

CAR DEALER

Profit Making Secrets for the Competitive Dealer

INSIDER

December 15, 2010

Trend spotting

Franchised car dealers looking for reasons to be optimistic about new vehicle sales in 2011 need look no further than the trends in used vehicle prices. Rising used vehicle prices at the wholesale level are a leading indicator of stronger new car sales as the price differential between the two diminishes. According to Tom Kontos of ADESA Analytical Services, wholesale used vehicle prices stayed relatively flat in November compared to October, yet remained higher on a year-over-year basis. The rate of increase in wholesale prices on a year-over-year basis should continue to diminish as year-ago comparable prices catch up. Wholesale prices will likely follow their typical strengthening seasonal pattern on a month-over-month basis in December and into the first few months of 2011, reinforced by continued tight used vehicle supply.

According to ADESA Analytical Services' monthly analysis of Wholesale Used Vehicle Prices by Vehicle Model Class, wholesale used vehicle prices in October averaged \$9,788 – up 0.2% from October and 1.9% versus prior year. Among segments that have significant volume and number of model entries, minivans had particularly robust prices in November. ADESA Analytical Services estimates that auction industry inventory levels stood at 32 days at month-end compared to 37 days last November – an indication of continued tight supply.

Art Spinella of CNW Marketing/Research notes that retail used vehicle sales in November were down 9.6% year-over-year for franchised dealers, but up 3.4% for independent dealers. On a month-over-month basis, used vehicle sales were down for both franchised (down 6.2%) and independent dealers (down 9.2%). Certified used vehicle sales in November were down 10.6% versus October but up 28.1% compared to November 2009, according to statistics from Autodata. And based on figures from the Bureau of Labor Statistics, the consumer price index for used vehicles rose by 6.0% year-over-year in November, which was considerably less of an increase than the double-digit increases recorded throughout most of this year.

Buy-Sell Benchmarks

Two Decades of Dealership Values: 1990 - 2010

By Nancy Phillips

(Editor's note: After a couple of years of turmoil for dealership owners with franchises being terminated and/or transferred, prices in dealership buy-sell transactions were in disarray. To bring us back to reality, dealership advisor Nancy Phillips has done an analysis of transactions over the last twenty years based on the deals that she has handled. If you haven't read Nancy's analyses before, you are in for a treat. Nancy eschews the traditional measures of dealership value and for this article tracks "blue sky" values as a percentage of dealership revenues over time.)

There are today and always will be both buyers and sellers of auto dealerships. But the real question: 'How much will I obtain when I am ready to sell mine?' remains and the most critical factor in determining when you should sell is always - Timing.

Two considerations

Timing in our industry determines whether you will get out with more or less – on two important levels. First, the cyclical nature of our industry and the

economy impacts the amount you receive for the intangible value of your dealership. And second, your financial performance is critical - but not for the reasons you may think. Dealership profitability does not have as much to do with what a qualified and astute purchaser will pay, but has everything to do with your biggest asset – cash flow. How much you are taking out or infusing into your business is really what determines how much you end up with in your pocket at the finish of your term of ownership.

The information on dealership values represented below is based on a portfolio of 150 dealership transactions over two decades from 1990 through the present. Approximately 13% of the dealerships held 1st tier franchises with value factors ranging from 8 to 25% and another 13% held 3rd tier franchises with value factors of 0.3 to 1.4%. The remaining 74% held 2nd tier franchises – the ones most of you own. You can see from the chart that over this 20-year period of deal making, the following truisms remain:

1. The amount of goodwill paid fluctuates with the economy.
2. The real value of your dealership is the sum of your cumulative profit or loss more than in the price you obtain at the end of the road.
3. The idea that real estate ownership (though not depicted in the chart) is part of your ultimate return on in-

vestment is only sometimes true.

4. And, most importantly, though also undetectable herein, is the fact that your own profit or loss has very little to do with what a savvy, optimistic and financially well-heeled purchaser will pay for your dealership.

What does, you ask?

The answer is franchise and location potential. It’s the current and future potential value of your franchise which is a product of your market area, the number of dealerships sharing your franchise pie and the qual-

ity of your location, facility and property size.

It’s really the same as buying a top dividend paying stock. Buy with your eye to potential growth and sell just before you get there yourself. ❖

Nancy Phillips Associates specializes in sales, acquisitions and evaluations of franchised automobile dealerships. She has been successfully serving auto dealers for over 25 years with great professionalism, trustworthiness and a personalized plan for each dealer. Contact Nancy Phillips at 603-658-0004 or e-mail auto@nancyphillips.com.

