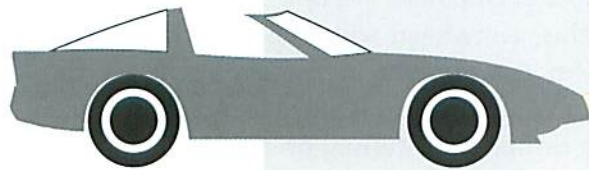




LATTIMORE BLACK MORGAN & CAIN, PC

5250 Virginia Way
4th Floor
Brentwood, Tennessee 37027
(615) 377-4600 • Fax: (615) 377-6688
www.lbmc.com • E-mail: dealer@lbmc.com



HEADLIGHTS

A PUBLICATION
OF THE AutoCPA Group

WWW.AUTOCPA.COM
1-800-4AUTOCPA

IS IT TIME TO SELL OR HOLD?

In this past year, dealers have been asking their CPAs if they should consider selling one or more of their dealerships. The reasons for selling are varied. In some cases, an owner is ready to retire, while for others it is a feeling that the industry or their franchises are going to see further declines in the years ahead. In today's environment, the most common motivation for selling a dealership is that many dealers grew aggressively over the last ten years and added stores without adequate management talent or sufficient capitalization to weather the economic storm.

Let's first consider the dealer who is currently profitable but just wishes to retire. If that dealer is in bad health and does not have a strong management team, then the decision to sell this year is probably the right one. However, for the aging dealer who is surrounded by good managers, today's offers from potential buyers will appear to be distress prices that rarely get the deal done.

To understand why this happens, consider the dealer with annual earnings of \$4 million three years ago and with a highly desirable

franchise. At that time, he may have had unsolicited offers of six times earnings, or \$24 million, for his store. But most of today's buyers are expecting to pay no more than four times net pretax earnings, so if the dealership's average annual pretax earnings have dropped to \$2 million for the last two years, the offers for this same store may be no more than \$8 million. Due to this steep price decline, we usually advise potential sellers who

have time on their side to consider holding their store off the market for a few years, especially if they foresee continued profitability at acceptable levels.

A more likely seller in today's market is the owner of multiple stores who has some unprof-

itable or marginally profitable dealerships. In some cases, this hypothetical dealer may own highly

please turn the page 



**James
Tanner, CPA
Heider, Tanner
& Dirks, Inc.**

SPRING 2010

**WHO PAYS FOR
DEMONSTRATOR
LIABILITY?**

**EXTENDED SERVICE
DEPARTMENT HOURS**

NADA ORLANDO

leveraged real estate, investment properties or nonautomotive companies that are drawing capital from the dealer's auto business. Add to this picture the fact that the dealer's recent store acquisitions may have been thinly capitalized and highly leveraged, based on the assumption of continuous growth.

It is not unusual for a dealer with an unprofitable store to borrow or distribute from his profitable dealership(s) to keep the losing store afloat. Eventually, the balance sheets of all the dealerships become strained until the dealer's lenders express concern. It behooves a dealer to avoid the stigma of nonperforming loans and to voluntarily start the process of liquidating assets before it is required by one's lenders.

The prudent dealer, given a shortage of capital along with unprofitable secondary stores, will strongly consider the sale of one or more points of the deal-

ership group to secure the profitable dealerships that have a bright future. This action usually requires the swallowing of pride because of the appearance of failure.

To make the decision even more distasteful, a dealer may need to "bring money to the table" to close the sale of an unprofitable dealership. This makes the choice to sell extremely difficult, especially when most car dealers are optimists who usually believe the year ahead will be better than the previous year. Too many dealers have unwisely chosen to continue owning a store losing \$1 million per year rather than selling or simply closing the dealership.

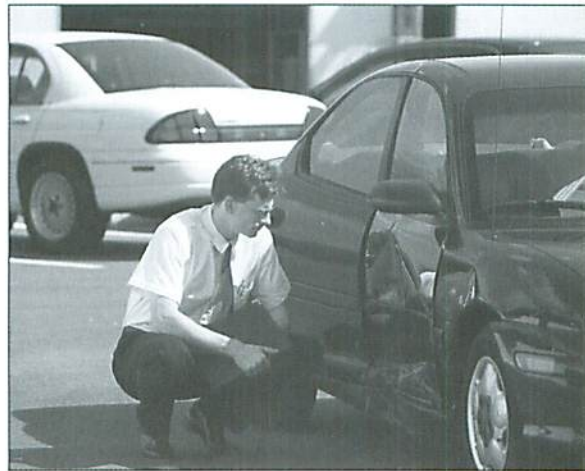
Your AutoCPAGroup member can help advise you on the difficult decision of selling or closing a dealership. To a large extent, all dealers are gamblers and, as the song goes, "You got to know when to hold 'em, know when to fold 'em." ♣

WHO PAYS FOR DEMONSTRATOR LIABILITY?

For years, dealerships have routinely awarded demonstrators to sales department employees and other department managers. However, that's been slowly changing due to concerns about demonstrator liability.

Frequently, users of demonstrators believe they have a right to the vehicle and do not exercise proper care or judgment. What happens when an employee damages or wrecks the demonstrator? We suggest that dealerships should hold their employees responsible for any and all deductibles, whether or not the accident is the employee's fault.

If the accident is not the employee's fault, the deductible from the dealership's insurance is the



Carl Woodward, CPA
Woodward & Associates

responsibility of the employee, no matter how high, and the other person's insurance company should reimburse the employee for the deductible.

If the accident is the employee's fault, the employee cannot complain about paying 100% of the deductible. The employee would have been required to pay the deductible if he or she owned the vehicle personally.

What should you do if the employee does not want to honor this demonstrator policy? Quite simply, the employee should forfeit the right to drive a dealership-owned vehicle. For full-time dealership drivers, such as parts drivers, you might want to modify this policy slightly by limiting the portion of the deductible they would have to pay. ♣

EXTENDED SERVICE DEPARTMENT HOURS

Most dealerships keep their service department open Monday through Friday from 8 a.m. to 5:30 p.m. Some dealers have longer hours during the week, some are open on Saturday and a small number are open on Sunday. Some factories and public auto groups have stated that service departments should be open at least 6 days a week and for extended hours because the public demands it. I think we would all agree that if you asked the dealerships' customers whether they want the dealership open more hours—or even open 24 hours a day, 7 days a week—they would say yes. The key question is, will customers actually use the service department in the evenings and on Saturdays?

I recently conducted a survey of dealers and obtained 80 responses. Some of the results of that survey were

- ✓ 70% of new-vehicle dealers are open on Saturday.
- ✓ The average dealer had 12 technicians working Monday to Friday.
- ✓ The average dealer had 4 technicians working on Saturday.
- ✓ The average hours open for those dealers open on Saturday was 6 hours.

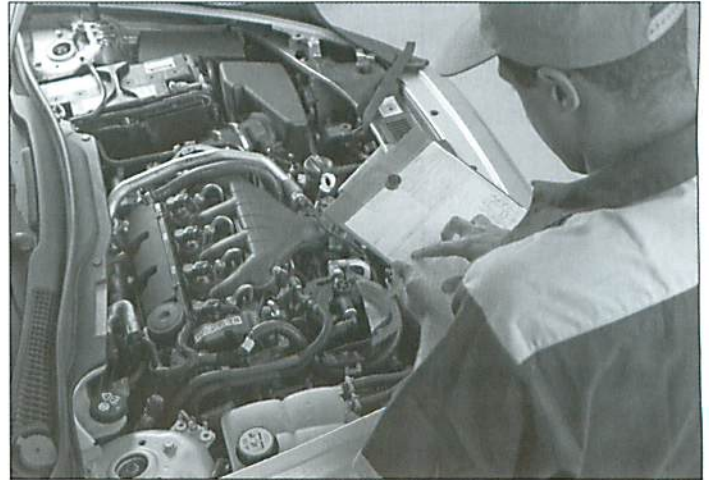
This means that approximately 50% of the dealers were open 4 hours on Saturday and 50% were open 8 hours.

NADA ORLANDO

The National Automobile Dealers Association (NADA) convention has come and gone. The event was held February 13–15, 2010, in Orlando. The weather may have been very cold, but the atmosphere at the convention itself showed some heating up of the industry.

As we all know, the industry has been affected by various challenges over the last several years. The tone of the convention this year was more upbeat,

Carl Woodward, CPA
Woodward & Associates



As you can see, most new-vehicle dealers are open on Saturday, but the demand for their services by their customers is very limited. Their service departments operate at only 33% effectiveness, compared with Monday to Friday. It might be even less, because we know a certain portion of the Saturday customers would bring their vehicles in for service during the week without feeling inconvenienced if there were no Saturday service.

Our suggestion is that most dealers need to be open on Saturday. In most cases, these dealers need to be open at least 4 hours and with a minimum staff of one parts person, one service writer and the number of technicians they can keep busy. ☞

Aaron J. Winiarz, CPA

with most people having high hopes for 2010. The floor was significantly more crowded than it has been in recent years, with many new exhibitors, along with those that have been a standard for the dealers over the years.

The theme of this year's convention was "Vision for Tomorrow." The workshops challenged dealers not to look just for today's profits, but to look for new,

please turn the page ☞

NADA ORLANDO

(continued from page 3)

innovative ways to grow their businesses in the future and continue to retain their customers. This goal can be partially achieved through continual training of dealers' employees.

NADA also tried to help the attending dealers with a \$200 voucher to use toward the purchase of a product or service from the showroom floor, and many dealers took advantage of this. We were pleased to see so many of you who stopped by our booth and look forward to seeing you again next year in San Francisco. ☺

For assistance, please call 1-800-4AUTOCPA or see our website at www.autocpa.com. Headlights is prepared by the **AutoCPAGroup** for the clients of its members. We are required by IRS Circular 230 to inform you that the advice contained herein (including all attachments) is not intended or written to be used for the purpose of avoiding any penalties that may be imposed under Federal tax law and cannot be used by you or any other taxpayer for the purpose of avoiding such penalties. © 2010 Headlights

Managing Editor

Anna M. Cooley, *WPI Communications, Inc., Springfield, NJ*

Associate Editors

Aaron Winiarz, *Aaron Winiarz, CPA, Macungie, PA*

Jim Tanner, *Heider, Tanner & Dirks, Denver, CO*

Advisory Board of CPAs

- | | |
|--|---|
| Kevin Allison
<i>Peterson Sullivan, LLP
Seattle, WA</i> | Susan Harwood
<i>Hulsey, Harwood & Sheridan, LLC
Monroe, LA</i> |
| John Bachle
<i>Sartain Fischbein & Co., CPAs
Tulsa, OK</i> | John Hayes
<i>Maloney + Novotny, Cleveland, OH</i> |
| Wayne Bond
<i>Dwight Darby & Co., Tampa, FL</i> | Dick Heider
<i>Heider, Tanner & Dirks, Denver, CO</i> |
| Jerry Bressler
<i>Mountjoy Chilton Medley LLP
Covington, KY</i> | Jeffrey Jensen
<i>Jensen & Keddington, P.C.
Salt Lake City, UT</i> |
| Stephen deBlois
<i>Welch LLP, Ottawa, ON</i> | Donald Kretschmar
<i>Henry & Horne, LLP, Tempe, AZ</i> |
| Robert Deering
<i>Pomares & Co., LLP, Sacramento, CA</i> | Daniel R. McCall
<i>DZH Phillips LLP
San Francisco, CA</i> |
| John Dobson
<i>Thom-Dobson-Womack, Inc.
Oklahoma City, OK</i> | Greg Porter
<i>Porter & Company P.C., Greensboro, NC</i> |
| Duane Goetz
<i>Brady Martz, Grand Forks, ND</i> | Lonnie Rogers
<i>Tetrick & Bartlett, PLLC
Clarksburg, WV</i> |
| Ken Gordon
<i>Weisberg, Molé, Krantz & Goldfarb, LLP
Woodbury, NY</i> | Dan Thompson
<i>Boyer & Ritter, Harrisburg, PA</i> |
| Gerry Green
<i>Green & Miller, P.C., Corinth, TX</i> | Mike Vaughn
<i>Lattimore Black Morgan & Cain, PC
Brentwood, TN</i> |
| Barton Haag
<i>Albin, Randall & Bennett
Portland, ME</i> | Carl Woodward
<i>Woodward & Associates
Bloomington, IL</i> |



LATTIMORE BLACK MORGAN & CAIN, PC

5250 Virginia Way
4th Floor
Brentwood, Tennessee 37027