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Verbal Approvals = Blank Checks

By Marilou C. Vroman, CPA, CFE

In visiting multiple dealerships I've found varying degrees of internal control. Some dealerships are highly intensive with strict protocols, processes and procedures where others are a bit more "relaxed" and "go with the flow." It should be no surprise that the more relaxed dealership environments are more likely to be subject to fraud than those which are more structured.

One area we see frequent internal control weakness is in the transaction approval process. Dealers hire managers and staff to act on their behalf and in their best interest. Trust is implicit when hiring personnel. That said, would you leave a blank check in the middle of the showroom floor for someone to spend freely without explanation? We see this happen every day.

For example, the used car department sends countless vehicles into the shop to have items repaired or accessories installed. We typically expect to see a vehicle get ready form or a due bill prepared for every vehicle listing the items to be completed, such as safety inspection, new tires, accessories and so forth. The used car department would either bear the cost of repairs either by directing the repair order to be charges against inventory while the vehicle is still in stock, or by charging a we-owe established at the time of sale. In both cases, the used car department is technically the customer (and one of the service department's best customers at times). Even though these would be internal charges, the used car manager should still be given a written estimate in advance of the repairs being performed, and just like a retail customer, require the written management approval to complete the work.

What happens when repairs are performed "per Lenny" or "as per used car manager" or worse, without any indication of who requested or approved the work in the first place? You have created a "blank check". Without requiring advance estimates and subsequent approval, the shop has a blank check to charge any amount for the repairs. Granted, the shop should not take advantage of its best customer this way, and some managers are maniacal about charges against inventory or gross, but not to the extent of reviewing every line item of a repair order. In a high-volume environment where thousands of vehicles are sold, how easy is it to slip in a tire, an accessory, another detail, or a few dent repairs? On several thousand dollars of reconditioning per car, it's very easy. In fact, without approvals and proper control, these items can slip straight through the system and when the charges land on a used car schedule; simply written off as part of "schedule cleanup" by an accounting clerk without further question.

Your bank should not clear a check that has not been signed. Your sales and service departments should enforce the same policy. ■

Ego is the Single Greatest Cause of Unsuccessful Dealership Acquisitions

By Phil Villegas

During my career I have been fortunate enough to experience a multitude of dealership buy/sell transactions, from being an employee at a dealership, to working for a dealership group acquiring stores, to my current role of advising dealers on the merits of deals they are considering. I've seen transactions of all sizes and franchises, from coast-to-coast. In this, I have been exposed to many different types of operators and their respective personalities.

Dealers will expand their businesses for numerous reasons. From opportunity knocking on the door regarding an available store in the neighborhood, to investing excess funds in a known industry, to creating a growth opportunity for existing loyal employees; there are plenty of valid reasons to acquire a dealership. Where we have seen the pitfalls of dealership acquisitions is when the potential buyer's ego is the primary motivator for expansion. We typically witness this when a dealer has been successful running a few stores and based on that success they believe this same degree of success can be easily replicated everywhere else.

The ego flaw comes to light when the prospective target store's historic performance is not seriously weighed. Where the operational, geographic and personnel factors of the store have not been fully considered. The simple belief that a new dealer can run a store better than an established successful operator is where many acquisitions fail.

Always focus on the fundamental of the acquisition and don't allow ego or prior successes be the leading profitability driver in the new acquisition projection model.

Image Compliance is Required, Customers Liking Your Facility is Optional

By Marilou C. Vroman, CPA, CFE

Over the years, I've had the pleasure of visiting hundreds of dealerships, both as a consultant and a client. It seems image compliance has become a central point for dealers to ensure uniformity in brand presentation, recognition by customers, and at times, to earn incentives from the manufacturers. While compliance is important, and most often required, how much of that capital investment will yield a direct benefit to your customers?

Interestingly, I find dealers spend millions of dollars to comply but some of the greatest returns on investment come from the smallest of dealership expenditures. For example, let's discuss coffee. We are all familiar with Starbucks, which centers its business around providing coffee and a comfortable and pleasant place for its customers to willingly spend time working, meeting acquaintances, or just relaxing. In contrast, we've all had it, the dealership coffee which tastes as though it should be dispensed in bulk quantities by the parts department as part of a LOF.

If your intent is to bring clients into the dealership and for them to want to stay there while negotiating a sale or waiting for a vehicle in service (keeping loaner and rental fees down and upsell opportunities up, I might add), wouldn't it make sense to offer high quality coffee and beverages, a pleasant and comfortable environment to sit and relax or do work?

In another example, what is the condition of your client facing restrooms? We have clients whose restrooms could be that of a five-star restaurant or hotel. Meticulously maintained, clean, art work on the walls, fresh flowers, and well stocked. We've seen the contrary, and will spare you the specifics. These are little details which are relatively inexpensive to maintain, yet make a big impact on client experience and their perception of your business.

Make it a point to invest a little extra in your clients' "creature comforts" and they just may spend more time, and money, while they are there. ■

Advance in F&I Technology Should Lead to Decreased Compensation

By Phil Villegas

Over the course of the last several weeks I visited 3 different dealerships that are using docuPAD by Reynolds. For those of you unfamiliar with docuPAD, it is a large screen that sits on an F&I managers desk across from the customer. Per the Reynold's site "It provides personalized menu presentation, presents forms in an electronic menu format, discloses necessary contract and lease information, and captures files in an electronic deal jacket." I wouldn't consider myself a techie, but I certainly appreciate the innovation to improve uniformity and compliance during the presentation of F&I products.

During these visits I've inquired of the dealers using the docuPAD about their general thoughts. The dealers generally liked the systems after getting through the initial implementation, but they felt that they have not yet experienced a measurable increase in the F&I PVR. Though, all three commented on the timing and efficiency with which clients are now being moved through F&I. They are also enjoying the peace of mind in terms of product disclosure and presentation compliance.

Before closing the conversation with the three dealers I asked one final question that surprised all of them. I asked them if they had changed or updated the F&I payplans to reflect this new environment...all three admitted they hadn't and you could immediately see the wheels start turning. After all, a large component of the F&I Manager's role has now been automated. This is not to say their product knowledge and experience have lost economic value, even though the mastery of working the form feeder printer is becoming as obsolete of a trade as a TV repairman.

Do not get me wrong, I'm am not opposed to F&I Managers earning a fair wage, but when we see the compensation of many F&I managers exceeding that of most private bank presidents, dealers need to embrace new technologies in areas that make sense.

What You Don't Know About Frequent Traveler Programs May Cost You

By Marilou C. Vroman, CPA, CFE

As you start reading this Weekly Spiff you might expect the standard discussion about internal controls over travel and entertainment expenses. So here it is: T&E expenses should be submitted for reimbursement on a T&E reimbursement request signed by a manager and supported by detailed receipts in compliance with company policy. Now I am going to take this subject a step further.

As a frequent traveler, I've become quite familiar with airline and hotel websites in making my own travel arrangements to visit client dealerships. While making a reservation recently my internal auditor radar picked up on another way an employee could potentially take advantage of a dealer through T&E.

Many people are familiar with the opportunity to earn frequent flyer miles, points or other perks awarded for loyalty, and traditionally, those perks come in the ordinary course of physically flying miles and staying overnight in hotels. What dealers may not be aware of is the incremental cost the dealership may be spending on travel to fund additional reward perks with no business benefit at all.

For example, some airlines offer additional frequent flyer miles for the same type of seat simply by paying a higher fare. While simply selecting an economy seat (because that is the only fare class acceptable per the dealership's T&E policy!) the base fare may be $600 but the option to buy additional 2,000 frequent flyer miles is simply a click of a button away, and an extra $216. The ticket will show an economy seat was purchased for $816 in compliance with company policy, but the employee also gets a few thousand extra frequent flyer miles at your dealership's expense. A similar concept exists in making hotel reservations, where for an additional $75 per night, extra reward points can be added to the employee's hotel rewards account.

While these may seem like relatively small dollars and the extra perks might serve as a slight morale booster, the extra expense doesn't deliver an extra car, sell an additional part, improve CSI, or increase technician productivity, and can certainly add up over time.

Some dealers retain all points generated by their employees, and this would certainly reduce the risk of abuse. But most dealers I know allow their employees to keep the points and miles earned during business travel. At a minimum, detailed receipts should be required for hotel and airfare charges. Since the receipt might not reveal the additional points or miles purchased, we also recommend segregation of duties in making employee travel arrangements. Consider having travel arranged centrally, by an individual other than the person travelling to reduce the risk of abuse of the T&E policy. The dealership Controller should question and investigate any travel expenses that tend to appear higher than average.

Earning points and miles for travel can be a great perk but should not be at the extra expense of the dealer. Safe travels! ■

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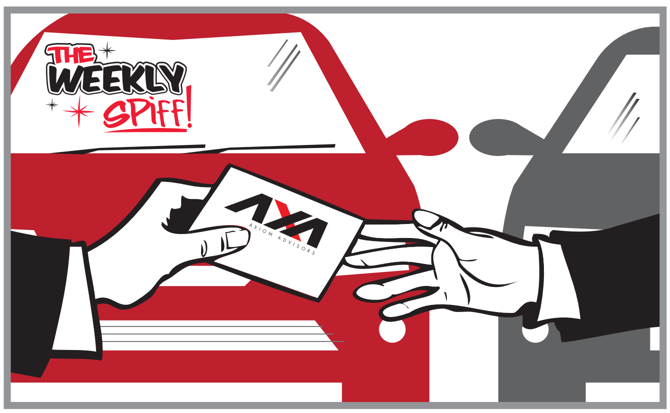

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Phil Villegas
pv@axiom-auto.com

Marilou C. Vroman, CPA, CFE
mv@axiom-auto.com

www.axiom-auto.com
888-9AXIOM9
MIAMI, FL

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