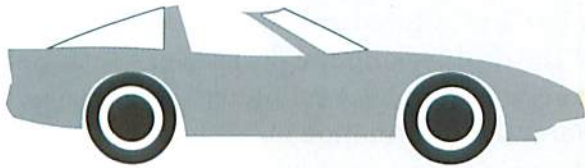




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HEADLIGHTS

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IMPACT OF THE FINANCE DEPARTMENT

The finance department at a new-vehicle dealership might be the most important department of the dealership when viewed from an income-producing perspective. The department generates a large amount of gross profit for the dealership, directly and indirectly. Having the right person(s) in this department has a substantial effect on the dealership's bottom line.

The finance department generates gross profit directly from the products it sells, such as finance reserve, gap and credit insurance, service contracts and other miscellaneous items. They generate gross profit indirectly from assisting in "closing deals" by obtaining customer approval for the purchase agreement and arranging financing for the purchase.

I recently surveyed dealerships to determine the percentage of gross profit generated directly by each department in the dealership. The table on page 2 shows the breakdown.

New and used finance income combined produce 12% of the dealership's total gross profit. Combining finance income with vehicle gross profit, the new and used departments generate 23% for new-vehicle sales and 29% for used-vehicle sales. This is a substantial impact from a department staffed by just one person in most new-vehicle dealerships.



**Carl
Woodward, CPA
Woodward &
Associates**

Most dealerships that sell fewer than 100 retail units per month have only one full-time employee in the finance department. As the monthly volume increases, most dealerships find they need to add a qualified part-time finance person or a second full-time finance person. One or two finance employees generate approximately 12% of many dealerships' overall

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SPECIAL NADA ISSUE: JANUARY 2010

MANAGING YOUR FLOOR PLAN
SERVICE DEPARTMENT
ACCOUNTABILITY

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New-vehicle gross profit	17%	Used-vehicle gross profit	23%
Parts gross profit	15%	Service gross profit	22%
Body shop gross profit	3%	Other income	8%
New finance income	6%	Used finance income	6%

gross profit. This is a disproportionately large amount, considering that all other departments have multiple employees contributing to their departments' gross profit.

From this perspective, dealers need to make sure they have the right person in the finance department. They need a strong, producing person. This person must be able to generate income for the finance department with good sales skills. This

person must have the skills to work with the lending institutions that purchase the contracts to ensure that the vehicle sales department completes its sale, consequently increasing its gross profit. Dealers

should not and cannot afford to have a below-average producing person in this department. The below-average producing person will cost the dealer much in lost and reduced gross profits and may not get all of the deals sold to the dealership's financial institutions that purchase retail installment contracts. For more information about issues related to your finance department, please contact your AutoCPAGroup member. ☞

MANAGING YOUR FLOOR PLAN

In response to the current recession, the government has cut interest rates to historic lows. This has provided some relief for auto dealers, whose floor plan interest rates are, in most cases, linked to the federal funds rate set by the Federal Reserve. However, declining demand for new cars has caused profit margins to shrink lower than anyone could have predicted. To make matters worse, many analysts are predicting an increase in interest rates over the coming months. Needless to say, the outlook is bleak for auto dealers already struggling to stay in business.

Improved inventory management is an ideal way for dealers to stay in business by minimizing floor-plan interest. This can be accomplished with a simple financial analysis. By keeping track of how much it costs to floor each vehicle and, on average, how much gross profit is expected on a model-by-model basis, a dealer can figure out how long a vehicle can be floored before potential profits turn into actual losses. Inventory levels should then be adjusted based on turnover rates for each model. This avoids situations where accumulated floor-plan interest makes it impossible to sell at a profit.



**Benjamin Daria, CPA
Weisberg, Molé, Krantz & Goldfarb, LLP**

For example, assume it costs \$200 per month in interest to floor a car. This particular model of car, on average, generates a gross profit of \$800. In addition, historically, the dealer has incurred other allocable variable and fixed expenses of \$400 per new vehicle sold. In this scenario, a dealer would have to sell the car in less than two months to generate a profit. Based on this analysis, if the dealer's inventory turnover ratio is less than six times per year for this particular

model, inventory should be reduced to a more appropriate level.

This simple analysis can help many dealers avoid throwing money away on interest and lessen the impact of a future interest rate hike. Although new-vehicle floor-plan interest per vehicle sold decreased from \$167 in 2007 to \$84 in 2008, it may be only a matter of time before the Federal Reserve decides that it is time to raise the prime rate. Those dealers who take a hard look at their inventory management will be better positioned to survive a period of rising interest rates. For advice on managing your floor plan, please contact your AutoCPAGroup member. ☞

SERVICE DEPARTMENT ACCOUNTABILITY

Wayne Zimmerman, CPA
Pomares & Co., LLP

Are you fully aware of your service department technician efficiency and effectiveness totals? How about your hours-per-repair-order and one-line-repair-order percentages, or adviser productivity and true adviser up-sell percentage? Do you regularly review repair orders that fail to meet minimum gross margin levels?



If so, I imagine you probably have a fairly successful service operation, one that can adapt quickly to change, respond well to production availability, produce to desired levels and, most importantly, identify and correct department weaknesses timely and efficiently. If not, why?

Production and related measurement factors provide management with effective tools to evaluate managers and employees with a clear understanding of what is expected of them. Service department evaluation factors can be easily gathered and, when reviewed on a regular and continual basis, provide a clear roadmap to production improvements. Key service department factors include the following:

Hours-per-repair-order

Daily: Every closed repair order for the day should be reviewed by the service manager for its respective effective hours, or part of hour, written. By reviewing this on a daily basis, the service manager can identify problems and develop solutions that can be timely and effectively communicated to the service department teams.

Weekly: Weekly reports of hours-per-repair-order production by both adviser and technician should be provided to the general manager or dealer principal for review and consideration. There should be clear explanations of cause if hours-per-repair-order measurements fail to meet preestablished levels.

One Line or Up-sell Percentage Measurements

Daily: Every closed repair order for the day should be reviewed by the service manager to determine if the repair order had any evidence of up-sell. Few

would argue that an adviser should be more than an order taker. The adviser should serve both the client and department needs. Not every repair order presents an up-sell opportunity, but a high percentage of repair orders with no up-sells indicates a potential adviser-selling weakness that could be addressed timely and effectively if the related factors are reviewed daily. Does the adviser need to

address selling techniques? Do the department tools allow for identification of potential up-sell situations? Has the customer been made aware of potential problems? Does the adviser perform a vehicle walk-around when the customer arrives for service? All of these questions can be best addressed if repair orders are reviewed daily because the element of timely identification of related factors diminishes with each passing day.

Weekly: Weekly reports of one line or up-sell percentage measurements by both advisers and technicians should be provided to the general manager or dealer principal for review and consideration. There should be clear explanations of cause if such measurements fail to meet preestablished levels.

Technician Production Measurements—Efficiency and Productivity

Weekly: Measurements of technician efficiency (flat rate hours/actual clocked hours) and productivity (actual clock hours/available hours) by technicians should be measured by the service manager weekly. These measurements are critical to determine overall technician skill and related shop management. They answer questions concerning work allocation, technician capability and time management. There should be clear explanations of cause if such measurements fail to meet preestablished levels.

Continual evaluation of the factors discussed above will provide the dealership management team with the tools necessary to identify the strengths and weaknesses of the service department in terms of

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SERVICE DEPARTMENT ACCOUNTABILITY

(continued from page 3)

production at both the adviser and technician levels. Management of these factors will assist the dealership management team in the development of policies, procedures and expectation levels that, when effectively applied, measured, evaluated and communicated to relevant employees, will serve to increase the production and ultimate profitability of the service department. And management of these factors will provide the service department employees with measurable terms they can use to determine their contribution to the department in relation to the dealership expectations. ↗

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