HEADLIGHTS

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MAXIMIZING YOUR DEALER MANAGEMENT SYSTEMS

One thing that remains consistent for all dealerships is the need to manage your dealer management systems (DMS) more efficiently. As dealers review expenses or look at how they can increase gross per repair order or per-vehicle sales, sometimes the computer system may be blamed. Below are what I believe to be the top three ways to maximize your DMS.

Sally A. Lopez,
Rosenfield & Co.

Expense Control—DMS bills often look like they are written in a foreign language. What typically occurs is that dealers negotiate with the DMS provider and enter into an agreement regarding costs and metrics. However, those costs and metrics don't remain the same month to month. While costs increase, it is difficult for the nontechnical person to decipher the billing to check this. One example is Credit Check, which is something that can very quickly get out of hand if not controlled and reviewed monthly. I recently worked with a dealer group that faced this particular situation. Credit Check expense was 15% of their total bill. After the assessment, we corrected setups, retrained some employees and ultimately saved the dealer more than $75k annually—with just that one correction.

Application Review—When negotiating with the DMS vendor, many dealers purchase a suite of applications they feel is standard to getting the point of sale accomplished. The point of sale could be purchasing a vehicle, selling service and parts, or posting sales to accounting. While each is needed to make a dealership function, the process by which it occurs doesn't always get translated into "what is

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best for my organization." Some applications sound fantastic, but they can fall by the wayside if not properly installed or if employees are not trained sufficiently to use the product.

An example of an application that seems to get overlooked is Electronic Repair Order and Dispatching. Many dealers today still have human beings perform a job that could be automated (i.e., a "dispatcher" walks tickets to the mechanics who then pick and choose from among the jobs). A computerized application would allow a manual process to become automated.

Standardization—Standardization can mean a lot of different things. Standardizing your processes in hardware and software can result in a return on investment that can't always be measured in a tangible way. While not captured immediately, the productivity and consistency that can be gained over time by streamlining these processes is unimaginable. For example, performing a technology refresh on PCs and printers will cut back on downtime and increase productivity. Simply having all software applications consistent and up-to-date will put productivity back into the bottom line.

Standardizing software setups on your DMS can also aid efficiencies, especially within a multigroup location. This includes standardizing the chart of accounts, journals, schedules, op codes and the F&I screen, which, if done correctly, can give the dealership the power to look at its stored data in a consistent, precise way.

Addressing these three key factors will make dealers more successful at maximizing their DMS. Whether dealers work with existing IT staff, engage the DMS vendor or hire outside IT specialists, it is a chance to understand what is best for their organization.

SERVICE CONTRACT RETRO AND REINSURANCE PRODUCTS

Carl Woodward, CPA
Woodward & Associates, Inc.

All dealers sell new and used service contracts. A typical example would be a retail selling price of $1,800 for a longer-term contract, with the dealer's "cost" being $1,400. The dealership reflects the $400 gross profit in the finance department and pays the service contract vendor the $1,400 for the coverage.

Dealers, other than small-volume dealers, should consider the opportunity to make more profit than just this $400. Two ways to enhance your profits are by participating in either a retro service contract program or a reinsurance program. For various reasons, many dealers don't participate in either of these programs and thus leave thousands of dollars of profit on the table.

Typically, the retro program is an informal arrangement with a service contract broker or an F&I administrator. In these arrangements, the administrator keeps a certain percentage above the $1,400 service contract cost as a commission, with the remainder held in an account where the funds are invested to earn interest income. The service contract claims are paid from the $1,400 minus an administrator servicing fee. This account builds up, and if it has a reasonable loss ratio, the dealer will possibly receive annual payments in two or three years from contract inception.

When signing up for this type of program, you need to have someone knowledgeable in this area review the administrator fee structure, along with the wording of the agreements, for reasonableness. For example, I have seen retro programs where, when the dealer stops writing new contracts into it, all the unearned funds and expected future profits are forfeited to the benefit of the administrator. Thus, a careful review of documents for the retro program should be performed up front. Note that the money received from a retro program is taxed as ordinary income.

The second type of product is reinsurance, where the dealer either participates in an offshore company with other dealers or has its own reinsurance company. There are extensive written agreements that need careful review by people who work in this area. Payments from this type of company to the dealer are subject to tax rates that will usually be less than the retro position. From an income tax perspective, this is a more tax-efficient setup.

To summarize, most dealers need to consider a retro or reinsurance type of program for the sale of vehicle service contracts. I am only estimating, but these programs might generate $300 or more per service contract sold plus investment income over time. Contact an AutoCPAGroup member to determine what will work best for you. ✍

2017 NADA CONVENTION WRAP-UP AND AutoCPAGroup BOOTH

Bart Haag
Albin, Randall & Bennett

The AutoCPAGroup did something new and different with our booth this year. James Ziegler, Leonard Bellavia, Alysha Webb and Sally Lopez were all guest speakers at our booth throughout the convention. They covered such topics as "20 Things I'd Do if I Bought Your Dealership Today," "3 Hot Legal Topics for Dealerships," "Foreign Investment in the U.S. Dealership World" and "Maximizing Your DMS." Their presentations were well attended and inspired those present to try something different in their dealerships.

NADA's 100-year anniversary in January 2017 did not disappoint. The weekend was complete with a packed exposition, seminars that introduced new and exciting ideas, discussion of some pretty hot and even controversial topics, and an overall positive outlook for the upcoming year. The expo floor sold out in no time, maybe even in record time. There was the typical mix of products promising to sell another five cars per month. There were also some interesting new products promising to make dealers more efficient. Overall, the booths seemed much larger than in recent years.

One of the most talked-about topics at the J.D. Power Automotive Summit the day before the exposition and throughout the convention was the Border Adjustment Tax. This has been mentioned by the Trump administration as a way to pay for tax reform promised during the recent campaign. Potentially, this new tax would have a significant impact on the cost of imported and domestic vehicles. It would be imposed on the various components of a vehicle that are manufactured outside the United States. No matter who the manufacturer is, all vehicles sold in the United States have parts manufactured all over the world; therefore, no manufacturer would avoid the tax. However, imported brands have significantly more of their vehicles manufactured outside the United States. The tax would be imposed by disallowing a tax deduction for these costs. We can expect a lot of discussion and lobbying related to this idea over the coming year.

The attitude throughout the convention was generally positive. Almost all analysts are expecting 2017 new vehicle volume to remain consistent with that of 2016. With the market not expanding, dealers will have to fight harder to grow their market share. Several brands have good product potential over the next several years. Most manu-

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2017 NADA CONVENTION WRAP-UP AND AutoCPAGroup BOOTH

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facturers are focused on delivering new products, developing artificial intelligence and driverless cars, and coming up with technologies that will improve fuel efficiency or eliminate the use of fossil fuels altogether. Interest rates were also discussed. Interest rate increases could have a significant impact on the new car market and dealership profitability. Managing inventory levels will be much more important this year.

Thank you to everyone who stopped by the AutoCPAGroup booth. We look forward to seeing you next year in Las Vegas. ✍