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Six Issues Affecting Dealers Nationwide

John Davis, Partner | DHG Dealerships

As the dealership industry continues to evolve, there are several hot issues which dealers must keep top of mind. Some may be “old news” while others may surface as newer territory depending on where the dealer and his/her dealership is in its lifecycle. Regardless, industry professionals are seeing more and more dealers repeatedly face these six particular issues, as outlined below, with no indication of slowing down in the near future.

Mergers & Acquisitions

Mergers and acquisitions (M&A) have been around for a long time and are not necessarily “new” to the dealership world. However, transaction activity has undoubtedly gained momentum over the last couple of years and continues to increase moving into 2016 as the industry remains ripe for consolidation. The recent acquisitions by private equity and family offices (PEFOs), in specific, has spurred a notable increase in M&A activity within the industry.

In the event that you plan to acquire or sell, there are numerous preparatory action items to consider – starting with thorough due diligence. Buy-side due diligence has been historically most commonplace; however, sell-side due diligence is cropping up more as sellers are realizing higher value and smoother closes by jumping in front of and resolving issues

before the “for sale” sign even goes up. Furthermore, if selling to a PEFO, there are additional considerations to keep in mind as those investors are unique and new to the industry. Keeping a team of industry advisors close throughout an M&A transaction (including lawyers, bankers/lenders, accountants, etc.) may help you most resourcefully navigate the oftentimes cumbersome landscape of a merger or acquisition.

Succession Planning

As a dealer, retirement is an inevitable part of your future. Whether your timeline for departure from business is rapidly approaching or many years from now, the question you should ask yourself remains the same – “What have I done to prepare for my future and the future of my dealership?” Naturally, planning for the future presents a suite of organizational,

financial and emotional pressures in addition to the many other challenges dealers face, making succession planning an easy item to slide down on your “to-do” list. Nonetheless, almost all dealers face the issue and it is critical to address on the front end. The sooner you start these discussions and considerations, the better the results.

Driven by increased sales, more lending options, high valuations and a very active acquisition market, dealers now have more exit strategy opportunities than ever before. Now comes the question – what is right for you? Regardless of the scenario, from family transition to outright selling, properly identifying and implementing your exit strategy can help ensure ongoing business success past your ownership.

Facilities & Factory Matters

Next up are facility and factory matters – yet another item that impacts every single dealer, as all factories have certain requirements and stipulations to which the dealer must adhere. Specifically, facility upgrades take the most common form of factory-related headaches for dealers. They are a large investment, impose significant cash flow and tax considerations, and affect the dealer’s relationship with the factory.

In terms of paying for the upgrade, several factory programs exist that enable automakers to provide monetary assistance to help dealers renovate their showroom and construct a new or improve an existing building. Furthermore, there are ways in which a dealer can mitigate the pain points and tax liabilities associated with factory image upgrade payments and the dollars expended to qualify for them. These methods include a cost segregation study (which can often be enhanced by favorable tax laws, including section 179D and/or bonus depreciation), a partial disposition study and a fixed asset review. Without getting into the details, the bottom line is that there may be opportunity for improving your return on investment via accelerating deductions and mitigating tax impacts. Seek the advice of a qualified professional in any of your facility upgrades.

Risk & Regulatory

In terms of “risks”, dealers face many from the inside and out. Internally, the risk of occupational fraud is high within every single dealership. What comes as a big surprise to many dealers who fall victim to employee fraud is the perpetrator profile. Many times, the perpetrator comes in the form of a long-time, trusted employee whom the dealer trusts implicitly. According to a report by the Association of Certified

Fraud Examiners, 53 percent of employees committing fraud have been with the organization for five or more years. Meanwhile, external threats become more and more prevalent as weaknesses in dealership operating systems and networks are penetrated by hackers. Implementing top notch cybersecurity measures is critical, as dealerships store and protect a wealth of sensitive consumer information.

Furthermore, dealers operate in a heavily regulated industry. According to NADA, there are more than 85 different federal regulations with which to comply in addition to the numerous respective state regulations. Between the Federal Trade Commission (FTC), the Consumer Financial Protection Bureau (CFPB), state and local tax regulations and more, the word “compliance” may provoke anxiety and stress among many dealers. As such, education surrounding applicable federal, state and local regulations so that you may be aware of your compliance requirements is without question fundamental to the successful operation of your dealership and can help mitigate the associated burden.

Performance

Performance is a buzzword that strikes different chords depending on the dealer. Words like “profits”, “productivity”, “efficiency”, “earnings” and “benchmarking” come into play. Even when performance is good, it is human nature to strive for better; thus, even the top performing dealerships in the country may be searching for ways to further enhance performance.

With each element that contributes to a dealership’s overall performance, there are different driving factors. For example, profits may be largely affected by talent and personnel within the organization and the trends of sales per gross growth versus growth in personnel. And as profits are not the only piece to the performance puzzle, items like cash flows, investment performance, debt service performance, customer satisfaction index (CSI), production volumes and efficiencies also need to be taken into account.

Ultimately, the most effective way to quantify and qualify your dealership’s performance is through benchmarking, which can be done via various sources. A popular method entails enlisting in professionals who specialize in data and benchmarking – NCM and NADA are two very popular groups in this arena. It is important to keep in mind that we have been in a period of record profits for stores which intuitively cannot continue forever. Thus, there is no time like the present to make decisions and moves in preparation for the times ahead that may not be quite as profitable.

People & Talent Acquisition

The sixth issue that widely impacts dealers nationwide may not be overt to many, as many dealers do not outright recognize their need for a better strategy to recruit and retain top talent. In fact, dealerships have one of the highest turnover rates of any industry.

Many dealers find themselves recruiting on a reactive basis. They lose an employee and need to fill a position immediately, so they hastily hire and oftentimes overlook top talent. Conversely, proactive recruiting allows dealers to diligently plan for hiring needs – before positions are even open. This tactic means constantly looking for new talent with composure as opposed to haste and panic.

Once a dealer identifies the right people, he/she needs to put a retention strategy in motion as to keep the talented individuals on board. Just as it is easy to sloppily recruit and hire poor fits, an untidy retention strategy can squander an effective recruiting process. Ask yourself questions with respect to your employees, such as: What impacts their happiness? What matters to them most? With each passing generation, new values come into play that may not necessarily have mattered as much to previous ones.

Moving forward, make sure you are seeking out and hiring the most fitting and suitable candidates for your dealership and consider the fact that in order for your dealership to run most successfully, you need successful and talented people to help you run it. And remember, it is all about “people.”

In Closing

Whether or not the above trends are familiar to you and your dealership, it is critical to acquaint yourself with them so that you are well prepared to effectively run your business throughout this new calendar year.

John Davis

Partner | DHG Dealerships
404.575.8910
john.davis@dhgllp.com