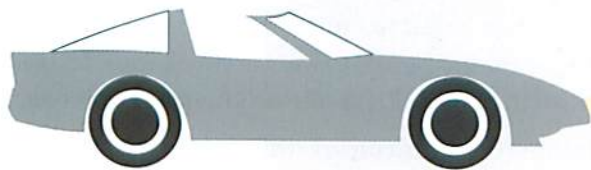




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HEADLIGHTS

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I LOST MY FRANCHISE. NOW WHAT?

This may be a question many of you are sorting through right now. If you lost your franchise, and you have not started thinking about your next move, it is past time to do so. The answer to the question depends on where you are in life. If you have enough money, have reached retirement age and do not have children in the business, then you probably have already decided to move on to the next phase of your life. If you want to stay in the business, have to stay in the business, or have family that wants or needs to stay in the business, you need a plan. So what should you do? One idea is to go into the used-vehicle business.

Consider Chris Leedom's profile of an average used-vehicle dealership from the April 2009 issue of *Dealer Business Journal*:

- ✓ 528 retail units sold
- ✓ \$7,126,332 in total sales
- ✓ \$1,711,332 in total operating gross profit
- ✓ \$1,219,236 in total expenses
- ✓ \$492,096 in total net profit before income taxes



**Barton Haag, CPA
Albin, Randall & Bennett**

- ✓ 28.76% net profit as a percentage of gross
- ✓ 6.91% net profit as a percentage of sales

Sounds good, right? Before you commit to becoming a used-vehicle dealer, start with a business plan that answers the following questions:

1. Will you be just a used-vehicle dealer, or will you also have full line of back-end services?
2. Will you sell a full line of finance and insurance products, or just add a limited warranty?
3. What other factors will be keys to your success?
4. What are your capital needs?
5. What retail and wholesale financing sources will be willing to work with you as a used-vehicle dealer?
6. What is your market opportunity, and who is your competition?
7. Is there a niche market not being served in your area (e.g., luxury brands, niche brands, trucks, etc.)?

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**I LOST MY FRANCHISE.
NOW WHAT?**

**DEALERSHIP
COMPENSATION PLANS**

8. How will you market your inventory? Will you use similar advertising strategies as when you were a new-vehicle dealer or, with a smaller budget, will you have to become more creative?
9. What will differentiate your used-vehicle dealership from other used-vehicle dealers and new-vehicle dealers in your market?
10. How will you price your inventory? Will your cost structure allow you to be more aggressive than your competition with pricing?
11. Whom will you target as your key personnel? Are they already employed, or will you have to recruit them?

Typically, one of the biggest obstacles to transitioning to a used-vehicle dealer is facilities. Unfortunately, the average new-vehicle dealership facility has limited use and is generally much larger than that needed for a used-vehicle operation. So what do you do? You can sell and relocate, but unless you have a big-box retailer or some other significant developer interested, selling will likely be difficult in this economy.

It is time to think outside of the box. Maybe you could convert your service department to a storage facility and lease space to individuals who have “fun” vehicles. You could provide them with detailing tools to work on their vehicles and a lift for minor repairs. You already have a service lounge for them to get together to share car stories. Or you could utilize some of your service space for a detailing business. You might consider starting a body shop, if the competition is not too great in your market and you have the capital necessary to start. You could also sublet some of your space to expand a business line without the risk of operating it yourself. Just remember, you are not going to need the same square footage to be a successful used-vehicle dealer.

Once you have answered these questions and sorted through what your model is going to look like, it is time to put pencil to paper. You will need not only



pro forma financial statements for planning purposes, but banks often require some form of forecasted financial statement before approving credit requests. A good place to start is with your prior year numbers. You will need to adjust these for items specifically related to your new-vehicle franchise. For example, you will need to adjust advertising and floorplan interest expense to eliminate any factory assistance. These items will also likely be less due to lower volume. You will also have to adjust service department figures, even if you decide to continue operating, by taking out any warranty work.

We recommend being conservative in your forecasts. It is easy to start with rose-tinted glasses. Start with the number of used vehicles you will have to sell to break even. You can adjust your forecast from there.

While developing your pro forma financial statements, it is generally a good time to review and challenge expenses and existing contracts. Review your vendor

lists, and identify opportunities to renegotiate contracts and reduce expenses. Some of the more common “big-ticket” items include

- ✓ insurance coverage (maybe you don’t need the same coverage)
- ✓ document management system contracts
- ✓ advertising contracts
- ✓ uniforms contracts
- ✓ oil distributors

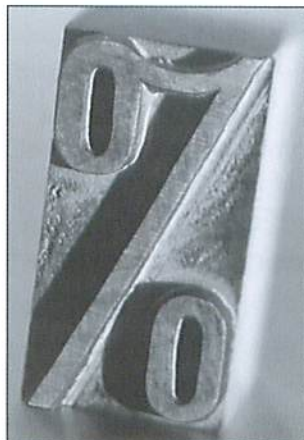
You will also need to review some of the tax implications of terminating your new-vehicle franchise. For example, if you were on “last-in, first-out,” you will have to recapture your reserve if you “cease to engage in the trade or business to which the adjustment relates.” Also, you may have inventory write-downs due to a lower value for vehicles or parts inventory you were forced to keep.

Whatever your decision, it is important to work with an AutoCPA Group member to make sure you take advantage of all of your options. \triangleleft

DEALERSHIP COMPENSATION PLANS

**Carl Woodward, CPA
Woodward & Associates**

Most dealers should review their compensation plans for employees who are paid a commission or bonus. I still find many dealers who have not reviewed the wording in their compensation plans and have not corrected, where appropriate, the wording errors that exist in some of their pay plans.



Most dealerships compensate sales department employees with a combination of an hourly wage (at least minimum wage) or a draw, along with some type of commission. In some cases, current or former unhappy sales department employees have contended they were not paid on all or the entire gross profit of each vehicle sale. In almost all cases, these employees understood the basis of their pay plan, but because they were unhappy, whether still employed or not, they claimed they were not paid on all vehicle gross profits. They might say they were to be paid a certain percentage of the gross profit on a new-vehicle sale when they really mean commissionable, payable or payroll gross profit.

Almost all dealers compute commissions on new-vehicle sales, starting with the invoice of the vehicle. The salesperson's commission is typically computed on the new-vehicle profit above factory invoice plus "packs" and/or "other costs or fees," if any. In other words, sales department employees do not share in the soft/hard pack, documentation fees, holdback, interest, delivery and handling, advertising, other factory rebates or other costs and fees. On a used vehicle, the salesperson is normally paid on the cost of the vehicle over a soft/hard pack and other costs/fees, which is the commissionable, payable or payroll gross profit, but it might be incorrectly labeled "gross profit" in either the oral understanding or the actual written compensation plan.

If the wording in the compensation plan only says "gross profit," even though the employee knew what was intended by the term "gross profit," the written agreement could possibly be used against

the dealership if a dispute ever arose. A compensation plan using the term "gross profit," with the employee either saying he did not understand or found out later he was not paid on all of the "gross profit," might cause the dealership to have to compensate this employee for past underpayment of wages and commissions. As those in the industry know, most sales department employees, if not all, are not paid on all of the gross profit.


Contact your attorney to review all the documents that are part of the written compensation plans for all employees paid a commission or bonus. This would almost always include sales department employees (such as salespersons), finance department employees and sales management employees.

Also, you need to review compensation plans for other departments. Be sure that you have a clear, written pay plan that fully discloses a description of all of the items that are being charged or may be charged to the computation for the commission. Be careful, because it is very difficult, if not impossible, to explain in writing all items that make up the components of a commission pay plan.

Once your attorney has read all the documents, you may need to explain holdback, rebates, soft packs, hard packs, fees or other items that affect commissions for any of your employees.

At a minimum, I suggest you take the following steps:

- 1** Assemble all written departmental compensation plans and any other documents that discuss compensation plans.
- 2** Wherever you see the words "profit," "gross profit," "gross," "departmental net profit," etc., preface those words with the word "commissionable," "payable" or "payroll" in all written compensation agreements to avoid any misunderstanding.

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DEALERSHIP COMPENSATION PLANS

(continued from page 3)

3 Once these steps have been performed, obtain legal advice to make sure the language you use in your compensation plans is clear and not subject to varying interpretation, so you will not have to defend your compensation plan in a courtroom as a result of a poorly worded document.

Please contact your local AutoCPA Group member about your compensation plans. ↗

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