

# Pay Attention to the Fine Print in Contracts

Has anyone ever advised you to read the fine print in a contract before you sign it? While this advice is always sound, if you are like most people, you don't typically follow this advice. The print on the back of the contract is small and usually difficult to understand. However, when it comes to certain vendor contracts, not taking the time to read and understand the fine print and make changes can later cause you a headache and cost you thousands of dollars. As a dealer, you rely on third party vendors to provide a lot of services to your business. In many cases, these vendors want you to sign a contract as part of your relationship. When this happens, you need to make sure that you have someone at the dealership that is looking at these contracts and can identify the key terms that need to be changed to avoid costly penalties down the road. The best example of this type of contract that I see at almost every dealership is the uniform rental contract. These contracts are short, but contain fine print on the back with two terms that are traps:

- **Long Terms with Automatic Renewals.** Almost every uniform rental contract will have a long term (often 3-5 years) that automatically renews for the same period unless you give a written notice to the supplier. This means that if you don't remember to terminate the agreement at the right time, your 5-year contract just turned into a 10-year contract.
- **Liquidated Damages.** This is a legal term that really means "cancellation fee" if you try to cancel the contract before the term is up. The amount of the fee is usually based on a percentage of how much you would have paid if you remained in the contract. This means that the longer your contract, the more you will pay as a cancellation fee. Depending on how many locations and how much time is left, we have seen uniform vendors claim liquidated damages of \$40,000-\$100,000 ... a lot of money for a uniform contract!

**Improve your position and change the contract before signing** Before you sign one of these contracts, be on the lookout for these terms and don't be afraid to ask for the following changes:

- **Right to Cancel.** You should have the right to cancel on short notice at any time during the contract term (for example, dealer can end the contract by giving 30 days notice).
- **No Cancellation Fee.** You should not be liable to the supplier for a cancellation fee if you terminate the contract early (except to pay the fees during the 30-day notice period).

Because there is competition among uniform rental vendors (as with most of your vendors), you may be surprised at how easy it is to get these changes made. The other benefit is that it allows you to continue to shop for competitive pricing in the future because you can easily get out of the contract and move to another vendor. **Maximizing Your Sale Proceeds** The real reason you need to pay attention to these types of terms in your contracts is to make sure you aren't leaving dollars behind when you sell your business or merge with another dealer. When a dealership location is sold or merged, the buyer will take a look at your vendor relationships and might not like the terms of your uniform contract (or other contracts). If that occurs and you can't terminate the contract on short notice without paying a big penalty, you have suddenly introduced an economic issue in your deal that has very little to do with your actual business and may cost you a significant amount of sale proceeds by having to pay off the contract. Unlike many legal issues, the answer for dealers when signing uniform rental contracts and similar contracts is pretty simple: make sure the fine print gives you the right to get out of the contract early without a cancellation fee. Following this advice (and making sure your store managers follows this advice) will help you avoid unwelcome surprises when you sell your business.