

DEALER

BUSINESS JOURNAL ... Your Success Is Our Business!



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Duck, Duck — Goose!

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This is my second time writing this article. The only person that will read the original version is the individual that broke the rear passenger window of my vehicle and stole my laptop (which apparently was not sufficiently hidden by my jacket). While I have heard of this happening to others, I never thought that it would happen to me. Misfortune or bad luck does not care about charm, good looks or brilliance. (OK, maybe I exaggerate a little). It is all about statistics.

Speaking of statistics, when the seasonally adjusted annualized sales rate was 18 million vehicles, life was good. Those numbers mask most problems. With SAAR now predicted at less than 10 million units, there is no place for any problem to hide and we see Darwin's theory of evolution play out before our very eyes. In many cities, automotive row already looks different and it will look even more different in 18 months. Dealers are going out of business in record numbers. Some are simply closing their doors and others are being consolidated with other franchises into a single facility.

Just like my laptop situation, no dealer believes this could happen to them. A former client and, more importantly, a friend, owned and operated a successful domestic dealership for many years. He was a pillar of his community, but has now become a victim of statistics. He apparently believed that he would be able to fight through these times. Unfortunately, "next week" never brought the improvements that he had hoped. The lien on the trade-in that he first deferred payment on for a day, was then deferred by a week, and then another, and then another, and was ultimately joined by others. He paid the essential bills that were necessary to keep the business going a little longer so that he could reach and ultimately turn the corner. But that corner never came. Now, he is without a business and money, and he has to deal with criminal charges as a result of his failure to pay-off the trades — one count for every trade. Just yesterday he was fighting to stay in business. Now he fights to stay out of jail.

While my friend thought that trying to keep the business afloat was the right decision, sometimes the right choice is to stop digging. Do not be afraid or ashamed to call your accountant or lawyer and get advice. It will not shock us to learn that you are having a difficult time.

News flash — it is much easier to sell a store when you are not out of trust. Do not wait until the floor plan lender takes your Manufacturer's Statement of Origins. Also, do not think your competitors are in the dark about your situation. Your finance manager talks to their finance director. Their title clerk knows your title clerk. This is a small world. If you wait too long, you will have little or no negotiating power. Why would your neighbor pay you, when your neighbor might get it for "free" from the factory once you go under?

Should you become an independent? Some franchise dealers have. Others remain franchise dealers, but substantially focus on pre-owned sales. If you elect to be an independent, understand your lender relationships. Would your lenders still buy paper from you if you were an independent? Some will not. Might you need a different license from DMV? Better check. Does the factory have an obligation to buy back

products? It varies. Maybe you should risk your factory relationship and keep only a 30 day vehicle supply. This is about survival, not factory brownie points.

There are many considerations. While you work hard and hope for the best, you must plan for the worst; otherwise these considerations will not be available to you. Do not be the unsuspecting casualty of the statistics. If you plan ahead, you improve your odds.

For those fortunate dealers not in harm's way, are you sitting idle? Make no mistake, franchise values may never be this low again. While lending may be difficult, there are franchises to be bought. Why compete with the struggling dealer across the street when you can buy that dealership? For long-term thinkers, this down-turn has been a blessing. How would your bottom line look if you could share your overhead with 1 or 2 more franchises? Sounds positive, huh?

What are you waiting for . . . Goose!

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