



# Overdrive

Somerset CPAs Dealership Team  
Consultants to Dealers and Their Dealerships

Fall 2007

## Theft Schemes in Dealerships. It's Expensive...Is It Happening to You?

Internal theft is big business. It is estimated that the cost to each employer is \$9 per day per employee. For a dealership employing 100 people, this amounts to *over \$234,000 each year*. Furthermore, dealerships with fewer than 100 employees are most vulnerable to theft.

Most dealers can expect at least one incident of theft each year. It is reported that for one five-year period during the nineties, 50 percent of all dealers experienced theft and that number has been rising at an annual rate of 5%. In a separate study it has been reported that 80 percent of all dealership employees engaged in some sort of theft at work in the last five years.

Employee theft is most likely to occur in departments with cash or other assets that can easily be converted to cash. . . but **all departments are at risk**. The risk of loss is even greater if poor, or no, internal controls are in place. A couple examples of theft schemes we have uncovered may illustrate the dangers present in your dealership.

An import dealer in the Midwest suffered a **theft of \$200,000** perpetrated by its general manager (GM). The GM opened the incoming mail and pulled out miscellaneous checks (vendor refund checks, finance reserve payments, etc.). This GM was also responsible for taking the deposit to the bank each day. After he was given the daily deposit by the office, he would pocket some of the cash and replace it with the checks he had pulled from the incoming mail. He went so far as to prepare a new deposit slip listing all of the checks, including the ones he added to the deposit and the new cash amount. This was done so that the deposit slip the bank processed would match the actual cash and checks

received. The deposit receipt provided by the bank thus reflected the original amount of the deposit, even though the GM had stolen funds from the dealership.


A domestic dealer located in the Southeast also operated a car rental operation and was victimized by its rental manager who **stole at least \$98,000** over a three-year period. The manager encouraged the customers to pay cash for their rentals then destroyed the rental tickets and pocketed the cash. This dealer had no system in place for detecting the missing rental agreements and did not understand the rental business. Furthermore, it should be noted that the dealer's insurance limit was only \$25,000.

These are only a couple of examples of theft our professionals have uncovered. **We have discovered theft schemes in service departments, body shops and parts departments totaling many thousands of dollars.** Few dealers are immune to the dangers of fraud, and the slowdown in the retail automotive business will only increase its existence.

You may believe that it can't happen to you or your people wouldn't do that to you. However, our Dealership Team is proving otherwise to dealers everyday.

Please call us at 317-472-2200 or 800-469-7206 to schedule a check-up. We'll show you that we know how to catch a thief.

**Somerset  
Dealership Team**



**Helping drive  
your business.**

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## Advertising: Be Sure To Get What You Pay For

Individual dealers routinely spend hundreds of thousands of dollars and can easily spend in excess of one million dollars annually on advertising, but how do you know that you are getting what you are paying for?

Dealers need to know and understand target rating points. Target rating points are used by the advertising industry as a projected measure of how many people in a demographic group are watching certain programming. For example, when you buy television time, the station agrees to deliver a certain number of viewers (or points) in that time slot. The higher the target rating points, the higher the cost to advertise in that time slot.

So now that you know this, what do you do? Simply put, after your commercials have aired, you compare the actual target rating points delivered by the station to the target rating points that the station has contractually obligated itself to deliver. If the station delivered fewer target rating points than promised, you should be able to negotiate reductions in your current advertising bills, rebates on future advertising or additional advertising spots at no cost.

## Reduce Your Taxes And Increase Your Cash Flow With A Dealership Cost Segregation Study

With the manufacturers clamoring for new facilities and factory image programs, many dealers are building or remodeling their facilities. Combine this cash drain with increasing health insurance, personnel and other operating costs then add to that the impact of a tighter vehicle market, and the result is a dealer who may be struggling.

If you are one of those dealers who has bought, built or remodeled a facility, help is on the way. We have already assisted many of our clients in reducing their taxes and increasing their cash flow by the use of a dealership cost segregation study.

Without the use of a cost segregation study, the negative cash flow resulting from mismatching cash outlays for a facility and the tax deduction relating to that facility is

tremendous. Think of it this way. The IRS says that in the absence of a cost segregation study, the depreciable life of your facility is 39 years, yet most commercial loans are written based upon a 20-year amortization. **In essence you are paying for the building twice as fast as you are taking the tax deductions. This results in a significant drain on cash.** With a cost segregation study, you increase the tax write-off period for a portion of the facility costs from 39 years to 5, 7 and 15 years. The tax savings can be tremendous.

Did you build, acquire or expand your facility a few years ago? Don't worry, you have not missed the opportunity to take advantage of a cost segregation study. The IRS regulations permit a taxpayer to perform the study and take a tax deduction all in the current year to catch up the depreciation expense that should have been taken.



Cost segregation studies have enabled some dealers to significantly reduce their tax bills and many dealers to use the cash to reduce their mortgage at the bank—**so, talk to us about boosting your cash flow today!**

## Insurance Costs Out Of Control: Tips For Taming The Beast

Dollar for dollar spent, dealers may have the most complicated insurance programs, compared to other industries. Yet most dealers are not sophisticated when it comes to purchasing insurance.

Many dealers are uneducated regarding insurance exposures and pricing, leaving themselves at the mercy of an insurance salesperson. There are ways to protect yourself and to help ensure you are getting a good deal.

To start, here is a Top Five list that can help:

1. Most insurers are able to price coverage almost any way they please. Carriers may attempt to raise rates unless competitive pressure exists.
2. Independent agents receive different rates from the same insurers. Many times these agents do not shop coverage to all insurers.

3. Dealers must be aggressive and assertive when negotiating rates and ensure that coverage and pricing is “apples to apples” when seeking quotes from agents.
4. Buying insurance should not be a rush decision. Start the process 90 to 120 days in advance of the renewal date so you have the time to compare coverage, pricing, cash flow and service.
5. Dealers should use insurance agents/companies with dealership experience.

These five tips, if you will, are just a start. You also need to be versed about unique dealership insurance concerns, such as title errors and omissions, flooded vehicles, business interruption, prior damage, workers compensation and thefts—the list goes on and on.

Somerset is hosting a seminar called “How Can You Insure Your Future” on November 14, 2007, in Indianapolis. This seminar will provide an overview of many different types of individual, family and business insurance policies to help attendees find what is best for them and to be sure they are not under or over insured. Please visit the Seminars page of our our web site—[www.somersetcpas.com](http://www.somersetcpas.com)—for details and to register.

### Somerset Dealership Team

In addition to traditional tax and accounting services, below is a list of just a few of the services we provide for dealers and their dealerships:

- Valuations
- Acquisitions & sales
- Cost segregation studies
- Expense reduction reviews & cost control solutions
- Fraud auditing, control & litigation support
- Negotiating insurance premiums & coverages
- Operational reviews for lost profit opportunities
- Government regulation compliance reviews
- Income, gift, estate, sales and property tax issues

## It Could Be a Good Time to Buy a Dealership

For the Detroit 3, times are tough...sales are down 7.9% thus far in 2007, with car sales having declined 13.5%. Market share for the domestics continues to drop (down 3 points through August) and this follows years and years of losing share to the imports (18.5 points lost since 1998). But now, even Toyota has reflected declining sales for July and August of 2007.

But what else is happening? Cerberus has purchased Chrysler and added Jim Press to the management team.

General Motors has successfully negotiated a contract with the UAW. The domestics still seem intent on reducing their dealer count. It is likely that the sub-prime mortgage problems have not yet fully impacted the retail automotive business.

So what does all of this mean? It could be a good time to buy a dealership. Why? Because you don't buy a dealership based on one year's projections or performance, and many potential sellers who were on the fence have decided to list their dealerships for sale. More stores available for sale gives more opportunity for a buyer to choose the right one and to negotiate the price of a store.

**Statistics Demonstrate Increased Value.** Consider the following statistics comparing 1970 to today:

- Average annual dealership sales have gone from \$1.7 million to over \$26 million.
- Average dealership net income has increased from \$34,000 to more than \$500,000.
- Blue sky (goodwill) average value was \$102,000; now it is in excess of \$1.8 million.
- Average real estate value has skyrocketed (\$169,700 versus roughly \$1.85 million).

Inflation aside, **those are some impressive gains.** During that 30-plus year stretch, there were certainly down years. **Overall though, the dealership business has been pretty healthy.**

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## It Could Be a Good Time to Buy a Dealership

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So, when you consider the long-term potential, buying a dealership may make sense in today's topsy-turvy economic climate. With that being the case, we want to provide you with insight into some basic approaches and concepts concerning not only buying a dealership, but also selling one. Each dealership and each transaction is unique, but there is one rule that always holds true: **Do not represent yourself in negotiations.**

**“An expert in dealership valuations and sales or purchasing dealerships can take advantage of those who represent themselves, and the dealer will never know it,”** said Fred Robbins of Robbins, Kelley, Patterson & Tucker, an Ohio law firm specializing in dealership transactions. Robbins has it right. The automotive experts at Somerset have been through enough transactions where the other side was either not represented or represented by someone unfamiliar with the business to see firsthand what can happen. We have also been involved in trying to help dealers who have come to us after they have “done their own deal” to warrant repeating those words of caution...**do not represent yourself.**

A dealer we have worked with over the years probably summarized it best when he said, **“Dealers are focused on immediate gratification. If the customer who just walked in leaves without buying a car today, we have likely lost the sale. We are constantly focusing ourselves, our management and our salespeople on doing whatever it takes to sell that customer a vehicle today. That mentality actually works against me when I’m looking at buying or selling a store.”**

To find out more, contact us at **317-472-2200** or **info@somersetcpas.com**. Ask us to send you the presentation, “Structuring a Deal That Works.” The presentation includes formulas, definitions and direction concerning sales and purchase items, including binding elements of a non-binding agreement, parts inventory, used vehicle and new vehicle inventories, demonstrators, etc.