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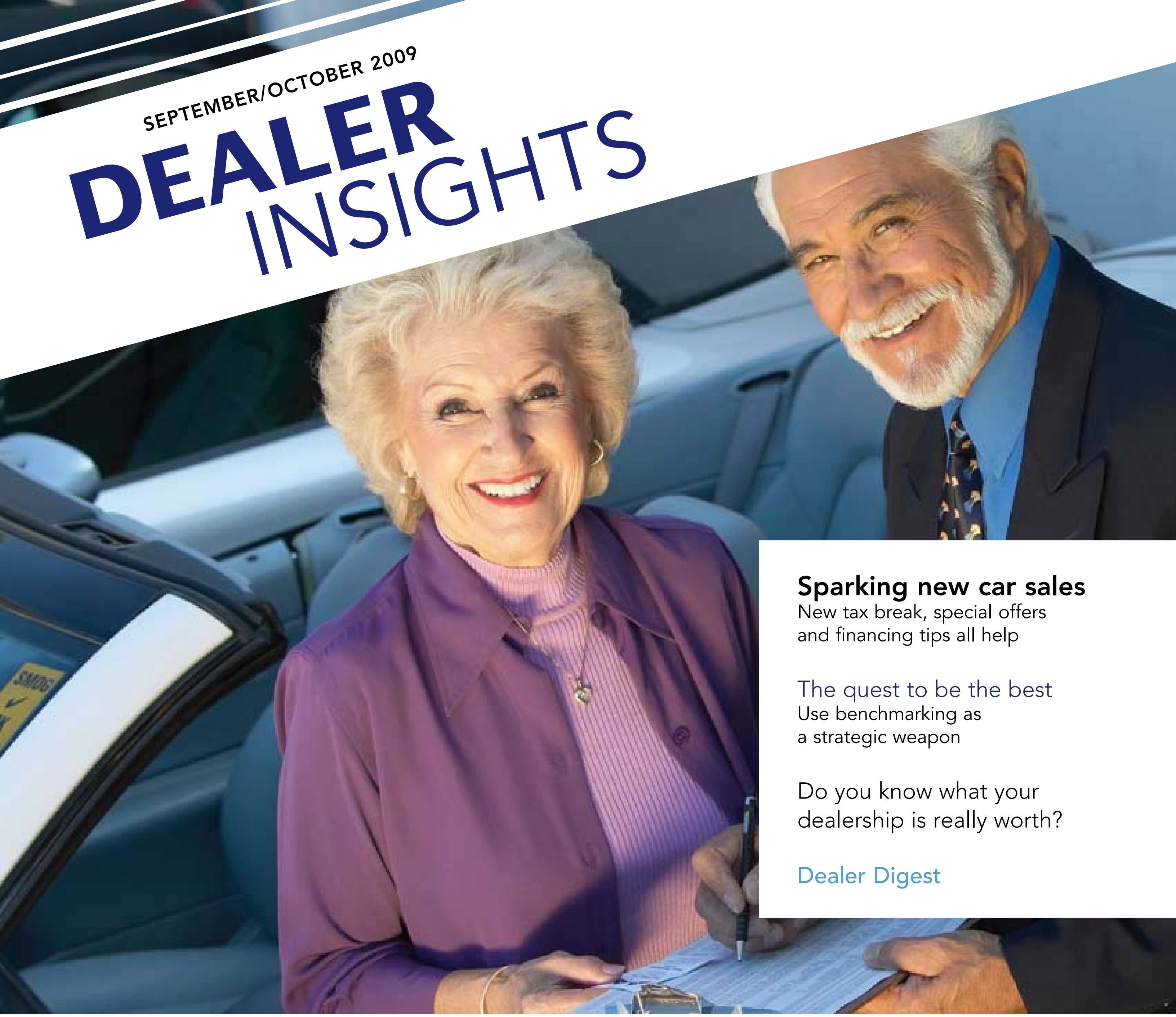
DEALER INSIGHTS



Sparking new car sales
New tax break, special offers and financing tips all help

The quest to be the best
Use benchmarking as a strategic weapon

Do you know what your dealership is really worth?

Dealer Digest

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Sparking new car sales

New tax break, special offers and financing tips all help

The tax break for new car purchasers isn't the be-all, end-all for curing the super sales slump. But consider it a tool that can spur customers to buy a new vehicle by year end, along with putting manufacturers' special offers to good use and helping customers with financing bugaboos.

Understand the tax break

Although the tax break that's part of the American Recovery and Reinvestment Act of 2009 may not, by itself, sway someone to buy a new car, it can be a factor in that decision. Your sales staff should clearly and quickly explain its main points to customers and the reasons to claim it now. These include:

The clock is ticking. This can be a strong selling point: Your customers have between now and Dec. 31 to take advantage of this rare opportunity to get what amounts to a discount on a new vehicle. If they buy now, they'll be able to deduct state and local sales and excise taxes paid on their purchase when they file their 2009 federal income tax returns next year.

The discount is significant. Let's say the purchase price of the new car is $28,000, and the used car trade-in value is $12,000. States and local governmental units typically tax the difference — $16,000 in this case. So a 5% sales tax rate would make the deduction $800. Each state has a different sales tax on automobiles so the amount of the deduction will vary by state (and perhaps even by city and county). But it can result in a reduced income tax liability for most new vehicle buyers and, possibly, money back after filing.

Most vehicles count. The tax deduction applies to most new cars, light trucks, motor homes and motorcycles — domestic or foreign — up to a purchase price of $49,500 if bought after Feb. 16, 2009, and before year end. For cars, there's no restriction on the size or type, and it doesn't have to be a hybrid.

Most customers qualify. A taxpayer qualifies for the full deduction if his or her adjusted gross income is under $125,000 or, in the case of a joint return, under $250,000. The amount of the deduction is phased out for single taxpayers whose adjusted gross income is between $125,000 and $135,000 and between $250,000 and $260,000 for joint filers.

Taxpayers can use the short form. The deduction can be taken whether or not a customer itemizes deductions on his or her tax return. And, unlike other tax breaks in the economic stimulus package, this one doesn't directly offset federal taxes (as a tax credit does). It's a deduction against your customer's adjusted gross income and, therefore, a deduction taken "above the line." Although benefits won't be received until after 2009 tax returns are filed, individuals can adjust their withholding or estimated tax payments right away to receive the benefit sooner.

The tax break is projected to stimulate about 94,000 new vehicle sales this year, according to R.L. Polk, an automotive research firm. Make sure your dealership gets its fair share of the pie.

Celebrate factory incentives

Along with the tax break, manufacturers' incentives are another tool to help foster consumer confidence and spark a sale. Special factory offers have abounded within the past year. To name a few:

- Hyundai has offered to take back a newly purchased car if a buyer lost his or her job within 12 months of purchase — or pick up three months of payments. (And other manufacturers have followed suit with similar programs.)
- Some manufacturers have offered zero-based or below market financing and hefty rebates.
- If a buyer of one of Ford's new cars loses his or her job for certain reasons during the life of the loan, the automaker has offered to make up to 12 loan payments, which wouldn't get tacked on at the end of the loan. (General Motors has offered a similar incentive.)

While initiatives like these may not have worked as well as manufacturers first hoped, they can be used successfully to push tentative buyers over the fence.

Educate consumers on finance

So what if your potential customer wants to make a new car purchase, but getting credit is still iffy? One thing is certain: As they attempt to line up financing, most customers appreciate sound advice.

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"Auto buyers should educate themselves about financing before making a purchase," says Americans Well-Informed on Automobile Retailing Economics (AWARE), a nonprofit auto financing education group. "Shoppers should maintain a solid credit track record and shop around for financing among several sources, including banks, credit unions, financing companies and auto dealers."

A host of tools to help consumers prepare for auto financing decisions can be found on AWARE's Web site, AutoFinancing101.org. They include interactive budget worksheets and calculators, a glossary of auto financing terms, and articles. The materials are available in both English and Spanish.

Tap into pent-up demand

Perhaps the most important factor of all is this: All vehicles eventually need to be replaced. As credit eases and consumer confidence takes an upward swing following a period of below normal sales activity, make sure your dealership is positioned to take advantage of that pent-up demand for new car purchases. ■

The quest to be the best

Use benchmarking as a strategic weapon

You're a warrior. Your business has survived the worst economic environment for auto dealerships in memory. And as consolidation continues to shake the industry, you want your business to not only continue to survive, but to prosper. Benchmarking is a weapon you can wield to fight off mediocre performance and make your dealership a stronger competitor.

Knowledge is power

Simply put, benchmarking lets you compare your dealership's performance with the best in the business — and with your peers. Knowledge is power, and once you see how your performance in specific areas stacks up, you can take steps to improve it. Among other things, benchmarking can:

- ❑ Show you the areas in which you are doing well in the marketplace,
- ❑ Alert you to areas where you're lagging behind competitors, and
- ❑ Introduce you to best practices you can adopt for your dealership.

You can benchmark just about anything: from processes (how you follow up on vehicle sales, how you respond to Web site inquiries) to financials (gross profit/net profit, operating expense/capital investment) to services (10,000-mile service inspections, sales closes), to products (F&I offerings, auto parts) and strategies (radio/TV/online advertising, sales promotions).

(The right) data rules

It's wise to start with areas that have the most effect on your dealership. Work with your financial advisor to narrow down the types of data you should gather, such as gross profit percentages and margins, inventory turnover, units sold, accounts receivable turns, customer satisfaction index (CSI), and sales closing ratios. Always keep your eyes on what you'll do with the information once you collect it.

Because nearby competitors will likely be less than willing to divulge much information, you may have to rely on data from similar operations in distant markets. Trade associations, factory representatives and dealership groups can be good information sources. If you take this route, be sure to consider the inevitable differences of dealerships in other regions.

Comparing your numbers with dissimilar dealers' also has risks. Can you really compare the results from a dealership that sells a mass-market brand to those from one that caters to the premium luxury market? As with any powerful management tool, benchmarking should be used carefully.

It's worth the trouble

Maybe you're asking if all of this is worth the effort. Consider this: According to a survey conducted by the Global Benchmarking Network (made up of benchmarking organizations worldwide) last year, when best practice benchmarking is done well, significant benefits are obtained — with 20% of projects resulting in benefits worth $250,000. So ready up that spreadsheet and consider crunching some worthwhile numbers. ■

Acting on benchmarking results

So you've collected the right data for benchmarking and analyzed the results carefully. Now you want to act on what you've learned. Here are some tips:

- ❑ Communicate the results of the benchmarking analysis — both positive and negative — to all managers and employees.
- ❑ Set both short- and long-term goals.
- ❑ Implement as many of the successful practices of your top benchmarking sources as you can.
- ❑ Implement a corrective-action plan immediately for any department falling below the set benchmarks.
- ❑ Monitor departmental results continuously.
- ❑ Modify your goals — and the steps it takes to meet them — as needed.

Do you know what your dealership is really worth?

In the current economic downturn, you may need a business loan. And with 2008 and 2009 going down as two of the worst years on record for auto dealers, you also may need to calm lenders' fears — as well as your own. For any of these reasons, you'll need to come up with a true picture of your dealership's net worth.

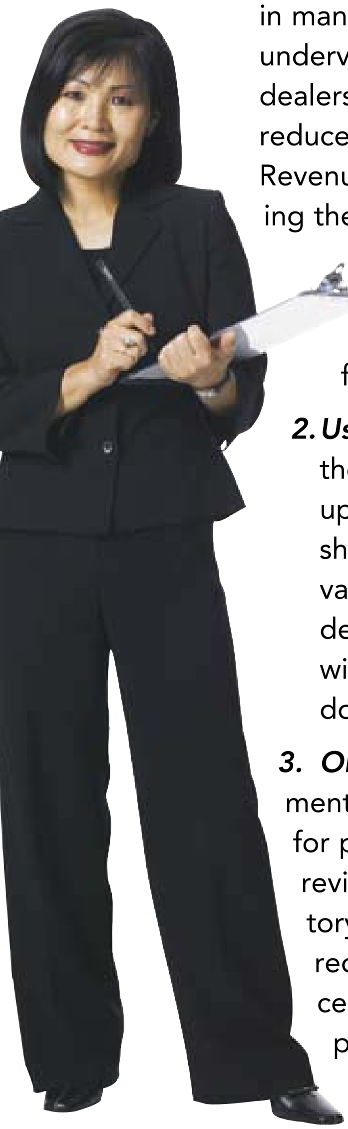
Finding hidden assets

As a starting point, use the line that reports total net worth on your company's balance sheet. That's the upfront part of the equation. From there, you'll need to hunt to find *unrecorded* liabilities or contra assets such as those with a negative credit balance. Here are several areas to examine:

Uncollectible receivables. Customer and factory receivables — those related to warranties and incentives — make up a significant portion of most dealers' total receivables. Holding items on the books that are overaged — and that you're unlikely to collect — misrepresents your dealership's overall financial picture.

Review accounts receivable regularly to determine which accounts you probably won't collect. Then adjust your allowance accordingly. You should generally allow for any receivable more than 90 days old. In addition, beware of the potential impact of factory chargebacks for unearned warranty work or incentives.

Inventories. Of course inventories make up an important part of a dealership's net worth. Three inventory areas to examine closely are:



1. ***LIFO inventory.*** The prevalent use of the LIFO method for valuing inventories, in many instances, results in significant undervaluation. But, even though your dealership's net worth may be significantly reduced by the use of LIFO, the Internal Revenue Code precludes you from recording the effect of the undervaluation on your books. You may disclose the valuation using the FIFO method in the notes to your financial statements.
2. ***Used vehicle writedowns.*** Given that the used vehicle department makes up an average quarter of a dealership's profit, it's essential to properly value this inventory. Because vehicles depreciate rapidly, keep up-to-date with your stock by conducting write-downs monthly.
3. ***Obsolete parts.*** The parts department holds additional "hiding places" for potential write-downs. Every month, review your dealership's parts inventory. For each item in stock, set a sales requirement for determining obsolescence. For example, if two units of a particular part haven't sold within a month, consider that part obsolete, write off its cost and remove it from your inventory values. Doing so will help ensure that your parts inventory is valued accurately.

Fixed assets. For book purposes, dealerships may record depreciation on fixed assets (such as furniture, fixtures, tools and equipment) in several ways. *Net book value*, for instance, will usually differ drastically from the actual *fair market value*. This difference would alter your business's net worth. Regularly compare the net book value of your fixed assets with their fair market value.

F&I chargebacks. The F&I department substantially contributes to your bottom line. Therefore, accurately portraying F&I income will help ensure that your dealership's net worth is properly stated.

An often unrecorded potential liability is contingent liabilities associated with future chargebacks received in relation to current F&I receivables. Under the matching principle, a standard accounting requirement, you need to record liabilities and expenses in the same period as their matching revenue streams.

Thus, you should record chargebacks in the same period that you also record their related F&I income and receivables. Examine your dealership's F&I receivable accounts monthly to adequately estimate the potential liabilities related to future chargebacks.

Being more accurate

Your financial advisor can help you examine these areas carefully for "hidden" assets and liabilities. And the result is likely to be a fairer presentation of what your dealership is truly worth. ■

DEALER DIGEST

Bartering between businesses is taxable

The downturned economy has created new interest in the long-established practice of bartering — not only between individuals, but also between businesses. More than 250,000 U.S. businesses traded one service or product for another last year, according to the International Reciprocal Trade Association.

Taking notice, the IRS recently issued Tax Tip 2009-58, "Do You Barter?" It states that barter dollars are identical to real dollars for tax reporting. And if your dealership conducts any direct barter, you'll have to report the fair market value of the products or services you received on your tax returns for the year the bartering is performed. ■

COBRA premium subsidy

If your dealership had more than 20 employees last year and sponsors a group health, dental or vision plan, you must comply with the current COBRA premium subsidy. This American Recovery and Reinvestment Act provision applies to employees who were involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009.

Normally, individuals on COBRA pay 102% of the premium (including an administrative fee). But now your dealership must pay 65% of the premium upfront. At the end of the day, you'll be reimbursed by an offset in federal payroll taxes, resulting in no out-of-pocket costs to your dealership.

Within 60 days of the involuntary termination, you must send out a notice that explains the COBRA provision and offers the individual an opportunity to apply for the premium subsidy.

Model notices and other information can be found on the U.S. Department of Labor Web site at dol.gov/ebsa/COBRA/html. ■

5 ways to cut shop-supply expenses

If you're looking for more ways to tighten your dealership's belt, don't forget about shop supplies. Consider these five measures:

1. Get bids twice per year — better discounts accompany quantity, and you'll keep current with pricing and improved products.
2. Inventory the items just like any others in your parts inventory — supplies leaving the parts department should be marked up and charged on an invoice.
3. Track usage by technician: Have the person sign for each item received on an individual supplies invoice that will be approved by the service manager at the end of the month.
4. Compare usage by flat-rate hour produced — don't penalize your busiest beavers for using more supplies.
5. Reward the technician with the lowest flat-rate-hour consumption and the manager who oversees the program. ■