

CAR DEALER

The Auto Dealer's Management Briefing

INSIDER

May 1, 2009

Trend spotting

Some good signs. Key Bank, a big player in the dealership finance business, issued an optimistic report for car dealers on April 14. The bank notes that improving retail automotive financing and automotive asset-backed securities issuance as well as rising used vehicle sales volumes and prices are *precursors to improving new vehicle sales*. The bank goes on to predict that new vehicle sales will start to recover in the next several months.

Key points from the analysis:

- ▶ Recent improvement in retail automotive financing and automotive asset-backed securities issuance are precursors to improving new vehicle sales as follows.
- ▶ CNW Marketing estimates that vehicle sales lost due to tighter consumer credit approximated roughly 870,000 vehicles per quarter in both 4Q08 and 1Q09.
- ▶ Dealers have been reporting that retail financing trends have been improving, which is corroborated by CNW Marketing data showing approval rates for automotive loans are improving at all levels (prime, near-prime and sub-prime).
- ▶ Dealers have also been reporting that GMAC has been noticeably more aggressive in recent weeks, which was corroborated by comments that GMAC plans to more than double the \$2 billion loaned during 1Q09 in the next two months; and re-enter the sub-prime retail automotive loan market.
- ▶ The Federal Reserve's Term Asset-Backed Securities Loan Facility (TALF) is a positive because it should provide additional capital for retail automotive loans by "unfreezing" the automotive asset-backed securities market.
- ▶ A study of new and used vehicle sales through prior recessions reveals a pattern that suggests that used vehicle sales and pricing trends can be viewed as leading indicators of improving new vehicle sales.
- ▶ A recovery in overall vehicle demand is typically first evidenced by an increase in used vehicle sales and prices.
- ▶ The U.S. Used Vehicle SAAR bottomed at 32 million vehicles in October 2008, and remained in the 33 million-34 million vehicle range from November 2008 to January 2009. However, in February and March, the U.S. Used Vehicle SAAR showed a notable improvement rebounding to 39 million and 36 million vehicles, respectively (roughly a 10%+ increase).

Dealerships: Estate planning takes on new urgency

By Tony Argiz, CPA/ABV/CFF, ASA, CVA, CFE and Alfred Zeiler, AIBA

The stock market has been reeling for more than a year and its performance during the first part of 2009 indicates that a recovery is not just around the corner. With more bad economic news in recent months, is estate planning still a good move? The answer is certainly yes.

Economy in recession

How did we get here? In early 2004, oil prices reached \$50 per barrel by year-end and the Federal Reserve started raising interest rates. Housing peaked in 2005, but started slowing down in 2006. Early in 2007, the credit crisis showed up, and the housing market deteriorated. The Fed stopped raising rates in an effort to curb the slumping housing market, but oil hit \$100 per barrel. In 2008, oil prices continued rising, before they dropped back amid weaker demand. Consumers stopped spending and the sub-prime credit crisis turned to credit panic, leading to a credit freeze resulting in a sharp drop in consumer confidence. This year has not started out well, and things are expected to worsen before getting better.

How have auto dealers fared through all of this? Not well at all.

From 2000 through 2006, between 16 and 18 million cars were sold per year. In 2007, that figure fell below 16 million and by the end of 2008 was fewer than 12 million. Initially, the 2009 figures indicate that cars sold (on an annualized basis) may fall below 10 million units; near 1983 figures.

Many people are just not buying cars right now. Without new cars selling, trade-ins dwindle. And currently, not even the parts and service departments are picking up the slack. Even record high incentives from the manufacturers aren't helping.

Franchise value is a measure of the potential profit a company can make from holding the right to sell new vehicles and to provide warranty repairs for a certain make of automobiles. Most of the large dealership networks have written off a tremendous amount of goodwill and franchise impairments in the later part of 2008. For some, there might simply be no intangible value.

Sales of dealerships are scarce right now, but those that are selling continue to sell for much smaller Blue Sky multiples than even a year ago. And this situation is much worse for domestics than for imports.

The recession's effects on discounts for lack of marketability

So tell me again why, with all this bad news, this is the best time for estate planning and gifting.

During periods of increased market volatility, investors desire an increased ability to sell. The result;

sellers accepting deeper discounts in order to achieve liquidity in the market (i.e. higher discounts for lack of marketability).

For dealerships, lower blue sky multiples applied to lower earnings, leads to lower enterprise values. Higher discounts further reduce the value and hence, the associated tax liability.

Let's work through an example. Scenario one represents what the gift tax liability might be under normal market conditions (i.e. stable economy and financial markets). Scenario two represents the current market conditions. (see chart)

When public markets are as volatile as they are today, valuation analysts can support a higher discount for lack of marketability, and they will likely remain higher until the markets stabilize. Periods of extreme volatility are usually short lived and when the environ-

ment recovers, there is no doubt that discounts for lack of marketability will decline.

In the current market, dealers have a rare opportunity for tax-advantaged gifting and planning. Whether it involves outright gifts using the annual or lifetime exclusion, or a trust instrument, such as a grantor retained annuity trust, or a sale of assets to an intentionally defective grantor trust, there is currently an extraordinary opportunity to transfer wealth. Given all of the difficult news for dealers today, this may just be the pot of gold at the end of the rainbow. ♦

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	Scenario One	Scenario Two
Dealership Value	\$ 22,500,000	\$ 16,800,000
Discount for Lack of Control	10% (2,250,000)	10% (1,680,000)
Dealership Value after Control Discount	20,250,000	15,120,000
Discount for Lack of Marketability	15% (3,037,500)	30% (4,536,000)
Dealership Value after all Discounts	17,212,500	10,584,000
Value of a 25% Interest	4,303,125	2,646,000
Taxes (using a flat 45% gift tax rate)	45% \$ 1,936,406	45% \$ 1,190,700
Decrease in potential gift tax		\$745,706

These figures are for illustrative purposes only and may not reflect actual variations in values, discounts, taxes or savings.

Dealer suicide – Not an act of cowardice

By Nancy Phillips

(Editor's note: Car Dealer Insider is aware of several franchised dealers who took their own lives in recent months. This is a tragic response to a desperate situation. Nancy Phillips offers her perspective on the situation.)

We all know what is happening to our industry today is life threatening – but few of us have taken that in its literal sense. As one of the people that dealers come to when they need to sell their dealerships, I know only too well that this industry takes it's toll in many ways – financial ruin is but one and sadly, hor-

ribly, suicide is sometimes another. In fact it is a more frequent occurrence, especially today, than anyone may wish to consider. As difficult a subject as this may be, it's an important one to have awareness of. We can never know which one of us may have the opportunity to help a fellow dealer who suffers from feelings of suicide.

During my time in business I have worked with and known well three dealers who have died by their own hand. In each instance the factor that triggered the final act was financial disaster. Whether it was unrecoverable loss, an out-of-trust situation, failure to make payroll or the inability to procure the needed capital or replacement floor-plan required to sustain the business - in each case the dealer felt unable to ask for help early on. In the last few months alone there have already been several more dealer suicides emanating from the magnitude of the problems auto dealers everywhere are confronted with. And this is only what has been publicized.

Warning signs

So it is hard not to wonder – can this business be worth dying for? One dealer who took his own life spoke with a friend shortly before and described his life by saying he had come from nothing, grown successful and wealthy and could not return to his beginnings. I doubt his wife and young children would have agreed with that way of thinking.

There is something about our industry that makes it difficult to deal with normal human emotions. Perhaps it is always being in control, existing in a business that thrives on assertive activity, aggressiveness, competition, pride and ego. When things go precipitously wrong, dealers often won't go to their friends, family or even a fellow dealer. And with no where to turn, one's perception of the world and ability to make good decisions fails.

People often say when confronted by suicide that they cannot understand, that it could not have been that bad, and that the deed itself is

the ultimate act of cowardice. I have said such things myself until I took the time to learn more about suicide and I hope that the next time I meet a client with symptoms that I might recognize them.

Introspection

There has never been a market or economy like the one we are in today and every single auto dealer is in a difficult situation. If your business is in such a state and you or someone you know is suffering



from insurmountable stress and feel as though there is simply no where to turn, then please stop for a moment to consider these few things.

Realize that if you have more stress and pain than you can cope with now - that does not mean you are weak or flawed. It does, however, mean that your pain exceeds your own resources for dealing with it and the result is often manifested in feelings of suicide. Professionals who understand suicide describe it as simply an imbalance of pain versus coping resources. Above all remember that suicide is a morally neutral event and it is absolutely not, in the circumstances we are addressing herein, a defect of character.

People turn to suicide to seek relief from pain. Yet once dead what will

you feel? While no one really knows, wouldn't you need to be alive to experience the relief you seek? And who knows if we travel into death with a clean slate or if we carry our guilt, remorse and sadness with us.

Sources of help

The tragic inevitability of our industry today is that many dealers will have no way to save themselves from going out of business either softly through resignation and liquidation or harshly through bankruptcy and they will need to develop the skill and fortitude to deal with such an outcome. If you are in despair over your situation, find someone to talk to immediately. You will need to ask for help and here are some ways that you can try.

Carefully seek out a proven friend, fellow dealer, family member or trusted advisor

- Call a psychotherapist
- Call 1 800 SUICIDE
- Look in the front of your phone book for a crisis line
- Send an anonymous email to The Samaritans at Samaritans.org
- Read *How I Stayed Alive When My Brain Was Trying To Kill Me: One Person's Guide to Suicide Prevention* by Susan Rose Blauner ❖

Nancy Phillips Associates represents franchised automobile dealers by orchestrating dealership sales and closures for those wishing to divest, facilitating targeted acquisitions on behalf of buyers and determining the true market value of their business. Nancy Phillips can be reached by calling (603) 658-0004 and by e-mail at auto@nancyphillips.com.

A Dozen Things You Can Do Today to Fill Your Service Lanes Tomorrow

Today's Reality: Service lanes don't fill up as easily as they used to. The "guaranteed" work that once kept your techs busy until five o'clock every day just isn't there any more.

The Result: Regular marketing of your dealership service department has become a necessity...not just something to do when business gets a little slow.

Presented by Rob Campbell, Analyst for Mironov, Sloan & Parziale, and Editor for *DealersEdge Warranty Administrator*.

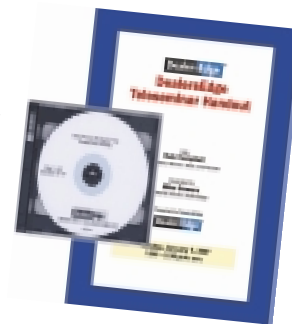
We just finished an extensive study of hundreds of dealership service departments. The purpose of the investigation: To find out what keeps Service professionals awake at night.

By far the most common topic mentioned was how to fill the service lane.

We heard comments like, "I'm a very good Service Manager but not a marketing expert. What can I do to bring in more cars?" and "I'm tired of sending my techs home early and with smaller paychecks. How do I get some new business in the door?"

That feedback inspired us to put together an audio program you don't want to miss. Fixed operations expert and *DealersEdge* Contributing Editor, Rob Campbell will give you his insights on what today's most successful shops are doing to drive new business.

This won't be a stale presentation from the same old vendors trying to sell you the latest Service Reminder program. This is real world stuff . . . a collection of ideas working Service professionals are using to keep their stalls full.



You'll learn:

- How to identify and market to high-payoff customers already in your database
- Loyalty programs that have REALLY worked for other stores . . . and some that haven't
- How a \$600 marketing idea generated \$20,000 in additional service sales
- Ways to structure your service offers so prospects take notice and act
- Free and inexpensive ways to motivate your used car sales department to send more business your way
- New twists to squeeze more from Recall programs

Who should attend?

Service Managers, Dealers, GMs and Controllers

Guarantee of Satisfaction:

If you're not convinced that this program delivered more than your money's worth of usable ideas, please let us know. We'll promptly refund your full purchase price.

DealersEdge

Promotion Code: NLDBO6

YES

I'd like to order the audio program **A DOZEN THINGS YOU CAN DO TODAY TO FILL YOUR SERVICE LANES TOMORROW** for \$198 plus \$10 shipping & handling.

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Webinar Schedule – May – June 2009

Registration Open:

May 14 ***A Dealer's Guide to Automaker Bankruptcy*** – Featuring attorneys Eric Chase and Joe Abouyou plus CPA Robert Brown.

A panel discussion about the ongoing Chrysler bankruptcy proceedings and the potential filing of Chapter 11 by General Motors. Includes a practical discussion of what dealers can expect and what they can do now to help protect themselves – touching all aspects of day-to-day operations as well as the impact on buy/sells.

For details go to www.dealersedge.com and look for Webinar Schedule on the home page. This session is Free to DealersEdge Network Members. If you are uncertain of your membership status, or for access to the free registration page, call Member Services at 800-321-5312. **Free to Members – All Others \$187**

Registration Will be Open Soon - Watch for Email Notifications:

May 26 ***Mike Nicholes – Business Math for Parts Managers*** - Mike will take us through a detailed array of the ratios and formulas that will help you manage your parts department to greater profits. Watch for email soon. **Members \$198 Non-Members \$298**

June 4th ***Chuck Hartle' – A New Look at the Special Order Parts Problem*** - Chuck will explore both the prevention and cure for this persistent and profit-draining problem. Look for Registration email starting in the week of May 22. **Members \$198 Non-Members \$298**

June 11th ***Roger Beery – Dealership Insurance Bidding in 2009*** - The recession has taken a toll on the auto dealership – but it also provides unique opportunities for savings. Don't bid your insurance package until you have seen this program. **\$198/\$298**

June 18th ***Nitrogen Tire Inflation- The Business Case for Auto Dealers*** - This is a **Free Sponsored Webinar** – courtesy of Parker-Hannifin makers of Nitro Tire Inflation systems. Learn both the science and the business formula for success. **Free to All - Details Soon.**

June 25th ***Brian Pasch – How to Protect Your Online Reputation*** - Bad ratings on the Internet travel fast. Spend 90 minutes with Brian as he provides practical steps you can take to monitor and then blunt the damage that poor ratings can cause. Learn how to enhance your dealership's online reputation. **\$198/\$298 Watch for email in early June.**

Your Membership Status - Again, if you are uncertain of your Membership Status- please call 800-321-5312 and ask for Member Services. Our Member Services staff will be more than happy to help. For Members, ask Member Services for Log In instructions on the Website.

Open Registration Dates - Dealers Edge Webinars are typically open for registration two weeks prior to the program date. Watch for email announcements or visit www.dealersedge.com. The Webinar Schedule is near the top on the home page.

Suggest a Speaker or Topic - If you would like to suggest either, please email Jim Muntz jim@dealersedge.com or Mike Bowers mbowers@dealersedge.com.

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