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## AutoBody America Sale Highlights Challenges for Regional Operators, Benefits of Proper Divestiture Strategy

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**Well planned ownership change minimizes disruptions for employees and customers. CEO of ABA discusses their experience. Matt Ohrnstein offers owners some advice before selling a shop.**

A few weeks ago, AutoBody America (ABA), the Richmond, VA-based regional repair chain, announced the sale of its six North Carolina stores to True2Form Collision Centers. That announcement was the culmination of a planned strategic divestiture that, from the outset, sought to minimize disruptions to both employees of the company, insurers and customers.

Like many entrants into the collision facility consolidator market in the late-1990s, AutoBody America's goal was to create a nationwide chain of collision repair centers. Founded in 1998, AutoBody America grew to 16 locations in Tennessee, Mississippi and North Carolina by September 2002.

After their initial growth, like many other regional consolidators, the reality of collision repair marketplace, both technical and financial, proved more challenging than originally anticipated by the firm.

According to Lee Hufnagel, chief executive officer of AutoBody America, "We determined it was not possible for us to make a net profit operating 15 stores with our level of regional and corporate overhead, which we had pared down to the lowest practical level. AutoBody America did not have the additional capital required to increase the number of our stores to a critical mass. We concluded there was good value for an

### Thinking about selling?

Matt Ohrnstein, former chairman and CEO of Caliber and owner of Symphony Advisors, suggests that anyone considering the sale of their business should consider two fundamental questions: "Is the business transferable without my involvement?" and "How will my business look under the magnifying glass and due diligence of an acquirer?" These are key issues that will come to light during the selling process and are important for both the seller and the prospective buyer.

In addition, the following preparations should be made in anticipation of selling

efficient operator to acquire and combine our stores with theirs and share their overhead and expertise. Consequently, we opted to pursue a strategic divestiture of our three market platforms: Memphis, Nashville, and Raleigh/Durham, North Carolina."

Hufnagel explains that options securing capital for further expansion was limited, and that the original investment basically didn't live up to its early expectations, "We were able to build new stores and ramp up production on schedule to a profitable level for many stores, but not for all. In addition, the profitability of the successful stores could not support our overhead. We had planned to invest operating profits in building out new stores. Instead, our equity and borrowed funds were consumed to meet operating expenses."

Once the decision to sell was made, the company then began a campaign to explain the decision to both employees and customers, including insurers. Hufnagel explains, "We proactively communicated with our employees, clients and key vendors. Employees received a letter followed by staff meetings and a question & answer session. Our clients and key vendors were approached to discuss our planned divestiture to suitable buyers. We stated that we would only sell to companies likely to conduct business in a similar manner to AutoBody America and to retain existing store staff. We also committed to work with any

should be made in anticipation of selling the business.

1. Clean up your company's books and records. Many small businesses maintain only the basic accounting and records required for compliance with tax and business regulations. Additional details such as contracts, ownership records, leases, etc. should be prepared and easily accessible.

2. Develop a culture that empowers staff to perform in the absence of the shop owner. Many business owner/operators have all the answers and provide all the direction. Helping staff grow and operate independently adds value to the business in the eyes of a prospective buyer.

3. Maintain solid relationships with all referral sources with multiple points of contact within your business. These relationships and the prospect of the acquiring entity maintaining these relationships is an important part of the value built into the business. Having multiple staff involved in maintaining the relationship both reduces the risk of losing the relationship as well as the chance of a prospective buyer losing that relationship.

4. The facility and equipment should be in excellent condition. If not, the valuation will be impaired. Have any necessary maintenance and repairs performed before seeking the sale.

5. Engage a lawyer that has significant experience in transaction law. As with any large business transaction, having experienced legal representation will serve to protect and preserve the rights of the seller and construct a beneficial sale agreement for both parties.

In Ohrnstein's experience, he has seen two common reasons behind a business owner's choice to make a sale.

"Commonly, sellers leave because they are tired and choose to either retire or move into another career. The tiredness is brought on by many years in the business or by a long period of difficulty in operating the business," said Ohrnstein.

"Other sellers are more pragmatic," explains Ohrnstein. "They build and sell

committed to work with any acquiring company to ensure a smooth transition."

The open approach to the sale process was partly influenced by some of the high profile problems experienced by other multiple repair facility operators that failed. "We were greatly influenced by the past challenges of others. While divestitures are always difficult, we have tried to be open and honest with employees and customers. Our board and senior management committed to do what was right and to focus on ensuring that AutoBody America would not be another shipwreck. Based on our divestitures to date, it appears those decisions were generally correct and well executed." explains Hufnagel.

... viewing the business as an investment. It is not uncommon for them to re-emerge back into the business in another marketplace or once the non-compete provision in their sale agreement terminates."

Many of these sellers, such as ABA's Pat James mentioned in the main article, reacquire their businesses back.

According to Hufnagel, insurance clients had mixed reactions to the company's announcement that it was up for sale. "We have always been insurer-friendly, so we were disappointed that some removed our stores from referral lists immediately following the announcement that the company was for sale. For the most part though, insurers have remained committed to us. After our announcement to clients, we continued to operate the business with our traditional philosophy. The success of each store continued to be determined by how well that store delivered what our customers came to expect over seven years of operation: a first-rate and honest repair completed on a timely basis - with great communications between shop, vehicle owner, and insurer. The insurers were quick to recognize that our shops were placed with strong operators: the Pat James team in Memphis and True2Form in North Carolina. Both entities have proven track records and reputations for great service.

Jay Baas, the former president of ABA and now vice president of operations for True2Form, echoed Hufnagel's comments, "Once we told our insurance clients about the impending sale, some did reduce the volume of work they referred to us. Those that did mentioned the experience of the M2 bankruptcy where the insurers had been assured a deal was done, but as we all know, the deal to sell that business fell through at the end. When we came back to those insurers a few weeks later, as the sale to True2Form was closing, we saw work volumes return."

Employee reaction to the sale decision was similarly mixed. "Reactions varied wildly depending on 'the rumor of the day', pot-stirring by competitors, and things like shop tours by prospective buyers. Some employees had trouble dealing with the turmoil and left. Most stayed to see what would happen," explained Hufnagel.

Baas added, "Most employees had basic concerns about the details that would impact them personally. Questions such as, 'How would benefits be impacted? Who would the new owners be? How long would the sale take?' were the most commonly asked. When we were able to announce the sale to True2Form, that eliminated the concerns since many employees either knew people who worked for the company or knew the strong reputation True2Form has as shop operators."

Following the sale of its six North Carolina operations to True2Form, AutoBody America reached an agreement with ABA Board member and founder Pat James, to sell ABA's five Memphis locations to Everything Automotive, a company owned by James. Hufnagel explained that most of the shop-level employees were retained by the new owners.

Now, with just the four Nashville stores remaining to be sold, Hufnagel explains, "Our philosophy for the remaining platform sale is the same. We will only work with prospective buyers that will do all possible to integrate AutoBody America employees into their culture and organization."

Offering advice to other shop operators that are considering a sale of their business, Hufnagel offered three suggestions:

1. Proactively communicate with clients, employees, vendors and other constituents;
2. Continue to execute on all key business initiatives during the sale process, and
3. Get help from experts. In this instance, we've been ably assisted by Vincent Romans of the Romans Group and Matthew Ohrnstein of Symphony Advisors.

Ohrnstein's name is a familiar one to regular readers. From 1994 to 2004, he was the chairman and chief executive officer of Caliber Collision Centers, the California-based multiple facility chain with 68 stores in California and Texas. During his tenure with Caliber, he left the board in 2005, the company acquired dozens of repair facilities as it grew from its base in Southern California. Given this experience, Ohrnstein now advises others involved in the sale or purchase of a collision repair business among other services offered by his consulting firm. Maintaining good communication with customers and employees during the sales process is just one element Ohrnstein advises seller to maintain. (Editor's Note: For more on considerations for sellers, see the sidebar: Thinking about Selling?)

Looking back at the communication process, Hufnagel explained that while they were open with communications, even more could have been done, "It is impossible to over-communicate in these situations. We probably should have done even more than we did:

another letter, more email, one more walk through each shop, etcetera."

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