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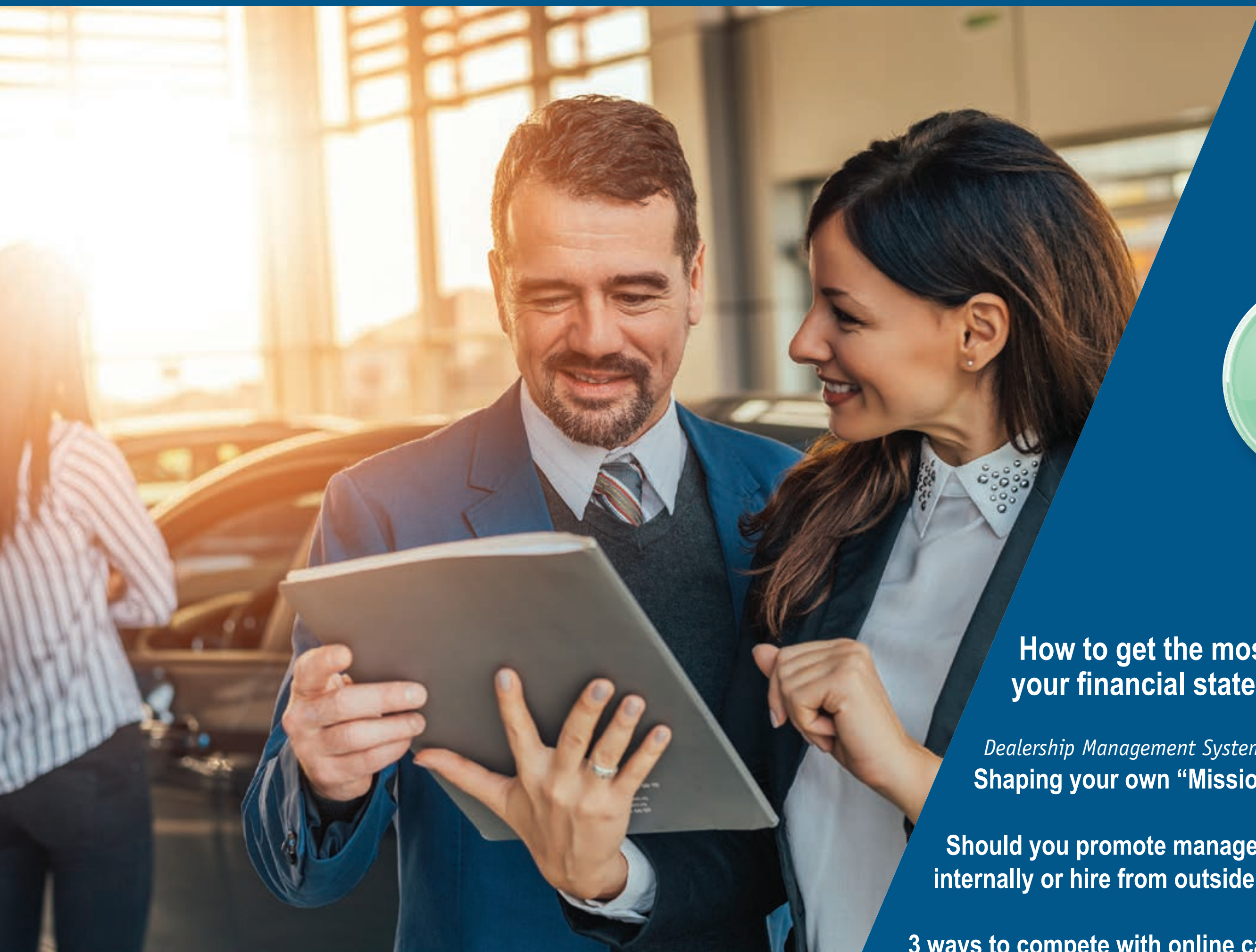

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Should you promote managers internally or hire from outside?

3 ways to compete with online car sellers

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How to get the most out of your financial statements

Improving financial performance is a top priority for dealership owners. CPA-prepared financial statements can help by identifying financial and operational deficiencies and discovering areas for cutting costs and generating sales. To reap these benefits, you must learn how to glean the information that will be most valuable.

Which statements should you examine?

These statements include the balance sheet, income statement (which is also referred to as a profit and loss or P&L statement) and statement of cash flows. The *balance sheet* lists a dealership's assets, liabilities and owner's equity at any given point in time. Assets typically include cash, equipment, furniture, computers, signage, and inventory (new and used vehicles, parts and accessories). Liabilities typically include accounts payable, accrued liabilities, notes payable and long-term debt.

The *income statement* reports a dealership's sales, cost of sales and expenses over a given period. The difference between these amounts is your dealership's profit (or, if negative, its loss). A dealership's income statement is usually broken out by departments: new vehicle sales, used vehicle sales, finance and insurance (F&I) parts, service and body shop.

The *statement of cash flows* reports a dealership's cash inflows and outflows. It shows changes over a period, instead of an absolute dollar amount at a specific point in time. It's important information because dealerships need to have enough liquid cash on hand to meet operating expenses and purchase fixed assets.

Improve cash flow by scrutinizing the balance sheet for trapped working capital.

Cash flow statements are usually divided into three parts that review cash flow from operating, investing and financing activities. The net increase or decrease in cash for the period being measured is reflected at the bottom of the statement.

What should you look for?

You can get the most out of your financial statements by knowing how to analyze them. Consider the balance sheet: Improve cash flow by scrutinizing the balance sheet for trapped working capital. For example, if the inventory in your parts department is growing but revenue related to parts inventory is not, consider cutting back and putting the cash to better use elsewhere.

Also look at the relationship between floor plan debt on your new car inventory and the cost of cars on your books. Ideally, the former should be no more than 102% of the latter. If your debt-to-inventory ratio is above this guideline, you may owe the lender money for a car you sold but should have paid off — and could, therefore, be out of trust.

You also can use information from the P&L to improve performance. For example, this statement will reveal F&I penetration, or the percentage of car buyers who also purchased a service contract or other F&I product. Many dealerships today rely heavily on F&I to boost profitability, so monitor trends carefully from month to month.

Also watch the average repair ticket in your service department, another key source of profits. To increase the average ticket, your technicians should be trained to look for opportunities to upsell customers. For example, does an oil change customer also need wiper blades or a cabin filter?

You can also calculate financial ratios from information contained in the income statement. Examples include:

- Net profit to sales,
- Total dealership expenses to sales,
- Net profit to gross profit, and
- F&I gross per vehicle sold.

These ratios should be compared to industry benchmarks that can be obtained from your Dealer 20 Group. They also can be compared to the previous month or the same month last year.

The cash flow statement, meanwhile, provides dealerships with the inflows and outflows of cash so they know if there are sufficient funds to run the store. It also reveals the impact that managing the balance sheet has on the bottom line.

Share with managers

It's important to share the insights you gain from your financial statements with the managers of your new and used car sales, parts, service and F&I departments. They're responsible for running these mini-businesses under your dealership roof — the more useful information they have, the better equipped they'll be to generate positive financial results.

Avoid these common financial statement mistakes

To be useful, financial statements must be accurate. Common areas where dealerships may improperly report financial information include:

Sales cutoffs. Dealerships sometimes leave the sales journal open for a few days after the month has closed to improve the sales numbers for the month. However, this practice distorts true sales activity and may result in bonuses and commissions being paid earlier than they should be. Plus, it reduces sales reported the following month.

Expense recording. When vendor invoices aren't entered in the income statement in the proper month, expenses aren't matched to the period they're related to. Advertising is an expense that's commonly entered incorrectly.

Writedowns of used vehicles. Used inventory should be reviewed and adjusted more than once a year. By conducting regular appraisals, used vehicles are recorded at a cost that accurately reflects their market value, which gives salespeople a greater incentive to sell them.

Prepaid expenses. If real estate taxes and service contracts are paid in advance, they need to be expensed over the period of time that they cover. Such items should be reviewed and adjusted monthly.

Dealership Management Systems

Shaping your own "Mission Control Center"

Do you sometimes think that various areas of your dealership aren't communicating as well with each other as they should be? Or do you wish you had a more accurate picture of business segments as your management team makes day-to-day decisions?

It may be time to explore acquiring a new Dealer Management System (DMS). Here's some guidance on where to start, which kinds of systems are available and how to avoid overspending.

Features that make a difference

Of course, you'll want to select a system that offers the features and functionality your dealership needs. Forgo the unnecessary, expensive bells and whistles. Decide with your department managers which features are "must-haves" and which ones are "nice-to-haves" or even "don't-really-needs."

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Popular DMS features today include real-time updated inventory information; integrated appointment management systems for sales and service; and e-commerce interface, online ordering and retailing. There are many other options.

Ask in each case, "Will this feature make our dealership more efficient while cutting costs and fostering increased sales?" Take customer relationship management (CRM) software, for instance. CRM, which can be provided as part of the DMS, can help you keep track of all your dealership's interactions with customers. You can have a record of which vehicles customers looked at and test-drove, whether they came back for second and third visits, and if they ultimately made a purchase.

Such information can benefit your store in several ways. For starters, you can use it to improve training for salespeople who aren't closing a high enough percentage of prospects. It also can help you target promotional offers to prospects more likely to buy certain types of vehicles.

Negotiating a good deal

Ultimately, you must identify your needs and align them with acceptable costs. How much you end up spending for your DMS will depend largely on how effectively you negotiate. Here are a few strategies for negotiating the best deal with a DMS vendor.

Don't wait until the last minute to research your options. If you're facing a hard deadline for choosing and implementing a system, you lose most (if not all) of your leverage. Start your DMS research and investigative process at least one year before your system needs to be installed and operational. Be prepared to switch vendors to get a better deal. To gain negotiating leverage when accepting a contract, convince your vendor that you're seriously considering other alternatives and will switch if you don't receive the absolute best deal they can offer.

Review the contract terms carefully. Take the time to read the fine print. The terminology and language in a DMS contract can sometimes be confusing — if you have any questions, don't hesitate to ask the vendor for clarification or even consult an attorney.

Negotiate based on the total implementation cost. The software is just part of the overall DMS package. Other components include database configuration, hardware, maintenance, employee training and ongoing support. Before starting negotiations with the vendor, make sure the bottom-line price includes everything you'll need to implement and use the system.

Training helps maximize your ROI

To get the most out of your new DMS — and maximize your return on investment — your employees need to know how to fully and properly use the system. DMS vendors offer varying levels of employee training and ongoing technical support.

In general, training *isn't* included in the price for the DMS software itself. Instead, it's usually listed as a separate item in the DMS contract. Training costs vary widely based on factors such as the level of training provided, how training is delivered (for example, on-site or virtual), and the number of hours of training required. As in purchasing the system itself, your negotiating skills will be an important factor in determining training costs.

In the end

When choosing a new DMS system, include your department managers and employees at every level in the dealership to provide insight into the features that they need to do their jobs. Their input also will make the transition smoother if they feel they had some say in the decision.

Should you promote managers internally or hire from outside?

Top-performing dealerships often have two common attributes: strong managers and low employee turnover. These features may be interrelated. According to research conducted by Gallup, half of employees who left their jobs said they did so to "get away from their manager."

Your dealership's success hinges on hiring a strong general manager and strong department managers for new and used vehicle sales, parts and service, and finance and insurance (F&I). There are two main approaches you can take when hiring managers: Bring them in from the outside or promote existing employees into management positions. Carefully weigh the pros and cons of each avenue before deciding which is better for your dealership.

Promoting from within

Promoting existing employees is generally less expensive than hiring from the outside. You'll save the costs that go into hiring and recruiting, such as advertising on job boards, websites and in print. Promoting internally also could speed up the hiring process; it's usually faster and easier to identify and interview existing employees than to recruit outside candidates.

Promoting existing employees also can help boost employee morale and improve retention. One reason some employees leave their jobs is because they don't see opportunities for advancement. Employees may be less likely to feel this way if they see other insiders promoted to manager slots.

Another benefit is the level of familiarity you have with your existing employees. You probably already have a feel for their strengths, weaknesses, personality and performance capabilities. So, promoting internally can sometimes be less risky than bringing in outsiders.

However, promoting existing employees to managers isn't risk-free. Some employees simply aren't cut out to be managers. For example, a star salesperson might thrive when selling cars but flounder when asked to manage other salespeople. Plus, there can be resentment on the part of employees who weren't promoted and now must report to someone who used to be their peer.

Hiring from the outside

When hiring managers from outside your dealership, you'll have access to a much larger pool of candidates. Another potential upside is the opportunity to obtain fresh perspectives and innovative ideas for improving business operations. This is especially important for your general manager, since he or she may be able to implement new ideas that can help revitalize all areas of your dealership.

Outside managers also may bring new skills and experience to the role that can lead to more efficient processes and improved financial performance. And recruiting outsiders may eliminate the possibility of resentment among employees who were passed over for a promotion, as well as unhealthy competition that can result from employees vying against each other for a position.

On the flip side, there are limitations to how much you can know about outside candidates. For example, the resumé of an outside candidate for the F&I department manager position might look impressive and he or she might ace the interview, but the individual's personality might not mesh with your corporate culture. This can result in conflicts and morale problems that spread throughout your dealership. Or, the person's actual skill level might not match up to what was presented on the written page.

Be flexible

The circumstances surrounding a managerial position could help determine whether it's better to hire from within or recruit from the outside. Therefore, it pays to be flexible and choose the optimal approach depending on the situation.

3 ways to compete with online car sellers

Not that long ago, the idea of buying a car on the Internet without ever "kicking the tires" was foreign to many people. But not anymore. Online car sellers like Carvana, TrueCar and CarsDirect have become major competitors of traditional brick-and-mortar dealerships.

As a result, some dealerships are rethinking how they do business. Here are three tips that can help you compete successfully with online car sellers.

1. Deliver an outstanding in-store customer experience. About 70% of car buyers still want to visit a traditional dealership to physically inspect and test drive a car before making a purchase, according to research conducted by Capgemini, a global consulting and technology firm. This presents an opportunity to attract new customers by making sure they have a positive experience when visiting your dealership.

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Given the ease of price-shopping online, a dealership's service could be the deciding factor when customers buy a car. One way to improve customer service is to change your sales compensation structure from commission to salary with bonuses. This may provide an incentive for salespeople to focus more on delivering outstanding service and less on using hard-sell tactics that turn off many customers.

2. Make it easy for customers to browse your inventory online. Many customers will want to check out vehicles on your website before coming into the store for a test drive. Your website should use responsive, interactive technology that gives customers a clear view of available vehicles. This includes 360-degree vehicle photos and the ability to "open" the doors and inspect the interior.

Also be prepared to interact with customers online. This might require dedicating and training an employee to assume the role of a digital car consultant who can answer customers' questions online and help walk them through the digital shopping experience.

3. Switch to a fixed-pricing model. Most online car sellers use a fixed, no-haggle pricing model that appeals to buyers who don't want to go through the traditional price negotiation process with a salesperson. This is especially true for many younger car buyers who prefer shopping for a car online and want to make a fast purchase decision.

Adopting fixed pricing can lead to other benefits as well, such as higher customer satisfaction, better online reviews, higher gross sales, and the ability to attract and retain a younger and more diverse salesforce.

Competition from online car sellers isn't going away — if anything, it's likely to increase. So it's time to formulate strategies for how your dealership will compete in the future.

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Paul A. Cerrone, CPA, MST, CVA, managing partner, is an ADP Certified CPA with more than 30 years of experience in serving automotive dealers. He specializes in helping clients minimize taxes, maximize profits and achieve their business and personal financial goals. Paul can be reached at 508-845-7600 or pcerrone@cgscpas.com.

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