

ON DEALERSHIPS ISSUES AND ANSWERS

They Don't Know What They Don't Know.

Which is the absolute best reason for engaging a specialist — a financial advisor who has the depth of experience to understand the extremely complex dealership business and all its moving parts. Rex Collins has worked exclusively in and with dealerships for three decades. He and the HBK Dealership Group offer expertise and advantages a generalist practitioner simply can't provide.

- Problems and problem areas are discovered and identified.
- Answers to problems and advice on resolving them are correct and accurate.
- Solution implementation is done properly and efficiently.
- Advisors are proactive and current on regulations and industry practices.
- Knowledgeable, experienced and current, our consultants are more time-efficient and therefore, more cost-efficient.





BUSINESS: A Dealer in the Midwest

ISSUE:

The business was not profitable. Owners were considering closing. Service department technician salaries were too high; a poorly laid-out shop and insufficient parts inventory resulted in service delays and dissatisfied customers; and service rates were too low.

ANSWER:

We advised on service department procedures for improvement, which included communications and interactions between management and service employees to ensure expectations are understood and implemented on an ongoing basis; interactions between service employees and customers to ensure customers are properly informed, treated with respect and followed up with to determine their satisfaction; and procedures for increasing the efficiency of the service and parts operations.

NET RESULT: Profits increased and the dealership remains open for business.



BUSINESS: A Small Dealership Group

ISSUE:

A sales and use tax audit. The dealer had received a preliminary assessment of approximately \$40,000.

ANSWER:

We worked with the dealer to identify where we could provide support throughout the list of audited items, including a myriad of improperly assessed purchases and exempt service transactions. We were able to reduce the dealer's obligation by 80 percent of the preliminary assessment.

NET RESULT: \$32,000 remained in the dealer's pockets. Remember, it's not about what you make; it's about what you keep that counts.



BUSINESS: A Dealership in the Midwest

ISSUE:

The dealer was bankrupt and considering closing. Although he was one of the leading dealers nationally in sales volume according to manufacturer records, the dealer still couldn't sell enough volume to cover expenses.

ANSWER:

After a failed attempt to get a bank to loan enough money to cover the dealer's expenses, we recommended the dealer incur more debt in order to acquire two additional franchises and accompanying equipment inventories, building an additional location and retrofitting the existing facility, to the tune of more than \$7 million. A bold move that paid off in a positive cash flow by the second month of operating the three franchises — 12 months earlier than we had projected.

NET RESULT: This once bankrupt dealership is not only paying all of its bills but is returning a very large profit to the dealer.



BUSINESS: A Two-Store Dealership Group in the Midwest

ISSUE:

A year and a half into the business, the dealer was still losing money every month. The expense side of the ledger needed revision.

ANSWER:

We identified more than \$1 million in cuts throughout the dealership. Some of these cuts were in the big five expense areas: data processing, advertising, inventory management, interest and personnel. We identified and trained a group of employees who were assigned right-sizing tasks and responsibilities, which kept the business focused daily on implementing the expense cuts and keeping the business profitable.

NET RESULT: With a \$1 million dollar cut in operating expenses the dealer is now receiving the proper return on his investment.



BUSINESS: A Dealership Group in the Northeast

ISSUE:

An IRS audit. The dealer's attorney and current CPA called us in hopes of reducing a potential assessment of taxes and penalties totaling in excess of \$6 million. The dealer's advisors had no industry background and, among many problems, the inventory costing methodology was incorrect. The IRS had assigned an inventory specialist to the case.

ANSWER:

Through our knowledge of the many technical issues that had been mishandled, and by presenting tax case studies and other IRS guidance, we were able to defend the indefensible, reducing the dealer's IRS assessment by 88 percent to \$700,000.

NET RESULT: A tax savings of over \$5 million simply because the members of the HBK Dealership Industry Group know the specific rules relating to your industry inside and out.



BUSINESS: A Single-Point Dealership

ISSUE:

The dealership was operating at a break-even point of 165 retail units.

ANSWER:

We implemented several measures to increase variable profitability, first and foremost inventory management via a strict day's supply policy and a wholesale policy once a unit became aged. Service advisor training and incentives led to more multiple line-item repair orders and subsequently more parts business. We changed the labor pricing structure and reduced expenses.

NET RESULT: A decrease in break even to 80 units has made this dealership near recession proof.



BUSINESS: A Dealership in the Midwest

ISSUE:

Illegal activity including document preparation fees beyond the state's safe harbor limits, and bank fraud by misrepresenting collateral and customer down payments to secure favorable loan terms. An investigation by the state attorney general's office resulted in penalties and customer refunds of roughly \$300,000. The bank fraud issue put the dealer at risk of up to \$30 million in fines and a jail sentence.

ANSWER:

We initially advised the dealer to reduce the document prep fees, but he reinstated the higher fees on the advice of an out-of-state consultant. We obtained indisputable evidence that our position was correct, then on the threat of a malpractice suit, got the out-of-state consultant to share in the refund and penalties. With regard to the fraud issue, we were able to identify the responsible party and take corrective measures, including termination of employment for the ringleader.

NET RESULT: While the dealer remains nervous about the potential repercussions of the illegal acts, he now rests assured responsible actions have been taken to ensure he will not face debilitating fines and incarceration.



BUSINESS: A Large Dealership Group in the Northeast

ISSUE:

The Five-store Dealership Group had lost money for each of the previous 28 months.

ANSWER:

We eliminated unnecessary positions, reduced overtime and completely revamped sales, management and executive pay plans. We also made more efficient use of advertising media, renegotiated telecommunications contracts (with no change in service), introduced control procedures to decrease fuel and delivery expense, and implemented a structured inventory control and management system.

NET RESULT: An increase in net income of \$1.3 million in just six months and steady increases in the dealership's overall profitability continued after the dealership experts at HBK turned the operations back over to the dealer's management team.

HBK CPAs & Consultants was founded in 1949 in Youngstown, Ohio, and today is a Top 100 accounting firm in the nation according to *Accounting Today's* "Top 100" rankings. HBK and its wealth management advisory, HBKS[®] Wealth Advisors, offer the collective intelligence of more than 400 professionals in a wide range of tax, accounting, audit, wealth management, financial planning, business advisory and business valuation services from offices in Pennsylvania, Ohio, New Jersey and Florida.