

# AUTOFOCUS



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# 3 ways DMS can help you work smarter

**T**he dealership management system (DMS) is the backbone of an auto dealership's operations. This software controls and reports on a dealer's functions and departments, including accounting, sales, inventory management, fixed operations and F&I.

Savvy owners and managers use their DMS to streamline store operations and work more efficiently. This is especially important given the challenges and changes that the COVID-19 pandemic has sparked. Here are three ways you can use DMS features to improve your efficiency, customer service and bottom line.

## 1. Maximize the benefits of CRM

A DMS usually includes a customer relationship management (CRM) component. However, many dealerships aren't getting the most bang from their CRM that they could be. When used properly, a CRM can help you better manage customer interactions and target promotional offers to prospects in the market for a new or used vehicle.

For starters, employees must enter all customer information into the CRM system as soon as they have it. (Don't just write the information on a piece of paper and stick it in a desk or file folder.) This way, the data can be accessed quickly and easily throughout the dealership. And leads can be followed up promptly while they're still fresh.

A CRM isn't just for sales, either — it also can beef up efficiency in the service department. For example, service technicians can take notes (including videos of vehicle walkarounds) and store them in the CRM system for reference. This makes it easier to offer personalized recommendations to customers the next time they visit, which may boost customer satisfaction, retention and the bottom line.



## 2. Use text and email more effectively

Many customers today are comfortable receiving texts and emails about everything from doctor's appointments to home repairs. You can capitalize on this by using your DMS to send text and email alerts to customers for a broad range of purposes.

For example, your service department can send messages to remind customers when maintenance work is due, confirm existing appointments, obtain work order approvals or let customers know their vehicles are ready for pickup. This tends to be much less disruptive for customers and more efficient for your employees than making phone calls. You can even use text and email to send targeted marketing messages to customers and prospects, with their permission.

## An eye on DOC reports

Your dealership management system (DMS) produces a range of reports that can help your store operate more efficiently and profitably — if you know how to use them. One of these is the daily operating control (DOC) report.

As the name implies, this report shows how each department in your store is performing financially by generating daily key performance indicators (KPIs). Examples include total dealership gross, selling and operating expenses, open repair orders, and operating profit or loss.

The key to getting the most benefit from your DOC report is ensuring rigorous, timely data collection. In addition, the parameters in your DMS must be properly linked between the Finance and Insurance (F&I) and accounting modules. Otherwise, the gross profits on vehicle sales in the report will be inaccurate.

Set firm deadlines for the F&I and sales departments to finalize their deals for processing and posting each day. For instance, you could require that F&I deals be completed for processing by 7 a.m. and car sales posted by 10 a.m. for them to show up on that day's DOC report.

### 3. Take advantage of all available DMS modules

Some dealership management systems include a module that allows service technicians to greet customers outside the service bay with an iPad or tablet. This allows them to start the write-up process before the customer even exits the vehicle. Using the tablet, technicians can scan the license plate and VIN to access all the customer and vehicle information, including the electronic multipoint inspection (MPI) form, OEM information and previously recommended service estimates. This can help speed up and simplify the check-in process so technicians can get to work sooner and turn vehicles around faster.

Auto dispatch is another common DMS module that can help boost service department efficiency and profitability. When technicians need a part, they can enter it into the system and it's automatically brought to them in their bay, cutting down on the wasted time spent leaving the bay. And since technician notes are typed into the electronic repair order instead of being handwritten,

service advisors no longer have to waste time deciphering illegible technician handwriting.

### Improving financial performance

Thriving in the postpandemic world will require a laser-like focus on efficiency — or, in other words, working smarter than ever before. Ensuring that your DMS integrates seamlessly with your third-party vendors or services is integral to maintaining an efficient and productive operation. Meet with your managers about how you can tap into your DMS to boost your store's financial performance. 📈



# "Secrets" of the balance sheet

Use the document to reveal your dealership's true financial health

It's natural for business owners and executives to pay attention to the income statement when it's issued. In the shadow of COVID-19, income statement figures may seem more essential than ever. However, information on the balance sheet can provide insight into the overall financial picture. Among other things, you can use the balance sheet to determine your store's return on equity, debt-service and current ratios. It also can help you spot unsubstantiated estimates, underreported expenses and even fraud.

## Monitoring AR

Your balance sheet can be useful when gauging how well your dealership is collecting accounts receivable (AR). When used together with AR aging reports, which list the specific invoices that

### Rounded numbers can be a red flag

There are times when dealership owners need to question what they see on the balance sheet. On its year-end statement, fictitious dealership Metro Auto, for example, has an \$11,000 line item for "nonautomotive inventory." It isn't clear what this item is, and the owner shouldn't accept round-number account balances without asking for an explanation from the accounting department. Rounded numbers can be a red flag for unsubstantiated estimates, underreported expense or fraud.

To help catch errors and possible fraud, your dealership's balance sheet accounts should be reconciled regularly. As an outside party, your CPA is in a good position to perform this service.



are overdue, the balance sheet can help you monitor the overall status of your AR. For example, if your monthly sales are considerably higher than your monthly collections, you're likely not collecting your AR promptly.

Dealerships typically have several different types of AR on their books. These include service repairs, warranty work, contracts in transit, finance, and manufacturing receivables such as incentives, holdback and rebates.

In general, the timetable for receiving balance sheet reports on your AR status and aging from your controller is 30 days. This schedule works for such items as service repairs, holdback, finance, manufacturing incentives, and rebate receivables (assuming the manufacturer's terms for rebates are net-30 days). Weekly AR reporting may be more appropriate for warranty work and contracts in transit.

## Managing inventory

Along with inventory aging reports, the balance sheet also can serve as a valuable inventory management tool. Vehicle inventory is usually the largest asset on a dealership's balance sheet, so it's clearly an area that requires extra care. By reviewing your inventory aging reports and balance

sheet, you can calculate any impairment losses due to declines in the value of your new and used vehicles. Then you can make decisions about what to do with vehicles that have been on your lot for a long period of time, such as 150 days for new vehicles and 60 days for used vehicles.

For example, since the market for used vehicles can sometimes fluctuate drastically, you might consider reducing the price on the used cars you've had for more than 60 days or wholesaling them. Using aging reports for new vehicles, meanwhile, will help evaluate whether you're carrying too much new inventory and thus paying more in financing costs than you should be.

### Evaluating sources and uses of cash

Prepaid expenses are another balance sheet item to watch closely. Dealerships sometimes pay for a year's worth of radio or TV spots in advance, but

is this a good use of cash? You may be better off using the money to cover your store's immediate operational needs, such as covering payroll, floor plan interest and utilities.

Also keep an eye on "we-owe" items. These are things you've been paid for but that haven't yet been delivered to customers — for instance, new tires, down payment deposits or prepaid service owed to the customer. Do you still have the inventory or cash on hand to deliver these items?

### A financial snapshot

A balance sheet gives you a snapshot of your dealership's financial position at a certain point in time. You can see at a glance your assets and how they're financed (debt vs. owners' capital). Analyzing this data can help improve your dealership's financial performance and its outlook for the future. 📊

## Succession planning

# Does your dealership have a buy-sell agreement?

**S**uccession planning is a critical aspect of business ownership. Many dealer-owners have drafted plans that explain how they'll transfer ownership of the business when they retire. But some haven't yet taken this crucial step.

A buy-sell agreement is a legal document that details succession plans if an owner is no longer capable of leading the business. A properly drafted agreement lays out the terms and conditions under which other owners or the business itself may purchase an owner's interest in the event of his or her death or disability.

### Avoiding conflicts and litigation

One of the biggest benefits of drafting a buy-sell agreement is that it can help avoid potential conflicts — and even litigation — between surviving owners and a deceased owner's heirs. In addition, it helps ensure that surviving owners don't become unwitting co-owners with a deceased owner's spouse who may have little knowledge of the business or interest in participating in it.

A buy-sell agreement also can spell out how the ownership interest is valued. For example, the agreement may set a predetermined share price



or include a formula for valuing the dealership that's used upon the owner's death or disability. Or it may call for the surviving owners to hire an outside business valuation specialist to estimate fair market value.

By enabling the orderly transition of a deceased or disabled owner's interest, a buy-sell agreement helps make the transfer of control to surviving owners, key employees or an outside buyer go more smoothly. This provides a higher level of certainty for all the stakeholders who have a potential interest in business succession.

For example, surviving owners can rest assured knowing they will retain ownership and control without worrying about outside interference. The surviving spouse and heirs, meanwhile, have assurance that they'll be fairly compensated for their family member's ownership interest in the dealership. And employees can feel better about the business's long-term stability and viability, which may boost morale and retention among key employees.

### Funding the agreement

There are several different ways to fund a buy-sell agreement. The simplest way is to create a "sinking fund" into which owners contribute funds that can be used to purchase a deceased or disabled owner's shares. Or surviving owners can simply borrow money to purchase ownership shares.

But there are potential complications and impracticalities with both options, which is why life insurance and disability buyout insurance policies are usually preferable. Upon a triggering event, such a policy will provide cash that can be used to purchase the deceased owner's interest.

There are two main types of buy-sell agreements funded by life insurance:

**1. Cross-purchase agreements.** Here, each owner buys life insurance on the others, and the proceeds are used to purchase the deceased or disabled owner's interest.

*Drafting a buy-sell agreement can help avoid potential conflicts — and even litigation.*

**2. Entity purchase agreements.** The dealership buys life insurance policies on each owner. If one owner dies or becomes disabled, the business uses the proceeds to buy his or her interest. With fewer ownership interests outstanding, the surviving owners effectively own a higher percentage of the business.

A cross-purchase agreement tends to work better for dealerships with two or three owners. Conversely, an entity purchase agreement is often a good choice when there are more than three owners. This is due to the cost and complexity of owners having to buy life insurance policies on each other.

### Seek expert guidance

Structuring a buy-sell agreement properly requires expert assistance. So be sure to seek legal and financial guidance for your specific situation. 📌

# How to account for forgivable PPP loans

**S**ince the Paycheck Protection Program (PPP) was rolled out as part of the CARES Act last spring, more than 5 million businesses, including some auto dealerships, have taken out PPP loans. These funds have helped businesses weather the negative impact of the COVID-19 pandemic.

If PPP funds are used to cover payroll, mortgage interest, rent and utility expenses and meet other criteria, the loans may be forgiven and converted to grants. However, there have been some questions about the accounting treatment of forgivable PPP loans.

## Review AICPA guidance

The American Institute of Certified Public Accountants (AICPA) recently published guidance to help borrowers understand how to account for forgivable PPP loans. According to the guidance, businesses that follow U.S. Generally Accepted Accounting Principles (GAAP) should follow these steps when reporting these loans:

- Initially record the cash inflow from the PPP loan as a financial liability.
- Note that PPP loans accrue interest at 1%. Interest will accrue in accordance with the interest method under the accounting rules for imputation of interest. Additional interest won't be imputed at a market rate.
- Continue to record the proceeds from the loan as a liability until 1) it has been wholly or partially forgiven and you've been legally released from your repayment obligation, or 2) you've paid off the loan if it isn't forgiven.
- Reduce your liability by the amount forgiven and record a gain on extinguishment once the loan and related interest has been wholly or partially forgiven and your payment obligation has been legally released.

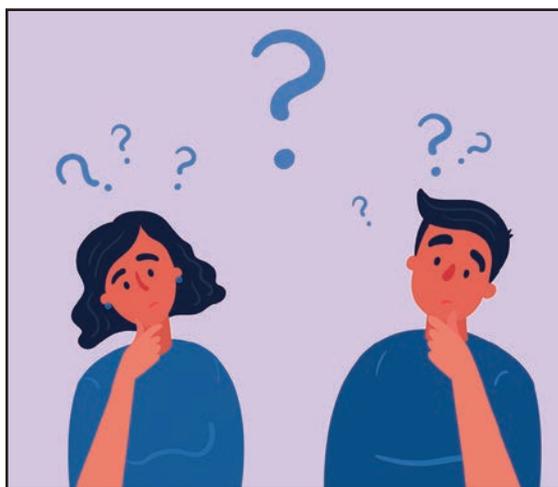
## Compare with IAS 20

According to the AICPA guidance, if you expect to meet the PPP's eligibility criteria for loan forgiveness and conclude that the loan represents a grant that's expected to be forgiven, you may follow analogous international guidance. International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, covers how to account for the loan if certain conditions are met.

Under this guidance, your business can't recognize government assistance until it's *probable* that any conditions attached to the assistance will be met and the assistance received. The term "probable" under IAS is analogous to "reasonable assurance" under U.S. accounting standards.

## Prepare for an audit

Recipients of PPP loans of \$2 million or more should expect an audit if they apply for loan forgiveness, according to the Small Business Administration. Properly accounting for a forgivable PPP loan could be critical if your dealership is audited by the federal government. Contact your CPA for specific guidance in your situation. 📌



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