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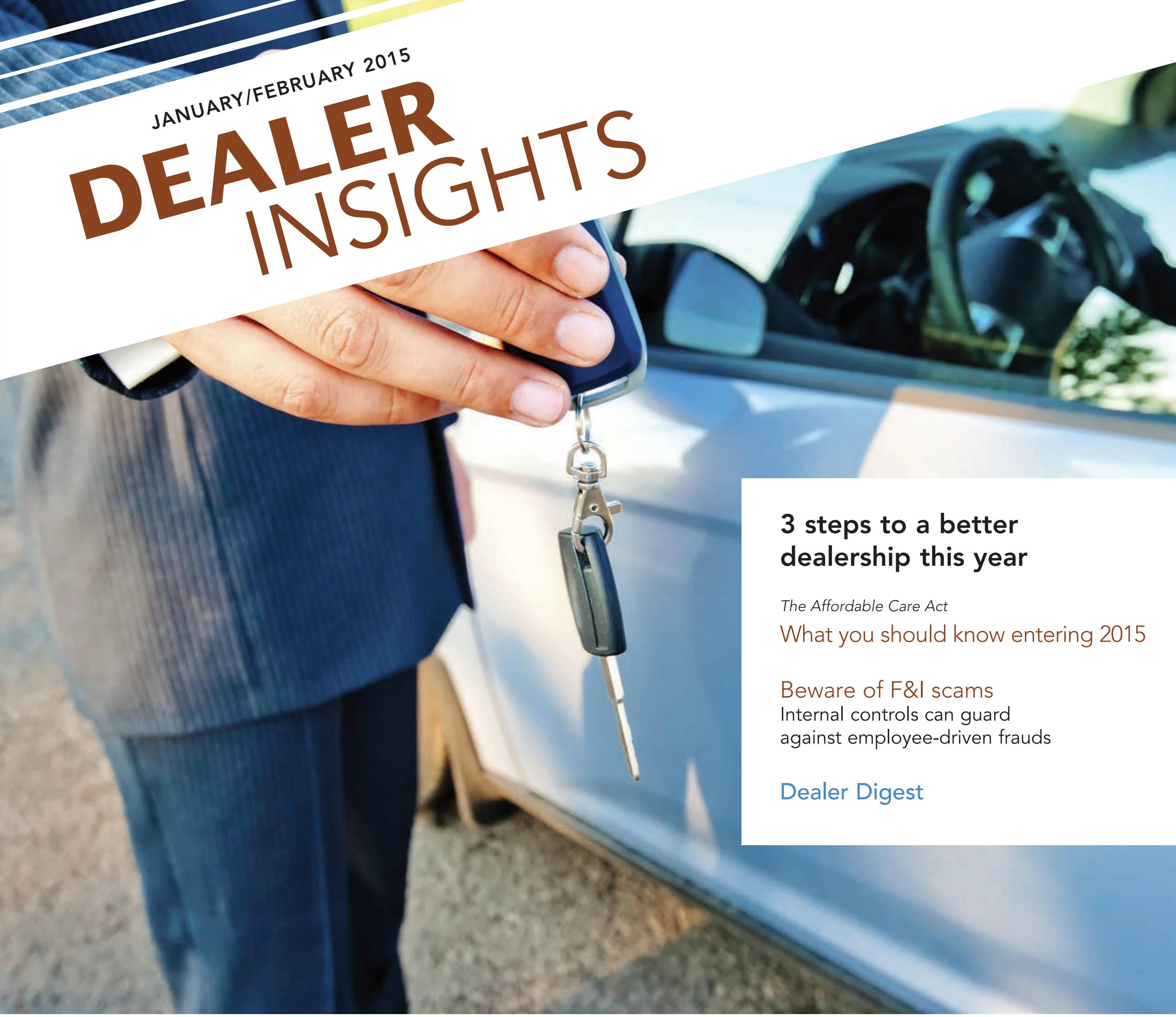
DEALER INSIGHTS



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Dealer Digest

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3 steps to a better dealership this year

Now is the time when many people make New Year's resolutions — say, to lose weight, exercise more or stop smoking. From a business perspective, the start of a new year is also a good time to resolve to improve your dealership.

Laying the groundwork will entail doing some methodical business and financial planning. Here are three steps toward ensuring a more successful and profitable 2015.

1. Set goals

Begin by looking at your dealership's performance in 2014 and then use these figures to set new goals for the coming year. Also consider the current state of the economy, both nationally and locally, and of the automotive industry in general. Break out goals for different aspects of your dealership, such as:

Vehicle sales. Dealershipwide monthly sales goals should be set for new and used vehicles — and also possibly for different vehicle models — as well as for individual sales reps.

Raising your labor hours per repair order even slightly will have a positive impact on your bottom line.

Customer satisfaction scores. Be sure to communicate these goals to front-line employees who are directly responsible for achieving high customer satisfaction.

Revenue and profits. Make sure everyone is on the same page with regard to which is more important. If boosting profits will be a priority this year, your sales reps and managers shouldn't be overly focused on "moving metal" by offering big discounts and incentives.

Parts and service. Margins on parts and service tend to remain fairly constant. But, remember, you can boost revenue and profits on parts by performing more service business. Keep an eye on your labor hours per repair order — raising this even slightly will have a positive impact on your bottom line.

F&I. Set a goal of selling a specific F&I product to a certain percentage of all vehicle buyers. For example, try to sell extended service contracts to at least 50% of customers. And remember the 300% rule: Present 100% of your F&I products to 100% of your customers, 100% of the time.

2. Make forecasts

Now that you've set goals, you can make forecasts for 2015. Forecasts should project sales, revenue and profits for each month, again broken out by new and used vehicles and, if possible, different models.

It's important that your forecasts be attainable, based on past performance and current and projected market conditions. For instance, if your average margin on new vehicle sales last year was 5%, and you expect market conditions to remain about the same, it's probably unrealistic to project 10% margins this year.

Also make sure you'll receive enough vehicles from your manufacturers to meet your sales forecasts. If not, start making plans for how you can improve vehicle allocation or perform some dealer trades.

3. Create budgets

Budgeting is the final piece of the planning puzzle. With your goals set and forecasts in hand, you can now create budgets to guide spending in the different areas of your dealership.

Each department should have its own budget. Pay especially close attention to your advertising and marketing budget, as this is a major discretionary expense for most dealerships. Put methods in place to track the results of your marketing and advertising efforts so you can make sure you're spending money on things that work.

And don't forget to budget for capital expenditures that might be required during the upcoming year. These could include new computers or a new network, a new dealership management software system, upgrades or renovations to your building, or new equipment in your service department.

If traditional budgeting has let you down in the past, consider creating a "rolling" budget to add flexibility throughout the year. (See "Stay agile with rolling forecasting and budgeting" above.)

Stay agile with rolling forecasting and budgeting

The one thing that's constant about forecasts and budgets is that they'll eventually change. But the traditional annual forecasting and budgeting process doesn't allow dealerships to make adjustments throughout the year for the inevitable variances that will take place.

A better approach now being used by some dealerships is a process referred to as "rolling" forecasting and budgeting. Instead of creating static annual forecasts and budgets based on inflexible assumptions, this approach builds flexibility into the process by allowing forecasts and budgets to be regularly updated based on what's actually happening in your dealership and marketplace.

Rolling forecasting and budgeting doesn't completely replace traditional methods, but it makes them more adaptable and accurate. You'll create annual forecasts and budgets but, at the end of each quarter, update those forecasts and budgets for the next three months based on the current financial and operational picture. This process may improve your decision making and help you be more agile in managing your dealership for maximum results.

Resolve now to plan

If you haven't done so already, make a resolution now to sit down with your financial advisor and management team to set goals, make forecasts and create budgets for 2015. This is one of the best ways to set the table for a profitable and successful new year. ■

The Affordable Care Act

What you should know entering 2015

It's been nearly five years since the Affordable Care Act (ACA) was passed by Congress and signed by the president. Since then, a number of changes have been made to the law.

This makes the start of 2015 a good time to review the status of the ACA. Following is a review of two of the act's most important provisions — one of which will likely pertain to your dealership, depending on its size.

"Play or pay" provision

Many dealers want to know whether they'll be subject to the act's shared responsibility, or "play or pay," provision. It requires large dealerships (as defined under the act) to offer affordable, "minimum essential" health care coverage to their full-time employees. Those that fail to do so will pay a penalty of $2,000 for every full-time employee after the first 30.

Under the ACA, a large dealership is one with at least 50 full-time employees, or a combination of full-time and part-time employees that's equivalent to at least 50 full-time employees.

Full-time employees generally are considered to be those who work an average of at least 30 hours per week.

Final regulations released in 2014 allow some of these large dealerships to delay having to comply with the act's shared responsibility provision until 2016. If your dealership employed fewer than 100 full-time employees or full-time equivalent employees (FTEs) in 2014, you may qualify for this so-called midsize-employer relief.

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In addition, your dealership must retain the health care coverage you offered as of Feb. 9, 2014, as well as maintain — that is, not reduce — your workforce size and aggregate hours of service. You need to provide certification that your dealership meets these requirements to qualify for this relief. If you do qualify, you'll still be subject to the ACA's large-employer information-reporting requirements in 2015.

If your dealership doesn't qualify for midsize-employer relief in 2015, you can still avoid the play-or-pay penalty this year by offering affordable, minimum essential health care coverage to at least 70% of your full-time employees in 2015. This will increase to 95% of full-time employees in 2016 and beyond.

Small employer tax credit

At the other end of the business size spectrum, the ACA offers a premium tax credit for some small dealerships, employing fewer than 25 FTEs, that provide health care coverage. Last year, the IRS released final regulations about the eligibility and contribution requirements dealerships must meet to qualify for this premium tax credit.

In general, this tax credit is worth up to 50% of the aggregate amount of nonelective contributions the dealership makes to its employees' health care coverage. To qualify, the average annual wages of FTEs must be less than $50,800 in 2014 (adjusted for inflation in subsequent years).

According to the final regs, you must make a nonelective contribution on behalf of each employee who enrolls in a qualified health plan you obtained through a Small Business Health Options Program. Your contribution must be a uniform percentage of at least 50% of the cost of the qualified health plan.

Note that the size of the tax credit is phased downward if your dealership employs more than 10 FTEs and/or their average wages are higher than $25,400 in 2014 (adjusted for inflation in subsequent years). Also, the credit can be claimed for only two consecutive years.

Complex and confusing

The provisions of the ACA are complex and can be confusing. Consult with your CPA for detailed guidance on compliance. ■

Beware of F&I scams

Internal controls can guard against employee-driven frauds

In newspapers nationwide and online, one occasionally sees reports of employee-initiated scams in dealership F&I departments. Greed, personal circumstances or even pressure to make quotas can drive staff members to exploit customers.

Being alert to this type of fraud is the first step toward preventing it. Let's take a look at a few of the most common scams.

"If only your credit score were better …"

In this fraud, a financing department employee lies to the customer about his or her credit score, saying it's lower than it really is. The employee then charges the customer a higher interest rate, increasing the dealership's income from the sale.

Crooked staffers try this on customers who won't be too surprised to hear they're having financing problems. Consumers with strong credit ratings are more likely to know they're being duped.

One way to prevent this scheme — and, indeed, most financing-related cons — is for an F&I manager to review all customer agreements. If a customer's credit score doesn't mesh with the interest rate being charged, foul play could be to blame. Be sure to rotate reviewing duties among several F&I managers. If you have only one, randomly review customer agreements yourself on occasion.

"This item is necessary …"

Here, an F&I department employee includes items in the vehicle price that the customer didn't agree to, such as destination fees and, often, warranty costs. The salesperson quotes a price that doesn't include the warranty fee, and then gives the customer the monthly payment amount that *does* include it — without getting the customer's consent.

If the customer questions the warranty, the salesperson may say it's required to lock in a certain interest rate. This is false: The interest rate depends on only the customer's credit history.

To help prevent schemes such as this one, have customers fill out and sign a checklist acknowledging that they've approved or rejected your dealership's various products (gap insurance, extended service contracts, rustproofing and so on). Then have accounting personnel compare the checklist against individual sales and finance contracts to verify the information.

"Customer, we have a problem …"

This scheme involves approving the customer's financing, delivering the vehicle and letting him or her drive it for a few weeks. But then a financing department employee calls to say that the loan fell through and, to keep the vehicle, the customer must pay a premium and a higher monthly payment.

Crooked employees usually practice this rip-off on customers with poor credit, who they assume feel shaky about their creditworthiness. The employee knows the real payment amount and the interest rate offered by the financing institution before delivering the car. But he or she assumes that, after driving the vehicle for a time, the customer will develop a certain comfort level and agree to pay more to keep it.

To catch employees doing this, watch your contract-in-transit schedule to see whether any deals are taking too long to be funded. You also can send out customer satisfaction surveys and read any responses received carefully. If you notice several buyers — or even one — complaining that their monthly payment went up unexpectedly, investigate further.

Create a customer document that acknowledges they're aware of the lender's financing terms.

Another internal control: Almost all lenders provide some type of approval process for customer loans. Create a customer document that acknowledges they're aware of the lender's financing terms. Make sure that the document contains the bank's approval code for the loan.

Then have your accounting department compare the customer's acknowledgment of the loan terms with the bank's approval. Accounting also should compare the acknowledgment document with other documents in the deal — such as the sales contract, financing agreement and bank's loan approval — to ensure that everything is spot-on.

Be proactive

Unfortunately, all dealerships are at risk for F&I fraud, as are the entities that underwrite vehicle loans and provide warranties. Your CPA can help you establish internal controls that can help detect wrongdoings. ■

DEALER DIGEST

Automatic 401(k) enrollment encourages employees to save

America could be on the brink of a retirement crisis. According to some recent studies, including one by financial services company Fidelity Investments, many individuals and couples have failed to set aside adequate money to pay for a comfortable retirement.

Most experts agree that one of the keys to successfully saving for retirement is participating in an employer-sponsored retirement plan. You can boost participation rates in your dealership's 401(k) plan by enrolling new employees automatically, instead of waiting for employees to enroll in the plan themselves.

Automatic 401(k) enrollment is based on the concept of "negative election." Instead of opting *in* to your dealership's plan, new employees have to opt *out* of it if they don't want to participate. To conduct automatic enrollment, your dealership must tell new hires three things:

1. They have the right to decline automatic enrollment.
2. They can change the amount of money that's contributed to their plan.
3. They can opt out of making contributions altogether, relying on only employer matches to fund the account.

If you choose automatic enrollment, employer matches are *required*. Contact your CPA for specific guidance on automatic 401(k) enrollment as it applies to your dealership. ■

Ready for more phone calls?

Many dealerships are reporting an increase in the volume of telephone calls they receive from potential car buyers, while their Internet-generated leads are holding steady.

Some industry observers attribute this to the popularity of smartphones. Many buyers use them to look at dealerships' inventory listings. When they see a car they want, many call the dealership to make sure the vehicle is on the lot and arrange for a showing and test drive.

Is your dealership prepared for this trend? Now would be a good time to assess telephone training. When hiring employees who will handle the phones, consider candidates from the hotel and telecom sectors — these types of employees tend to have the appropriate skills. ■

Tips to boost F&I sales

When managed well, an F&I department can be a major profit center. But F&I management is a balancing act. Here are a few pointers:

- ❏ Create an F&I selling process and use it consistently with *every* customer and sale.
- ❏ *Educate* customers about the benefits of F&I products, instead of just trying to "sell" to them.
- ❏ Get involved in the *front end* of the sale to build rapport with customers before their guard goes up. ■

We don't just serve motor vehicle dealers. We help them increase their success.

Running a dealership these days is a tough business. You not only have to aggressively market and sell the vehicles you offer. You also have to deliver great service, manage extensive inventory, juggle tight finances, handle a variety of labor issues and deal with increasingly intense competition in an adverse economic environment.

To meet these challenges, you need the assistance of advisors who know the business and can point out ways to increase revenue, minimize taxes and costs, and maximize your success.

This is where **Bowden & Wood, PLLC** comes in. Our experienced CPAs and other professionals specialize in helping motor vehicle dealers realize their business and individual financial goals. We offer a wide range of services characterized by personal attention, professional excellence and proven effectiveness, including:

- Accounting and auditing
- Tax planning and filing
- Strategic planning
- Performance benchmarking
- Computer consulting
- Business sales and acquisitions
- Succession and estate planning
- LIFO inventory computations
- Accounting software selection
- Business entity selection

Because we realize that the better our clients do, the better we do, we view every client relationship like a partnership. So we are always looking for ways to increase your success. And because we understand that service excellence requires keeping up with the latest trends and techniques, we invest heavily in continuing professional education and participate actively in industry organizations, such as the National Automobile Dealers Association annual convention.

We know that dealerships are greatly affected by frequent changes in taxes at all levels of government, as well as by developments in computer technology and the economy. So we are always on our toes with IRS rulings, updates in computer systems and changes in LIFO, and financial conditions. While we are based in Louisville, we serve you best at your location in Kentucky or surrounding states.

We welcome the opportunity to discuss your needs and put our dealership expertise to work for you. Please call Mark Schaeffer, Managing Partner, at 502-583-0262 or e-mail mschaeffer@bowdenandwood.com and let us know how we can be of assistance. For a complete list of our partners, and more information about our firm and the services we offer, visit www.bowdenandwood.com.

We look forward to hearing from you and helping you take your dealership to the next level of success.

Mark Schaeffer, CPA, Managing Partner, has more than 30 years of experience serving auto dealers throughout the greater Louisville area. He is a charter member of the Driving Force Auto Consulting Group. He is also a member of the Kentucky Auto Dealers Association, Greater Louisville Auto Dealers Association, and other professional groups.

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