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Dealer Insights

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Selden Fox

Accounting for your future

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Develop a formal business plan with sharp direction

"If you don't know where you're going, any road will get you there."

You may have heard a quote like this and it especially holds true for automobile dealerships. However, you can detail the future direction of your dealership by drafting a formal, written business plan. This road map can help you make operational and financial decisions that best position your business for future profitability.

Going beyond instinct

Instead of creating a formal business plan, some owners prefer to go with their "gut instinct" when making important dealership decisions. But this approach isn't much different from setting out on a road trip without a GPS system or map and hoping you land in the right place.

Drafting a business plan is especially important because of the volatility inherent in auto sales. A plan can help you stay focused on your big-picture strategy, regardless of whether sales are up or down. This can keep you from taking short-term actions that could jeopardize your long-term future — or forgoing actions that could brighten years to come.

Creating your plan's structure

Business plans can take several different forms and there's no single format that's right for everyone. However, most dealership plans incorporate a few common elements, including the following:

Executive summary. This will provide a brief overview of the most critical aspects of your operation and summarize the rest of the plan in one or two pages. For a dealership, this summary typically includes a broad description of the business — such as location, size (measured by sales volume and number of employees) and legal form of ownership — and a succinct statement outlining your overarching vision and mission.

Products and services. Here, you'll describe your vehicle niche along with additional services

offered, such as F&I sales, in-house financing, and parts and service. For example:

- Do you sell new vehicles, used vehicles or both? If both, what percentage of revenue does each account for?
- Is your dealership a franchise or independent? If a franchise, do you also sell vehicles outside of your brand?
- Do you specialize in a price point? For example, do you mainly carry luxury, midpriced or budget cars and trucks?

Leadership team. Identify the key members of your leadership team and describe their specific roles and responsibilities. At most dealerships this includes the sales manager, operations manager, F&I manager, and manager of the parts and service department, along with their key reports.

Market analysis. Describe the geographic area where you focus your sales efforts. Include boundaries and population demographics, such as the total population, average resident age, average household income and average number of vehicles per household. Also include any recent demographic changes — this will help you uncover potential sales opportunities or threats.

Competitive analysis. List your primary competitors for both new and used vehicle sales, and describe their main strengths and weaknesses in relation to your store. This is a good place to include a SWOT analysis in which you describe your dealership's main Strengths, Weaknesses, Opportunities and Threats as they relate to your competition.

Include the potential impact of online competitors like TrueCar and Carvana. Explain how you'll face off with these online dealers — for example, by offering a high level of hands-on service to customers visiting your showroom.

Marketing plan. Marketing is a key success factor for most dealerships, which makes this a critical part of your business plan. Describe how you're using social media as well as broadcast, print and online advertising to generate sales leads and draw customers into your showroom. Also detail your marketing and advertising budget, including the average marketing dollars spent per vehicle sold.

Getting it done

A common objection made by some dealership owners to drafting a business plan is that they simply don't have time. One of the best ways to overcome this obstacle is to schedule a half-day or even a full-day meeting with your managers where you can focus exclusively on this task.

It's often a good idea to schedule this meeting off-site, such as in a hotel or resort conference room, so you and your managers aren't distracted or interrupted. Create a detailed agenda and distribute this to all managers ahead of time so they know exactly what their responsibilities are and how to best prepare.

Financial plan. This section will contain all relevant dealership financial statements, such as the balance sheet, income statement and cash flow statement. Include historical financial statements covering the past two years and projected (or pro forma) statements covering the next two or three years.

Analyzing your financial statements can help you identify departmental shortcomings, find areas to cut costs and boost overall profitability. You should compare key performance indicators (KPIs) to industry benchmarks to see how your store stacks up. Compare such data as net profit as a percent of sales, gross profit per unit, days supply of inventory and F&I gross profit per vehicle sold.

Keep it updated

A business plan should be a living, breathing document. Once you've drafted your plan, refer to it often during the year. And update it to reflect changes in the industry and local market conditions.

Form 8300 reporting

Cash payments from customers call for special treatment

It's not uncommon for dealerships to receive large sums of cash as payment for vehicles. As you know, your dealership is generally required to file a special form with the IRS to report cash transactions of more than $10,000. It's a good time to review the requirements.

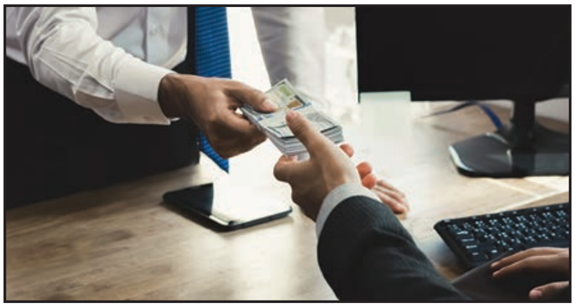
The federal government uses the information on Form 8300, "Report of Cash Payments Over $10,000 Received in a Trade or Business," to combat a wide range of criminal activities. This includes tax evasion, money laundering, drug dealing and terrorist financing. The IRS has provided detailed guidance about the reporting requirements for the form.

What's "cash"?

For the purposes of Form 8300 reporting, cash includes both United States and foreign currency and coins. The following items also are generally considered to be cash for Form 8300 reporting, if they are $10,000 or less and included as part of a cash transaction that exceeds $10,000.

- Cashier's checks (also called treasurer's checks and bank checks),
- Bank drafts,
- Traveler's checks, and
- Money orders.

You must file Form 8300 if your dealership receives total cash payments of more than $10,000 from a single payer in a lump sum. This rule also applies if you receive more than $10,000 in two or more related payments within a 24-hour period, or as part of a single transaction or two or more related transactions within one year. The form must be



filed within 15 days of the date you receive the cash payment that puts you over the $10,000 limit.

On its website, the IRS describes several scenarios in which filing Form 8300 is, and is not, required by dealerships. For example, if a husband and wife bought two vehicles from a dealership at the same time and paid a total of $10,200 in cash, the dealer can consider this one transaction or two related transactions. Regardless, only one Form 8300 must be filed.

Another scenario illustrates filing obligations if a customer split a payment between cash and a wire transfer. If the cash portion was $4,000 and the wire transfer portion was $7,000, filing isn't required. Yet another scenario explains that, if a car was purchased for $9,000 and the customer bought $1,500 worth of accessories later in the same year, filing isn't required unless the dealer knew (or had reason to know) the transactions were connected.

Getting the payer's TIN

When completing Form 8300, you should include the taxpayer identification number (TIN) of the customer who made the cash payment. If the customer refuses to provide his or her TIN, the IRS recommends that you file the form without it and include a statement explaining why the TIN is missing.

The IRS also recommends that you tell the customer he or she could be penalized for not providing a TIN as requested. In addition, you should document the fact that you requested the TIN and be prepared to provide this documentation to the IRS if they request it.

Your dealership is also required to provide written notice to customers that you filed Form 8300 to report their cash transactions. This notice must be provided no later than January 31 of the year following the transaction. The statement must:

- Be a single statement aggregating the value of cash transactions from the previous year,
- Include your dealership's name, address and phone number, and
- Inform your customer that you're reporting a cash payment to the IRS.

If a customer only had one cash transaction during the year of $10,000 or more, a copy of the vehicle invoice or the Form 8300 itself can serve as notification if it includes the information noted above. However, the IRS doesn't recommend sending customers copies of Form 8300, because the form contains sensitive information, such as your dealership's employer identification number.

The federal government uses the information on Form 8300 to combat a wide range of criminal activities.

E-filing ease

The IRS encourages dealerships to file Forms 8300 electronically using the Financial Crimes Enforcement Network's BSA E-Filing System. Electronic filing is fast, free and uncomplicated, and you'll receive an automatic acknowledgment as soon as you file.

4 ways to control dealership expenses

It's always a good idea to keep your dealership's expenses under control. But there are times when this becomes even more important. The next year may be one of those occasions, as many economists are predicting economic decline. According to the June 2019 *Wall Street Journal Economic Forecast Survey*, for example, nearly half of the economists polled, 48.8%, expect the next recession in 2020. That was up from just over a third in the May survey.

Here are four suggestions for cutting expenses at your dealership.

1. Prioritize expenditures. Create a list of all expenses over the course of a year and separate them into three categories: "must-have," "nice-to-have" and "don't need." Let your department managers provide input on which expenses should fall under each category. The general manager or owner should then make the final call on the categories.

Another technique: Have a check-signing "party" in which department managers are brought together and quizzed about necessity while the owner or general manager signs vendor checks. This puts managers on notice that their spending decisions are being scrutinized. And it may encourage them to use more discretion when making purchases.

2. Review compensation. Dealerships must walk a fine line between paying employees too little, and thus being unable to hire and retain quality workers, and overpaying. To find the right balance, first determine what similar dealerships are paying for various positions in your area. Doing so will give you a benchmark for setting compensation. NADA conducts the annual Dealership Workforce Study to collect useful data. Dealer 20 groups are also a good source for this kind of information.

Next, in a compensation review, analyze the total amount of salary, wages and benefits allocated to each employee. Compare this to your benchmarks and to each employee's most recent performance review. Then consider adjusting as necessary to bring compensation in line with benchmarks and performance.

Dealerships must walk a fine line between paying employees too little, and thus being unable to hire and retain quality workers, and overpaying.

3. Scrutinize advertising. Advertising can be a "black hole" into which some dealerships pour tens of thousands of dollars each year, but have little idea of their return on investment (ROI). Work with your advertising agency to measure the effectiveness of your advertising. Eliminate ineffective strategies and devote these funds to more successful campaigns that generate positive ROI.

If you haven't bid out your advertising lately, consider doing so. Over time, your ad agency could raise your rates 5% to 10% a year without a correlating increase in effectiveness. However, you might not realize this unless you perform a cost-benefit analysis. Let your current agency know you're soliciting bids, and ask them and potential new agencies for some fresh new ideas.

4. Walk through floor plan interest. The key to reducing floor plan interest expense is managing your vehicle inventory judiciously. Interest costs can spike dramatically when vehicles are at your dealership for longer than 45 to 60 days.

Another way to lower the interest is to take advantage of cash management deposit accounts offered by some manufacturers' finance companies. These accounts enable you to earn a credit on deposited funds that can help offset your interest expense. Also, if you haven't recently, shop your floor plan line of credit. Competition has increased among banks and finance companies, which you may be able to use to your advantage.

A car-free future? Not so fast

There's a lot of talk among some younger Americans about living a car-free lifestyle, especially in urban areas. The growing popularity of ride-hailing services like Uber and Lyft has made a car-free future seem even more feasible to some.

But new research indicates that there may be strong economic benefits to car ownership. This means that a car-free future may not be as close as some people think.

For example, according to "The Poverty of the Carless: Toward Universal Auto Access," published by the *Journal of Planning Education and Research*, households without vehicles lost income over the past half-century compared with households with vehicles.

In 1955, the average car-owning household earned twice as much income as a carless household. By 2013, the average car-owning household earned more than three times as much income as a carless household. Having a vehicle isn't fully responsible for having a higher income, but there is a link between the two traits.

In addition, owning a vehicle can provide access to safer neighborhoods and better jobs for the working poor. A report, *Driving to Opportunity*, published by the Urban Institute, determined that low-income people living in high-poverty neighborhoods who own vehicles are twice as likely to be employed — and four times as likely to stay employed.

The benefits of owning a vehicle are especially pronounced for low-income single mothers. According to research cited in the *Journal of Urban Economics*, vehicle ownership increases the probability of employment among these individuals by 30% and time worked by 13 hours per week. This was true whether the low-income single mothers lived in cities or suburbs.

As for ride-hailing services, research indicates that these are much more expensive than vehicle ownership. A study released by the AAA Foundation for Traffic Safety found that, in 20 of the largest U.S. cities, relying on ride-hailing services as a primary mode of transportation is at least twice as expensive as owning a vehicle.

These statistics should be encouraging to dealerships that are concerned about the potential of a car-free future hurting their sales. As author Mark Twain might have put it: "The rumors of the automobile's death have been greatly exaggerated."

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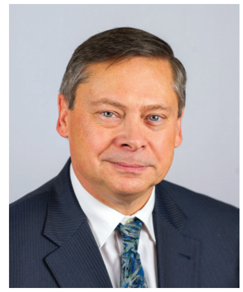

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Selden Fox is a mid-size firm with 60 employees, including 35 CPAs, and another dozen professional staff. Tom DeSimone and Garth Reimel, previously owners of Richard T. DeSimone & Co., lead the firm's auto dealership practice. Selden Fox has the industry expertise and a significant base of tax and audit resources for automobile dealers and their related businesses.

At Selden Fox, family-owned, closely held businesses like yours is our forte. Selden Fox services many types of privately held businesses, nonprofit organizations, and governmental entities. Services include financial statement reporting, audit and assurance, tax, accounting solutions, and general consulting services. With the addition of Tom and Garth, Selden Fox now boasts a new and significant expertise in working with the automobile industry. We would be happy to meet you and discuss any business concerns, strategies, ideas, or questions.

What do Tom and Garth bring to the table? Throughout their many years in business together, Tom and Garth have had a very personable hand-shake approach to business. They treat your business as if it was their own family's business. However, they have a very intense and experienced knowledge of the automobile business, the means, methods, and protocols of the dealership operations; internal controls; factory protocols and methods; and specific dealership tax laws.

Selden Fox's commitment is to build and preserve your trust and confidence, to foster long-lasting valuable partnerships and relationships. As with all of our clients, this is accomplished, first with our devotion to maintaining quality professional standards within the firm, continually studying new accounting, generally accepted accounting principles, and tax laws, and to seek to have a well-deserved pride in our reputation.

Our specific dealership services include (but not all encompassing):

- Financial Statement Reporting for
  - Certified Audits
  - Reviewed Financials
  - Compiled Financials
- Development of Internal Controls and Expense Analysis
- Assistance and Recommendations of Account Reconciliations
- Consulting in Banking Matters (i.e., Financial Reporting, Working Capital, Referrals)
- Year over Year Comparison of Operations
- Estate Planning and Wealth Preservation
- Income, Business, Trusts & Estate Tax Returns
- IRS Representation of Various Types
- LIFO Calculations/Compliance and Consulting (IRC 263A Calculations if Required)
- 401(k) and Pension Audits
- Other Consulting as Requested

We appreciate the opportunity to serve you. A special thanks to those of you who referred your family, friends and associates. We appreciate your confidence and always welcome your referrals.