



WORKING TOGETHER SETS US APART

HBK Dealership Third Thursday Webinar Series

**THE CORONAVIRUS CRISIS:
STEPS EVERY DEALER SHOULD TAKE
TODAY**

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Rex is a Principal at HBK CPA's and Consultants and leads the HBK Dealership Solutions Group. He began practicing as a CPA in 1984 and has spent over 20 years focusing on serving dealers and their dealerships. Since 1987, Rex has focused his practice entirely on dealers and their dealerships. Rex's specialty areas include valuations of dealerships; merger and acquisition including negotiating financing and due diligence; litigation support services; forensic accounting; economic, operational and management consulting; estate planning; research and planning taxation; general business and financial consulting; and dealership accounting, operations and management. He gained dealer industry experience as the CFO of a multi-line dealer group for three years and later as the GM and CFO of a different dealership group. Rex graduated from the University of Indianapolis in 1984 with a Bachelor of Arts degree in accounting and business administration and an Associate of Science degree in computer technology. Over the years he has authored several publications and has spoken nationally at numerous seminars and conferences throughout the U.S. on a variety of topics relating to dealerships. Rex is a current member of the American Institute of Certified Public Accountants, Indiana CPA Society and National Association of Certified Valuation Analysts. He is past-president of the CPA Auto Dealer Consultants Association and currently leads the Dealership Industry Group of the BDO Alliance. Rex served many years as Chairman of the Board of Directors of Volunteers of America of Indiana.

Next Third Thursday – April 16

Be sure to join our next Third Thursday webinar

Thursday, April 16th
11:00 a.m. – Noon

What's a Dealer To Do? When Approached About Selling Your Dealership

Link to register will be provided after this webinar.

Failing to Plan is Planning to Fail



Strategies and Tactics for Your Business to Succeed in a Stalled Economy

- Failing to Plan is Planning to Fail
- Reducing Your Breakeven Point Through Effective Cost Control
- Increasing the Productivity of Your Human Capital



Success Principles

- Avoid panic
 - Leaving your game plan is a sign of panic
 - And Panic is NOT in your game plan

Success Principles

- So, plan your work and work your plan
- First things first; so you need a plan

Failing to Plan is Planning to Fail

There are three types of organizations

1. Some have a chance for success
2. Some have no chance for success
3. Some leave nothing to chance

Which one are you today?

Are You Leaving Your Success to Chance?

- If you don't qualify as one of the companies that are leaving nothing to chance
- Why is that?
- What are the barriers to you leaving nothing to chance?

Poll Question 1

- Do you have a process in place that permits a customer to purchase from you without ever stepping foot in your dealership?

Yes

No

What Qualifies as a Plan?

- Relevant
- Written
- Actionable
- Accountabilities
- Timelines
- Follow-up
- Communicated

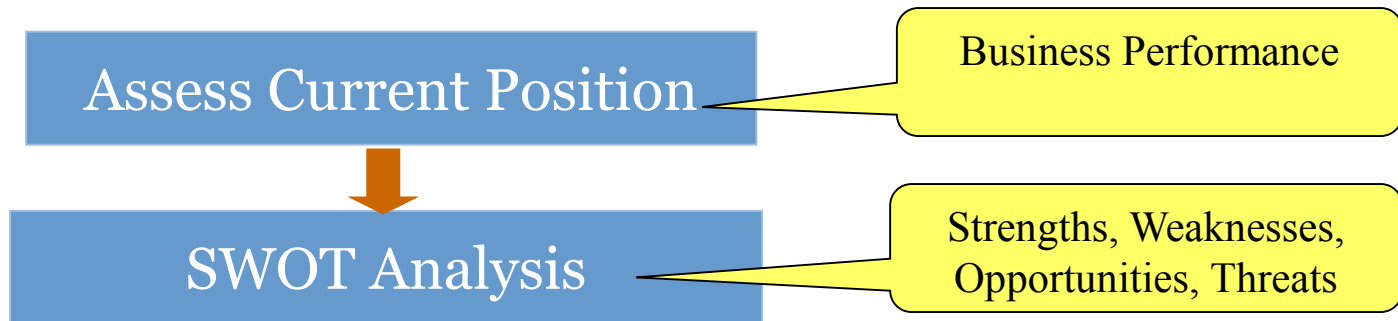
The Steps in Developing a Plan

Assess Current Position

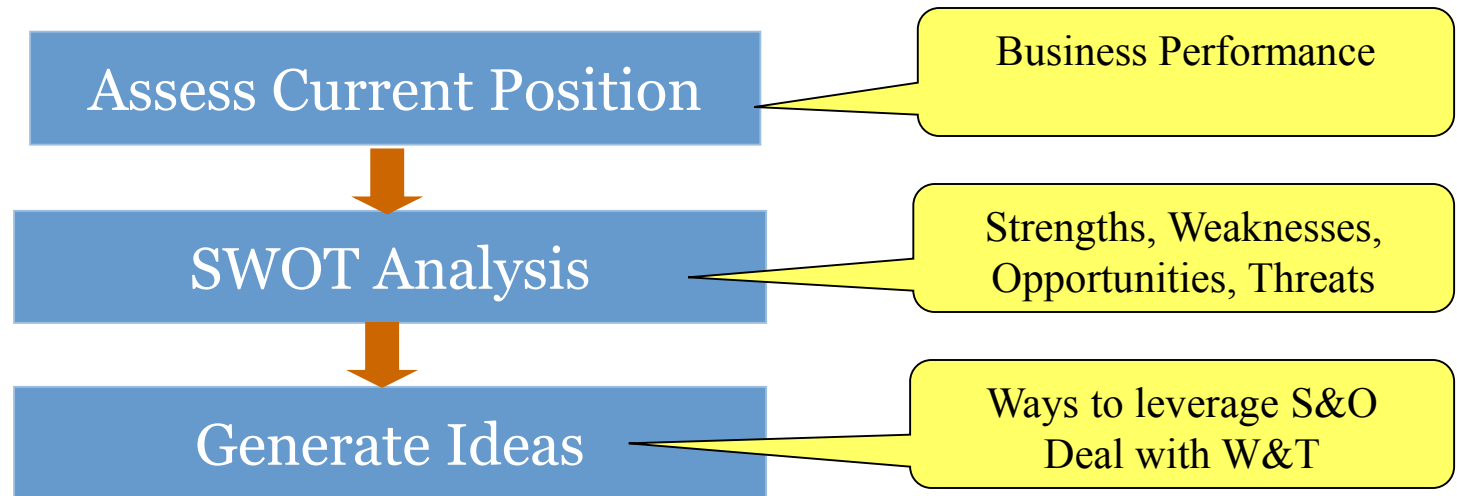
Business Performance

- This should include at a minimum a 12 month P&L and cash flow projection
- Might also include industry analysis, competitive analysis, value chain analysis, and/or customer and product/service profitability analysis

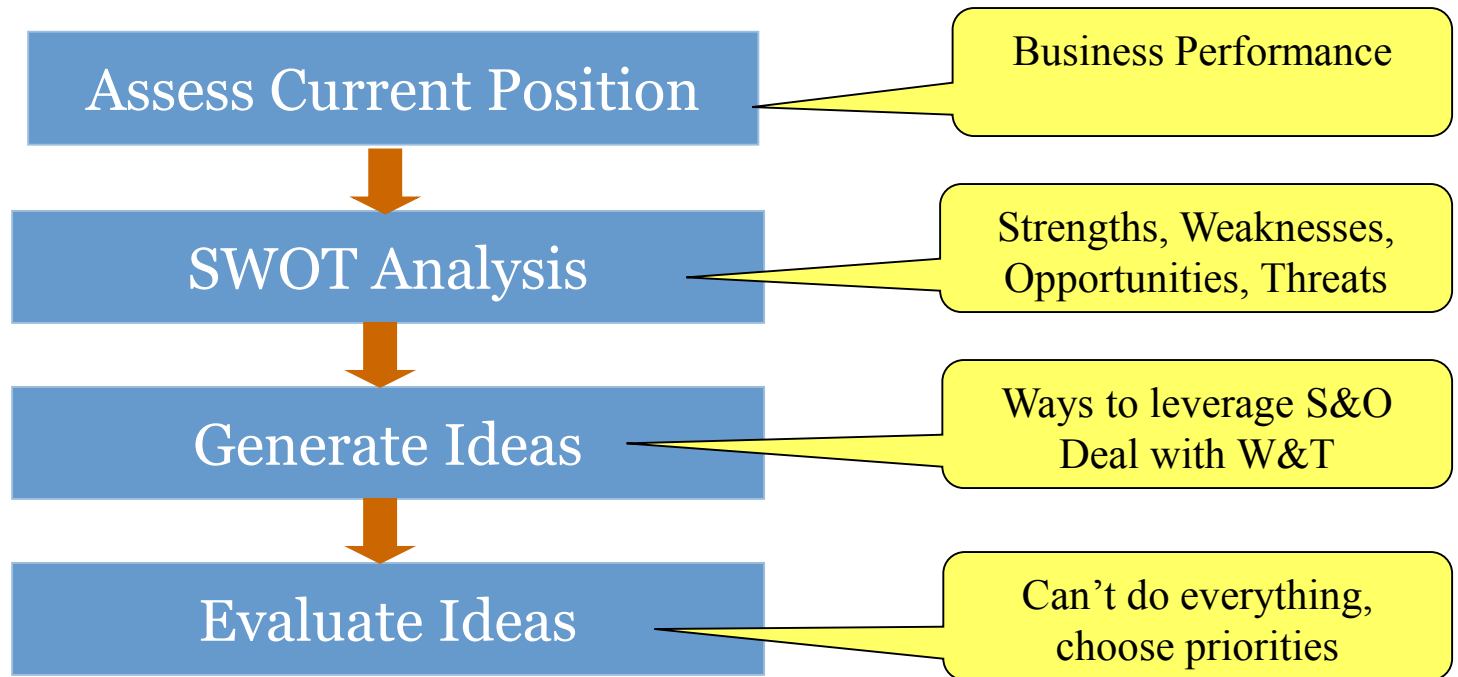
The Steps in Developing a Plan



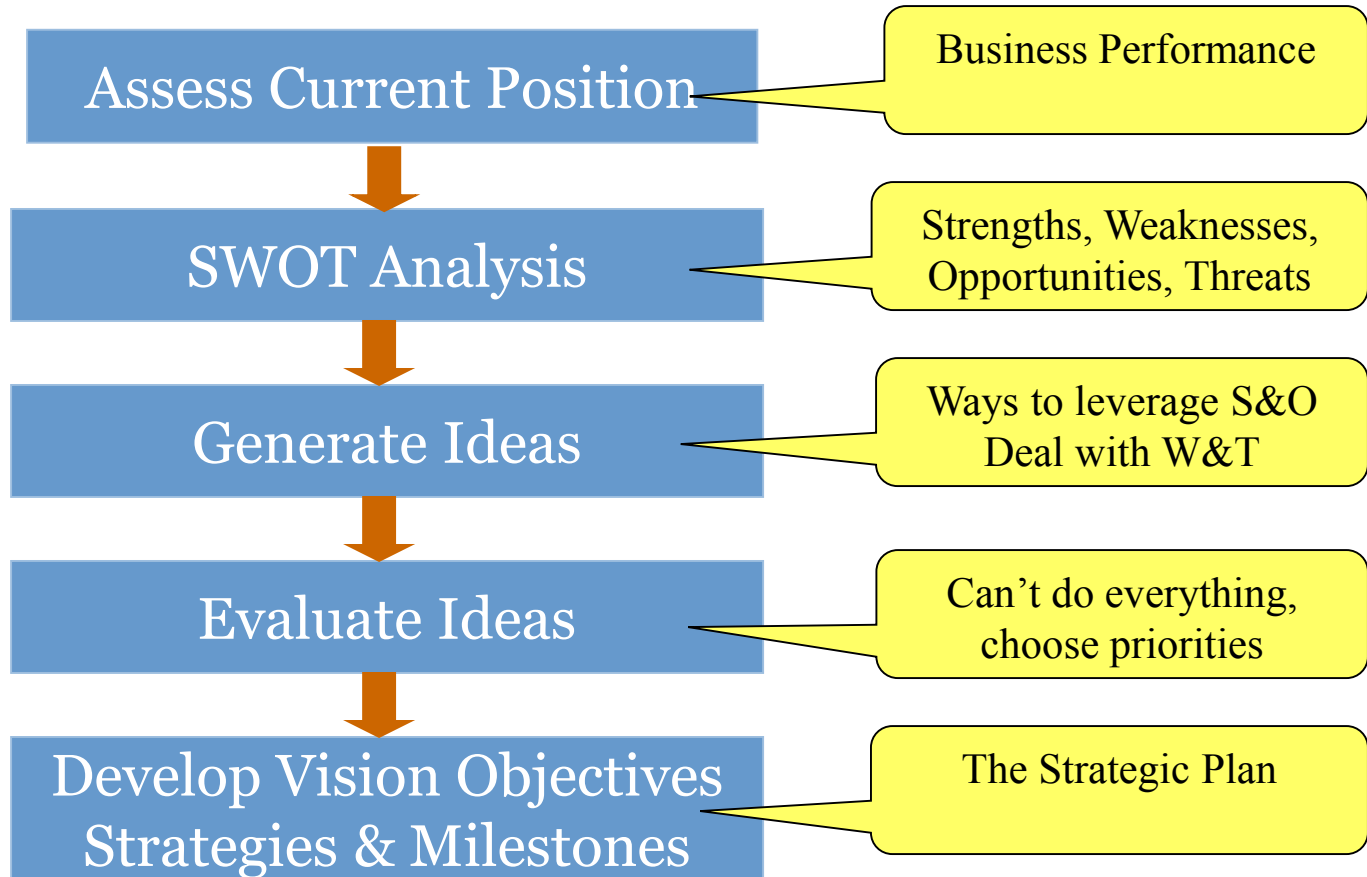
The Steps in Developing a Plan



The Steps in Developing a Plan



The Steps in Developing a Plan



The Steps in Developing a Plan

Assess Current Position

Business Performance

SWOT Analysis

Strengths, Weaknesses,
Opportunities, Threats

Generate Ideas

Ways to leverage S&O
Deal with W&T

Evaluate Ideas

Can't do everything,
choose priorities

Develop Vision Objectives
Strategies & Milestones

The Strategic Plan

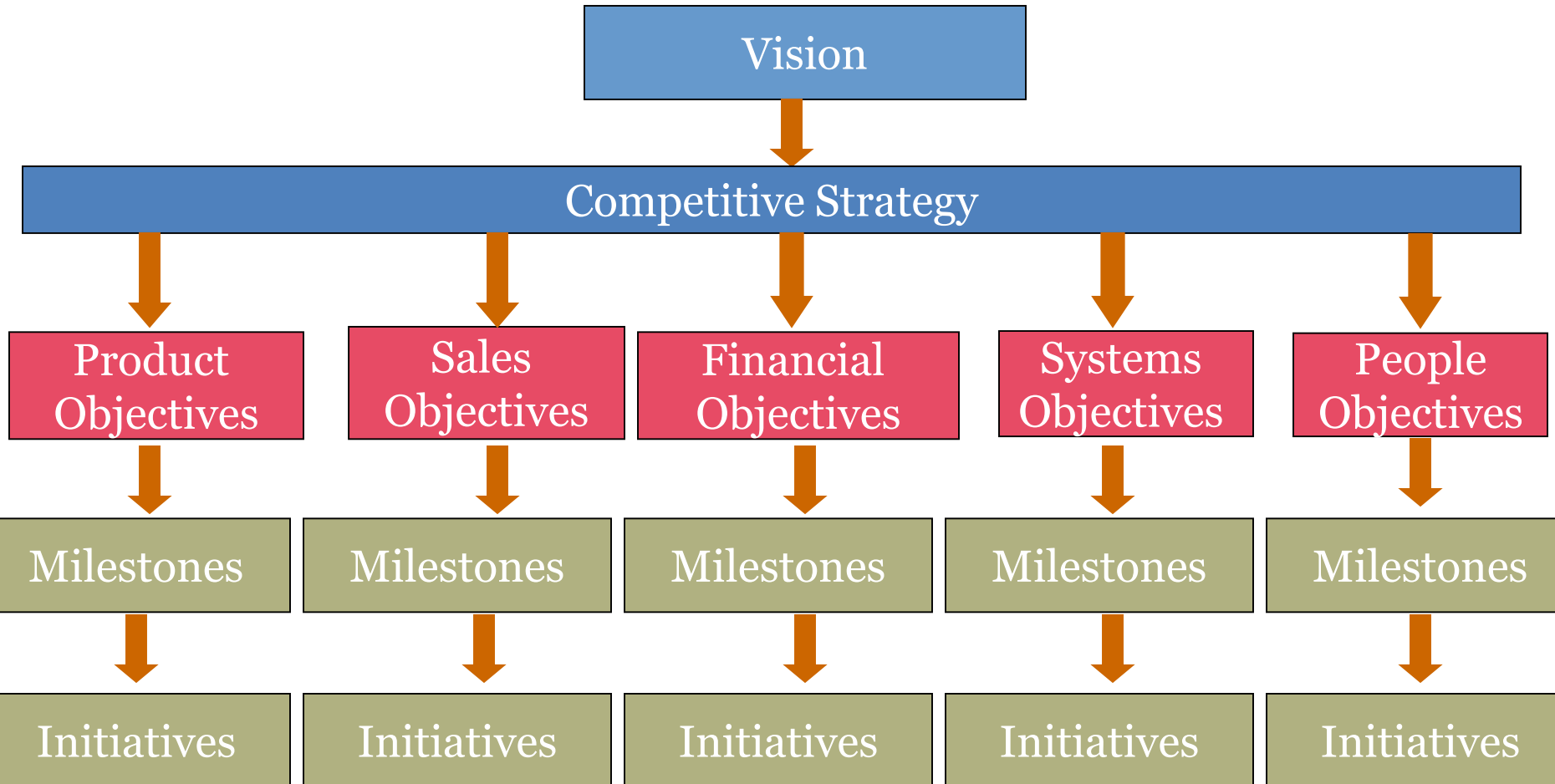
Manage and Monitor

Constantly manage
progress

Re-assess,
it is an
ongoing
process



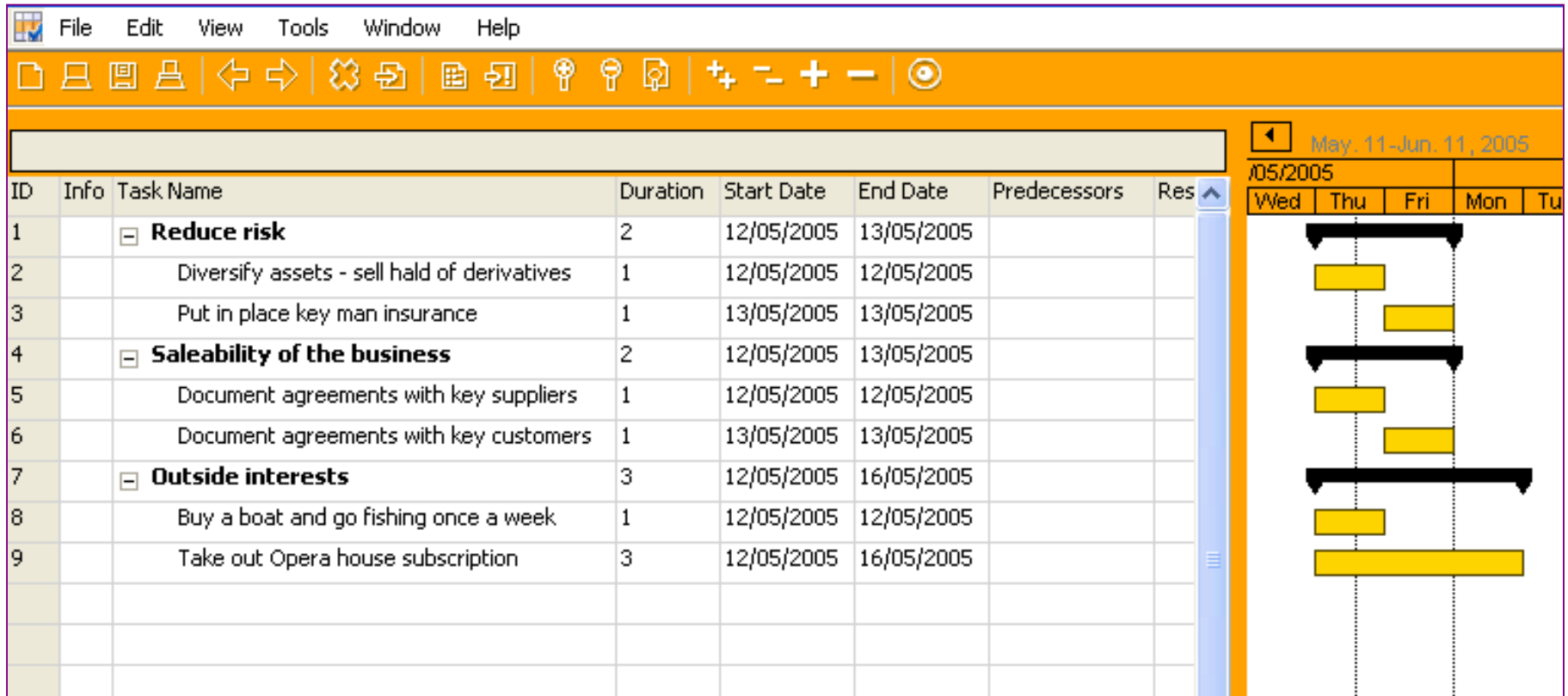
The Structure of the Plan



Project Plan

- With an understanding of the business strategy, it's now possible to draft an action plan detailing
 - Who?
 - When?
 - What?

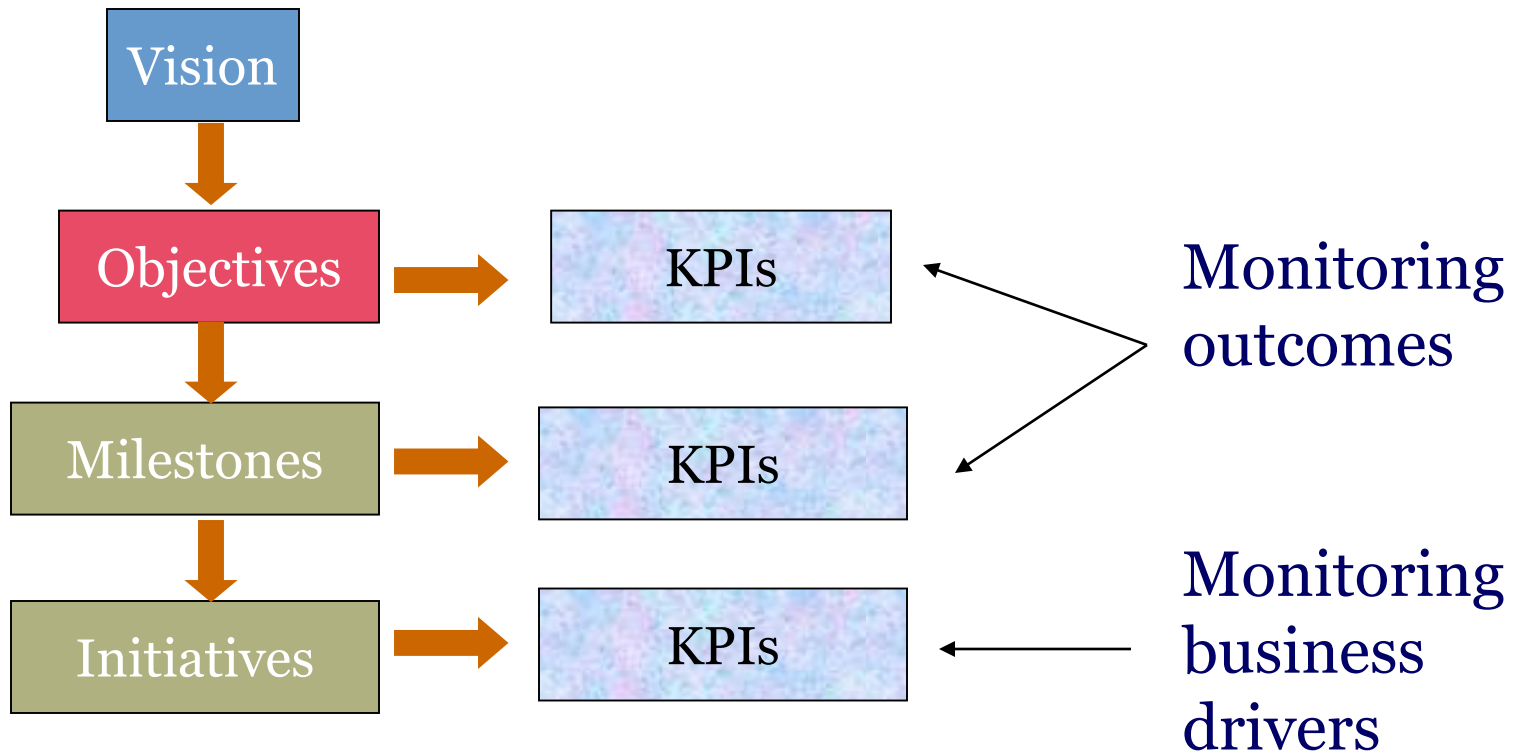
Project Plan



Key Performance Indicators (KPIs)

- Measurement of the success of strategy is important
- We need to measure at several levels
 - Objectives – overall progress towards the business objectives
 - Milestones – progress against the interim objectives
 - Initiatives – the activities that drive the results
- Measuring objectives and milestones is measuring outputs, measuring activity is measuring inputs or drivers
- Only through measurement can we monitor progress and initiate remedial actions

Establishing KPIs Requires Understanding the Strategy



Advice on Planning Within the Context of a Recession

- Michael Porter
- Jim Collins
- Jack Welch

Poll Question 2

- As a result of the coronavirus crisis by what percentage do you intend to reduce employee headcount?
 - 0%
 - 1-10%
 - 10 -20%
 - 20% or more

Michael Porter

Stay focused on your strategic plan rather than attempting to deal with every issue, have a Zen-like ability to concentrate on your strategies.

- Apply Pareto's Law; focus on the 20% of your activities that is yielding 80% of your results.

Michael Porter

Make sure you are cutting costs and restructuring towards a strategy, rather than cutting across the board.

- Don't cut your overhead by 10% pro-rata, cut 100% of your costs in areas where you are not getting your targeted ROIC and then invest in the areas where you are achieving your goals.

Michael Porter

Take this opportunity to *DRIVE CHANGE*

- Change is hard and people resist it. Take advantage of this crisis as justification for you to do what you have already known you needed to do but were afraid to try

Michael Porter

Seize opportunities!

Challenging times are full of them.

Jim Collins

Complete the Good to Great™ Diagnostic Tool Developed by Jim Collins

- This is available for download at no charge from Jim's website

Know the answer to the disciplined people question

- Essentially, how many of your key employees are the "right people on the bus"

Jim Collins

Have a stop-doing list; personally and organizationally

- Your success has as much to do with your stop-doing list as it does your to-do list

Jim Collins

Focus on responsibilities, not job titles or job descriptions.

- What are the bottom-line deliverables you are looking for organizationally from the position?

Jim Collins

Define “True North” values for your organization.

- What Do You Value?

Jack Welch

Resolutions for the Recession

- First and foremost, we suggest you resolve to make 2020 a year during which you stay outward-facing and on the offensive
- Yes, defensive actions are necessary right now. Many companies have or will conduct a round of layoffs or reduced compensation, and more of the same may follow, along with cutbacks in other guises.

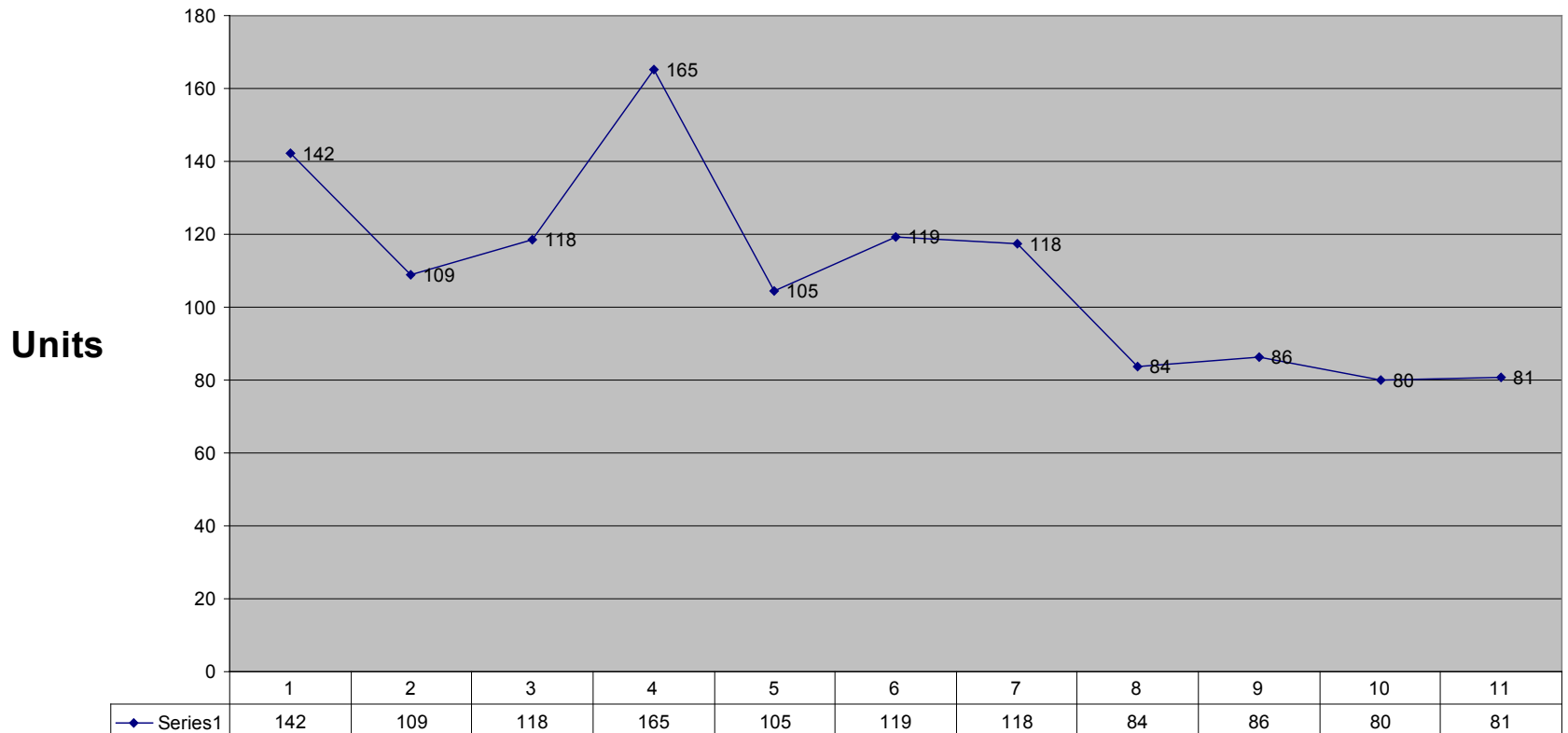
Jack Welch

Resolutions for the Recession

- And remember: Your customers are hurting, too
- Offer them better-than-ever value, and you will sell more today and raise your chances of keeping their loyalty after these dark days pass

Reducing Your Break-Even Point in a Down Economy

Break Even



Economic Crisis: A Time for Analysis

- Review Financial Condition
- Evaluate Options Available
- Prepare Forecasts
- Stress-Test Financial Models
- Mitigate Unacceptable Financial Risk
- Assess Financing and Capital Adequacy
- Explore Strategic Alternatives



Customers Can Buy from Couch

1. Browse inventory online
2. Launch express Purchase App and provide title information
3. Build your deal
4. Delivered to your door!

Buy from Couch

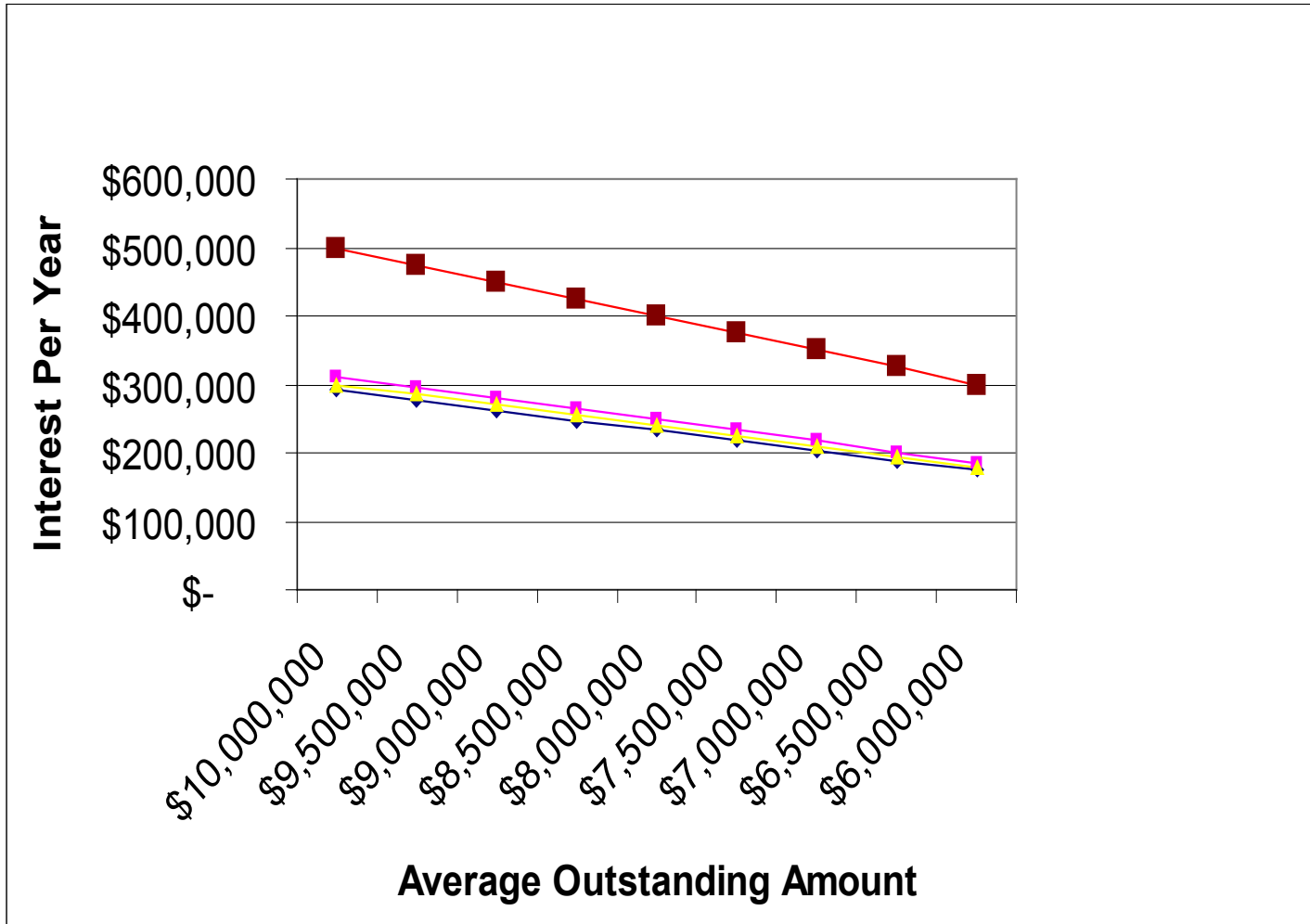
- Make it easy
 - Is your website user friendly?
 - Inventory up to date?
- Purchase and title apps
- Let them build their deal
- Provide special delivery options and discounts

Percentage of Gross Profit to Expense

%
OF GROSS
PROFIT
TO SALES

	\$1.00	\$10.00	\$100.00	\$500.00	\$1,000.00	EXPENSE
10.00%	\$10	\$100	\$1,000	\$5,000	\$10,000	SALES NEEDED TO
15.00%	\$7	\$67	\$667	\$3,333	\$6,667	RECOVER
20.00%	\$5	\$50	\$500	\$2,500	\$5,000	EXPENSE
25.00%	\$4	\$40	\$400	\$2,000	\$4,000	
30.00%	\$3	\$33	\$333	\$1,667	\$3,333	

Interest Costs



Loan Costs

Estimated Savings

Inventory	18,159
LOC	4,968
Capital Loan	-1,604
Mortgages	None

Estimated Cash Flow Savings **\$369,516**

Poll Question 3

- Assuming that the Coronavirus crisis pushes us into a recession how long do you think the recession will last?
 - Less than 1 year
 - 1-3 years
 - 3-5 years
 - More than 5 years

Energy Costs

- Conduct an energy audit
 - www.duke-energy.com
 - www.energystar.gov/istar/pmpam
 - Energy Doctors 317-570-2855
- Set Goals
- Is Solar an option?
- Create an Action Plan



Health Insurance

- Consider modifying coverage, deductible, co-pay, etc.
- Offer a basic and an upgrade plan
- Consider age-weighted or banded premiums
- Do not rely on only one agent for quotes
 - Contact Opoc 866-676-2871
- Health Savings Accounts

Property & Casualty Insurance

Most business owners and controllers are uneducated regarding insurance exposures and pricing, thereby, leaving themselves at the mercy of the insurance salesperson



Just What Is a Captive Insurance Company (CIC)?

1. A privately held insurance company primarily formed for the purpose of providing insurance coverage to that company's owners
2. A corporation qualified by regulatory authority to operate as an licensed insurance company for specific and limited purposes
3. An owner controlled entity operating much the same as any insurance company. In the simplest form, a CIC is an organized plan of self-insurance that calculates risk, issues policies, collects premiums, pays expenses and establishes reserves to pay future claims

Advertising Costs

- Target Rating Points
- 15% Commission
- Advertising Audits

Example of a plan with \$1,000,000 in assets:

	<u>Insurance Company or Bank Plan</u>	<u>Direct with TPA & Mutual Fund Family</u>
Administration fees	1,000	2,000
Corporate Trustee fee	750	750
Risk and Mortality Charges	12,500	0
Asset Management fees	5,000	0
Monthly Charge per Employee	Varies	0
Money Management fees	5,000	10,000
Web site access	Varies	Yes
Broker of Record	Varies	Yes
On Site Counseling	Varies	Yes
Total Annual Fees	<hr/> \$25,250	<hr/> \$12,750
Difference in Fees		\$12,500

What to Do When Expenses Are Out of Control!

- Computer Costs
- Credit Card Fees
- Office and Other Supplies

Dear Valued Provider,

As we enter the new year, we would like to take this opportunity to thank you for the goods and/or services that you provide to our business. During the course of any given month, it takes well over one hundred different businesses working in unison to provide our customers with what we consider to be a world class buying and ownership experience.

Every year, in an effort to remain competitive, we are forced to examine and adjust margins and pricing. Given the current economic climate and rather than simply press those increases downward to our customers, we must ask our goods and services providers to shoulder some of that burden.

Rather than go through the arduous and time-consuming task of re-bidding each of our goods and services, I would ask that each of our current providers make a unilateral reduction in their pricing of 10%. With the understanding that each of our providers operates under a unique business model any concession in pricing will be greatly appreciated.

Please respond, **in writing**, to the request within the next 30 business days. In your response, please indicate **one** of the following:

- 1) If you are willing to provide the requested 10% reduction,
- 2) If you are willing to provide any reduction and be included in a closed bid,
- 3) If you are not willing, or able, to provide any reduction.

Please immediately reflect the reduction (10% or your designated percentage) on your next invoice.

Increasing the Productivity of Your Human Capital

1. Reduce your payroll costs
2. Increase the output from your human capital

Cutting Payroll Costs

- You can reduce your payroll expense by reducing your payroll outlay
- You can reduce your payroll outlay by reducing headcount or across the board pay cuts or both

Pay Cut Strategies

- Cut all team-members' pay by the same %
- Cut higher compensation teammates by a higher %
- Don't cut rate per hour, but cut total hours
- Switch to a productivity pay model like a piece rate for those employees not already on such a plan

Workforce Reductions

- However, the finance and HR questions are
 - How much to cut?
 - Who to cut?

How Much?

- This requires financial forecasting and will necessitate the input of the entire management team

Who?

- The logical answer is your least productive employees and the ones with the most easily replaceable skill sets
- However, this assumes that the internal and external finance and HR teams have devised a meaningful way to measure employee productivity

Macro Productivity

- Macro productivity is reasonably easy to measure:
- Revenue per salary dollar
- Sales per employee
- Ratio of compensation expense to sales
- Gross Profit per employee

Micro Productivity

- The productivity of our workforce at a more micro or individual level is less frequently measured
- This generally greatly complicates the “Who” questions

Exploring All of Our Options

- Also, remember we said that you can reduce your expenses through cost cutting or increasing the productivity of your resources or both
- So, what about increasing the productivity of our human resources?

Increasing the Productivity of Our Human Resources

- This option also assumes we have an objective way to measure productivity at a micro level
- So, we are back to the question of how to accomplish this in an objective, organized and cost-effective manner

What is Our Goal?

- We want to be able to measure productivity at an individual level
- In order to make recommendations on workforce reductions and/or
- In order to increase the productivity of our remaining human resources

Having the Right Tool for the Job

- Any job you want to do is easier if you have the right tool for the job in the first place
- Therefore, to efficiently and effectively reach our goal, we need a new tool in our toolkit

Introducing the Position Scorecard

- A position scorecard should meet the following criteria:
- Clearly indicate the overall organizational goals (Critical Success Factors)
- Clearly indicate the key position functions that best contribute to accomplishing these organizational goals (Key Performance Indicators)
- Clearly indicate the objective measurements of these key position duties and
- Provide for efficient scoring to measure the overall effectiveness of the person in the position

Processes and Training Improve Performance

Better Individual Performance
Drives
Better Results



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