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How to win over lenders

CRM software
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On your mark, get set, go

5 ways to prepare for market recovery

New vehicle sales figures for the last half of 2010 show signs of recovery. And many analysts predict more good news ahead. Here are five things you can do to transform from a battle-weary warrior to a dealership ready for an uptick this year.

Revisit your goals

Internal and external factors have changed dramatically over the last few years. Therefore, you need to take a look at your current situation to determine whether your old forecasts and budgets still make sense. Once that's done, set realistic "stretch" goals for employees and yourself.

One goal you should consider is increasing the time spent interacting with customers. Charge salespeople with cutting e-response rates (the average time it takes to respond to online inquiries) in half. Offer a bonus to the sales manager if he or she can improve the inventory turn cycle by three or more days. Or ask your parts manager to increase, say, all-weather floor mats or snow tire sales by 5% each month in the first quarter of 2011.

To keep employees accountable, identify specific measurable goals for each department and communicate progress each week. Also motivate workers with incentives, such as bonuses or employee-of-the-month programs.

Foster a team environment

Let your employees participate in strategic planning meetings. This will help them buy into your goals and make them feel part of a team. Owners who are enthusiastic are more likely to set a positive "tone at the top" that filters down through the organization.

Share success stories and teach positive lessons when mistakes happen. Everyone in the auto industry has taken a beating over the last few years, and it's important to get people excited about selling and servicing vehicles again.

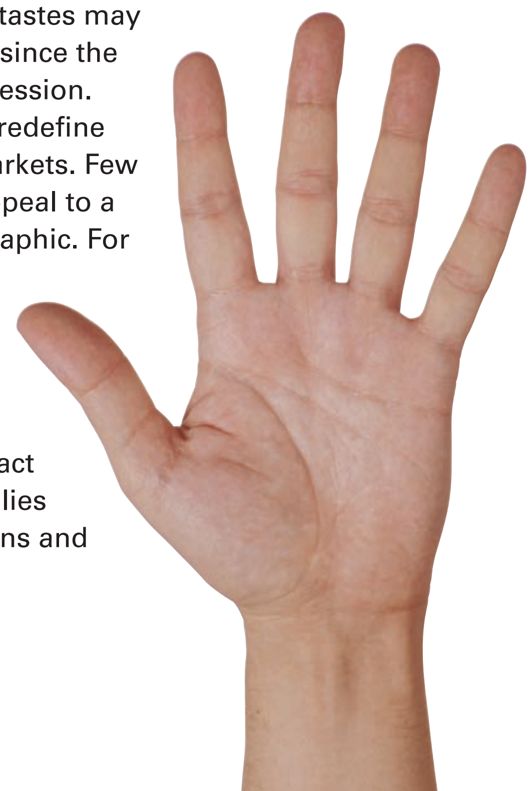
Spend money to make money

As the economy improves, don't be afraid to spend money on marketing, training or equipment repairs. In the long run, such expenditures will pay off in more sales. And, because construction is generally slow, now may be a great time to give your facilities a facelift.

Be prudent in your spending, however. An e-mail campaign, for instance, can be cheaper (and sometimes more effective) than a direct mail campaign. Peer training can also save money over outside educational programs. Plus, a mentor system — in which experienced workers train and advise rookies — can help with teambuilding.

Cater to the customer

Model popularity, demographics and customer tastes may have changed since the start of the recession. So it's time to redefine your target markets. Few dealerships appeal to a single demographic. For example, you might steer Generation Y buyers toward fuel-efficient compact cars — or families toward minivans and midsize SUVs.



Then decide how to reach that market segment and what matters to each. Make the time customers spend at your dealership as painless (and, if possible, fun and informative) as possible.

For example, busy executives might want expanded service hours, free loaner vehicles and information on lease plans. Conversely, families might be more concerned about safety features and prefer a child-friendly waiting room with TVs, toys and fresh-baked cookies.

It's all relative

Be careful when you're reporting an upswing in sales. For example, a hypothetical dealer excitedly reported last fall that his October sales were up 10% from the same month in 2009. Before offering congratulations, however, his accountant put the gain into perspective.

The accountant noted that a 10% increase is actually less impressive when it's compared to how the industry performed overall in October. He further noted that, nationwide, new car sales were up 13.4% over October 2009, according to Autodata, a firm that tracks new vehicle sales.

The accountant went on to say that the dealer also needs to consider how same-franchise dealers performed. For example, General Motors was up 4.2% in October 2010. But Kia, Hyundai and Subaru reported increases of more than 25%. So, a GM dealer with a 10% increase would seem more competitive than a Kia dealer with the same growth.

And finally, he pointed out the importance of gross margin. If a 10% increase in sales doesn't flow through to the bottom line, it's a problem.

Be open to outside help

Talk to others about your experiences and concerns. Dealer 20 groups are a good starting point, but don't stop there. Attend auto industry trade shows — such as Ward's DrivingSales Executive Summit or the NADA Convention & Expo — and discuss ideas with other dealer-owners across the country.

Then look outside the auto industry to see how other types of retailers and other industries are working their way out of the recession. Additionally, SCORE counselors, Kiwanis or Rotary Club members, lenders and accountants can be valuable sources of support and advice as the economy gets back on track. ■

How to win over lenders

Not long ago, dealerships could pick from a large pool of banks that were eager to provide mortgages, credit lines, floor plans and other kinds of financing. But this type of carte blanche abruptly halted when scandal struck the banking industry and recession hit the streets. With lenders still clutching their pocketbooks tightly these days, what can you do to loosen them up?

Impressive numbers

First, up the ante by strengthening your balance sheet. Inventory is a prime source of collateral. You should have a car on the lot for each item on your floor plan loan. Some dealers keep a private stash of vehicles for their personal use or use their floor plan loan as a credit line — a major faux pas in the eyes of modern financiers.

Lenders also look at your days-in-inventory ratio. Order the bare minimum stock to keep yourself afloat and identify slow-moving vehicles. Discounts and auctions can help you move metal, if needed. Consider returning extraneous parts inventory to the manufacturer; some offer refunds (or at least credits).

Then turn to your income statement. Lenders like profitable businesses. Strong inventory management can help you lower variable costs, such as storage and interest expenses. But fixed expenses — including equipment leases and payroll — should also be pared back.

For example, lenders prefer a *lean* high-energy staff that's loyal, well trained and generously rewarded. Temps and outside consultants can be a low-cost way to fill any gaps in your staffing.

Preparedness

Before meeting with your lender, assemble a package of relevant documents, including three years of financial statements and tax returns, detailed lists of used and new vehicles, business plans, and the dealer-owner's personal financial statements.

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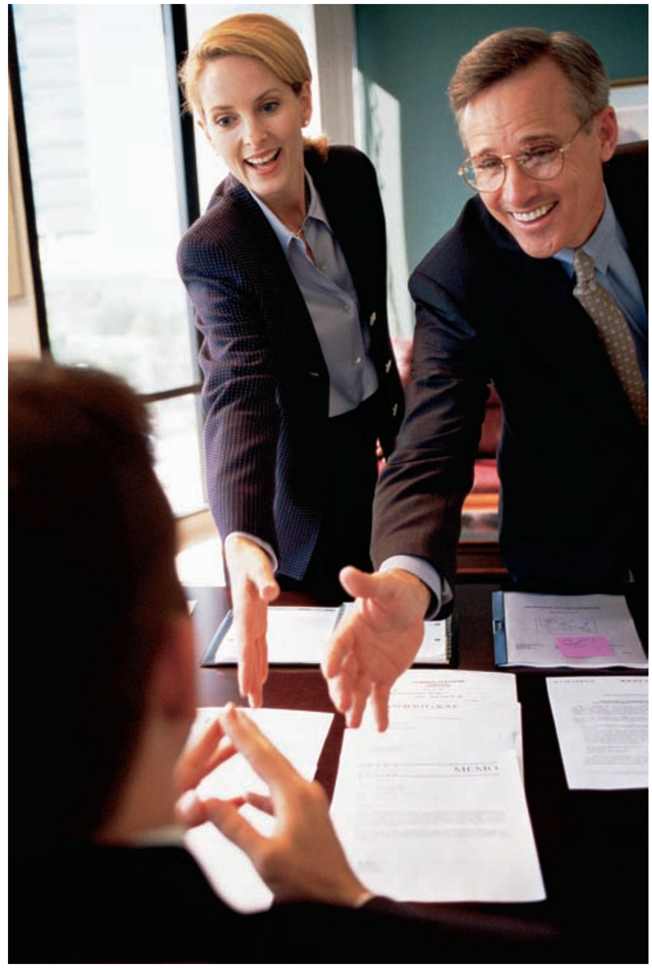
Then learn to speak the lender's language. Know what common terms — such as "debt coverage," "accounting payback," and "debt-to-equity ratio" — mean, as well as the adjustments the lender customarily makes when evaluating your financial statements.

Debt coverage, for example, is the ratio of cash available for debt servicing to interest, principal and lease payments. The ratio's numerator equals



net income plus amortization and depreciation expense. Some bankers also adjust for owners' compensation and other discretionary expenses. The ratio's denominator is the sum of principal, interest and lease payments.

The little things

Other ways to "wow" your lender include closing your books by the 15th of the following month, preparing weekly cash budgets and strictly adhering to loan covenants, the financial statement benchmarks set forth in your loan agreement. The bank might require a minimum current ratio (current assets ÷ current liabilities) of 1.2, for example.

Dealers who violate loan covenants automatically default on their loans, unless the bank waives its right to call the loan. And, if you're in violation of a loan covenant, auditors won't sign off on your financial statements until they've received the bank's waiver.

Enduring, open rapport

A long-term banking relationship can also win you points with your lender. If you've stuck by your bank in good times and bad, chances are that they'll do the same, especially if you've always made timely loan payments. And if you've switched banks in search of greener pastures in the last few years, you may be out in the cold if you need to take on more debt — or when it's time to renew your existing loans.

Communication is paramount to building your lender's trust. Lenders reward borrowers who maintain open, honest lines of communication. Never hide deteriorating financial performance. Experienced lenders have been around the block before and can smell "cooked books."

Standout performance

Although dealerships may no longer be the "apple of lenders' eyes," it doesn't have to be that way for you. By implementing a few simple business improvements and planning ahead, your dealership will stand out among other borrowers. ■

CRM software

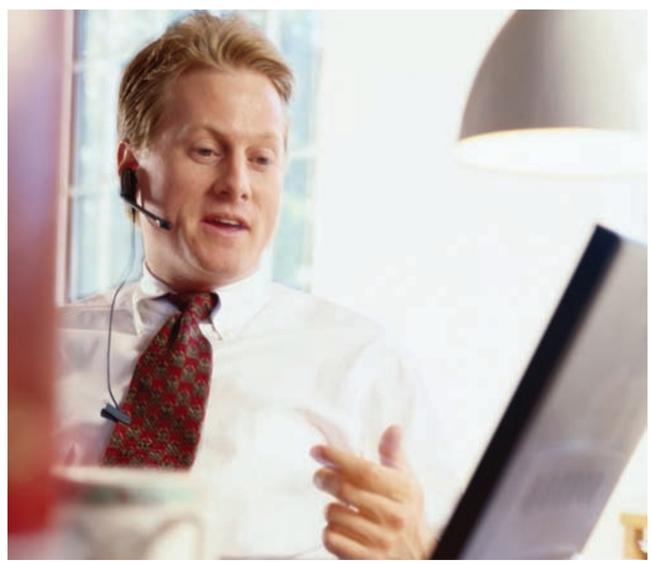
Cultivating customer relationships

Nowadays you can't afford to let customers slip through the cracks. Customer relationship management (CRM) software can help you improve sales closing ratios and build long-term customer relationships. But to maximize your return on this tool, you need to get *all* employees on board.

Embracing change

Some old-school salespeople are comfortable managing customer lists with an index card file box. But there are more efficient and effective ways to organize your business, of course.

A properly implemented CRM system can dramatically improve sales, lower marketing costs and build customer loyalty. You just need to train your employees how to use CRM to its fullest. And buy-in must occur throughout the organization — a "silo approach" to CRM that focuses only on one dealership area, such as new car sales or service, won't optimize results.



Tracking data

CRM software gathers information from your salespeople's individual records and then integrates it with F&I and service department customer files. CRM software acts like an electronic administrative assistant. It can, for example, systematically remind salespeople when to make follow-up calls and remind the service department when to send out oil change or tire rotation reminders.

Every time the dealer contacts a customer — or a customer visits the dealership — it's recorded in the CRM system. This input enables owners to track progress, such as salespeople's "hit" rates and the effectiveness of e-mail blast campaigns. It also helps dealers retain valuable customer information during staff turnover.

> Some owners offer monthly bonuses to employees who consistently enter data into the CRM system.

Once they've reviewed the results, some owners offer monthly bonuses to employees who consistently enter data into the CRM system, as well as to the salesperson with the most improved sales closing ratio.

Segmenting your market

Customers can be categorized by current model, future vehicle interests, desired method of contact, and other demographics. This helps dealers reach the right customer in the right way. When dealers flood customers with too many impersonal calls, direct mail pieces, or e-mail promotions, they're less likely to listen to your message or read your materials.

Customers entering the showroom and service bay present opportunities to update contact information, such as their home and cell phones, e-mail addresses, changes in family status and model preferences. To avoid appearing pushy, some dealers enter updated customer information cards into a weekly drawing, say, for a free oil change or new floor mats.

Picking a winner

Many CRM solutions are available to dealerships. Your financial advisor can help you conduct a cost-benefit analysis of CRM software products — based on your size, needs and budget — to help you choose a program that's right for you. ■

The best defense is a good offense

Internal controls can thwart employee fraud

With inventories of new and used vehicles and the service and parts to keep them running, auto dealerships are susceptible to a high risk of fraud by dishonest or financially pressed employees. But if you put strong internal controls in place — and test them frequently — you'll likely discourage anyone in your store who's considering theft and thwart or catch those who are more daring. Here's how.

No employee should do it all

For any employee position, be sure to separate the duties of authorization, custody and recordkeeping. Ideally, different people should perform each of these functions. In no case should any one person be responsible for all three.

Restrict access to cash to as few people as possible. In the case of cash register drawers, ask your cashiers to count the money before and after their shifts. And convey that, during the time in between, this money is their sole responsibility. No one else should have access to it. When it's time to deposit the cash, require that two people perform this task.

Accounting procedures should be strict

Review the procedures in your accounting department for dealing with receivables. Make sure no one person can approve the sale, post it *and* apply the cash. Being able to do so would provide a thief with the opportunity to create fictitious receivables, apply the payment and pocket the cash.

For payables, no one person should be able to set up a vendor; post invoices; and then cut, sign and mail the checks. Again, this situation could let a thief set up fictitious vendors and then post and pay fictitious invoices — ultimately to him- or herself or to a co-conspirator. Also establish a strict approval process for new vendors and limit access to vendor files.

Inventory access must be limited

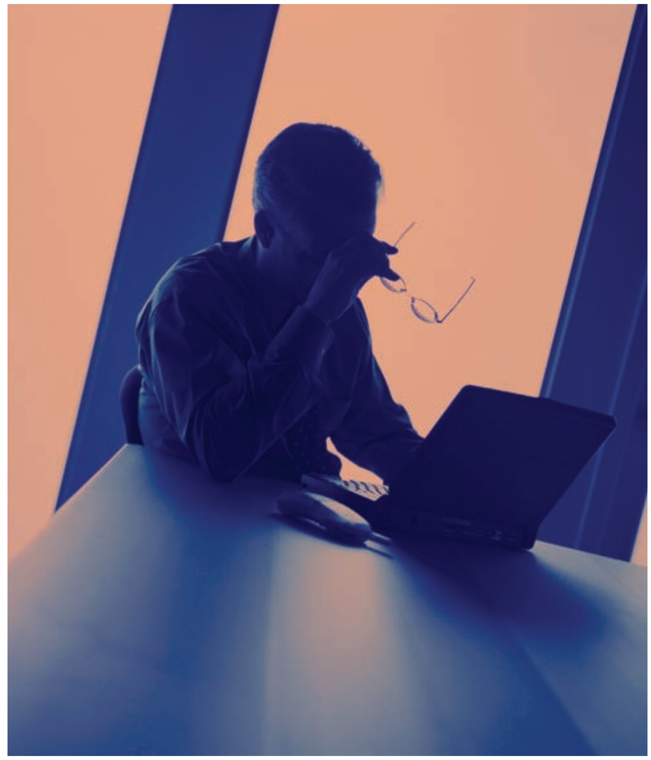
In your Parts department, limit access to the inventory system — especially in terms of receipts, sales and adjustments. If proper controls are in place, a periodic test count of parts will reveal discrepancies, as will complete physical inventories.

In Service, restrict access to override passwords, which will minimize unauthorized discounts to friends and family. Also, regularly monitor open repair orders (ROs) to ensure all open ones are current. Old ROs may indicate service was performed, but was never billed.

Other tactics are doable

There are other ways that you, as management, can discourage theft or dishonesty at all levels:

- Enforce mandatory vacations of at least one week per year — doing so allows another worker to perform the job duties of the absent person, possibly uncovering undesirable activity.



- Periodically rotate accounting personnel — this can serve the same purpose as requiring vacations.
- Periodically review your dealership's vendor list to see whether mysterious providers have materialized.
- Have your bank statement delivered, unopened and accompanied by that month's canceled checks, directly to you for examination.

From time to time, you might even consider taking a day to open the checks that arrive in the mail. Total the incoming amounts and then compare that figure to what's later deposited.

Keep your eyes open

In addition to having strong internal controls, including the segregation of duties, restricted access and supervisory oversight, one of the best things you can do to prevent employee theft is to keep your eyes and ears open. Telltale signs, such as employees whose standard of living suddenly seems to increase or who openly show they feel underpaid or undervalued, also can alert you to possible wrongdoing. ■

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The Partners of Frankeberger Vausher + Company, CPAs have in excess of 50 years professional dealership experience. We consult with clients, their advisors, and other professional relationships to maximize their results, protect their assets and minimize their risk. We are considered "Automotive Specialist" not only from an accounting perspective but to include taxation matters and Litigation Support activities.

"Any Accountant Can Count — It's The One You Count On That Matters"

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