.