



Overdrive

Somerset CPAs Dealership Team
Consultants to Dealers and Their Dealerships

Spring 2008

Eight Easy Ways to Cut Costs and Improve Profits

We have compiled this list of eight ways you can immediately cut costs and improve your profits.

1. *Shop Floorplan Lenders* – The captives, especially the domestic captives, are in a cash crunch, and many of the national and regional lenders who are familiar with dealerships are offering very attractive rates. **Dealers are regularly seeing tens of thousands of dollars in savings each year by actively managing this major expense item.** Furthermore, dealers who have made the switch dispel the myth that the captive is buying deeper than other lenders. According to one dealer, “I can get every deal bought that should be bought, so I don’t need to pay them (the captive in the form of excess floorplan costs) to buy paper.”

2. *Eliminate Paper Print-Outs of Your Monthly Books* – If your DMS will not allow you to save the ledger and schedules in an electronic format that can be accessed and is acceptable to the IRS, invest in a CD-based product such as One View. **The savings, from paper to printing costs to extra maintenance on equipment, can be substantial.** Another benefit is that a tool like One View helps dealers and their office managers easily analyze the financial performance of the dealership.

3. *Audit Your Advertising* – Make sure that you get everything you pay for. When you purchase advertising, the television or radio station is guaranteeing you a minimum viewership (which is quantified as rating points) for each ad placed. Obtain a report from your ad agency to determine whether or not the minimum number of rating points was actually delivered. **If not, ask for additional ads to be run the following month, at no cost, to make up the difference.**

4. *Negotiate Flat Fees with Your Ad Agency* – Many dealers have reduced their advertising commissions without affecting their sales by eliminating the 15% commission agencies receive from television and radio stations. By paying the agency based upon the number of units retailed or the gross that the dealership generates, **any bias that the agency may have toward using those mediums that pay a commission is eliminated.** Furthermore, a portion of your advertising costs rises and falls as your business rises and falls.

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Dealers Can Get Tax Credits for Vehicles Sold

As you know, certain passenger vehicles that are sold to customers qualify for federal income tax credits, which can exceed \$3,000 per vehicle. (Remember, a tax credit is much better than a tax deduction...a credit is like cash.) **But did you know that if you sell the car to an organization that cannot use the credit** because they don’t pay federal income taxes, **that your dealership may be able to claim the credit?** As long as certain requirements are met, including notification to the nonprofit or governmental entity that the vehicle sold to them qualified for the federal tax credit, you can claim the credit on your dealership’s tax return. The notification does NOT have to take place at the time of the sale, but instead can be made before

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Somerset
Dealership Team

Helping drive
your business.

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Dealers Can Get Tax Credits for Vehicles Sold

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you file the dealership's tax return. So now is a good time to start tracking any qualifying sales to credit unions, nonprofit associations, towns or government agencies, quantify the credit that can be used by the dealership and then make sure that the required notifications have been made. It still may not be too late to claim these credits on your 2007 tax return.

Franchises with vehicles that qualify for the credit include Chevrolet, Ford, GMC, Honda, Lexus, Mazda, Mercury, Nissan, Saturn and Toyota. **Additionally, many of the heavy-duty truck manufacturers are building vehicles that qualify for credits as high as \$12,000 per vehicle.** Under circumstances similar to those outlined above, heavy-duty truck dealers can also take advantage of these credits for themselves.

Please contact us with any questions, including guidance on what vehicles qualify, or if you would like a sample of the notification form that we have prepared.

Hot Topic

The IRS has recently issued regulations that impact dealers using LIFO. The Dealership Team at Somerset has already applied these new regulations to dealers' 2007 tax returns. Those dealers have benefited from these changes through reduced taxes. If your CPA did not take advantage of these new regulations, it is not too late...we will review your 2007 return and LIFO calculations at no cost to you to let you know how these new rules could benefit you.

Cut Costs and Improve Profits

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5. *Use Rental Agencies' Vehicles as Loaners for Service Customers in Lieu of Your Inventory* – Simply running the numbers relating to the costs to own, maintain and keep fuel in these vehicles will quickly reveal that **you**

would be ahead financially by eliminating your loaner fleet. Another benefit that dealers who have made the switch report is that **their CSI scores have risen.** These dealers say that customers would often issue a poor CSI report for something as simple as the loaner not being clean. Now that they have partnered with a firm that handles rental vehicles full time, not only have loaner costs been dramatically reduced, but these problems have disappeared and scores have improved.

6. *If You Are Going to Continue Using Loaner Vehicles, Offer Them for Sale* – **Consider hanging a tag on the rearview mirror with a price or monthly payment on it.** (Don't forget to include all of the required disclosures when quoting a payment.) You may be surprised at the number of loaners you turn.
7. *Effectively Shop Your Insurance* – Obtain quotes from the various carriers on as close to an apples-to-apples basis as possible. Some of these carriers are very hungry for business, and you may realize a reduction in your premium. Give us a call or send an e-mail to dealers@somersetcpas.com to request a **sample letter that we use when we handle our clients' insurance renewals.**
8. *Offer to Detail Customer Vehicles* – You may find an **uptick in the monthly profits** of your recon department if you display a sign in your service lane and customer lounge offering this service.



Compliance Corner: How Does Your Dealership Handle Negative Equity?

Many F&I experts continue to see dealers failing to disclose negative equity on finance contracts and **plaintiff's attorneys are bringing more and more suits against dealers who violate the regulations.** More than one expert believes that improper disclosures of negative equity will bring the next wave of class action cases.

Most dealers know that it is a technical violation of Regulation Z to not disclose negative equity on a retail installment contract. But, technical or not, it is enough to get a dealer into a lot of trouble...and potentially cost the dealer a lot of money. Accordingly, remember to train (**and document this training**) all of your sales and F&I managers on how to comply with Regulation Z.

While some F&I managers state that lenders will not approve deals that show negative equity, **lending institutions are clearly aware of the requirements,** and we simply suggest that you ask each lender how they would like for you to disclose the negative equity in their contracts.

So, how should negative equity be handled? Rather than inflate the trade-in allowance and increase the purchase price to account for the negative equity, a dealer should use Line 4 to account for the negative equity (utilizing either the netting or non-netting approaches permitted in Regulation Z).

“Active Delivery Process” Aids Dealers in Improving Profits and CSI

Similar to a quality service walk-around and write-up process, an active delivery process will put more money your pocket and increase customer service and satisfaction.

HELPING **DRIVE** YOUR BUSINESS.

Ask about our recent **Client Success Story** where Somerset's second opinion on a Dealer's Tax Return resulted in a **\$160,000** reduction in taxable income!

Are you **PAYING** more taxes than you should?

Contact us for a **FREE** review of your Dealership Tax Returns!

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The active delivery process starts long before the ultimate delivery of the vehicle to the customer. The first step in the process is to **have the service advisor call each customer** with an estimate of the services to be performed on their vehicle. (Note: Many customers prefer to be contacted by e-mail or text message, and this is a viable alternative to a telephone call if the service advisor is trained and handles the e-mail communication properly.)

After the RO is completed, **the advisor verifies each repair line and calls/e-mails the customer** to go over each line. At this time the advisor also informs the customer that the repairs are complete. When the customer arrives to pick up their vehicle, **the advisor goes through the repair order again to reinforce the benefits of the work performed** and then walks the customer to the cashier's window. During this walk, **the advisor discusses the importance of the factory survey.** While the advisor is talking with the customer and the customer is at the cashier's window, their vehicle is brought to the delivery lane.

This simple process has helped improve CSI, reduce customer wait time, improve communication between the advisor and the customer and has resulted in increased opportunities to upsell additional needed maintenance and/or service work.

Somerset Dealership Team News



In April, Rex Collins, a member of the Somerset Dealership Team, spoke to a group of dealers in Chicago about how the dealership specialists at Somerset had recently helped a dealer reduce its break-even point by 52%. Those in attendance left with actionable ways to improve gross and reduce expenses.

On May 7, 2008, Rex Collins presented to BDO Seidman Alliance Dealership Industry Group on the topic of Theft Schemes in Dealerships.

Have you attended a Somerset Dealership RPM yet? **Our next meeting will be Wednesday, September 24, 2008**, from Noon to 4:00 p.m., and we will discuss **current events and hot topics** impacting the dealership industry. You will have the opportunity to meet with your peers and share your ideas and experiences. For more information and to register, please visit the Seminars page of our web site—www.somersetcpas.com.

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