Buying New Car Dealerships: Common Mistakes

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All types of people and celebrities invest in the car business. Some do it right; some do it wrong. This release is intended to help avoid some of the most common mistakes and misconceptions.

(PRWEB) August 13, 2005 -- All types of people invest in the car business. Some Do It Right. Some Do It Wrong

SOME OF THE MOST COMMON MISTAKES OF INVESTORS ARE:

1. **THINKING MONEY CURES EVERYTHING**. In four decades of buying and selling dealerships, I have never met a dealer in trouble that did not think he was just one loan away from success. If a dealer cannot succeed starting with a store that has adequate capital and a positive net worth, chances are a store is not going to succeed by adding new debt and keeping the same old problems.

2. **THINKING CELEBRITY NAMES GUARANTEE SUCCESS**. Celebrities from every field have lost money in car dealerships bearing their names. On the other end of the spectrum are successful investors like Paul Newman, who has owned a Mazda and Volvo dealership since 1997, and never put his name on the store.

   What investors need are qualified operators and knowledgeable advisors. Celebrities may have recognizable names, but there are enough failed business ventures around to prove that a famous name is not enough.

3. **THINKING IT IS OK TO LEAVE CHIPS ON THE TABLE.** To most people the difference between making $5 million, instead of $10 million is $5 million dollars; however, some investors do not notice the difference because the $5 million they get satisfies them and they do not miss the $5 million they left on the table.

   Some investors only notice what they leave on the table when they lose money, but the fact is that in running a dealership both scenarios are equally bad.

4. **THINKING START-UP LOSSES ARE OK**. While there are new car dealerships that lose money in the beginning and turn out to be

successful, they are the exception. If a store cannot make money when it opens and the working capital is strong, the odds are that it is not going to make money when burdened with losses and excessive debt.

If a store does not make money the first month, there is a problem and the investor should immediately determine what it is and implement a plan to reverse the situation.

5. **TREATING CAR DEALERSHIPS AS A PASSIVE INVESTMENT**. Car dealerships are not passive investments. Like gardens, they require watering, weeding and fertilizing. Dealerships are constantly evolving and need attention and understanding. Investors need to pay attention and make decisions, or time will make the decisions for them; and, generally they won't like the decisions time makes.

6. **VIOLATING THE CHAIN OF COMMAND**. If an investor sees something wrong in the store, it is not the investors place to tell any employee of the store except the General Manager. Talking to employees about operations undermines the authority of the GM and eventually the employees believe they do not have to listen to the GM if they can get approval from the investor.

7. **RELYING ON ADVISORS THAT ARE NOT STUDENTS OF THE INDUSTRY**. There are many smart people in the world, most of whom cannot run a new car dealership. Consequently, when investing in a dealership, get advice from experts in that specific field. Friends, relatives and current advisors may be at the top of their respective fields, but the odds are they are not true students of the automobile industry; if they were, that is the only thing they would be doing.

8. **CONFUSING AN "EARNED" DOLLAR WITH A "BORROWED" DOLLAR.** Leverage is a fact of life in the new car business. New car wholesale accounts usually run between 5 and 50 million dollars; working capital loans usually run over a million dollars; used car wholesale accounts usually run over a million dollars; and, the average cash flow of a dealership runs over $33 million dollars, annually. There is so much cash flow that a dealership can, and usually does operate years after its gone broke.

Also the manner in which the new car business is structured allows the least profitable dealership in the zone to win free trips to Europe and Asia, thereby confusing investors about the success, or lack thereof, of the dealership.

Also, many times dealers in trouble buy another dealership and the bank lends more than paid for the store; consequently, the dealers think they made a profit because they have an extra million to spend. The fact is they have an extra million of debt to repay -- with "after tax dollars."

9. THINKING ADVICE FROM WITHIN YOUR ORGANIZATION IS ENOUGH.

The loss of money in a store is commonly blamed on one or all of the following: the economy, the product, the FICO scores of the customer, the location, the department managers, or other people. Generally, there is another answer management did not address, or the problem would be solved.

That is the time to get some competent and honest outside advice from people not so close to the problem. The outside advice can either be solicited by the investor on a voluntary basis, or force-feed by the lender when the store goes out of trust.

Over the last five years, over 16 million new vehicles were sold each year in the United States, the largest automotive market in the world. New car dealerships sold those vehicles and the fact is that the franchised new car dealer body hasn't lost money (on a pretax basis) for a single year in the last twenty even during the 1989-1991 industry down-cycles. Furthermore, "despite major changes in the auto industry's structure, dealer returns have remained high, with pretax ROE averaging 26.1% over the last twenty years." (See: MerillLynch, April 19th, 2004 Report on "Automobile Dealers"). Consequently, if your store is not profitable, the odds are fairly good that you committed one or more of the above mistakes.

Starting in 1972, Pico entered the automobile business by representing dealership groups such as Tasha Corporation (once the 17th largest dealer group in the country before it sold to AutoNation), and handling sales such as Lucy DiGulio's sale of her deceased husband's share of Prospect Motors (currently the largest General Motors dealership in the nation) to Skip Halverson.

Before retiring from the active practice of law in 1980 Mr. Pico and his law firm represented numerous automotive dealers in the reorganizations, purchases, and sales of dealerships. He both tried cases as the attorney for the dealerships and arbitrated and mediated dealer related cases.

Mr. Pico built upon his experiences and became a student of the industry by receiving training and attending seminars with respect to the various departments in new car dealerships, participating in National Automobile Dealer Association (NADA) Management Education Program, having "hands-on "experience" operating a store by filling in as General Manager on an "interim" bases. In 1986, after five years of research and two years of writing, Mr. Pico authored and National Legal Publishing Company published the nation's first book on Buying and Selling Automobile Dealerships.

Mr. Pico is recognized as an expert in the field of buying, selling and investing in automobile dealerships. In addition, both State and Federal Courts have also recognized Mr. Pico's expertise and in various legal proceedings he has been:

- Approved by the U.S. Bankruptcy Court, 10th Circuit, District of Colorado, pursuant to Rule 202 of the Bankruptcy Code, as "Consultant to Debtor" in sale of a new car automobile dealership;
- Approved by the U.S. Bankruptcy Court, 9th Circuit, Northern District of California, pursuant to Rule 202 of the Bankruptcy Code, as "Consultant to Debtor" in sale of a new car automobile dealership;
- Approved by the U.S. District Court, 8th Circuit, Wisconsin, as Arbitrator/ Appraiser in new car Dealership litigation;
- Approved by the District Court of Colorado as expert in dealership valuation litigation;
- Approved by the Superior Court of California as:
  (a) "Consultant to Court Appointed Receiver" in check-kiting case
  (b) "Expert Witness", with respect to dealership valuations, and
  (c) Superior Court Mediator in dealership/lender litigation.

The one place to go for advice when investing in an automobile dealership is Advising Automobile Dealers LLC

www.AdvisingDealers.com