



Have You Named a Successor on Your Franchise Agreement?

A critical element of your succession plan is the naming of your successor dealer on your franchise agreement. Many dealers either do not have their successor named in their franchise agreement or the successor named is a spouse that has no expertise or capability of running the store. It is imperative that a competent successor dealer be named, and then approved by the manufacturer.

Why is it important to name a successor?

If a dealer dies, becomes disabled, or retires, he/she wants a seamless transition with the manufacturer to the successor dealer. For example, a dealer dies without a successor dealer being identified in his/her franchise agreement. Suppose the manufacturer believes the store is underperforming. Upon the dealer's death, the estate will propose a successor dealer to the manufacturer. If the manufacturer does not approve the candidate, the franchise contract could be in jeopardy. The manufacturer's decision to reject the candidate may be solely based on their perception that the store is underperforming.

Obviously, naming a successor dealer is an important matter. The candidate should be someone who is competent, experienced, and has already established a relationship with your factory representatives. The candidate should be present with you at manufacturer meetings and develop a relationship with the franchise representatives.

Once you have a successor dealer named, you should consider gifting or selling them the percentage interest of the business equal to the manufacturer's requirement to be the dealer. This is typically 15 to 25 percent.

The ownership change must be approved by the manufacturer. If the manufacturer approves the transfer, you will build your case that the successor is qualified. This will allow the dealership to pass to the successor, at the appropriate time, ensuring that the transition is seamless.

If you have any questions regarding this article, please contact Paul McGovern at PMcGovern@DowneyCoCPA.com or 800-849-6022.