

Building from wreckage of others

By TODD NELSON, Special to the Star Tribune

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In six years, Stillwater-based online auction start-up Crashed Toys thundered into first place as the leading reseller of wrecked motorcycles and other specialty vehicles.

But that initial lead appeared to be in danger of slipping away from founder Joe Peltier. So to keep growing profitably and fend off competitors, the former sheriff's deputy-turned-entrepreneur set out to expand.

His original strategy was to open warehouses throughout the Midwest, where he could replicate what he does in Stillwater: storing damaged boats, RVs and vehicles other than cars and trucks until successful bidders can pick up their purchases.

The problem with Peltier's plan, and one familiar to many small companies trying to grow, was that it would take years to carry out and he would need more cash than the company was generating.

The road ahead looked bumpy -- until a strategic partner emerged to jump-start Crashed Toys' growth.

After nearly a year of negotiations, Peltier in early January sold Crashed Toys to QCSA Auto Auctions, a larger, Indiana-based salvage reseller that had been trying to do more specialty-vehicle business.

Peltier and his eight employees are staying on to operate the new entity created by the merger of his company and QCSA's Special Lines Central subsidiary, which goes by the Crashed Toys name and retains the original website's look and feel (www.crashedtoys.com).

The deal doubles unit volume, with each company having sold 2,500 to 3,000 specialty vehicles a year, said Jerry Sullivan, managing member of the new Crashed Toys.

Revenue at Crashed Toys had grown to more than \$6 million in 2007, Peltier said, up from \$3.6 million reported for 2005.

At QCSA, founded in 1999, revenue topped \$20 million last year, Sullivan said. Most of that came from the sale of close to 50,000 damaged cars and trucks. The company has nearly 100 employees.

The acquisition makes QCSA the nation's third-largest salvaged-vehicle reseller and positions it to compete with larger rivals, Sullivan said. The privately held company has three owners besides Sullivan.

Above all, the merger gives Crashed Toys access to QCSA's nine locations in six Midwestern states.

"We're basically taking the best of them and the best of me and turning them into one," Peltier said.

QCSA gains Peltier's expertise in appraising damaged vehicles, which he developed as a lifelong motorcycle rider and onetime Washington County sheriff's deputy.

It also gets the technology and business model Peltier had developed, and the database of 20,000 accredited buyers that Crashed Toys has amassed.

"We bought Crashed Toys for what this guy can teach us," Sullivan said of Peltier.

Buying expertise

What sets Crashed Toys apart, according to Peltier, is that its auctions typically earn insurance companies a higher return -- usually around 60 percent -- on the losses they incur when a motorcycle, ATV, boat, recreational vehicle or snowmobile is declared a total loss.

When someone smashes a \$10,000 Harley, for example, the insurer typically writes the policyholder a check for that amount and takes possession of the bike.

The insurer might get back 20 to 30 percent of what it had paid out if the wreck sold at a traditional damaged-vehicle auction. Those are usually open only to dealers, who often have little interest in anything but cars and trucks.

QCSA's Special Lines Central auctions typically return 30 to 40 percent of the loss, Peltier said.

But four out of five of the bidders on Crashed Toys' online auctions are public buyers -- often enthusiasts -- who usually pay more for a wreck than do dealers, Peltier said.

In the first month of merged operations, Peltier said he has noticed a number of occasions where Crashed Toys' business model has gotten a better return on an auction. And QCSA's existing locations and relationships with trucking companies has reduced the costs of transporting wrecks to auction.

Crashed Toys earns revenue from fees it charges to buyers (ranging from \$25 to \$1,000, depending on the value of their purchases) and to insurance companies, based on vehicle types and the distance traveled to recover them.

Wasting no time

Peltier had worked with Tom Lyons, founder and president of Faelon Business Brokers, a merger-and-acquisition firm in Golden Valley, to evaluate his options and to seek potential buyers.

"Joe felt if he didn't grow, and grow rapidly, somebody would catch up with him," Lyons said. "He went through, with the help of his attorney and accountant and myself, a process of trying to weigh the market pressures on his business to look at how fast he needed to grow to maintain his market share. He reached the conclusion that he needed help, and away we went."

"What Joe's done here is a little glimpse of the American dream," Lyons said. "He took an idea, created something very valuable and was able to harvest some of that value. He's worked it hard. He's a good businessman -- better than he realized -- and a good person."

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