On Track

Fall 2006

A publication of the Driving Force Auto Dealer Consulting Group, LLC

in this issue

What Auto Dealers Need To Know About Community Foundations
By Linda S. Speed, J.D

Don't Ever Go to Court for Employment Disputes
By Adam Morrell

The Driving Force Auto Dealer Consulting Group Newsletter, On Track, is published for auto dealerships and related businesses.

subscription

For subscriptions contact Dan Patterson *dpatterson@uhy-us.com* or contact your local Driving Force member at *www.autodrivingforcecpas.com*

Driving Force
CPAs For Dealerships

www.autodrivingforcecpas.com
1-866-99-FORCE

How to Increase the "Sales" in Your Service Department

Ray Branch, President and CEO, The KEEPS Corporation

Imagine if your service advisors asked every customer that came to your service department to do regular, needed maintenance on their vehicles. In numerous studies, more than half of the customers said, "Yes!"

How much potential gross profit is available? $20-$30 per repair order is conservative. What would this mean in a year? For example, monthly customer repair orders: 800 x $20 = $16,000 x 12months = $192,000 per year.

Measuring for Increased Sales
Compare sales department measurements with service department measurements and notice the differences. In sales, most dealerships carefully measure every customer contact from the moment the customer arrives through the entire selling process. Qualifying, information gathering, presentations, demonstration rides, write-ups, turnovers...the list goes on. After the deal is closed, additional items such as aftermarket sales, finance reserve, credit insurance and others are also closely measured for the results attained and how to motivate each employee to achieve the best possible result. Untold hours are spent analyzing this data to develop action plans to improve the weak areas. At the heart of all of this information is a comprehensive, multilevel pay program that puts incentives on all key areas of performance.

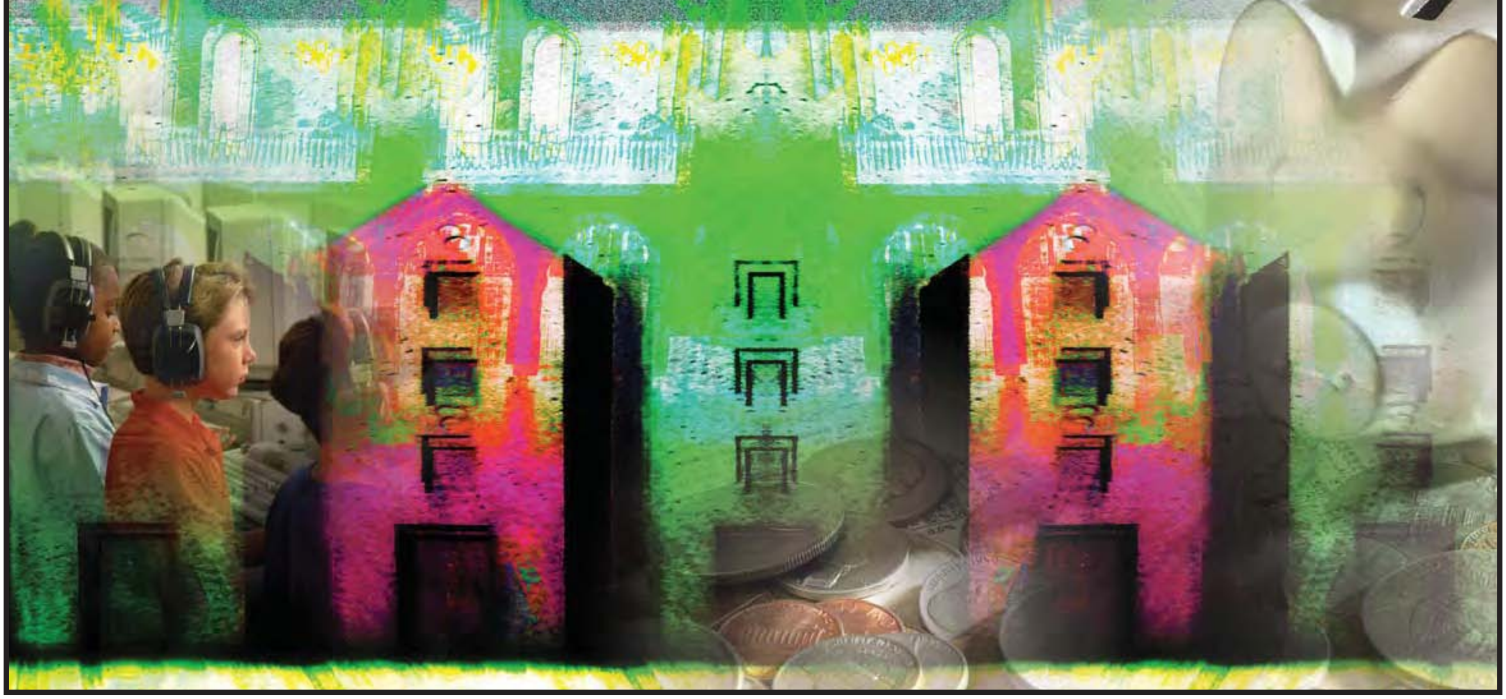
In service, we have access to volumes of information, but does this information really report on the "sales process?" Hours sold per repair order, effective labor rate, gross profit percentages are all closely monitored. But does this tell what level of sales effort is being performed? Is there a "closing percentage" on services sold? The relationship of actual vs. the "opportunity" to sell maintenance and needed repairs is seldom, if ever measured. Over the years, I have heard from many dealers who told me that if their people could just sell more than two hours per repair order, they would be satisfied. Unfortunately, I must argue that if those two hours sold were heavy repairs without any maintenance, a large opportunity would still be missed. In fact, many dealerships have high sales per repair order due to a low maintenance to repair mix.

Dramatically increased profits can be found by implementing the measuring processes below:

1. Measure the "Ups" to sell maintenance. The KEEPS proprietary web-based program Repair Order Analysis and Management System (ROAMS), tells you how many customers had a mileage level close to each major service interval, then evaluates how many services were sold by each service consultant versus how many opportunities there were to sell. Coach each employee based upon their individual "closing" percentage and you will see dramatic results.

2. Measure maintenance to repair ratios closely. If service consultant (A) sells regular, needed maintenance to most of his/her customers and is at 1.9 hours sold per repair order and service consultant (B) sells only heavy repairs with little maintenance but has a 2.5 hours per repair order average, who does a better job? If hours sold/RO is the only measurement, (B) is better. If you want your customers to return to the dealership on a regular basis and possibly have less major failures, (A) is better. Note that the technicians that work for (A) are probably more productive and efficient as maintenance work is always done in less time than the flat rate time allowed. In many cases, service consultant (A) will also have more total sales than (B). ROAMS shows how many labor operations were maintenance related and compare this with the repair operations. Compare this ratio among each service consultant. In many cases, what you thought was your best service consultant could be missing a lot of opportunities. Use this information to pinpoint the areas where items are not being presented, and or sold.

Please see Service Department, Page 3



What Auto Dealers Need To Know About Community Foundations

By Linda S. Speed, J.D.

When you think of philanthropists, names like Andrew Carnegie, Bill Gates and Warren Buffett may come to mind. But what about your name? As a business owner, you can become an important part of philanthropy in your community. Across America, business owners just like you are creating lasting legacies for the charitable causes they love, leaving their imprint on the communities in which they live and work. How are they doing this? Many have found the personalized services of their local community foundation to be the most flexible, tax-effective and cost-efficient way to give back to the causes they care about in the communities that have helped them prosper.

How a Community Foundation Can Benefit You
A community foundation is a collection of many different charitable funds, each established by individuals, families, businesses and organizations to accomplish their own charitable intent. Since it is classified as a public charity, all donations to a community foundation enjoy the maximum tax benefits. A donor's one fund can be used to make grants to as many different charities as the donor wants. Community foundations often work with professional advisors and their charitable clients to create custom giving solutions that benefit everyone involved.

Community foundations are one of the fastest growing sectors of philanthropy in the country. Council on Foundations, Fact Sheet, Community Foundations, reports that there are nearly 700 community foundations in the U.S and these foundations collectively hold approximately $39 billion in assets and these organizations distributed more than $3.2 billion to nonprofit organizations in 2005. According to the Council on Foundations, funds are invested in diverse portfolios, and sound investment management is a priority for community foundations. You can find the nearest community foundation to you by going on-line to the Council on Foundations website at www.cof.org and clicking on *Membership*. Scroll down to Benefits & Discounts to find the "Community Foundation Locator."

Provides Many Services and Benefits
Community foundations offer donors many services and benefits. According to The Council on Foundations, they routinely work with individuals and business owners, as well as estate and financial planners to design gift plans that fit every financial situation, ensuring that donors receive the most benefit from their charitable contributions and that their philanthropic dollars are used to the fullest extent. In short, community foundations can make giving easy, flexible and more meaningful for anyone and any cause.

Accepts Complex Gifts
In addition to outright gifts of cash, community foundations are equipped to accept gifts of appreciated assets, such as securities, closely held stock, family limited partnership interests and real estate. A fund at the community foundation can also be named as the charitable beneficiary of a life insurance policy or retirement fund. Gifts can be made from bequests and during life using various types of funds and life-income vehicles.

Builds Your Personal or Family Legacy
One of the primary purposes of a community foundation is to build a permanent source of philanthropic capital. Consequently, the majority of the assets of a community foundation are generally invested as endowment funds, from which a predictable amount is available each year to be given to charity. Any excess earnings are invested back into principal so that the fund grows over time. These endowment funds become a lasting resource for the community, fulfilling the donor's charitable wishes in perpetuity. Most community foundations offer several different types of endowment funds to serve their donor's charitable objectives – everything from supporting general areas of need, to specific designated charities or client-designed scholarship programs.

Offers Donor, Family and Business Involvement
Donor advised funds are one of the fastest-growing forms of giving today. They allow donors to have ongoing involvement in the use of their gift by naming an advisory committee to the fund. The advisory committee makes non-binding recommendations for grants from the fund to the Board of Directors of the community foundation. A donor advised fund is an excellent way for donors to involve family members in their philanthropy and pass their values to future generations, because children and even grandchildren can be named to the advisory committee. In this way, donors get many of the benefits of a private foundation without the administrative burdens and costs. Businesses can also use donor advised funds to support their favorite charitable causes.

Partners With You in Your Philanthropy
Philanthropy is your personal decision, but knowing the tremendous flexibility that community foundations offer can help you choose options for a charitable giving strategy best suited to your unique financial situation, tax status, and giving goals. Contact your Auto Driving Force Consulting Group member, or schedule a meeting with your local community foundation today to learn how they can offer you effective solutions in a variety of situations.

Linda S. Speed, J.D. is director of gift planning for The Community Foundation of Louisville, Inc. The Foundation's website is www.cflouisville.org. Contact Linda at (502) 585-4649 ext. 1015 or lindas@cflouisville.org.

Paying for Performance
Many successful sales operations use a comprehensive commission plan that pays for selling the vehicle but also pays for selling related products associated with purchasing a vehicle. Similar to sales department pay plans, service consultant plans should be based upon minimum sales objectives for many items. Major services sold, flat rate hours sold, upsold items, and a significant dollar amount for CSI attainment is just a starting point.

To create the plan, establish a percentage of last year's total income that you will allocate to each of the above components. Divide the anticipated "units" sold or attained into the component dollars to create individual dollars per unit (see example in item (c) below.)
Be sure your pay plans include at least the following:

a. Eliminate or limit salary. Most powerful and effective compensation plans include the need to accomplish a minimum standard. If there is a salary involved your sales efforts and motivation will be limited by the income level desired above the salary level. While full commission plans can initially be intimidating to employees, incorporating a small dollar amount for flat rate hours turned by the shop will help with the anxiety.

b. Pay weekly. If you pay a draw or salary and then settle up at the end of a month, the motivation to do something this week is limited. With a weekly plan, there is more motivation to limit the nagging, end of month, "work in process" or "open repair orders.

c. Pay strongly for major services sold. Determine how much money should be devoted to this portion of the plan (example: $40,000 annual income x 20% for menu component = $8,000 annually for menus sold. If there are 21 working days each month and the standard is one major service sold per day, this would result in 21 services sold per month x12 months = 252 services sold divided into $8000 = $31.74 per major service sold.)

If you are looking to improve your service department profits, carefully measuring the sales processes and emphasizing the maintenance portion of the work mix will dramatically increase sales and gross profits. If the pay structure is directly related to maintenance items, the rate of improvement will accelerate.

For other free tools to find and keep hidden profits in your service department visit www.keepscorp.com. To discuss how these and other profit enhancing tools can greatly impact your dealership's performance, contact your Driving Force Auto Dealer Consulting Group member today. We will be happy to discuss your unique situation and introduce you to The KEEPS Corporation.

Don't Ever Go to Court for Employment Disputes

By Adam Morrell

Let's face it – our traditional legal system is not the best means of resolving employment disputes. The system is adversarial, expensive, disruptive, and protracted. By its very nature, it tends to drive the parties further apart weakening their relationship – often irreparably. The process focuses only on the result of the discord and completely ignores the underlying employment issue that is causing the dispute. As a result, minor disagreements and the stress inherent in the employment relationship can escalate into a full-scale war, typically resulting in the termination of the employment relationship, years of litigation, hundreds of thousands of dollars in legal expenses. In the end, only the lawyers profit.

According to the Council on Education in Management, the average jury award for a wrongful termination case is $1,800,000. In addition, the Council also says that the average cost to settle an employment lawsuit is $300,000. While staggering, these figures don't even include the attorney's fees incurred in getting to that point! And almost no one is immune. The fact is, unless your dealership is bankrupt or has never in its history had a disgruntled employee, you likely will, sooner or later, be in the crosshairs of a plaintiff's attorney looking for an easy mark.

Recent external factors, such as the gradual erosion of the employment-at-will rule and access to jury trials, have resulted in a sharp increase in both the frequency and intensity of litigation between employers and employees. Thus, today's dealer is charged with a nearly impossible task of successfully managing human resources in an increasingly competitive environment, while keeping legal claims from arising and, when they do, responding to them effectively.

A Solution
Many dealers don't realize that they can bypass our traditional legal system to resolve employee disputes. They can, through alternate dispute resolution (ADR), avoid going to court for almost all employment issues. Simply defined, ADR is the use of a means to resolve disputes other than the traditional court and administrative forums. ADR encompasses a broad spectrum of activities ranging from a simple open door policy through mediation and bindingarbitration of statutory claims.

A well-structured ADR policy typically uses different types of ADR at different stages. For example, an ADR policy may have the following progressive steps: an employee may first be required to informally discuss a concern with a supervisor, then file a written grievance with higher management, submit the dispute to mediation and, if necessary, proceed to private, binding arbitration.

ADR can resolve a dispute more fairly and in a much less costly and time-consuming manner than court litigation. Think about it: when parties go to court, they rely upon a jury to decide who is right and who is wrong. Regrettably for employers, juries are almost always comprised of people who at one point or another have been employees that have felt wronged by an employer. Often, juries elect to "send a message to the employer," even if the case is frivolous.

Mediation, however, encourages the parties to cooperate, compromise, and structure their own mutually-agreeable resolution. Thus, they are committed to its success. That doesn't happen in court! During the process, a skillful mediator will assist each party with understanding the concerns and positions of the other party, enhancing empathy and often leading to innovative solutions.

Employee Disputes, Page 4

Driving Force
CPAs For Dealerships

www.autodrivingforcecpas.com

On Track

Employee Disputes continued

ADR programs can be an effective solution if they are designed by experts and are balanced. For example, employers cannot institute procedures that are unfair to employees, or that do not preserve employees' rights. Courts will quickly invalidate programs which limit the remedies an employee may seek, shorten the statute of limitations, allow the employer to unilaterally change the arbitration rules, or allow the employer to choose the arbitrator.

ADR Advantages

There are significant risk management advantages to an ADR program. Those advantages include reduction in legal costs as compared to conventional litigation and reduction of time that management is taken away from the dealership. In addition, arbitration proceedings are private so dealers are not subjected to having their dirty laundry aired. Another significant advantage is the certainty management and employees have in the process. Everyone understands the rules and manages their expectations accordingly. This can improve employee relations and reduce turnover. In addition, an arbitrator's ruling is final and binding on the parties, which allows the parties to achieve finality and closure.

When implemented properly, a well-crafted ADR program can cover all employee claims except workers' compensation and unemployment compensation. In addition, ADR programs can eliminate class actions and significantly curtail frivolous lawsuits. Implementation of an ADR program requires some careful planning but when executed properly can be a relatively painless process.

And, you won't have to go to court.

Adam Morell is the Director of Business Development for EDR Systems (www.edrsystems.com), which designs and implements employment dispute resolution programs for over 200 clients nationwide, including over 100 auto dealerships. Contact Adam at 502 489-6137 or adam@edrsystems.com.

On Track Members

Allan Jay Kovitz, CPA
Allan Jay Kovitz
33 Comac Loop, Unit 16 B-3
Ronkonkoma, NY 11779-6859
(631) 232-1001 Fax (631) 232-1077
allan@kovitzcpa.com

Foti, Flynn, Lowen & Company
Phil Windschitl
P.O. Box 12765
Roanoke, VA 24028
(540) 344-9246 Fax (540) 344-9264
pwindschitl@fflc.com

Bowden & Wood, CPAs
Mark A. Schaeffer
Nicholas Schaefer
332 W. Broadway, Suite 505
Louisville, KY 40202
(502) 583-0262 Fax (502) 583-0230
mschaeffer@bowdenandwood.com

UHY Advisors, Inc.
Mike Santicchia
Dan Patterson
26200 American Drive, Suite 500
Southfield, MI 48086-5004
(248) 355-1040 Fax (248) 355-1084
msanticchia@uhy-us.com
dpatterson@uhy-us.com

Gearhart & Associates, P.C.
Ronald G. Gearhart
Park Place
800 West Fourth Street, Suite 101
Williamsport, PA 17701
(570) 322-1544 Fax (570) 322-6992
rgearhart@gearhartcpa.com

Delap, White, Caldwell & Croy, LLP
Jim Jones
Matt Mattecheck
4500 SW Kruse Way, Suite 200
Lake Oswego, OR 97035-2564
(503) 697-4118 Fax (503) 697-4196
jjones@yourcpas.com
mmattecheck@yourcpas.com

Samuel Goldstein & Company, P.C.
Stuart Goldstein
150 Great Neck Road, Suite 202
Great Neck, NY11021-3309
(516) 466-3388 Fax (516) 466-3349
stuart@sgcpas.com

Pugh & Company
Ron Cate
315 N. Cedar Bluff Road
P.O. Box 31409
Knoxville, TN 37930
(865) 769-1631 Fax (865) 769-1660
rcate@pughcompany.com

McPhillips, Roberts & Deans, PLC
Walter Roe
Michael Furchtenicht
150 Boush Street, Suite 1100
Norfolk, VA 23510
(757) 640-7190 Fax (757) 640-7297
wroe@mrdcpa.com

Serotta Maddocks Evans & Co., CPAs
Rick L. Evans
701 Greene Street, Suite 200
Augusta, GA 30901
(706) 722-5337 Fax (706) 724-3299
revans@smecpa.com

Rackers & Fernandez LLC
Sergio Fernandez
334 Jungerman Road
St. Peters, MO 63376
(636) 498-1900 Fax (636) 498-1905
sergio@rf-llc.com

Brimmer, Burek & Keelan, LLP
Terry R. Brimmer
John Keelan
Kim Harrington
Gemma Thomas
5601 Mariner Street, Suite 200
Tampa, Florida 33609
(813) 282-3400 Fax (813) 287-8369
terryb@bbkm.com
kimh@bbkm.com

Marc Crumback LLC
Marc E. Crumback
10440 Little Patuxent Parkway
Suite 300
Columbia, MD 21044
(410) 740-3000 Fax (410) 740-5603
mcrumback@crumbackassociates.com

Driving Force
CPAs For Dealerships