

HEADLIGHTS

A PUBLICATION
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FRANCHISE VALUE

Several terms are used interchangeably when valuing the intangible assets of a dealership. Some of these terms are franchise value, blue sky, goodwill, personal goodwill and personal covenant not-to-compete. Personal goodwill is the goodwill that attaches to the individual dealer, not the corporation. For some dealerships, much of the total blue sky value is due to this personal goodwill. Generally speaking, these values are the excess amount paid for a dealership above the “fair market value” of the hard assets such as cash, accounts receivable, inventory and fixed assets. Many dealers and some outside the industry call this excess value goodwill or blue sky. It does not matter which of these categories this excess value is called from an IRS perspective, since they are all deductible from a buyer’s perspective.

The profit levels of new-vehicle dealerships are determined more by the effectiveness of the dealership’s employees/dealer than by the franchise involved, location, facilities or any other factor. Public ownership of new-vehicle dealerships has also

affected the value for certain new-vehicle dealerships over what would have been paid in the past.

As a general “real world” rule, many new-vehicle dealerships that have performed, in the past, well below or well above average from a profit perspective will not have a franchise value that will fall within the normal range that some formulas compute in determining franchise value. For those dealerships that are performing below average,

without special circumstances, many “experts” assign too low or no franchise value. We feel that almost all willing buyers will pay some franchise value for a new-vehicle dealership because of the competitive situation involved in dealership acquisitions. Also, a willing buyer is more concerned

with profits they expect to make than the profit history of the dealership.

please turn the page ➡



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SPRING 2006

**CAN TECHNOLOGY
REPLACE PERSONNEL?**

**TOOLS FOR MONITORING
PERFORMANCE OF YOUR
SERVICE DEPARTMENT**

NADA ORLANDO!

For those dealerships that obtain well above average net profits, which in many cases are due to the personal goodwill of the dealer, many buyers may discount historic profits to a greater degree when

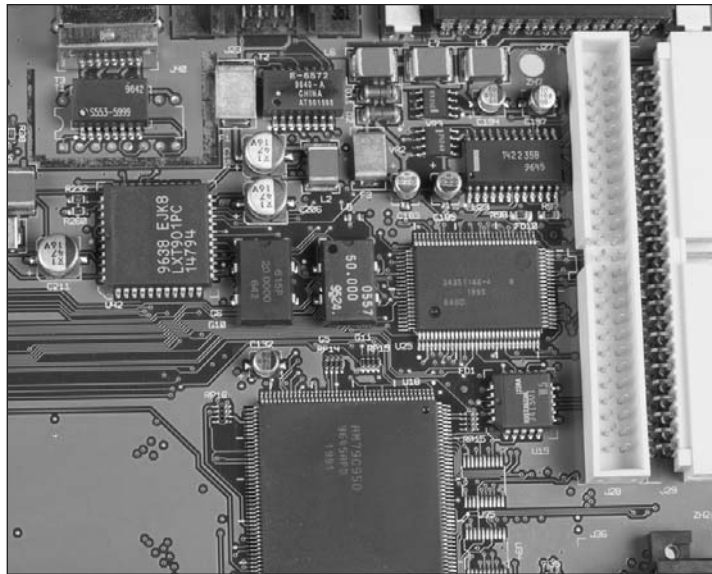
they determine the franchise value. They feel that they will not be able to equal or exceed the profit levels of the existing dealer because of the personal goodwill of the current dealer. ↵

CAN TECHNOLOGY REPLACE PERSONNEL?

The answer is yes and no. In most cases, technology will assist and speed up the personnel you have, allowing them to serve more customers and be more effective. A recent example of this was at the AutoCPA Group meeting in Key West, Florida, when Eric Goodman of BZ Productions Sales & Marketing presented virtual managers.

This system is made up of eight products: Virtual Marketing Manager, Virtual Phone Manager, Virtual Dealership, Virtual Business Development Center (BDC) and Internet Manager, Virtual Sales Manager, Virtual Test Drive, Virtual Trainer and Ad Tracker. BZ realizes that technology alone will not generate results, so it delivers a detailed training program that gives dealers a customized strategy for their people. Of course, these tools do not replace managers, but they automate many steps, freeing the manager to handle many more customer needs.

The Virtual BDC and Internet Manager automatically executes thousands of daily activities for your BDC to keep your dealership in contact with your customers, to create more traffic and sales. It manages and measures all customer activity for the showroom, phone and Internet, sending multimedia e-mails to customers throughout the sales process and during their whole ownership cycle to bring the customer back to the dealership for service and sales. One strategy that has proven successful has



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been the use of a new type of e-mail marketing in which the dealer sends multimedia “buzzmails” that include animation and sounds and look like a television commercial. This is not only a less expensive method of marketing, but it is very easy and takes very little of the manager’s time. Also, the Virtual Phone Manager can make more than

100,000 calls in one minute for half the cost of a postage stamp. This device would replace a room full of telemarketers.

One eye-opening statistic is that 7 out of 10 customers (up from 6 out of 10 in 2003) use the Internet before they buy, yet fewer than 3 out of 10 use the newspaper or television and radio. Also, the average cost per sale with traditional media is \$300, while the cost per sale on the Internet is only \$135.

In the end, the customer is “king” and the most successful dealers are very quick to adapt to modern customers by focusing on how they want to buy rather than on how the dealership wants to sell. The most successful dealerships in the country are adapting to changes in the way customers are shopping for cars. Using proactive digital marketing to attract, sell and keep more customers is less expensive than traditional media and is more measurable. ↵

TOOLS FOR MONITORING PERFORMANCE OF YOUR SERVICE DEPARTMENT

Scott J. Malof, CPA/PFS
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Given the challenges being faced by most of our dealerships in the front end these days, many are now more keenly focused upon back-end performance and profitability. It's often been quoted, "You cannot manage what you cannot measure."

One tool that some dealership groups use to manage service advisor (SA) performance is the job stack report or RAP report. Your dealer management services (DMS) system creates this report. If you are not familiar with the RAP report, it allows you to track specific SA performance on a daily, month-to-date or specified date basis.

Specific categories of performance for each advisor include total repair orders (ROs) by class count (i.e., customer pay, internals and warranty); number of operations per RO; hours, labor dollars and parts dollars sold per RO; total labor sales and total parts sales; total dollars per RO; and the effective labor rate (ELR). Again, all of these totals are on an aggregated basis. However, the RAP report allows the dealer/manager to "drill down" into and "explode" the detail of each advisor's total by the use of an "RO detail" report.

Drilling down into the detail of the RAP report allows for the analysis of each of the SA's closed ROs on a given date by RO number for hours sold, labor cost, cost per hour, labor sales, ELR, vehicle identification number and customer name.



In addition, your DMS can generate exception reports (REX), which show additions, changes, deletions and overrides executed on each RO. For example, if you are interested in seeing the discounts transacted, REX can show you by RO number a description of the service, amount charged and the discount from the standard menu price.

Given the squeeze on front-end grosses these days, management tools such as RAP and REX may come in handy to help your dealership maximize back-end performance and profitability. ✍

NADA ORLANDO!

The annual National Automobile Dealers Association (NADA) Convention has once again come and gone. This year's event was held in frigid Orlando, Florida, February 11-14, 2006. Even though temperatures dipped below freezing during the convention, it did not stop attendees from enjoying the area and getting the most out of the convention. At least we were not in New York City, which received a record 27 inches of snow over that weekend. The AutoCPAGroup was once again present with its booth. It is always nice seeing so many clients and friends and building new relationships at the convention.

This year's mantra for dealers and manufacturers alike seemed to be "Back to Basics!" During tough

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Albin, Randall & Bennett

times, dealers must focus on improving basic selling and managerial principles and building customer loyalty. There were a variety of seminars focusing on these issues as well as an assortment of other issues impacting the industry. There were also many vendors offering new and innovative solutions helping dealers to improve their business practices for the upcoming year. Most of the manufacturers were also talking the "Back to Basics!" talk, saying they will focus on product quality, product development and dealer relations during the upcoming year.

Obviously, a lot of the talk regarding manufacturers centered on the domestics, Ford and General

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NADA ORLANDO!

(continued from page 3)

Motors. Incoming NADA Chairman William Bradshaw assured dealers that his and the NADA's number one initiative for 2006 are industry relations. Chairman Bradshaw indicated he and NADA would pay particular attention to relations with troubled makes.

Despite the challenges ahead for 2006, the majority of dealers have an optimistic outlook and expect to improve their profitability. Regardless, it should prove to be an exciting year. The members of the **AutoCPAGroup** look forward to seeing everyone again at next year's convention in lucky Las Vegas, Nevada, February 3-6, 2007. ↵

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