

Dealer Insights



Handling vehicle recalls

Or how to win friends and influence customers

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Could you use life insurance more creatively?

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Handling vehicle recalls

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The number of vehicle recalls in the U.S. has gone sky-high in the last couple of years, setting a new record of nearly 64 million safety recalls in 2014, according to the National Highway Safety Administration. The *Detroit News* reported that General Motors alone issued 71 separate recalls in 2014, covering nearly 30 million vehicles worldwide.

A double-edged sword

Recalls can be a double-edged sword for dealerships. On the negative side, they can bring an avalanche of work crashing down on your service department in a relatively short period of time. This can disrupt normal service department operations, put a strain on your service employees, and make it difficult to meet the service needs of your regular customers.

A recall offers you the chance to impress potential customers by providing outstanding service.

On the positive side, recalls can present a tremendous opportunity to attract new customers who aren't currently having their vehicles serviced at your dealership. They also can bring fresh faces into your showroom, which then become potential prospects for buying new vehicles.

According to the National Automobile Dealers Association (NADA), most car owners visiting a



dealership for a recall typically don't have their vehicles serviced there. So a recall offers you the chance to impress potential customers by providing outstanding service. A well-managed recall can also boost your service department's reputation and revenue.

Handling recall customers with care

Managing the recall process well is the key. Most car owners aren't thrilled to have to bring their vehicles into the dealership for unplanned work. After all, it's an inconvenience for them, and they don't get any benefit other than knowing that the safety problem with their vehicle has been fixed.

One solution to this potential negative is appointing a dealership employee whose main job is to greet recall customers and make them feel welcome. This employee could explain how the recall workflow process works, answer questions, and point customers to where they should go to get the process started. He or she should have strong customer service skills and be able to soothe and reassure those who might be angry.

Dealing with upset customers is just one part of the challenge involved in handling recalls. The other is managing the additional volume of work that will come into your service department. NADA recommends creating a special recall team. It should consist of:

- › A top-notch service advisor responsible for managing the recall workflow through the service department, and
- › Several technicians who specialize in the particular kind of repair dictated by the recall.

Yet another challenge is providing a high level of service to your regular customers while meeting the needs of your recall customers. Doing so might require hiring additional service technicians on a part-time or temporary basis, or transferring technicians over from another location if you own multiple stores. Also consider extending your service department hours during the recall period, and possibly even opening your service department an extra day during the week.

Recalls as a profit center

Recalls can bring in additional revenue for dealerships that are able to streamline their service department's workflow and maximize efficiency in the completion of the work. "If your service technicians can complete the recall repairs in less time than what has been budgeted for the repair by the manufacturer, the recall work becomes a profit center for the dealership," said a NADA spokesman.

The key is to temporarily redesign service department workflow so technicians can complete the recall repairs quickly and efficiently. For example, you could create a special "recall lane," where all of the necessary parts are lined up assembly-line style and the paperwork is already pulled together.

Also, schedule recall work strategically. Don't book your recall service schedule completely full. Instead, allow some flexibility to accommodate

walk-ins. Doing so will make it easier for you to deal with the unpredictability of recall work and maintain a higher degree of customer satisfaction.

From lemons to lemonade

From your dealership's perspective, recalls aren't necessarily a bad thing. You can turn this potential lemon into lemonade by having a plan in place to truly manage recalls — instead of letting them manage you. A successful effort can help you maximize potential income, minimize car owner inconvenience and possibly gain new customers. ◀

Vehicle recalls impact CSI scores

According to market researchers J.D. Power and Associates, handling recall work efficiently and in a customer-friendly way can pay off for dealerships in the form of higher customer service satisfaction scores.

J.D. Power's overall customer service index among customers who take their vehicles to a dealer for recall-related work rose from 777 in 2014 to 789 in 2015. Also, satisfaction is eight points higher among customers with a recall visit (789) than it is among customers with a repair visit (781). In addition, the satisfaction gap between customers with recall and nonrecall dealership visits shrunk from 27 points in 2014 to just 11 points in 2015, according to the research.



5 tips for boosting sales employee retention

Recent years have seen improvements in the U.S. employment picture. In fact, the nation's unemployment rate has dropped steadily since it hit double digits in the fall of 2009, according to the Bureau of Labor Statistics.

With brighter job prospects, some dealership employees are looking to see whether the grass might be greener somewhere else. So this might be an ideal time to focus on efforts to boost employee retention at your dealership. Retaining sales staff is especially critical because salesperson turnover tends to be high in the industry — 72% annually, according to a 2015 workforce study by the National Automobile Dealers Association.

Here are five strategies that can help you hold onto your salespeople:

1. Create a healthy work environment. Your employees should feel comfortable being themselves in your dealership. And all employees should be treated equally and given the same opportunities to succeed.



It's OK to foster some friendly competition among your salespeople. Just make sure it doesn't cross the line into unhealthy competition, like salespeople nabbing each other's customers or trying to undermine each other's sales. In these scenarios, jealousy and bitterness could arise between salespeople that can taint the work environment for everyone.

Many employees today, especially young Millennials, consider work-life balance to be the most important aspect of their job.

2. Strive for a healthy work-life balance. Many employees today (especially young Millennials) consider work-life balance to be the most important aspect of their job — even more so than compensation. So try to create a work schedule that considers your staff members' lives outside of work as much as possible.

Ask employees their preferred shifts and accommodate their wishes whenever you can. For example, workers with families might prefer a more traditional Monday–Friday, 9-to-5 schedule, while single employees might be more open to working evenings and weekend days.

3. Take a fresh look at your sales compensation plan. Re-examine

your comp plan periodically to see whether it has kept pace with the marketplace and your competition. Also make sure that sales goals and incentives are realistic, given current market conditions.

You can obtain competitive compensation data from a dealership “20 Group” or your state or local dealer association. If your competitors are offering more than you are, you may need to bump up your compensation to keep salespeople from jumping ship.

4. Provide training and development opportunities. Determine which skills are the most critical to your salespeople’s success and then create a training program designed to teach them these skills. Training should start on the first day of work for new hires and continue until they’re comfortable with your dealership’s sales process.

But don’t stop there. In addition, provide ongoing training via seminars, workshops and informal “lunch ‘n learns” to help your salespeople keep their selling skills sharp.

5. Offer regular feedback. It’s human nature for employees to want to know how they’re doing, and your salespeople are no different. Many dealerships conduct annual performance reviews, but you should offer informal feedback on your salespeople’s performance more frequently than this if you’re not already doing so.

Regular feedback is especially important for new salespeople who might be a little unsure of themselves. Plan to sit down with new sales personnel after their first 30 and 60 days on the job to share your observations about what they’re doing well and offer coaching to help them improve in areas where they’re weak. 🟡

Lift your profitability to new heights with smart management

Money in, money out. Even when cars and trucks seem to be leaving your store in droves, expenses continue to climb and climb — and it may be hard to stay as far above the breakeven point as you desire.

But don’t be discouraged. There are a number of things your dealership can do to boost profitability. And they start with smart management.

Winning over service customers

If yours is like most dealerships, much of your overall profit is derived from servicing the vehicles you sell, not from the vehicle sales themselves. So consider offering customers some kind of service

discount, or even a free first oil change, to introduce them to your service department. Hopefully, they’ll return for future work. Also, consider expanding or rearranging your service hours to accommodate customers with nine-to-five jobs.

Strategizing your F&I efforts

Finance and insurance (F&I) is a potential source of added profit for dealerships that sell vehicle financing, extended warranties, service contracts, gap insurance coverage and related products. Approach F&I sales strategically by identifying both the highest margin F&I products and the ones that will provide the most benefit for your customers. Then set goals and pursue them vigorously.

Joining a dealership “20 Group”

Dealership “20 Groups” consist of similar but noncompeting dealerships that share best practices and strategies among themselves to help improve dealership management and boost profitability. You also can view standard financial ratios (including gross and net profit margins) among dealerships similar to yours so you can benchmark your numbers against them.

Revisiting sales compensation

When they walk in your door, many buyers today are more informed about vehicles than ever before. They often already know which vehicle and features they want and how much they’re willing to pay. In this scenario, a fully commissioned salesperson might not be needed. You might be able to reduce your sales compensation for some positions, which will increase your bottom-line profitability.

Reviewing your DMS program

In the past, only a few dealership management software (DMS) providers captured the automotive

market. But with the advancements in software development, a significant number of new players have entered the playing field, allowing for greater competition and reduced pricing. A less expensive DMS provider may be able to meet your needs and save your dealership significant dollars, so it could pay to shop around.

You also might be able to trim back on some of the “bells and whistles” that your dealership really doesn’t need. Negotiating a better package might then become even more feasible.

Improving inventory management

The faster your inventory turns, the higher your profits will generally be — and the better your cash flow. But there’s both an art and a science to finding the right balance of vehicle inventory for your dealership. Carry too many vehicles and you’ll pay excess carrying costs that cut into your profit; carry too little and you might be unable to meet customer demand.

Carefully track inventory turnover and decide what to do with vehicles still on your lot after a certain length of time: Lease them, wholesale them or keep discounting them until they eventually sell.

Building lifetime customer relationships

View each sale not just as a one-time transaction, but as the beginning of a lifetime relationship with the customer. Most buyers will eventually shop for another vehicle, and the second (and third, and fourth) sale to a customer is usually easier and more profitable than the first one.

A lesson to be learned

The lesson here is that you should be thinking about profitability — and what you can do to improve it — in all areas of your operation at all times of the year. If you wait for year end to review financial performance, your profit picture will likely not make the grade. 📉



Could you use life insurance more creatively?

When they think of life insurance, most people only envision a financial product that will provide income for their loved ones when they die. But this coverage can actually help dealers accomplish a wide range of financial objectives.

Different applications

Here are some creative uses of life insurance that go beyond income replacement for your family after you die:

As a key component of your business succession plan. Many dealers use a buy-sell agreement to help ensure the smooth transfer of the business to a successor should they die unexpectedly or become disabled. And life insurance is often used to fund the agreement.

Here's how it works: You appoint a successor — often a family member or key employee — who buys a cash value life insurance policy that pays out upon your death or permanent disability. Your successor then uses the proceeds to buy the dealership at a predetermined value. Your heirs, meanwhile, would receive the remainder of the proceeds to meet their ongoing living expenses.

As part of your charitable giving and estate planning efforts. Using life insurance may enable you to accomplish both charitable giving and estate planning goals using a charitable remainder trust (CRT).

Instead of giving assets directly to a charity, you would place them in the CRT. You would receive a deduction for the charitable contribution as well as income generated by the assets in the CRT



while you're alive. When you die, whatever assets are left in the CRT would go to the charity.

But what about your family? This is where the life insurance comes in: If you buy a life insurance policy with the income from the CRT, your family will receive the policy's death benefit when you die. This way, you're providing for your family and giving to charity at the same time.

As a way for your heirs to pay estate taxes.

This can be accomplished using an irrevocable life insurance trust (ILIT). You would set up an ILIT outside of your estate and make annual gifts to it. The trust would then buy a life insurance policy with your heirs as the beneficiaries. Your heirs, in turn, could use these proceeds to pay any estate taxes and other expenses due upon your death.

A variety of options

Although less popular as a savings tool in recent years, life insurance still presents dealers with a variety of intriguing options. Consult your financial advisor about whether these strategies would be applicable to your situation. 📌

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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