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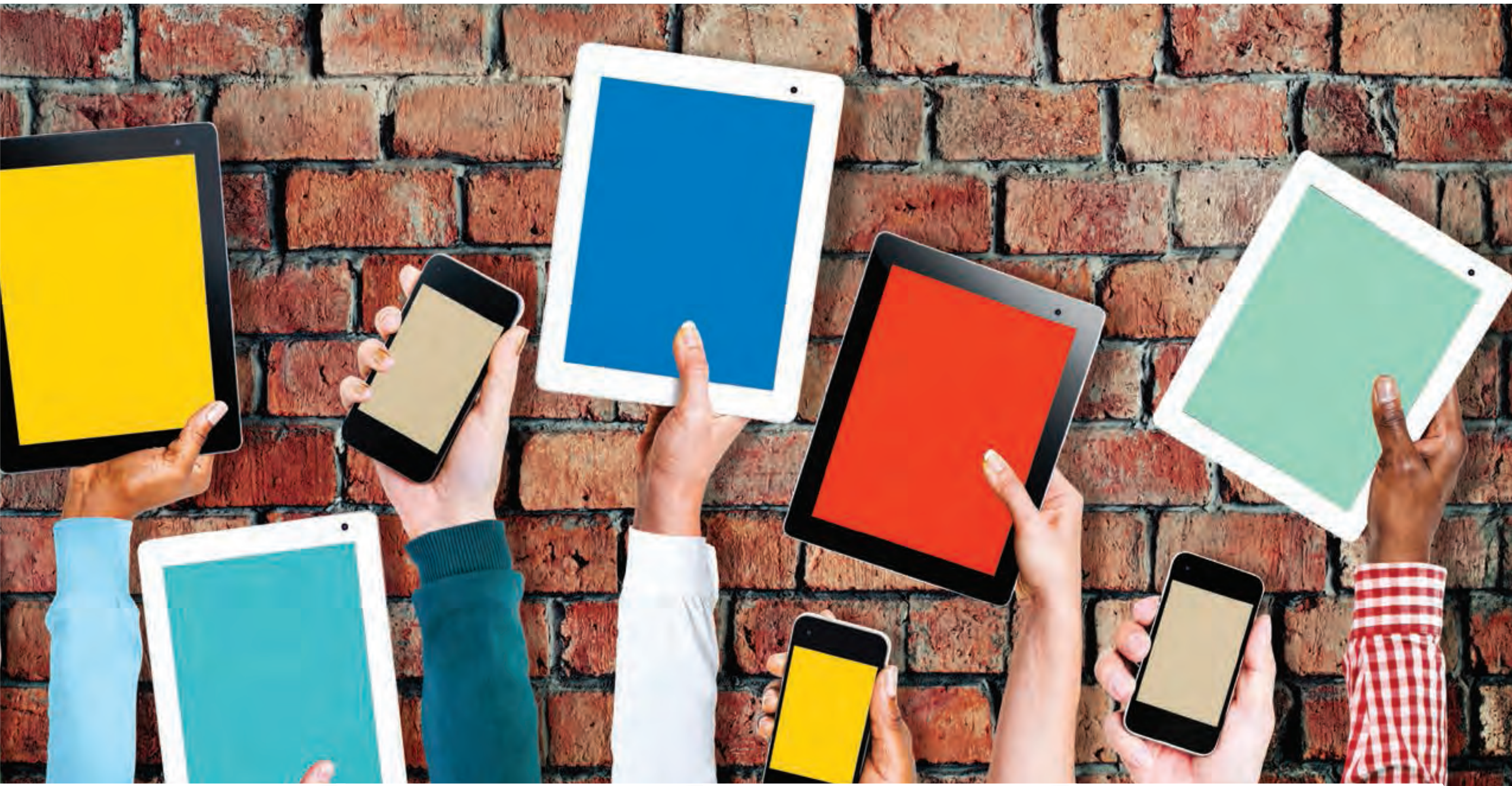
Dealer Insights



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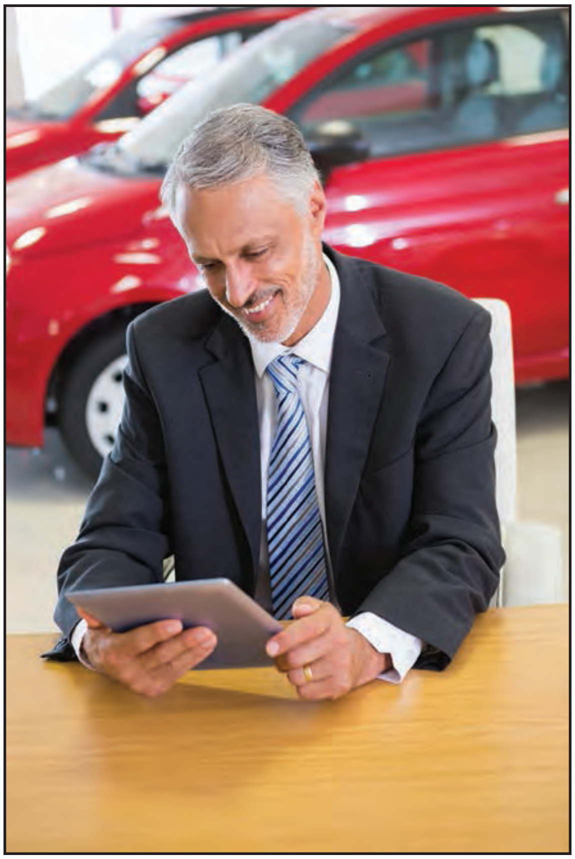
ACCOUNTANTS & ADVISORS

Inside the brick-and-mortar

Embrace technology, boost customer satisfaction

Technology has become an integral part of almost every kind of shopping experience. Whether it's buying merchandise from an online retailer (such as Amazon or eBay) or scanning an item's bar code to determine its price at a big-box store (such as Wal-Mart or Target), technology usually plays a role.

Not so with auto dealerships. It's true that many car shoppers use technology when researching which automobile to buy. For example, shoppers often investigate vehicles and dealerships online on their computers or smartphones. They often decide on features they want and compare prices from dealership to dealership. But when customers visit the showroom, their shopping experience usually isn't much different from what it was a generation ago.



What the scores say

A new study indicates that dealerships could benefit tremendously by incorporating technology into new-car shopping. Using technology such as tablets and computer-equipped kiosks during the sales process can substantially boost customer satisfaction scores, according to the *J.D. Power 2015 U.S. Sales Satisfaction Index Study*[SM].

What's more, dealerships that don't incorporate technology into their sales processes risk losing business to those that do. (For more study findings, see "Study supports sales-related upgrades" on page 3.)

"Customers are experiencing interesting uses of technology in many of their other retail transactions and now they expect this when shopping for an automobile," said Chris Sutton, vice president of the automotive retail practice at J.D. Power. "Dealerships should understand that customers want and trust technology, and that it can enhance efficiencies."

Not surprisingly, young car buyers — Millennials (also known as Generation Y and defined in the study as those born between 1982 and 2004) — are especially receptive to technology. In fact, they are the single most impactful generation on the automobile market, accounting for 29% of new-vehicle sales, according to data compiled by J.D. Power.

How to use it

Among the best ways to incorporate technology into new car shopping is for your salespeople to use tablets when interacting with customers in the showroom. Sales staff can use them to:

- Demonstrate vehicle features and benefits,
- Record customer preferences and needs,
- Display pricing information, and
- Preview the vehicle before a test drive.

Tablets also can be used as part of the "walk-around" after a customer buys a new vehicle. For example, the customer and salesperson can compare features and benefits listed on the tablet with those on the vehicle itself.

"Using a tablet conveys a strong sense of professionalism and tech-savvy that is lost when salespeople simply write these things down on a notepad or try to memorize them," said Sutton. Despite all of these potential benefits of using tablets, however, only 16% of salespeople use them during the new vehicle sales process, the J.D. Power study found.

Placing interactive kiosks with computers and video monitors on the showroom floor is another way to incorporate technology into the new car shopping experience. These can enable customers to watch videos featuring cars they're interested in, as well as conduct research and read reviews of vehicles right there in the showroom.

There's also a place for these kinds of technology tools in your service and F&I departments. For instance, to ease customers' concerns and anxieties, service technicians can use tablets to show pictures and better demonstrate the need for certain kinds of repairs. And, through the use of charts and graphics, tablets can make it easier to explain the often confusing details and nuances of F&I products.

Study supports sales-related upgrades

The *J.D. Power 2015 U.S. Sales Satisfaction Index Study*SM makes a strong case for updating dealership technology to give customers a more satisfying shopping experience.

For example, when salespeople used a tablet to record customer vehicle needs, demonstrate features and display pricing information, they achieved a customer satisfaction score of 8.12 (for nonpremium brands). When they didn't use a tablet, the customer satisfaction score dropped to 7.02.

Also noteworthy: When salespeople presented customers with handwritten price quotes, there was a -0.55 point gap in customer satisfaction compared to when quotes were presented to customers on a tablet or computer screen.

In addition, the study revealed that, when F&I product, pricing and payment options are presented to customers on a tablet or computer screen, customer satisfaction is higher than when this information is presented in other ways — including via printed materials, handwritten figures, or verbal quotes and descriptions.

To get the most benefit out of these technology tools, make sure the data you capture is integrated into your dealership management system. This way, you can use the information to improve decision-making all across the business.

Be prepared

Adding technology tools such as these requires a commitment of both money and time. But doing so could pay off significantly in terms of higher customer satisfaction, more repeat and word-of-mouth business and increased sales.

Should you offer your employees a wellness program?

Wellness programs are becoming increasingly popular with many businesses today, including auto dealerships. In fact, more than two-thirds of employers in the United States currently offer a wellness program, according to the Society for Human Resource Management. Here's a look at why.

Reaping the benefits

There are many potential benefits to reap from a wellness program. For starters, you may be able to reduce your health insurance costs if the program results in healthier employees. Having a healthier workforce also may reduce employee absenteeism and boost productivity.

The Affordable Care Act created new incentives to promote employer wellness programs.

Meanwhile, many employees will appreciate your dealership's efforts to help them lead healthier lives. In this way, a wellness program can become an important employee retention and recruiting tool.

Another consideration: The Affordable Care Act created new incentives and built on existing policies to promote employer wellness programs and encourage opportunities to support healthier workplaces.

Designing your plan

You can take many different approaches to designing a program. Healthcare.gov defines these initiatives as "a program intended to improve and promote health and fitness that's usually offered through the workplace." Among the cited examples of wellness offerings are those designed to help employees stop smoking, lose weight and manage their diabetes, as well as partake in health risk assessments and preventive health screenings.

In addition, you can offer your employees premium discounts, cash rewards, gym memberships and other incentives to participate in your wellness program. Other ideas for sparking interest include sponsoring wellness events such as fun runs, weight-loss challenges and spin classes.

Starting small

Ask your employees what kinds of wellness initiatives they'd like to see and then incorporate their input into the plan's design. Start out small with your wellness program and expand it over time as you evaluate the costs and benefits.

Time to launch?

If you don't already have a wellness plan, consider beginning one. Chances are, you can develop an affordable plan that your employees will like.

Recent tax law adds appeal to asset purchases

Many dealers invest heavily in assets that can help them run their businesses more efficiently and better serve their customers. This typically includes computers and software (for example, a dealer management system), telecommunications gear and showroom furniture. Service department assets, such as diagnostic equipment, alignment racks and wheel balancers, also count as asset purchases.

Now there's some great news for dealerships when it comes to the tax treatment of asset purchases. The increased Section 179 expensing limit for qualifying purchases, as well as the phaseout threshold, has been permanently extended and retroactively reinstated. Also, first-year bonus depreciation has been temporarily extended.

Benefits of expensing

These positive developments were part of the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act), which was signed into law last December. Expensing fixed assets and writing them off during the year in which they're placed in service offers big tax advantages compared to depreciating the assets over a number of years.

Before the PATH Act, Congress would typically wait until year end to decide whether to temporarily extend and retroactively reinstate these and other tax provisions. This made it hard for dealerships to plan their capital expenditure budgets for the year.

For example, on January 1, 2015, the Sec. 179 expensing limit fell from $500,000 to $25,000 and the phaseout threshold dropped from $2 million to $200,000. So, many dealerships spent almost all of last year wondering whether Congress would raise the limit and threshold. Because of this uncertainty, some dealerships may have hesitated to buy assets that could have improved their operations.

The annual uncertainty over Sec. 179 expensing is finally a thing of the past. Not only are the $500,000 expensing limit and $2 million phaseout threshold now permanent, but these amounts will be indexed annually for inflation in $10,000 increments. Expensing for qualifying annual asset purchases that exceed $2 million will be phased out dollar-for-dollar up to $2.5 million. Amounts above this can't be expensed.

Remember that qualifying assets must be financed and placed in service no later than midnight on December 31, 2016, to be expensed this year. Your CPA can help you estimate how much money this tax break might save your dealership.

Another provision of the PATH Act allows dealerships to permanently use 15-year straight-line cost recovery for qualified leasehold and retail improvements. Had the Act not been passed, prior legislation would have required these items to be depreciated over 39 years.

Bonus depreciation also extended

In addition to making the increased Section 179 expensing limit and phaseout threshold permanent, the PATH Act extended first-year bonus depreciation through the end of 2019. Under this provision, your dealership can immediately expense 50% of the cost of new, qualifying property that's purchased and placed in service in 2016 and 2017. The percentage

will be reduced to 40% in 2018 and 30% in 2019 before phasing out completely in 2020.

For property placed in service after December 31, 2015, bonus depreciation is available for:

- New modified accelerated cost recovery system (MACRS) property with a recovery period not exceeding 20 years,
- Computer software,
- Water utility property, and
- Qualified improvement property.

This final item replaces "qualified leasehold improvement property," and has a broader definition — including most improvements to an interior portion of your dealership if they're made after the building was first placed in service. Also, original use of MACRS property must begin with your dealership.

Note that your dealership needn't report net income to take bonus depreciation deductions, as you do to qualify for Sec. 179 expensing. Also, bonus depreciation isn't limited to certain-size businesses — nor is there a limit to how much can be deducted. But bonus depreciation can't be taken for used, tax-exempt use or tax-exempt financed property, or for property that will be used outside of the country.

Get advice

The assets you purchase should be based on sound business practices — that is, because you need the pieces of equipment to help you generate more net income. A plus to keep in mind: The tax benefit might allow you to purchase a higher quality piece of equipment than you could purchase if the tax savings weren't available.

Consult with your tax advisor for more details on Sec. 179 expensing and bonus depreciation.

Kicking the tires on your sales compensation plan

Have you reviewed your sales team's compensation model lately? If you suspect there's room for improvement, give it a thorough inspection. Even small enhancements could lead to a happier, more motivated sales staff that's more likely to stick around.

Best of both worlds?

Many compensation models exist. For example, instead of paying salespeople on a straight-commission

basis, some dealerships are moving toward a sales compensation model that combines a base salary with performance-based add-ons.

In such a scenario, you would pay your sales staff a relatively small base salary and then give them the opportunity to earn additional income via commissions, bonuses and sales performance incentive fund (SPIF) payouts. Many salespeople appreciate the financial security afforded by a steady salary while still having the chance to boost their earnings if they meet or exceed sales goals. Meanwhile, performance-based compensation add-ons help dealerships financially motivate sales staff to sell more vehicles at higher margins.

Where are the targets?

When structuring your sales compensation plan, start with a total compensation target and work backwards to create a plan that provides ample opportunities to hit targets.

For example, suppose your target compensation per salesperson is $70,000 annually. You could pay 40% of this ($28,000) in salary and give salespeople the opportunity to earn the other 60% in commissions and bonuses, structured as follows:

- A $200 commission per sale, payable monthly, and
- A $1,500 quarterly bonus if monthly sales goals are met or exceeded.

If a salesperson's goal is to sell 15 vehicles per month, he or she would earn $70,000 per year if the goal is met every month ($28,000 plus $36,000 in commissions plus $6,000 in bonuses). The salesperson could increase this income incrementally by exceeding the monthly sales goal. SPIF payouts for meeting sales goals for specific vehicles also can be offered to further boost salesperson compensation.

What does a good plan look like?

Sometimes it can be tempting to create a sales compensation plan for a specific salesperson — especially if you're trying to lure a high-performer. But, generally, you should resist this temptation.

Instead, pay for the position, not the person. Write a detailed job description and define the criteria that must be met for any of your salespeople to earn commissions, bonuses and SPIF payouts.

Also, keep your plan simple. If it's overly complex, many sales staffers will get confused and frustrated. A rule of thumb: If it takes more than two minutes for a salesperson to explain the plan to his or her spouse, it's probably too complicated.

Another key element: Ensure that sales goals and incentives are realistic and achievable. For example, if your dealership's average salesperson sells a dozen vehicles per month, don't make 18 sales the minimum level required to earn a commission or bonus.

Any good sales compensation plan also will link sales incentives to overall dealership goals. If you want to boost margins, tie your incentives to vehicle profitability, rather than just volume. But if you want to boost dealership revenue, tie your incentives to sales of higher-priced vehicles.

Are we in a vacuum?

Sales compensation will vary somewhat in different regions of the country. But, to be competitive, you should generally strive to offer a level of sales compensation that aligns with the averages. In other words, don't create your model in a vacuum.

The National Automobile Dealers Association publishes an annual study that gives members a good idea of the levels of compensation for a wide range of dealership jobs. In past years, the trade group has included the average total compensation for the positions of sales consultant, Internet sales consultant, Internet-Business Development Center manager and sales closer.

Is your sales force evolving?

Today's salespeople need to evolve right along with the ever-changing auto industry. Your dealership will likely benefit if its sales compensation plan is as current and viable as the shiny new vehicles in your showroom.