HEADLIGHTS

A PUBLICATION
OF THE AutoCPAGroup

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DON'T LET HACKERS CRASH YOUR DEALERSHIP

Five years ago, then FBI director Robert Mueller said there are only two types of companies in the United States—those already hacked and those that will be.

Hacking attacks have dominated the headlines in the past decade, and the threat is especially real for car dealerships and other small-to-midsize businesses.

Theresa Kane, CPA
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Smaller businesses can become easy targets for cybercriminals because their computer security systems are not monitored consistently or kept up to date. Worse, many businesses discover too late that their traditional insurance policy doesn't cover losses incurred from cyberattacks, especially if there is no tangible loss of computer hardware.

BE PROACTIVE

Many insurers now offer cyber coverage in their dealership package policies. While this coverage is better than not having cyber insurance coverage at all, it may give you a false sense of security. Very limited coverage may fail to cover all losses.

Often, the coverage includes identity theft, credit monitoring fees for compromised individuals, public relations or legal defense costs. Again, the limits may not be adequate for your business's exposure.

Don't wait until a cyberattack occurs to start reviewing your coverage. In addition to talking to your carrier, it makes sense to have an expert conduct an independent review of your insurance coverage. Besides identifying gaps, many times these reviews uncover ways dealerships can save money.

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AUTUMN 2017

ATTACKS OF ALL KINDS

When hackers strike, they can access vulnerable systems through e-mail, social media, and even "locked down" customer or vendor portals. Hackers have many devious paths at their disposal:

✔ **Altering websites**—Hackers may hijack your website. Sometimes they make changes only to cause embarrassment; other times it is more serious, such as attaching viruses that infect your website visitors' computers.

✔ **Information kidnapping**—Using "ransomware," hackers take over a system and encrypt information—releasing it only if a company meets their payment demands. Unfortunately, paying up doesn't guarantee that hackers will return your system unscathed. Fixing it may take a staggering amount of overtime and additional IT support.

✔ **Identity theft**—This can range from your dealership's tax ID number to employee and customer information. If health insurance information is released, you could be in violation of strict federal privacy laws under HIPAA (Health Insurance Portability and Accountability Act of 1996) and face fines as well as civil liability.

✔ **Lower-tech intrusions**—Data thieves also go old school, stealing or photographing customer paperwork and other sensitive documents. Even if such a theft does not occur through a computer, a cyber policy would still provide coverage.

DEALING WITH AN ATTACK

If your dealership is the victim of a major hack attack, it is critical to create the right response team guided by an attorney, a forensic accountant and a cybersecurity expert. This team works with upper-level managers to quickly quantify the damage and prevent future attacks.

Remember, dealing with a data breach is about fixing the problem as well as shielding the company from liability.

A cyber policy would provide coverage for all the scenarios described, subject to policy deductibles/retention and limits. An independent insurance review can help you find the best coverage option.

As with your homeowners and automobile insurance policies, you need business coverage that will protect you if your critical information falls into the wrong hands. In our digital world, such a scenario is likely not a matter of if, but when. Contact an AutoCPAGroup member if you would like to discuss this further. ✍

DEALERSHIP METRICS TO CONSIDER

Carl Woodward, CPA
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PARTS INVENTORY

I recently surveyed about 200 dealers to obtain the number of days' supply in their parts inventory. While the survey might not be statistically valid, the average dealer had a 61-day supply of parts. On average, imports had a lower range of days' supply, and domestics had a higher range. Dealers with more than a 90-day supply need to meet with their parts department to justify why they are so far above average. Also, the parts department's monthly report should reflect the number of parts in inventory that have been in stock over a year, which should be minimal. By discussing it with the parts department, this stale group of parts should be gradually reduced through use.

USED RETAIL GROSS PROFIT MARGINS

In my monthly survey of dealers' financials, I find a wide range of front-end used retail gross profit margins—for March 2017, they ranged from $600 to well over $2,000. I expect at a minimum that front-end used retail gross profit margin should not be less than $1,300 to $1,400. In my survey, the average used vehicle front-end gross ran between $1,700 and $1,800. In almost all cases, I find those dealers with below-average front-end used retail gross profit margins are also below average in net profit as a percentage of sales. This metric should get your attention. I believe there are few valid reasons to accept such low gross profit margins. With some management education and changes, this metric can be improved in a short period of time.

SERVICE CONTRACT PENETRATION

My monthly survey of new and used vehicle service contracts shows contract penetration for an average dealer of 42%—near the range I have seen in the past few years. The penetration percentage is almost the same for all types of franchises. If you find your penetration is less than 35%, you need to work with employees who sell this product and your F&I service provider. If you can't increase this percentage, then you may need to consider hiring new employees. Contact your AutoCPAGroup member today for assistance. ✍

DEALERSHIP FACILITY EFFICIENCY

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Many businesses may be contributing unwittingly to the facility inefficiencies and excessive operating costs of their activities. All too often, the layout and space utilization of an automobile dealership may cause it to operate in a wasteful manner. How can a dealership discover and resolve these problems?

Typically, owners will add more space, renovate the existing space or even eliminate processes to make their operations more economical. Other solutions may include hiring an architectural firm to redesign the space or a design engineering firm to reconfigure the operating space. The best method for determining the extent of inefficiency in a facility's layout is to procure the services of an industrial engineer experienced in the identification and analysis of "problem areas" who can provide detailed business solutions to remedy the perceived problems.

Among the activities a dealership should investigate are facility layout and space utilization, parts inventory storage requirements, service department management methods, forecasting of inventory and labor needs, quality sampling, and even construction management. Each of these can affect the efficiency of the physical plant, thereby increasing the owner's operating costs. Any investigation undertaken by the owner should include a timeline for implementing remedial actions and an evaluation of the cost savings to be realized.

For example, a business solution study benefited a dealership owner who was considering a facility expansion because of perceived cramped conditions. A review of the space utilized and the inventory storage methods resulted in a space reconfiguration, changes in the types of shelving used in the parts department, and the forecasting of inventory and labor needs in the service department. These changes provided more usable space and avoided the need for an expansion, thus resulting in a $1.7 million construction cost savings.

Another example of a business solution study entailed a review of the inventory system of an automobile dealership's parts warehouse. In this example, the large number of parts and accessories required for various automobile types and

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DEALERSHIP FACILITY EFFICIENCY

(continued from page 3)

styles caused the dealership to maintain an extensive inventory of redundant materials. In turn, the large amount of space dedicated to these items required continuous monitoring, unnecessary carrying costs and even accounting for obsolete parts. An inventory control study resulted in a 20% reduction in the space needed and a similar reduction in the carrying cost of the parts and maintenance materials.

The primary goal of a business solution study is to help a dealership reduce operating costs through better use of resources and operating procedures. For more information, contact your **AutoCPAGroup** member. ✍