MAY/JUNE 2017

Dealer Insights

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ACCOUNTANTS & ADVISORS

Cost management

Boost profits by shrinking expenses

At most dealerships, there's a strong emphasis on increasing sales — and rightly so. Having more vehicle sales usually translates to increased revenue and potentially higher profits.

But there's another side to the profit equation that's just as important as sales: expenses. Cutting and controlling costs is as consequential to boosting profits as increasing sales — if not more so. Thus, expense management should be a high priority for your managers.

Centralizing purchasing

There are many different types of dealership expenses, which can sometimes make it hard to get a good handle on expense management. This is especially true in dealerships that practice decentralized management, where no single person is responsible for controlling how dealership monies are spent.

So the first step to controlling expenses is to centralize purchasing as much as possible. Ideally, the general manager will sign off on purchases, or at least major expenses. From here, purchases should be controlled at the department level. For example, sales, parts and service and F&I managers should be required to approve all purchases made within their departments.

One strategy is to have a check-signing "party" in which all department managers are brought together and quizzed while the owner or general manager signs vendor checks. This puts managers on notice that their spending decisions are being scrutinized. And it may encourage them to use more discretion when approving departmental purchases.

Another strategy: Create a list of all dealership expenses over the course of a year and separate them into three categories: "must-have," "nice-to-have" and "don't need." First let your department managers provide input on which expenses should fall under each category. The general manager or owner should make the final call on expense categorizations.

Using expense reduction strategies

The bulk of dealership expenses usually fall into one of three broad areas: 1) payroll and benefits, 2) advertising, and 3) floor plan interest. Here are some suggestions for reducing expenses in each:

Payroll and benefits. Dealerships must walk the fine line between paying employees too little, and thus being unable to hire and retain quality workers, and overpaying. To find the right balance, first determine what similar dealerships are paying for various positions in your area. Doing so will give you a benchmark for setting your compensation. NADA conducts an annual Dealership Workforce study to collect some useful data. Dealer 20 groups are also a good source for this kind of information.

Next, conduct a compensation review to analyze the total amount of salary, wages

How to avoid these floor planning mistakes

Smart floor planning is a critical financial skill for dealerships. Here are three common floor-planning mistakes to steer clear of:

1. Overextending financially. Use your floor plan line of credit to buy only as much inventory as you reasonably think you can sell. Overbuying can lead to aged inventory and missed payments.

2. Not communicating. Banks and finance companies hate surprises, so keep your floor plan provider informed of anything that could affect your dealership financially.

3. Raising red flags. In particular, floor plan providers tend to be on the lookout for bounced checks or Automated Clearing House (ACH) items because of insufficient funds and vehicles sitting on the lot for longer than 45 to 60 days.

and benefits allocated to each of your employees. Compare this to your benchmarks and to each employee's most recent performance review. Then make adjustments as necessary to bring compensation in line with benchmarks and performance.

Advertising. For many dealerships, advertising is a "black hole" into which they pour tens of thousands of dollars each year, but have little idea of their return on investment (ROI). Thus, you should work with your advertising agency to measure the effectiveness of your advertising. Eliminate strategies that are ineffective and devote these funds to more successful campaigns that generate positive advertising ROI.

If you haven't bid out your advertising lately, consider doing so. Over time, your advertising agency could raise your rates 5% to 10% a year without a correlating increase in effectiveness. However, you might not realize this unless you perform an advertising cost-benefit analysis. Let your current agency know you're soliciting bids and ask them and potential new agencies for some fresh new creative ideas.

Floor plan interest. The key to reducing floor plan interest expense is managing your vehicle inventory judiciously. Interest costs can spike dramatically when vehicles sit on your showroom floor for longer than 45 to 60 days.

Another way to reduce floor plan interest is to take advantage of cash management deposit accounts offered by some manufacturers' finance companies. These accounts enable you to earn a credit on deposited funds that can help offset your interest expense.

Also, if you haven't recently, shop your floor plan line of credit. Competition has increased among banks and finance companies, which you may be able to use to your advantage.

A balanced approach

Don't become so focused on sales that you neglect the expense side of the profit equation. By cutting costs in these three areas, you may be able to boost profits without significantly increasing your sales volume.

Spotlighting performance

How KPIs can keep your store on track

Every dealership owner wants to know how his or her store is doing each month of the year — if not each day of the year. An objective and effective way to measure operational performance is by establishing key performance indicators (KPIs) and following them closely.

Design your dashboard

KPIs are concrete measurements of your dealership's financial performance that can be used to gauge progress toward goals. Using KPIs enables your dealership to engage in the practice of "dashboarding." In other words, you'll select a handful of KPIs that you'll continually measure and monitor against benchmarks.

Your dashboard should include KPIs for the overall dealership as well as those broken out for sales, F&I, parts and service. Some typical dealership KPIs, along with sample industry benchmarks, include:

- Total gross profits per employee per month ($7,500–$9,500),
- Net advertising per retail unit sold ($220–$275),
- F&I gross per vehicle sold (more than $850),
- Total service labor sales per repair order (greater than $125),
- Parts department gross as a percentage of dealership sales (more than 15%),
- New to used vehicle sales ratio (1:1),
- Days supply of new vehicle inventory (less than 60 days),
- Service and maintenance contract penetration (more than 65%),
- Return on assets (10%–15%), and
- Retail units sold per administrative staff per month (15–20).

There are literally dozens of different dealership KPIs, so no two dealership dashboards will look identical. Each dealer needs to determine which KPIs are the most important to him or her.

Involve your management team

So how do you decide which KPIs to focus on? Start by bringing together your managers and asking them to identify the most important success factors in their respective departments.

For instance, in new and used car sales, components of success might be keeping enough of the right kinds of vehicles in stock and monitoring the aging of your vehicle inventory. You might also want to track how well you're retaining your sales staff, getting a good return on your advertising dollars, reaching a certain market share or improving customer satisfaction scores.

When it comes to finance and insurance, success factors might include educating customers about the benefits of your products and maximizing the percentage of vehicle sales in which these products are sold. Meanwhile, in parts and service, keys to success might be improved absorption, reduced parts aging and increased dollars per repair order.

Once you and your managers have identified the critical success factors for each area of your dealership, and your dealership in general, it'll be easier to choose the KPIs that can best help you gauge your progress.

Stack up against your peers

KPIs have limited value if they're viewed in isolation. Suppose, for example, that your monthly gross profit per employee (another common dealership KPI) is $6,000. Is this good or bad? You have no way of knowing unless you compare it to benchmarks — either prior performance periods (such as the same month last year) or industry standards.

You can obtain common industry benchmarks from the National Automobile Dealers Association, an automotive Dealer 20 group, or state or local dealer associations. Also check with your CPA — he or she also may be able to provide numbers you can use for benchmarking purposes.

An ongoing report card

KPIs provide a snapshot of your dealership at a particular point in time. When gathered regularly, they can become an ongoing report card on its progress, which allows you and your management team to make appropriate decisions to keep your business on track.

Help wanted: Skilled service technicians

If an auto mechanic working in the 1970s or 1980s were suddenly transported in time to 2017, he or she would likely be baffled by the complex technology under the hood of today's vehicles.

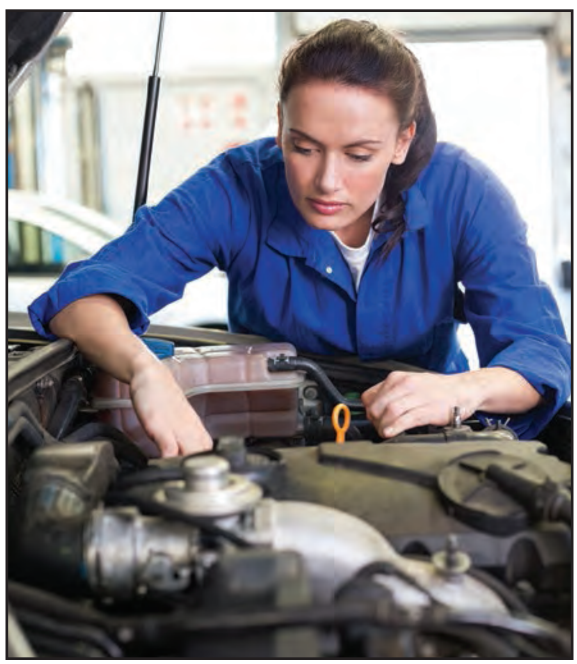
The average new car or truck contains up to 50 different computers! This preponderance of technology has significantly bumped up the skill level required of service technicians.

Computers and wrenches

Today's technicians have to be as comfortable working with computers as they are turning wrenches. And that makes it more difficult for many dealerships to find workers who possess the necessary skill sets.

In fact, operations in some parts of the country are facing a labor shortage when it comes to hiring technicians trained to service today's vehicles. Some are taking a proactive approach to solving this problem.

For example, some dealerships are partnering with area community colleges and dealership



associations to help the schools provide up-to-date service tech training. In these relationships, the dealerships and colleges work together to create educational programs that provide students with relevant course materials, hands-on training and dealership internships.

An explosive need

One example is in California, where a Toyota dealership has partnered with an area community college to provide certification in Toyota's Technician Training & Education Network (or T-TEN) program. This program was created to meet what Toyota Motor Sales U.S.A.'s technician-development manager has described in the trade press as the "explosive" need for qualified service techs.

Another example is in Florida, where the Central Florida Auto Dealers Association (CFADA) has built its own technical training center at a local community college. The CFADA Professional Automotive Training Center is a $10 million, 55,000-square-foot facility with 40 bays, 33 lifts and five high-tech classrooms.

Students who attend this training center can earn a two-year Associate of Applied Science (A.A.S.) degree in Automotive Service Management Technology, as well as a one-year Automotive Service Technology certificate and training certificates in automotive maintenance and light repair. Training at the center is geared toward the needs of specific auto manufacturers, including General Motors and Ford.

And a community college in Ohio offers an automotive technology training program that's fully accredited by the National Automotive Technicians Education Foundation. Students here can earn a two-year A.A.S. degree in the MOPAR Career Automotive Program. This program's training is geared toward meeting the technical service needs of Chrysler, Dodge, Jeep and Ram dealerships.

After attending classes for half a semester, students in this program apprentice at an area dealership for the rest of the semester. According to the college, students should be 85% to 90% trained toward meeting the certification requirements for a Chrysler Master Technician when they graduate.

Import training also available

Service technician training at the community college level also is available for budding new mechanics who want to work on import vehicles. This is especially important in states such as California, where import vehicles account for 73% of the market. For instance, a community college in California offers an automotive technology program that provides training for students who want to learn how to work on Mercedes-Benz vehicles.

The college works directly with area dealerships to provide internships and to help students receive the kind of technical training the dealerships need their service technicians to possess. The dealerships, in turn, donate parts to the college so students can get real hands-on experience working with the latest new vehicle technologies.

Expand your employee pool

The service department remains an important profit center for most dealerships, which makes hiring qualified service technicians critical. If you're having trouble finding the kind of qualified technicians you need, talk to your area dealership association and community college about how you might be able to work together to solve this problem.

By taking a proactive stance now, you may be able to help young mechanics get the technical training they need while also expanding your future pool of service department employees.

Could your dealership benefit from an advisory board?

It's not always easy being the boss. Sometimes the demands of ownership can become overwhelming. At other times, you just might need "a little help from your friends."

These are among the reasons why some dealership owners have decided to create advisory boards. Such a board usually consists of a group of professional confidants willing to offer their time and talents to help owners meet specific business challenges — or simply lend a sympathetic ear.

Whom should you invite?

Advisory boards usually comprise professionals whose experience, wisdom and insights command the owner's respect. These professionals may include other dealership owners; factory representatives; business consultants; and experts in the areas of sales, marketing or operations.

As you consider potential advisory board members, try to choose individuals who will challenge you, disagree with you and push you outside of your comfort zone. Your goal should be to gather a diversity of opinions from a variety of different perspectives — not just surround yourself with sycophants who'll agree with everything you say.

What about meetings?

There's no formula for the right structure and frequency of advisory board meetings. Many boards meet between two and four times a year for two or three hours at a time, often over a meal. It's important to plan an agenda for the meeting and share this with your advisors ahead of time so they can be better prepared.

Try to choose individuals who will challenge you, disagree with you and push you outside of your comfort zone.

For example, perhaps you need advice about how to grow and expand your dealership. Maybe you're dealing with excessive employee turnover. Or maybe — like everyone — you'd like to boost sales and profits.

Sooner rather than later

An advisory board can provide great wisdom and insight in each of these areas and other operational concerns. Therefore, it would be smart to give some thought to what your advisory board might look like and how forming a board could benefit your dealership. Getting a board off the ground sooner, rather than later, can only be a plus.