

BUY-SELL Q&A: DEALERSHIP SUCCESSION PLANNING



Left – right: Alan Haig, Mike Maroone, David Ciambella

Seismic shifts in the auto-retail industry are prompting many family-owned dealerships to face tough decisions about selling or remaining privately owned. The issues these families must contend with are as complex as they are deeply personal. Here, industry veteran and entrepreneur Mike Maroone and experts from The Rawls Group and Haig Partners offer some valuable guidance and perspectives for families facing these difficult decisions.

Q: Given the disruption of the retail space from consolidation, generational shifts in car-buying habits, emerging new technologies and the increasing amount of capital needed to compete, should auto dealers try to transition their businesses to the next generation or just sell them?

Alan Haig, Haig Partners: There is absolutely a future for family-owned dealerships. Private dealers are buying about 80 percent of dealerships today, so they are excited about the future. Private dealers own most of the top performing stores since they often attract the best general managers. But the business is changing as customers expect a more seamless way to search for, purchase and service vehicles. Technology and scale, possessed by larger dealer groups, is going to attract more customers. This trend has happened in almost every retail industry. At some point, dealers will need to decide whether to get big or get out. The risk of standing still is that stronger competitors will take customers AND talented employees, badly eroding the value of the smaller businesses.

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– Haig Partners

Q: You have transitioned from building a family-owned group to being the president and chief operating officer of the largest publicly traded auto retailer and are back to building a dealership group along with family members. How did you get family members involved?

Mike Maroone, Maroone USA: I am a life-long auto retailer. Growing up in a dealership, I was able to work with my father, who was an outstanding businessman. After joining AutoNation, I was privileged to have a significant leadership role as the President and COO. It was not a difficult decision to go back to the business. In returning, I borrowed a page from my father’s playbook and involved the next generation of our family by recruiting three family members, two with auto retail experience and one with a background in investing. Together, we acquired stores that had high-potential and paired them with great operating partners with equity opportunity. It is extremely rewarding to work as a family and team to build the businesses with talented associates and exceptional guest experiences.

Q: How will you transition your responsibilities and equity to the next generation?

Maroone: My goal in returning was to transfer knowledge gained over many years to my family and operating partners. In the period following acquisition, I spent more time in the stores than I do today. The post-acquisition experiences gave me confidence that the group we’ve assembled is quite capable. It was then that my role

changed to chief executive officer and mentor. The equity we have in our stores is owned by a family limited partnership and operating partners and I don’t see that changing. Our intention is to grow the business as long as my family and partners want to stay involved.

Q: What succession-planning considerations are a major factor today that simply didn’t exist years ago? What are some common mistakes dealers make or things they overlook when creating a succession plan?

David Ciambella, The Rawls Group: The current environment is forcing dealers to make the decision to keep or sell. Attractive blue-sky multiples and aggressive consolidation is placing succession planning at the forefront. Dealers must be careful to avoid common mistakes including:

- Avoiding conflict and sweeping family issues under the rug, as they will ultimately wreak havoc in the family and in the business.
- No formal succession plan.
- Lack of communication with family, stakeholders and strategic partners.
- Transferring dealership stock without manufacturer approval.
- Ignoring banking covenants which include a due-on-death clause.
- Waiting too long to transfer the dealer principal designation.

Succession planning builds value for your business and therefore dealers should trust advisors who are willing to be honest and who will intelligently evaluate the succession implications of keeping or selling.

Q: What percent of family-owned dealership groups successfully transition to the next generation?

Ciambella: Research shows 30 percent of family businesses successfully transition from the first to the second generation and those percentages drop drastically as you look at the transfer to the future generations. There are a variety of factors as to why these numbers are so low, but the key to success is ensuring proper planning. Investing time, energy and money and being intentional about the succession planning process provide a higher probability of the family business achieving successful succession while also building and protecting value.

Q: What are the options for families that don’t have a viable succession plan?

Haig: Families with no viable succession plan typically choose to sell their dealerships. For families who want full liquidity, conditions are excellent for a 100 percent sale, given the strong demand for dealerships. By our calculations, buyers are paying about 50 percent more today for blue sky than at any time on record. Another option that is growing in popularity is when a dealer sells a stake

in the business to another dealer or to an investor, like a family office. The dealer stays connected to the business and receives a share of the profits while managers assume the operating responsibilities. The dealer can sell the rest of his stake to the investor years down the road, or they can exit together, hopefully for a higher price.

“Attractive blue-sky multiples and aggressive consolidation from the publics and large groups is placing succession planning at the forefront.”

– The Rawls Group

ABOUT THE PANELISTS

DAVID CIAMBELLA

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Since 1973, The Rawls Group has partnered with Dealers, their family and key leadership to create strategies to overcome the potential, possible and probable issues impacting their long-term vision.

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ALAN HAIG

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Since 1996, Alan and the team at Haig Partners have been involved in the purchase or sale of 525+ dealerships with a value of \$7.9 billion. They issue the Haig Report and co-authored NADA’s A Dealer Guide to Buying and Selling a Dealership. Alan is frequently quoted in the media and speaks regularly at conferences.

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MIKE MAROONE

CEO, Maroone USA

Mike Maroone is the CEO of Maroone USA, which currently owns and operates six franchises – five in Colorado and one in Florida. As President and COO of AutoNation he was responsible for all retail operations of 280 franchises and 32 manufacturer brands in 15 states. Prior to that, he led the growth of Maroone Automotive Group to nine franchises across six locations. In partnership with his father, Al, the Maroone Automotive Group was consistently recognized as one of America’s top-performing auto retail groups

