

Different Dealers, Different Strategies

By Cliff Banks

WardsAuto.com, May 3 2004

Some megadealers buy the best stores – and pay dearly for them – while others acquire under-performers and try to turn them around.

Jeff Cappo admits his first dealership purchase may not have been the smartest move.

He bought a Nissan dealership in February 1997 – just when Nissan Motor Co. Ltd.’s survival was a question mark. And the dealership was in a small Tennessee town.

“I didn’t know any better,” says Cappo. “I just wanted a dealership real bad.”



It wasn’t such a dumb move after all. In Cappo’s first month as owner of that Nissan store, he nearly doubled sales from the previous month from 107 to 212.

Thirteen dealerships and 11 franchises later, Cappo’s dealership collection, the Victory Automotive Group, generated \$570 million in revenue last year – good enough to be ranked 47th on the *Ward’s* Mega Dealer 100. It is Victory’s first year on the list.

Cappo’s strategy is one that few dealers are sure enough (or brazen enough, depending on your perspective) to try. Cappo looks for stores that are performing badly. Then he tries to turn them around.

It’s a page right out of Lithia Motors playbook. Lithia, a publicly held group with dealerships mostly in the Northwest, has ranked in the top 10 on the *Ward’s* Mega Dealer 100 for years.

It acquires stores that are poorly managed, installs new leadership and looks for better performance results. Lithia is seldom disappointed.

The examples of Victory and Lithia may portend a growing trend. Dealers, specifically the larger ones such as the groups on the *Ward’s* 100, are under pressure to grow their businesses. And it has been a longstanding truism of the automotive retail industry that acquisitions are necessary for growth.

Most expansion-minded dealers today have a wish list of higher-end franchises they want to acquire. Often those lists don’t include many of the bread-and-butter franchises that are mainly domestic brands, notes Nancy Phillips, a dealership broker in New England.

“We do see high interest in the more desirable brands – Honda, Toyota, Lexus, Mercedes and BMW,” says Phillips. “Our best buyers have a dream list. But how many Mercedes and BMW franchises do you see for sale?”

In contrast to the Lithia and Victory models, Mandell Ourisman, chairman of the Ourisman Automotive Enterprises, says he is always looking for the strongest dealerships. “The best franchises aren’t for sale, though,” says the longtime Maryland dealer, whose group with \$809 million in



Jeff Cappo took a chance, now runs 13 dealerships.



Mandell Ourisman's group is ranked 28th.

total revenue is ranked 28th this year on the *Ward's* 100.

There's a drawback to going for the best. "You have to be very careful because you can end up paying too much for some of these franchises," says Ourisman.

Owners of coveted franchises do not necessarily want to sell because they are doing well. Those that consider selling set high prices. If they sell, that's great. If not, it's no big deal.

"If you just bought a franchise that everybody wants, then you just paid too much money," says Fred Hertrich, president of the Hertrich Family of Automobile Dealerships.

Hertrich's Seaford, DE-based group this year has made the *Ward's* Mega Dealer for the first time (94th), with \$307 million in revenue.

It is a seller's market right now, says Sheldon Sandler, founder of the Princeton, NJ-based Bel Air Partners that brokers dealership buy-sells.

The market was created, in part, by aggressive acquisition strategies of the public dealer groups in the late 1990's and early part of this decade. "They certainly set the standard on the prices paid for dealerships," Sandler says. "It is a good time to sell."

But now the prices are so high, it's tougher to get deals done. Ourisman admits to setting a ridiculously high price for his group when a publicly owned dealership chain showed an interest. The price was so high the chain didn't bite.

As more dealerships are bought by groups, there are fewer left to buy. "There is a lot of money chasing very few deals today," Sandler says. But he believes there still are opportunities for the private dealerships.

"No one is talking about the private dealer groups," he says. "Many of these dealers are looking to grow by acquisition. And the opportunity is there."

Tony Noland, CEO of NCM and Associates, a dealership consulting firm, believes those opportunities are in dealerships few people are looking at.

"Some dealers are starting to take the Lithia approach," he says. "There is less competition there. You don't see the AutoNations and UnitedAuto Groups fighting over that secondary market."

Cappo has made the formula work for Victory. He was a salesman for 20 years for the Serra dealership organization and for Varsity Ford, both in Michigan. He had never managed anyone until he bought that Nissan store in Tennessee.

But he knew how to sell cars. "All I've done is teach people how to sell." He says he finds the best people, trains them and let's them earn their money.

He spends millions on the facilities and pushes his service departments to be liberal with repairs after the sale. He does that to keep his business growing.

Most dealer groups are looking to buy because there is pressure to grow. "When you're green, you're growing," says Cappo. "But when you're ripe, you're rotten."

Dealers such as Ourisman see growth as a means to attract and keep strong talent. Buying more dealerships to provide more opportunities for management is one way to do that.

Mega Dealer 100 Fast Facts	
New retail units sold	2,512,032
Used retail units sold	1,302,179
Total units sold	5,576,581
Dealerships	2,013
Franchises	2,633
Public Dealerships	856
Private Dealerships	1,157
Total Revenue (\$ in Billions)	
Mega Dealer 100	116.6
Publicly-owned	46.9
Privately-owned	69.7
Average Revenue (\$ in Millions)	
Publicly-owned	54.8
Privately-owned	60.2

One reason the dealership chain showed an interest in Ourisman's group is that the company was interested in retaining his three sons, all capable dealer principals.

Other dealers, such as Hertrich, believe adding more dealerships is necessary for survival. Dealers expand their businesses in growing markets. "But what if that market stops growing?" he asks.

He cites Bethlehem, PA, as an example. It was a town with a strong steel company that recently went bankrupt," he says. "Dealers that depended on only that town's business are in trouble today."

While Hertrich doesn't execute an aggressive acquisition strategy, he does look to expand his geographical reach. "Any place we can commute to in two hours in our company plane, we'll take a look at."

Expansion-minded dealers need to be cautious before buying, says Phillips. Anything can happen. "There is an uncertain political situation. We could wake up tomorrow and have a total reversal of fortunes if there's a terrorist attack," she says.

Brokers advise many individual dealers to consider selling to the groups. There is a vested interest in that advice. But there are valid reasons, too.

"Anyone with an exit strategy within the next five years should consider doing it sooner," Phillips says.

Legal problems, manufacturer demands, fast-paced technology advancements and the difficulty of finding good talent have caused some dealers to call it quits.

Interestingly, says Sandler, it is the relatively young dealers who are the most likely to sell these days.

"The last five deals we've done, the seller has been under age 60," he says. Mostly, it's people who've worked hard, made their money and want to enjoy other things in life.

"The older dealers want to die with their boots on," Sandler says.

Still, knowing when to sell is an art that depends on timing. "The timing is most important," says Phillips. "You have to look for that intangible of when the dealership is at its most desired state."

Hertrich says buying also is an art. "For us smaller dealer groups, it's more of a gut call of when you think that opportunity is right."

cbanks@primediabusiness.com

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