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Selling A Multi-Site Auto Service Enterprise: Utilizing The Services Of A Broker

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by Art Blumenthal - Oct 25, 2013

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"Sometimes the whole is greater than the sum of its parts, but sometimes the reverse is true and a packaged deal will yield less than the individual shops sold separately..."

...Terry Flaherty, seller of 4-shop enterprise

"I'm now a firm believer, as I was 30 years ago and will always be, in being prepared for success. In this business, if you can do that, I think there is good money..."

...Paul Davidson, buyer of one of the shops

Seller's Background & Motivation to Sell

Just a few short decades ago, when Terry Flaherty was in his early 30s, he set a goal to retire at age 55.

"I also set targets for what I wanted to make and my net worth at that age. So when I had been in the auto service business for 35 years as the business got tougher and tougher all the time, for me it was the right time to exit. I turned 59 and wanted to take some time to enjoy life while I still have good health and the vitality to do it," noted Terry in a recent interview.

He continued, "I was a shop owner for the past 15 years. But for the first 20 years of my work career, I was a Midas Corporate employee. I started out on the shop floor as a mechanic fixing cars and then came up through the system, first to a manager position, then to a multi-shop supervisor and then to a sales management trainer. I was running 11 shops in Salt Lake City for a year or so and then when the company-owned system was broken up, I sought out and purchased four shops on Cape Cod, which I had two or three years of experience running."

The purchase of a shop in Mt. Ephraim, NJ, happened later.

"I had the four stores here on the Cape and we had strong,



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healthy increases in business ... from

\$2.5 million to \$4 million in the four stores. I met up with a guy who used to work for me many years ago in New Jersey and thought that maybe I could replicate what I did on the Cape and make him the lead guy on it. But as it turned out, that was a bit of fanciful thinking. So I ended up with the one shop in New Jersey and barely kept my head above water. It was not a success story like on Cape Cod.”

The Multi-Shop Enterprise: An Overview

All shops in the enterprise are established, well-maintained, profitable turnkey operations that already have equipment, inventory and employees in place.

Located in charming Cape Cod, MA, three of the businesses offer a buyer a unique opportunity to live, work and relax in one of New England’s most desirable areas. Near the beach and diverse recreational and cultural activities, the location of the three Cape Cod businesses is characterized by an affluent population and limited automotive service competition.

The fourth business location, in Mt. Ephraim, NJ, is in one of the major commercial hubs of Camden County, NJ, across the river from Philadelphia.

Selecting a Business Broker

In regard to selecting and utilizing the services of a business broker, Terry said, “I first attempted to sell the shops on my own and I didn’t get a heck of a lot of responses to my newspaper ads. It was very awkward trying to deal with the few folks who responded because they did not want to be forthcoming as I tried to get some sense of their qualifications before I started sharing my confidential business information. So I attempted to do it on my own and found it to be uncomfortable and awkward, and ultimately that led me to go with a broker.”

Terry continued, “In fact, I didn’t go at first with Art Blumenthal, but went instead with a local broker who had the listing for a couple of years.



Although he had some leads here and there along the way, nothing came of them. I found that after I had the opportunity to talk with Art that he really understood the automotive service business and he was able to very quickly analyze my P & L and present it in the most favorable way. He was able to understand which cash flow items were those that could be recast as additional earnings for the owner. So I think it was so much easier dealing with him than any of the efforts previously trying to do it myself or with another broker who had no specialized experience with selling an automotive service business.”

The Business Enterprise: What’s It Worth?

Terry said, “From my perspective, Art exceeded what I had in my mind as a minimum acceptable price for my business. In four out of the four shops I sold, he was able to negotiate well and got me a higher sales price than what I otherwise would have by myself for sure.



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“In regard to selling a multi-shop enterprise, although you may find a buyer who wants the whole group, it’s more likely and you can probably ultimately do better in the sale by breaking up the enterprise into individual businesses. Sometimes the whole is greater than the sum of its parts, but sometimes the reverse is true and a packaged deal will yield less than the individual shops sold separately. That’s what happened in my case ... he did a better job selling them, with two to individuals and two to a pair of partners.”

Based upon his experience, Terry provided valuable advice for potential sellers when he said, “Sit down with your business financials and think about them in terms of a presentation to a buyer. Strike a balance between maximizing cash flow, while ensuring you aren’t killing the goose that lays the golden eggs while doing so.

“We all have a tendency as business owners to set up our books in such a fashion as to make sense to us and accomplish the kind of things we want to accomplish, but some of those things may be contrary to making the business attractive to a buyer. The sooner you get at that the better, or you may ultimately face the consequences when determining a sale price. Structure your P & L to clearly delineate between business expense accounts and items that may be benefits and perks to the owner. Keep in mind that the sales price ultimately will be a function of cash flow.”

Scope and Timeline of Sales Process

Terry was asked about the benefits of time management by utilizing a business broker and said, “I think the key thing there from my perspective was also that there was a great deal of time involved. It’s not as if you list them one day and you’re closing 30 days later. I had a fifth shop that I sold back in 2007 to one of my managers and that



was a pretty straightforward deal and went pretty fast. But after I did that, I really didn’t have any managers who had the financial qualifications or breadth of experience needed to own a shop themselves.

“So when I was interested in selling them in 2007, I made some efforts to do it myself and I wasn’t in any big hurry and it was something that I did more passively than actively. It was 2009 when I hooked up with a local broker, and he had a two-year listing agreement. Then, in 2011, I hooked up with Art and only then did things really start happening. I was pretty pleased because within 30 to 60 days he had some good qualified candidates. It’s fair to say that we weren’t ever not actively working somebody. They didn’t all pan out, of course. But we had a pipeline we seemed to be working with.

“There was a strong sense on my part that the sales were going to happen ... never was I thinking ‘Oh my God, am I ever going to find a buyer?’ It was just a matter of patience and confidence in Art.”

Background of Buyer of East Falmouth, MA, Location & Motivation to Buy

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Paul Davidson spent 27 years as an executive in defense and intelligence, capping his executive career as a senior vice president for a Fortune 500 company in charge of about \$100 million a year.

In a recent interview, Paul said, "I got tired of eating stress for breakfast and decided it was time to retire. But after about three years of retirement, I was pulling my hair out with boredom ... I just couldn't take it. And as I watched my retirement fund dwindling, I decided to start looking around for something to buy."

When asked how the stress of owning his own auto service business compares to the stress of his former career, Paul replied, "It's different. In the business I was in, you live on five-year contracts. If a big contract is lost, you have to lay off 350 people at a time. They've got kids and mortgages and there is a lot of stress in that kind of business role. Sure, it's great when you win one of those big contracts; signing a \$100 million contract feels great. But sometimes you lose. I probably spent 60% of my time on the road, which isn't particularly good for family life. And I just decided it was time to retire. I've got a boat, I thought I'd play golf ... it would be great. Which it was for about a year, maybe a little bit more. But you just can't go from 60 mph to zero too easily, depending on your personality."

Buyers of Other Locations

Business partners Larry Mahan and Dan LaCouture purchased the Hyannis, MA, and Orleans, MA, shops.

Larry previously owned a Pontiac/GMC car dealership on the Cape for many years until the Pontiac model line was discontinued. He is a veteran of the automotive business and a very sophisticated businessman.

Dan is a former professional hockey player who had to give up the sport after a series of injuries.

Joe Piroso purchased the Mount Ephraim, NJ, location.

Scope and Timeline of Purchase Process of East Falmouth, MA, Location

When Paul Davidson was asked how he decided on the automotive service industry as his next business challenge, he replied, "We looked at a few businesses ... an ice cream shop, a heating/ventilation/air conditioning type company and few more. My wife actually found the automotive service opportunity listing on the Internet, so I started doing some research. I even spent a few days across the street at McDonald's in the parking lot watching the coming and going at the shop."

He continued, "My assessment of this opportunity was that it doesn't have a tremendous upside. I won't grow it to five times what it was. But it really doesn't have a big downside either. So as far as making the decision, we factored in the facts that it was a good location, did good business, with good people ... so we decided to take the jump."

As far as the purchase process timeline, Paul said, "Dealing with Art Blumenthal or with Terry Flaherty was not a problem. Art was knowledgeable and helpful, he understands the business, he knew the sellers, he's a prince as far as that all went. Delays occurred in dealing with the bank. Even though we had hoped for a faster process, the bank slowed us down. So the whole process occurred between January and May. It shouldn't have taken that long, but it just did."

Post-Sale Activities & Observations

Seller Terry Flaherty is a strong believer in using a broker...and not just any general commercial broker, but one who has automotive service experience. He said, "Utilizing the services of a broker allows the client to focus on the business and not be distracted by all of the time spent on packaging, marketing, advertising, qualifying clients, preparing offers, etc."

New business owner Paul Davidson has achieved an increase in sales revenue in his first year of business. "I took over May 21st last year. In 2011, the business did \$834,000. Last year we did \$924,000. And this year I think we'll

do \$1 million. The last time this shop did \$1 million was 2006,” noted Paul.

He continued by noting that he started working longer hours to achieve that. “I think it was a little short of staff when I purchased the shop, particularly at the front desk. I don’t think we were moving customers through fast enough based upon the amount of work we could take in. So I started working 70 hours per week.”

Paul has welcomed the opportunity to “Be Your Own Boss” and is now looking at expanding or purchasing another shop as well.

He wanted to share his views with other potential buyers in the auto service industry when he said, “From my perspective, the auto service industry as it once was is gone. It’s a completely different business. There is a new breed of people coming in. There is a bright future, you can run your own shop, you can make good money, and you can make a difference if you hire good people.

“My philosophy differs from some in that I believe when people try to take over these shops and start by cutting things, my opinion is that you need to do the opposite. If you infuse a little money and be sure you have staff to do the job, the benefit will be greater than the investment. If you hire high-quality people, they will sell themselves, they will sell their work, and you can take in more work. When you are telling people that you would love to help them but can’t see them for a week from now, you’ve lost the business. You just won’t see them again. People expect things to be done now.

“I’m now a firm believer, as I was 30 years ago and will always be, in being prepared for success. In this business, if you can do that, I think there is good money. Don’t skimp. Buy good equipment, stock all the parts you can, service your customers as the friendliest shop in the neighborhood and they will come back — 90% of my customers are repeat customers. We go out of our way to make sure they keep coming here. Because once you lose them for whatever reason, they will try every other shop within a five-mile radius before you see them again. It takes you a year to build up a retained customer; it takes about 10 minutes to lose them. It takes you another year and a half to get them back. It’s shortsighted not to be able to keep those customers when you spent so much time and money cultivating them in the first place.”

Leveraging more than 30 years of experience as both an aftermarket business owner and aftermarket technology executive, Art Blumenthal LLC provides business intermediary and advisory services to both buyers and sellers of industry businesses of all sizes. Art is a member of IBBA (International Business Brokers Association, Inc.). For more information, or to initiate a no-obligation confidential consultation, visit www.art-blumenthal.com.



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