JANUARY/FEBRUARY 2012

DEALER INSIGHTS

Let your manufacturer's operating report inspire you

3 ways to keep cash flowing

How to manage your online reputation
New media demand fast responses to critics

Dealer Digest

EisnerAmper

Let your manufacturer's operating report inspire you

You likely prepare and send an operating report to your manufacturer every month. How you *use* the report beyond sending it to the factory can have a big impact on your dealership's profitability. Here are some ideas for using your monthly operating report as a tool to stay on track as the year progresses.

Keeping an eye on revenue

Every manufacturer's report is different, but yours likely contains, in some format, a summary of that month's operating revenue. These figures can quickly tell you which departments are the moneymakers and which lag behind expectations.

Let's say that the January 2012 operating report for Joe Shiny's North Side Auto shows that it brought in the following in gross revenues: $2 million in new car sales, $750,000 in used car sales, $140,000 in parts sales, $61,000 in service income and $56,000 in body shop income.

Joe also can see how income from his store's various departments compares with the prior month, January 2011, his projected budget, benchmarks and so on. Let's assume that Joe had projected $2.25 million in new car sales for January. With sales coming in at only $2 million, Joe is concerned that first quarter sales are off to a slow start and, thus, chooses to move up by several weeks a new car sales promotion he had planned to run in March.

Another example involves gross revenue vs. turnover. Take Dealer A, who buys a vehicle for $20,000, holds it for 90 days and finally sells it, making a $3,000 gross profit. Many dealers would be pleased with this outcome. But let's also consider Dealer B, who spends the same $20,000, sells the vehicle in 30 days but only

achieves a 10% profit margin, or $2,000 gross profit. The difference is that Dealer B does three times the sales in the same 90 days, doubling his total gross income compared to Dealer A!

There are many other ways to use your operating report to analyze front-end operations.

Figuring out the reasons why

The reasons *behind* the numbers also are important to consider. When you analyze the back end of your operations, for example, you'll look at income and expenses in the service, parts and body shop departments.

Let's say that you have a gross profit of $33,000 in the service department. This alarms your manufacturer, because it's less than 55% of your monthly service sales and shows that your gross profit percentage has slipped from the target of 65%. But it shouldn't be a major concern if the reason for the shortfall is that the department was busier than usual refurbishing used cars for sale in January — and profits for that venture won't start showing up until February.

Considering other benchmarks

Monthly operating reports are also a way for you to measure your dealership's performance against more complex benchmarks. Consider, for instance, the concept of "service absorption." This is defined as the sum of total parts, service and body shop gross profits divided by the sum of total fixed expenses plus dealer salary plus parts, service and body shop sales expense. (If your report doesn't have this category, you could calculate it from the other data provided.)

Let's say that your store's benchmark range for service absorption is 85% to 100%, but your January operating report shows your store coming in at 83.8% for the month. This figure is only slightly below the bottom of your benchmark range. Nonetheless, you might want to take steps to lower expenses or bump up revenue for the next month to be sure your store is in the benchmark range.

Achieving a service absorption of 85% or higher will give you a competitive advantage over your competition, because the new and used departments only need to cover 15% or less of your dealership's total fixed expenses. Thus, you can afford to take less gross profit on an individual sale.

All in all

By studying your manufacturer's operating reports, you can arrive at countless insights, from your days' supply of vehicles to the gross profit per technician, to determine an adequate employee count in the back end. All of this knowledge can be golden, because it helps you recognize strengths, pinpoint weaknesses and set goals for the rest of the year. Don't let it go unnoticed. ■

3 ways to keep cash flowing

Business owners know the importance of having sufficient cash on hand to meet daily needs and obligations. Here are three tips for managing the flow of cash at your dealership.

1. Stay organized

Maintaining an organized system for cash accounts is essential to strong cash-flow management. Keep at least two bank accounts — one for general funds and one for payroll. With Internet access to bank statements, your accounting department should reconcile the accounts daily for timeliness and precision.

Small daily overages and shortages aren't uncommon. Set aside any discovered variances in cash deposits each day in a separate general ledger account. Review and reconcile this account monthly, too.

A large percentage of cash can come in through contracts-in-transit. Maintain only one general ledger account for these transactions. Any division of this account allows for additional, unnecessary entries and greater room for error.

2. Keep the lid on inventory

Your dealership's largest operating asset — your new, used and parts inventory — demands your ongoing attention. First, address control issues. Count inventory on a regular basis and compare physical counts to accounting records. Locate missing, damaged or inaccurately priced items. Implement and enforce internal controls to limit opportunities for employee theft.

Then delve into inventory aging. Each day a vehicle sits on your lot, it incurs floor plan interest, rent, insurance and security expenses. Identify slow-moving vehicles. Chances are, manufacturer floor plan assistance has run out. Discount the price or offer in-house incentives to move these vehicles. As a last resort, wholesale or auction the vehicle.

Parts inventory also drains cash and risks obsolescence. In a pinch, a nearby dealership or a local parts store can supply your imminent parts needs. So, keep your inventory as lean as possible.

Closely monitor nonstock (special order) parts to ensure they're billed out on the corresponding repair orders. If these parts go unused, use your manufacturer's parts return allowance to get rid of them.

Finally, formalize your ordering policies. A limited number of individuals should be authorized to order inventory. Tie the pay plans of these employees to inventory benchmarks, such as inventory turnover rates or costs per vehicle. If unordered vehicles — especially trucks (given their low marketability right now) — show up on your lot, send them back to the factory.

3. Be quick to collect

Collecting money due to you is crucial to cash flow. To free up cash, process a sale as soon as possible. Collect all contract balances within five days and investigate all credit balances. Time lags can tie up a large amount of cash. And, remember, the "true worth" of accounts receivable worsens as time passes.

You can determine the average time it takes for funds to be received and when floor plan payments are due. Three to five days is the benchmark for processing contracts in transit. Strong management and the use of checklists will minimize errors leading to funding delays.

Closely monitoring receivables can help free up cash and save you money in the long run. Your computer system likely lets you print summary receivable reports so you can thoroughly review account aging.

You can keep an eye on receivables through a few simple activities. Exception reports can print out all receivables more than 30 or 60 days old. Generate these reports weekly for department managers to review and clear. Maintain an updated list of the 20 oldest receivable balances, indicating the customers' names, amounts owed and current collection status.

The "true worth" of accounts receivable worsens as time passes.

Also, institute a credit policy that authorizes a maximum of two or three people to approve credit limits for commercial accounts, establishes clear credit restrictions and sets up an aggressive collection program.

Last, hire a top-notch warranty administrator. Aim for a three- to five-day time span between submitting a claim and getting paid.

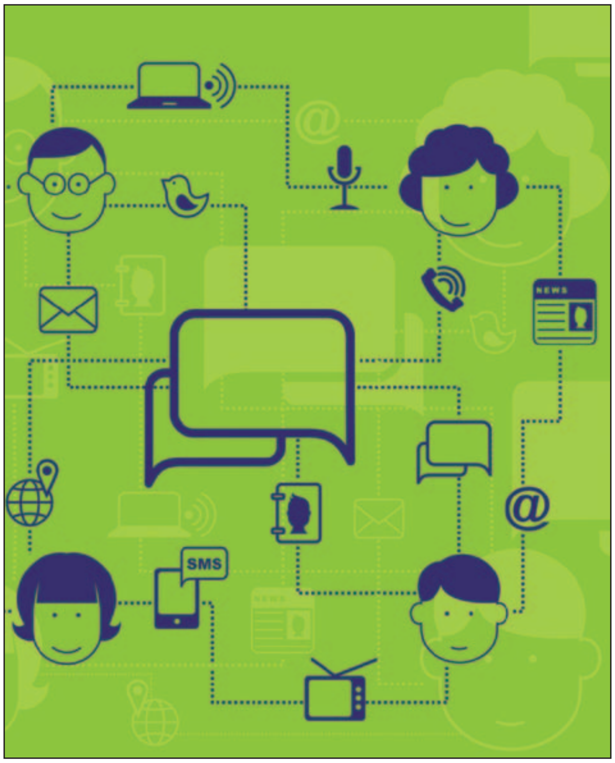
Ample cash on hand

Even in a tarnished economy, good management can keep cash flowing. Begin with an organized system of cash accounts; then keep your new, used and parts inventory in tow and, finally, maintain a tight collection policy. While it's impossible to anticipate every receipt of income and every expense, your steadfastness can ensure that you have ample cash on hand to meet your daily business needs, obligations and goals. ■

How to manage your online reputation

New media demand fast responses to critics

Car shoppers today can find valuable information on your store through a quick Internet search. That's the good news. But they also can find harsh — sometimes devastating — words from disgruntled customers who legitimately or not have a bone to pick.



Savvy dealers are proactive about doing what they can to help make sure that what potential customers see about their dealerships online is favorable.

Online word-of-mouth

Specialized rating and review sites, such as Edmunds, DealerRater and Car Dealer Check, and general ones, such as Google, Yahoo!, Angie's List, Citysearch and Local, are the new recommendation-giving neighbor next door. Potential customers' visits to any of these sites can quickly include or exclude you as a possible place to buy their next vehicle.

This is what car shoppers recently could read about one dealership on a review site:

> "The salesman/owner was very deceiving. He led me to believe that I was purchasing a car from him with a seven-month warranty. But upon signing the paper work he said it was with another company, and it was just for the engine and transmission. Uh hello, [the factory] gives you 100,000 mile engine and transmission warranty so he really gave me nothing."

Worse than the bad review itself, the dealership received a one-star rating, because this was the only review about the business on the site. And there's no way to know if the complaint was justified!

Proactive measures

There are reviews out there more scathing than the example above, and one of them could be about your dealership. So, what can you do to minimize negative repercussions?

First, you need to find out that a bad review exists. Some sites let you arrange for notification if your business's name is used in a review. A "Google alert," for example, will inform you when your dealership's name is mentioned in a review, blog or online article.

Outside help

Some dealerships turn to a professional service to help them manage their online reputation. Here are a few:

- @utoRevenue offers tracking services and will capture positive responses from customers at "key points in the retention cycle" and get them online.
- eXtéresAUTO helps clients track and negate bad reviews by quickly e-mailing the unhappy customer and trying to rectify the matter.
- Presto Reviews helps customers build their own review sites and post both positive *and* negative reviews — readers get to see how your dealership works to turn things around.

If you do use a professional service, be sure to find out exactly what it will do for you. And, because your reputation can be damaged in a New York minute, be sure to find out how quickly you'll have a chance to turn a bad review around.

Your response

Once you've spotted a bad review, the proper response is critical. Although it's ideal to respond to an angry customer immediately, take a break from the situation if you feel the criticism is unfounded and you find yourself steaming.

If a customer posts a negative review and it turns out to be true, fess up. Have the employee who met with the customer respond directly.

When you've cooled off, contact the customer and keep your response simple. Consider just thanking the customer for the feedback and choosing your dealership. Trying to defend your dealership's actions may only fuel the person's anger — people who post online are typically vocal and may well strike back.

If a customer posts a negative review and it turns out to be true, fess up. Have the employee who met with the customer respond directly, admit the mistake and right the wrong.

Keep in mind that most sites give you the choice of e-mailing the customer directly or posting your response for all to see. To decide, ask yourself if it's beneficial to your dealership for potential customers to see how you responded to the situation.

"A" is for effort

Whatever way you choose to combat negative reviews, you probably won't be able to reverse the negative remarks of every customer. But use the tools available to give it your best shot. ■

DEALER DIGEST

Opportunity to correct worker misclassification

Classifying workers as independent contractors rather than employees can provide dealerships with a number of benefits, including payroll tax savings. But if you treat someone as an independent contractor who, under IRS rules, should be treated as an employee, you become vulnerable to substantial back taxes, interest and penalties.

The good news is that, if you've mistakenly classified some workers as independent contractors, you now have the chance to reclassify them as employees for future tax periods without getting a large IRS bill. Your liability for past payroll tax due can be reduced to only a minimal payment as part of the IRS's new Voluntary Classification Settlement Program (VCSP).

The break, however, isn't available if you're already under audit by the IRS or under audit for the classification of workers by the Department of Labor or a state agency. For more on program eligibility requirements and the IRS rules on classifying workers, consult your tax advisor. ■

Is your *data* prepared for a natural disaster?

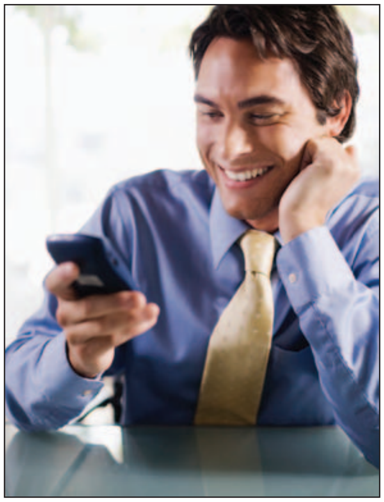
If you're like the majority of business owners responding to a recent survey, the answer is "no."

The survey, recently conducted by Carbonite, a provider of online backup solutions, revealed that 57% of respondents lacked a disaster preparedness plan for business data — even though 81% believed that data was their organization's most valuable asset. This disconnect isn't too surprising, given that only 13% of respondents thought a disaster could happen to them.

The most popular reason given for lacking a disaster plan was "I haven't thought about it" (59%). Maybe it's time to give thought to a plan for saving data at your dealership. ■

Cell phone use not taxable

If you provide employees with a cell phone for business, they likely no longer need to declare the value of their personal use of the cell phone as taxable income, according to new IRS guidance. The phone must *not* be used as part of a compensation package or as a way to attract new employees or boost morale. It must be provided for specific business reasons, such as:



- ❏ You require that certain employees on their days off be available to, for example, answer urgent customer questions or provide input during a deal, or
- ❏ You need to be able to contact certain employees at any time for work-related emergencies, such as missing inventory or a customer or employee injury.

IRS Notice 2011-72 and a related field audit memo, dated Sept. 14, also provide guidance on the reimbursement of the cell phone cost when the employee provides the phone. ■