

MARCH/APRIL 2009

# DEALER INSIGHTS



## The road taken

3-year strategic plan  
may alter map for success

*Cash flow help*

“Remodel” your tax strategy  
with a cost segregation study

Outsourcing human resources

**Dealer Digest**

Delap LLP

Certified Public Accountants and Business Advisors - since 1933

4500 SW Kruse Way, No. 200

Lake Oswego, OR 97035

[www.delapcpa.com](http://www.delapcpa.com)

# The road taken

## 3-year strategic plan may alter map for success

Certain factors affecting your dealership's success can't be controlled, such as national vehicle sales trends, the state of the economy and credit availability. Other things you can have power over, such as how you treat your customers, the attitude you bring to the workplace — and how you plan for your dealership's future.

Strategic planning — that serious forethought about the direction you want your dealership to take — is now more important than ever as you fight to stay on the course to success.

### How to get started

Once you've realized you need a strategic plan (commonly for a three-year period) — or decide you need to revamp one — take a look at where you are today. (See "Strategic SWOT teams" on page 3.) Once you've made that assessment, start thinking about where you want to be in

2012, even though it may seem a long row to hoe. Consider including your full staff in the process of developing goals and strategies. Doing so will help build consensus and a sense of teamwork, which may be especially important in the current economic landscape.

During the process, make sure everyone has the chance to raise issues they'd like to see addressed — whether it's the trend toward smaller vehicles, failing stores or any other matter of importance to them.

### Start thinking about where you want to be in 2012, even though it may seem a long row to hoe.

For optimum objectivity — and to keep the process on track — consider using an outside facilitator, someone experienced in strategic planning and used successfully by others in the industry. Yet the dealership owner should still lead. For example, you might set the stage by pinpointing the dealership in the next town as your main competitor and stating that your business needs to surpass it to be No. 1 in the region. The facilitator can then pull comments from reluctant staffers about what the competition does better than your dealership and write fact-based comments on a white board. This can lead to eventual goal setting.

### What makes a good plan

Effective strategic planning requires discipline. The process should involve collecting relevant facts, setting priorities, weighing competing alternatives and making choices. Here are five questions to ask once you have a strategic plan on paper:

**1. Is the mission clear?** Your mission statement needs to reflect your dealership's reason for being. It needs to be specific, suggesting an action plan that points your dealership in a clear



## Strategic SWOT teams

A SWOT analysis is a helpful tool for developing your strategic plan. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. This analysis will help you answer the “Where are we today?” question. You must gain a thorough understanding of your dealership’s internal strengths and weaknesses to set a course for future actions.

It’s one thing to make the statement “We want to be the leading dealership in the metro area,” and quite another to realize what it will take to make that statement a reality. In addition to understanding your pluses and minuses, you need to know your market, as well as your competitors’ capabilities and limitations.

direction — for example, “To be the No. 1 hybrid dealer in new-vehicle sales in Whatever County, USA.”

**2. Is it supported by specific goals?** A good mission statement leads to goals that outline how the mission will be achieved. For instance, if the mission is to become your area’s top hybrid dealer, the goals will define how you’ll get there, incrementally, in the first, second and third years. Lay the groundwork for measuring your dealership’s success.

**3. Does it provide clarity?** Good strategic planning helps a dealership to sharpen its focus and better allocate time, money and staff to support its mission. This may mean eliminating activities that may no longer be critical to your goals or that fail to make an impact that justifies the resources they consume. For example, if your goal is to increase your luxury auto sales, you may decide to cut back on commercials on your local television station to focus some marketing dollars on efforts targeted to luxury buyers.

**4. Is there accountability?** To bring a strategic plan to life, you must assign responsibility for pursuing specific goals

to individuals, departments or teams. And these goals must be supported by action plans with specific due dates. A plan without due dates is no better than a wish list. If the goal is to increase subcompact car sales by 15%, for example, make your sales team responsible for making that goal a reality and measure progress at regular intervals.

### **5. Are daily operations consistent with goals?**

A dealership’s goals should be evident in how you use your resources. Do your monthly and annual budgets support your strategic goals? Are all daily staff activities aligned with the goals? For example, if your goal is to double market share by adding two new locations over the next three years, many daily activities may tie in, such as shopping the market for other stores with potential.

Effective strategic plans share key elements. They provide practical value and serve as an indispensable reference.

### **Why updating is essential**

A common reason why strategic plans start gathering dust as time passes is that businesses don’t update them regularly to reflect change. Whatever unexpected situation arises — the chance to buy out a competitor, a government subsidy or a major factory innovation — your strategic plan and its companion goals need to be revised to reflect that change. ■



Cash flow help

# “Remodel” your tax strategy with a cost segregation study

In this downturned business climate, new ways to generate cash are a godsend. And if you’ve remodeled your dealership — or acquired someone else’s — a cost segregation study can do just that by creating hefty tax deductions.

## The basics

Dealership owners often view building components as parts of the entire structure and depreciate everything over 39 years. But many expenditures fall into categories for which the tax law allows much shorter depreciable lives. Should your light fixtures or shrubbery really take 39 years to fully depreciate in value?

A cost segregation study allows businesses that have constructed, bought, expanded or remodeled real estate to accelerate depreciation-related tax deductions. To do so, the study identifies and segregates property costs being depreciated over the standard 39-year period that can be reclassified to shorter depreciable periods of 15, 10, seven or even five years.

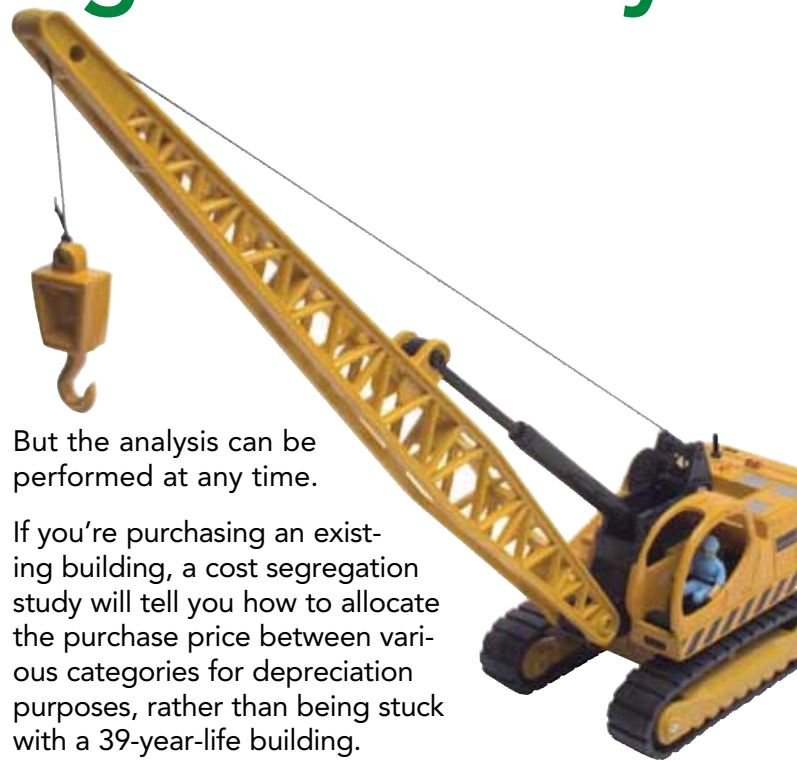
The result? Often you can enjoy tax deductions right now that you’d otherwise have to wait years to receive. Up goes your current tax savings, improving your cash flow.

## The timing

While a cost segregation study is generally a wise move when you’re building a new facility, it also can be used if you’re:

- ❑ Purchasing an existing building,
- ❑ Improving, renovating or expanding an existing building you own, or
- ❑ Spending your funds for improvements on a building you lease.

The optimal time to perform a cost segregation study is during construction or remodeling, while the contractor can more easily help identify costs.



But the analysis can be performed at any time.

If you’re purchasing an existing building, a cost segregation study will tell you how to allocate the purchase price between various categories for depreciation purposes, rather than being stuck with a 39-year-life building.

## The tax savings

The tax savings for property with a shorter “useful life” for tax purposes can be significant. For example, you may be able to classify the parking lot as 15-year property, and landscaping and shrubbery for the outside of the showroom as 10-year property. You also could classify furniture, lighting and plumbing fixtures, as well as carpeting used in a new showroom, as seven-year property. And don’t forget items such as electrical and ventilation systems, phone lines, and computers, which can be classifiable as five-year property. Reclassifying that parking lot from a 39-year to a 15-year depreciable life can provide a net present-value tax savings of about 8 cents per dollar. Better yet, recasting your ventilation system to a five-year period can save about 21 cents per dollar.

By categorizing items as other than buildings, they also may become qualified for expensing under Section 179, allowing you to deduct the entire cost in the first year. Beware that there are overall limitations on this deduction, and you cannot use it to create or add to a net loss for the business.

## Parts of the whole

The IRS has identified several methods that can be used to segregate items. Regardless of the methodology you use, the study and report should:

1. Classify assets into property classes such as land, land improvements (parking lots, sidewalks, landscaping), and building and personal property (decorative fixtures, cabinets, security systems),
2. Explain the rationale (including legal citations) for the classifications, and
3. Substantiate the cost basis of each asset and reconcile total allocated costs to total actual costs.

The IRS requires that cost segregation studies be based on actual and accurate records. Don't try to make assumptions or reconstruct data without them.

### The team

A cost segregation study calls for a team of experts well versed in tax laws and regulations, as well as engineering and construction principles. Preparation requires knowledge of both the construction process and the tax law governing property classifications for depreciation purposes. Experience in cost estimating and allocation also is important.

Your CPA will play a starring role, quantifying building components and estimating the costs of those components under IRS guidelines.

For larger projects, the team also may include a contractor, engineer and architect.

This team will examine your dealership's walls, floors, ceilings and plumbing, as well as its electrical lighting, telecommunications, and heating and cooling systems, to identify the components

that will qualify for accelerated write-off periods. See "Parts of the whole" above for a description of the components of a cost segregation study.

For new construction and remodeling, team members will analyze detailed working drawings, mechanical and electrical plans, and blueprints to segregate the structural, electrical and mechanical components from those linked to personal property. The study also will allocate "soft costs," such as architect and engineering fees, to all components.

### The first step

Whether you've purchased a building, remodeled or expanded your existing one, or built a new one altogether, see your accountant about getting started with a cost segregation study — and reap tax savings, whether it's this year or next. ■

---

# Outsourcing human resources

In tough economic times like these, you likely want to place all of your focus on your core business and strategic activities. Full or partial outsourcing of the human resources function can help you free yourself of an important but time-consuming part of your operation — human resources administration — so you can devote more time to economically pressing matters. And outside professional employment organizations (PEOs), third-party administrators and HR consultants can make it happen.

### Compelling reasons

Whether you consider outsourcing all of your human resources pie



or just a slice of it, here are some potential benefits to keep in mind:

**Cutting back on paperwork.** Outsourcing can help you dump the drudgery of routine and recurring HR functions, such as payroll. And you'll be able to keep control of key responsibilities such as training, guiding and directing employees if your staff don't become employees of a PEO.



**Reducing overhead costs.** Can you boost your dealership's gross margin by outsourcing? Perform a cost-benefit analysis to see if the switch will be cost-effective after you've paid the PEO's fees.

**Improving employee retention.** Many PEOs are large companies that can provide better benefits than what your dealership might be able to offer. Good benefits can boost employee satisfaction while lowering turnover rates.

**Gaining HR expertise.** An organization specializing in HR functions, such as managing health care, may be able to do those jobs better than you can (while you concentrate on your core areas of expertise).

Outsourcing does carry some negative aspects, however. Naturally, making major changes to your HR management may trigger some fear and resentment, especially if you go with full outsourcing, in which your staff become employees of the PEO. You also might find it hard to turn over certain

managerial responsibilities, such as hiring or letting go of staff — after all, your employees are your most valuable asset. That's why outsourcing only parts of the HR function may be a better fit for many dealerships.

## Partial outsourcing

You may want to keep control over the administration of your overall HR management strategy but outsource time-consuming, everyday activities, such as:

- Maintaining personnel information,
- Distributing payroll and paying the associated taxes,
- Managing health care and life insurance benefits,
- Administering retirement and savings plans,
- Filing workers' compensation claims, and
- Running employee assistance and counseling programs.

Many of these functions are largely administrative tasks that an outside firm should be able to take care of handily.

## What to ask

Here are some questions to ask when selecting a PEO to handle some or all of your HR functions:

1. Does the outsourcing firm fit the culture of your dealership?
2. Does the firm have expertise in employment law, compensation design, employee relations, employee communications, human resources administration and benefits? Ask specifically about the functions that you want to outsource.
3. Does the firm have experience with auto dealerships?

You may want to ask for feedback from your professional advisors before you make a decision.

## Creating efficiencies

An outsourcing firm can partner with your existing HR department and help it to become more effective by picking up the slack or absorbing mundane activities. If you decide that outsourcing is right for you, you should be able to free up staff to handle pressing business matters. ■

# DEALER DIGEST

## Remember the aftermarket

Market research signals that attention to aftermarket parts is wise. According to a study by J.D. Power and Associates, drivers kept their vehicles significantly longer (four months), on average, in 2008 than they did the year before. And a 2008 study by Freedonia Group, an international business research company, predicts that light vehicle parts sales will grow 3.2% annually through 2010 as more vehicles reach prime service age.

Of course, owners of aging vehicles always need aftermarket parts, from batteries and fuel pumps to headlamps and windshield wipers. Customers also can be attracted to accessories that spruce up their cars or trucks, such as audio systems and onboard DVD players — if priced right. And don't forget "feel good" add-ons for the younger crowd, such as custom wheels and paints. ■

## 3 ways to make wellness programs work



Worksite wellness can make employees more productive, improve employee morale, reduce absenteeism and cut back on workplace accidents. So says the American Institute for Preventive Medicine (AIPM), which offers tips for making a wellness program work. Here are three low-cost actions your dealership can take:

### 1. Provide employee health assessments.

Determining how healthy or unhealthy your employees are is a good place for a wellness program to start. One way to do that is by holding a health screening where employees get their height, weight, cholesterol and blood pressure checked to help them learn about their health risks.

**2. Make self-help materials available.** An advantage of self-help is that employees can change their behavior on their own time and in the privacy of their own homes. Offer the (perhaps anonymous) use of

interactive videos, CD-ROMs, computer programs, audiotapes and booklets on topics like quitting smoking, losing weight and managing stress.

**3. Distribute a self-care guide.** According to AIPM, about three out of four people who receive a self-care guide will use it at least once within six months. Guides are available from many health care providers, and you should select one that addresses questions such as: What is a real medical emergency? When do I need to consult a physician? Can I treat this illness myself? What self-care procedures should I use? The guides, which are typically inexpensive, can simply be distributed to employees or handed out at a self-care workshop.

To see more tips visit: <http://www.healthylife.com/template.asp?pageID=41>. ■

## Controlling your employees' retirement "ship"

You may not be able to control the financial markets that your employees' retirement plans are invested in right now. But you can steer their retirement "ship" to steadier seas by stepping up the evaluation process.

To ensure you're doing what you can to protect your employees' savings, first establish objective standards to measure the performance of the funds your retirement plan offers. Next, read and understand fund reports and measure performance by weighing it against established benchmarks. Then create an evaluation report based on your findings and make the report a standing agenda item for management meetings. Finally, communicate results — and decisions — to your employees. ■

