

Dealer Insights



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Could your dealership benefit from sustainability reporting?

With a growing focus on the environmental impact of their everyday activities, businesses in a wide range of industries are adopting the practice of sustainability reporting. This includes automobile dealerships, which can potentially leave a heavy environmental footprint.

According to the Governance & Accountability Institute — a research firm that specializes in environmental, social and governance issues — more than four out of five S&P 500 companies issued sustainability reports in 2015.

What is sustainability reporting?

Sustainability reporting is defined by the Global Reporting Initiative (GRI) as “the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance toward the goal of sustainable development.”

The report provides details about the sustainable business practices of a company and the environmental, social and governance impacts of its activities. These include efforts to replace fossil fuels with renewable energy sources; the overall use of natural resources by the business; the size of the business’s carbon footprint; and any workplace, health and safety risks present in the business’s operations.

According to the GRI, this type of report should provide information on the performance of an organization in a “balanced and reasonable” fashion. This includes both positive and negative contributions to sustainability by the business.

What are the benefits?

Currently, creating such a report is not mandatory for U.S. businesses, though the Securities and Exchange Commission requires public companies to include sustainability-related disclosures in financial reports. But dealerships may realize a number of benefits by adopting this practice, such as:

Enhanced reputation among customers. Many car buyers today want to purchase vehicles from dealerships with a demonstrated commitment to environmental responsibility. Sustainability reporting can give you a competitive edge in this area, possibly increasing your sales.

Improved employee morale. Similarly, many employees want to work for businesses that are environmentally responsible. Creating a sustainability report will keep your employees informed about your dealership’s efforts in this area, thus giving them a greater sense of pride about working for you and possibly increasing employee retention.

Higher dealership profits. Tracking your sustainability efforts can help you identify new ways to reduce energy consumption and wasteful practices while also boosting operational efficiency. This, in turn, may improve your dealership’s bottom line.

Easier access to capital. Research has indicated that businesses ranked highly for sustainability have a lower Kaplan-Zingales score than low-sustainability businesses. This is a relative measure of reliance on external financing — a lower score indicates that there are fewer capital constraints on a business.

A sustainability report can be especially effective when combined with financial information to create an integrated report. This report can be included



with a loan application package to demonstrate to potential lenders that a dealership has adopted responsible business practices. And this may help secure loan approval.

Uniform structure and framework

To maximize the positive impact from your sustainability reports, you should follow a uniform structure. This will allow all of your stakeholders — including lenders, investors, analysts, shareholders and employees — to quickly and easily review and assess your reports.

One such structure is the GRI Sustainability Reporting Framework, which has been adopted by organizations worldwide. According to the GRI, reports prepared according to this framework can be used to:

- ▶ Benchmark your dealership’s sustainability performance with respect to laws, norms, codes, standards and voluntary initiatives;
- ▶ Demonstrate how your dealership influences and is influenced by expectations about sustainable development; and
- ▶ Compare the sustainability performance of your dealership both internally and with other dealerships.

To ensure the quality of the information, the framework contains guidelines for how the content should be reported. The guidelines consist of reporting principles, reporting guidance and standard disclosures.

Environmental risk management

Given the increased emphasis placed on sustainability today, you should consider the potential benefits of sustainability reporting for your dealership. By regularly drafting these reports, you can better manage your dealership’s environmental and social impacts while reducing risks that could negatively impact your business. 🌱

GM program recognizes green dealerships

General Motors has launched a program designed to encourage dealerships to adopt voluntary sustainability efforts while building a network for dealerships to share sustainability best practices. So far, more than 400 dealerships have signed up to participate in GM’s Green Dealer Program.

This program is part of GM’s efforts company-wide to reduce its environmental footprint and make its supply chain more environmentally friendly. Participating dealers have a proven track record of sustainability in such areas as renewable energy use, water conservation, recycling, energy reduction and community outreach with regard to sustainability and conservation.

The Green Dealer Program originated with an Arkansas dealer who wanted to share ideas with his peers for how sustainability practices could help reduce a dealership’s carbon footprint and lower operating costs.

Among the practices implemented by participating dealerships are using waste oil to heat the facility, installing natural skylights in the shop area to reduce electricity use, and installing LED lighting on the store’s exterior and in the parking lot.



A ransomware cyberattack could hit your dealership

What would you do if all the data on your dealership's computers were locked up and held for ransom? Unfortunately, this is exactly what's happening to businesses all over the country, including dealerships.

This new type of cyberattack is called ransomware — and it's costing businesses millions of dollars a year. Hackers infiltrate computers by getting users to open email messages and download attachments that contain malware. This allows the hackers to encrypt everything on a computer and keep it locked until the user pays a ransom, typically ranging from several hundred to several thousand dollars.

A growing problem

Ransomware attacks are on the rise as cyberthieves gain access to more sophisticated cryptography. Most attacks originate from outside the United States in countries such as Russia, Ukraine and China, which makes it difficult for U.S. law enforcement to deal with the problem.

The ransomware threat is especially prevalent among small and midsize businesses whose computers and IT systems often aren't as well protected as those at large corporations. This should make guarding against ransomware a top priority for dealerships.

Different variations of ransomware viruses exist, which adds to the challenge of combating attacks. For example, CDT-Locker can be disguised in such a way that even antivirus software has a hard time detecting it. Another strain, CryptoWall, infected 250,000 computers in the United States in a recent



year and cost victims more than \$18 million in paid ransoms, according to the Internet Crime Complaint Center.

In a typical attack, an infected computer will freeze and a pop-up window will appear on the screen telling the user that a so-called fine must be paid before the computer is unlocked and the data released. Thieves usually request the payment in Bitcoin, an anonymous Internet currency that's nearly impossible to trace. If the ransom isn't paid, the hackers threaten to destroy all of the encrypted data.

Protect yourself now

The best way to guard your dealership against ransomware attacks is to take protective steps before your computers are infected and your data is held for ransom. These include the following:

Educate your employees. Ransomware is usually downloaded onto computers via phishing emails that try to trick employees into clicking on links or opening attachments which could contain the virus. Make sure your employees know that it's

critical to avoid links and attachments in emails that seem suspicious. Instruct employees to ask a supervisor or IT specialist if they are ever in doubt.

Keep your software up to date. Outdated versions of common software programs, such as Adobe Acrobat Reader, can be vulnerable to ransomware attacks, so always update these programs when prompted. Of course, you also should install antivirus software on all computers and keep it up to date.

Back up your data regularly. Ideally, data should be backed up to a cloud service, such as Amazon

Cloud or Google Drive. If your data is properly backed up, you can unfreeze a computer by reinstalling the operating system and then easily retrieve and reinstall your data.

Would you pay up?

So, what would you do if your dealership were victimized by a ransomware attack? You could pay the ransom, but there'd still be no guarantee the cyberthieves would release your data. That's why it's smart to take proactive steps to guard against an attack now — before you face this difficult dilemma. 🟩

8 tips for containing unemployment taxes

Unemployment tax rates for employers vary from state to state. Your unemployment tax bill may be influenced by the number of former employees who've filed unemployment claims with the state, the number of your current employees and your dealership's age. Typically, the more claims made against your dealership, the higher your premiums climb.

Soaring numbers of unemployment claims during the last recession exhausted unemployment trusts in many states and forced them to borrow federal funds to compensate unemployed workers. To produce more revenue to meet their loan obligations, some states raised their unemployment tax rates, and dealerships have felt the bite.

That being said, there are several best practices you can follow to keep the lid on employment taxes:

1. Buy down your unemployment tax rate if your state allows it. Your dealership might be able to influence its unemployment tax payments

if certain situations apply. Some states allow you to annually buy down your rate. If it works out for your dealership, this could save you substantial dollars in unemployment taxes.

2. Hire new staff conservatively. Even though auto sales have generally picked up across the country, you're likely taking a conservative approach to adding new staff — and wisely so. And when your need to increase manpower becomes too strong to ignore, *continue* to move cautiously. Remember, your unemployment payments are based partly on the number of employees who file unemployment claims. You don't want to hire employees to fill



a need now, only to have to lay them off when business slows.

3. Arrange a cost-analysis study.

A cost-analysis study, which can be performed with the help of your CPA, will enable you to see via black-and-white projections whether increasing your payroll is worth the investment. If it isn't financially attractive to add staff, consider other options.

4. Use a temporary staffing agency instead of adding staff.

Your demand for extra staff may parallel the peaks and valleys of your dealership's year. A temporary staffing agency can help you meet those seasonal needs without permanently adding staff, so you can avoid layoffs. Using a temporary agency is also a good way to try out a candidate.

Severance pay may reduce or delay the start of unemployment insurance benefits.

5. Assess candidates before hiring them. Often it's worth a small financial investment to require job candidates to undergo pre-hiring assessments to see if they're the right match for your dealership and the position available. Standardized testing instruments are designed to reveal aspects of an individual's character or psychological makeup that may affect their performance. Well-established assessments include the Myers-Briggs Type Indicator, a personality inventory that categorizes psychological types, and DISC, a group of psychological inventories that cluster certain characteristics into particular behavior styles. Analysis of the test results can tell you, for



instance, if the candidate you're considering for a service advisor opening has psychological or behavioral traits that are compatible with the customer-oriented responsibilities of that job.

6. Train for success. The Society for Human Resource Management states that many unemployment insurance claimants are awarded benefits despite employer assertions that the employee failed to perform adequately. That's because the hearing officer concluded the employer hadn't provided the employee with enough training to succeed in the position.

7. Handle terminations thoughtfully. If you must terminate an employee, consider giving him or her a severance payment as well as offering outplacement benefits. Severance pay may reduce or delay the start of unemployment insurance benefits. Effective outplacement services may hasten the end of unemployment insurance benefits, because the claimant has found a new job.

8. Leverage a new dealership acquisition. If you've recently acquired another dealership, it may have a lower established tax rate that you can use instead of the tax rate that's been set for your existing dealership. You also may be able to request the transfer of the previous company's unemployment reserve fund balance. 

Vehicle quality is rising — and you can benefit

The J.D. Power 2016 U.S. Initial Quality StudySM includes some good news for the automobile industry. According to the study, new vehicle quality has improved by 6%, which doubles the 3% improvement rate reported in 2015. This was the largest uptrend in new vehicle quality since 2009.

The study measures new vehicle quality in eight categories: exterior; seats; driving experience; engine-transmission; features-controls-displays; interior; heating, ventilation and air conditioning; and audio-communication-entertainment/navigation. Quality improved in every category, and for 21 of 33 vehicle brands.

Gauging quality

Initial quality is measured by determining the number of problems vehicle owners experienced during their first 90 days of ownership. It's a critical gauge for dealerships because expected reliability is the primary consideration buyers have when purchasing a new vehicle.

That's the viewpoint of J.D. Power, which has studied car buyer behavior from the time people buy or lease a new vehicle until they're back in the car-buying market again. A little more than half (54%) of car owners who experience no problems within the first 90 days stick with the same brand for their next vehicle.

But loyalty drops to 50% for those who experience one problem with their vehicle in the first 90 days, and to 45% for owners

having three or more problems during this time. "While a small drop in actual loyalty may not sound like much, a percentage point drop in share can mean millions of dollars in lost revenue to an automaker," said a J.D. Power executive.

Generating repeat business

Given the strong correlation between initial vehicle quality and customer loyalty, dealerships should look for opportunities to turn high levels of quality and loyalty into more repeat business. Doing so can boost dealership sales and profitability, since satisfied customers may be more willing to pay a higher price for their next vehicle without haggling.

For example, have your salespeople contact buyers 90 days after their purchase to ask how satisfied they are. At this time, you also can ask permission to add buyers to your mailing and email databases, so you can stay in touch.

When customers receive regular communication (such as a newsletter) from your dealership over

a long period of time, they're more likely to think of you when it's time to car shop again. This is a long-term sales and marketing strategy that can yield powerful results when executed properly.

Jumpstart your sales

Meet with your managers to brainstorm other ways your dealership can benefit from this trend of rising vehicle quality. Doing so may help you jumpstart sales in the new year. 

