

## Standing Eight Count

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Your legs are wobbling. Sweat and blood drip from your face. Four more rounds to go in this prizefight and still you cannot identify your opposition. You know your opposition is not the dealer across the street, nor the dealer across town. Is it the factories? Is it consumer confidence? Is it product quality? Is it the lenders that just don't want to lend?

Whether the answer is none, some or all of the above, it doesn't matter. In our representation of numerous dealers, both multi-point franchise dealers and independent dealers, there is a common thread that unites them. With limited exception, they are all hemorrhaging.

Like a dazed boxer fighter, you face three alternatives. They are each significant and must be carefully scrutinized. First, the most obvious alternative is to come out swinging. The fighter in you believes in the possibility of a knockout punch. Unfortunately, there is no such thing in the car business. In fact, this alternative may very well be fatal. Pouring more money into a national, if not global problem, may buy you time, but at the end of the day, may leave you with less resources and assets.

Know when to dance around and kill the clock. If you haven't already cut down staff, what are you waiting for? This is the time to streamline expenses. Then, identify every payable and determine which, if any, you personally guaranteed. Naturally, given the choice to pay a guaranteed debt or a non-guaranteed debt, the answer is simple. (Note, however, that if you are to subsequently file bankruptcy, payments made to one creditor within the 90-day period preceding the bankruptcy filing may be required to be paid back by that preferred creditor.) To the extent you have contracts that you could do without, negotiate a resolution to them or a discount. Your vendors are feeling the pinch too. They may work with you if you show a willingness to work with them.

Reduce your inventory supply. Also, since floorplan lenders are increasingly more willing to pull floorplan loans, do not give your lender any reason to review your performance. Make your payments timely. Know where every floored vehicle is. Also, get rid of your aged inventory. The loss today is better than the loss tomorrow.

Speaking of inventory, scrutinize your wholesale deals. Do not let wholesalers get ahead of you. Independents are going out of business in large numbers. Even dealer trades are not immune in this economy. Swapping vehicles and checks with another dealer is risky. You may be better off swapping vehicles and having one dealer send a "net" check to the other dealer. This should reduce the exposure to an NSF situation.

Compile a pro forma statement. Examine how you can continue to survive, assuming a streamlined business and assuming no material market improvements over the next two to six months. If you determine that your ship is sinking, do not hope for miracles. The "Audacity of Hope" will not work here. Sometimes you have to know when to stop digging. You should immediately consult your attorney and evaluate your debt and reorganization options. Even if you elect not to take that path, there is no other way to make an informed decision.

Lastly, the adage that "cash is king" is as true as ever. Save whatever you can, wherever you can (although make sure you pay your legal bills). You cannot hire bankruptcy counsel without money. You cannot offer to put up a CD to help secure your floorplan without money. You cannot negotiate buy-outs of contracts without money.

The inescapable reality is that dealers are already and will continue to be closing their doors. Some of those that have closed would probably admit that they should have done so sooner as it would have saved them both mental hardship, and more importantly, money. Unlike a prizefighter, this is not about heart, guts or glory. This is about money. Sometimes, it makes more financial sense to throw in the towel. On the other hand, if you can sufficiently tighten your belt and have the financial staying power, it is very realistic that you will have less competition when the market turns back around. To the extent that you can avoid the knockout, you will be in a much better competitive situation. For those that decide to take their chips off the table now, you may find yourself in a position to live to play another day. For those that leave their chips on the table and begin doubling up right now, be careful; otherwise, we will be meeting soon.