



Profitable Ideas for Automobile Dealers

Eight Trends Dealerships Must Not Ignore in 2017



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Last year, dealers experienced steady sales and profitability. Solid economic growth, low interest rates, affordable gasoline, an improved job market and better incentives from auto manufacturers and dealers all contributed to 2016 numbers. 2017 is expected to bring similar or slightly lower sales volume. This article will pinpoint which trends dealerships should be focused on in 2017.

1. Consolidation

The dealer market is continuing to see consolidation. Smaller groups and single point dealers are getting swallowed up by larger dealer groups and public chains that have the capital and resources to deal with the continual facility upgrade requirements by manufacturers. Larger dealer groups have additional resources in the areas of internet sales and Business Development Centers. These dealer groups have purchasing powers that allow their expense structure to be lower than smaller dealers.

Nontraditional dealership investors, such as hedge funds, family offices, and Buffet type entities will continue their acquisition activity. These groups have enjoyed the returns generated from their dealership portfolios.

2. Internet Sales

The advent of new technology in the automotive industry will change traditional commission structures. For instance, the role of a salesperson is evolving. Business development centers are now doing the heavy lifting, often negotiating deals with customers before they even arrive to the dealership. Many customers no longer test drive the vehicle. Sales leads generated from the web will continue to grow and dealers that are not proficient in closing these leads can expect sales declines. Competency in this area will be critical to the long-term viability of smaller stores.

3. Finance and Insurance

The F & I Department is the key to achieving any profitability in the new vehicle department. It is also a critical element of the used vehicle department. Dealers that are not proficient in this area will struggle to survive.

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4. Stair-step Program Incentives

With a projected decline for 2017 sales, stair-step programs will continue to grow. A survey by the National Automobile Dealers Association (NADA) found that 64 percent of dealers who responded dislike stair-step incentives. Motivated by an attractive volume-based bonus, large dealers will generously slash prices in an effort to meet tiered sales goals that progressively get higher. Small market dealers cannot compete with these programs; these programs are disastrous for local retail markets.

5. Aging Workforce

With more baby boomers staying in the workforce longer, employers are facing challenges in dealing with a generational divide. By 2019, over 40% of Americans aged 55+ will be employed, making up over 25% of the U.S. labor force. Understanding technology is critical to the success of workers in dealerships, and older employees are lacking in this area. Dealers will need to have a balance of experienced workers and younger employees with superior technology skills. Technology is ever evolving in this industry and employees will need continual training in this area. Employees that do not adapt to technology advances will no longer be productive.

6. Body Shops

The service department in the automotive industry is often overlooked in terms of profitability. At some point, vehicle sales will slow and a strong back end of the store will carry a dealership in times of lower vehicle sales. In the evolving marketplace, consumers are turning to dealerships not only for the initial purchase of a vehicle but also for routine maintenance throughout its life cycle. Thus, it is important that

growing the service department becomes part of every dealership's business development plan. With more vehicles crowding roadways, the demand for repair and replacement services is expected to rise, which is why many dealerships are finding body shops an attractive and profitable addition to their service offerings. If you have suitable space and manpower you may consider participating in this 50-billion-dollar business.

Opening a body shop is also a great way to retain customers through building stronger connections. It is important to remember – it is not only about selling cars; it is also about retaining business and this can certainly be done through the service department. Dealers with their own body shop have a significant advantage in reconditioning their used vehicle inventories.

7. Succession

With more than 10,000 people a day turning 65 and consolidation happening in the marketplace, having a proactive plan for your dealership's succession plan is critical. It is important to have a formal and documented plan in place whether you plan to transition ownership internally or externally. Auto dealers have unique considerations for succession planning, therefore it is important to understand all the factors and plan.

We are conducting a national survey on Succession Planning for Auto Dealers in conjunction with the National Alliance of Auto Dealer Advisors (NAADA). You can access the survey by clicking on the link below.

The survey closes on February 10, 2017

<https://www.surveymonkey.com/r/LBLTY2W>



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8. Cyber Security

One only needs to read the daily news to realize that hackers are getting better and cybersecurity is more important than ever for dealerships. Potential threats include theft of dealership property, customer privacy and dealership reputation. Your cash and customer information are desirable targets from a cyber-attacker's perspective. To protect yourself, it is essential to be proactive with cybersecurity measures. Dealers should be looking at their general IT environment, training employees on cyber threats, how they use online banking and more.

Regardless of the state of the economy, dealerships that produce consistent results are those that manage their dealerships effectively and actively seek out opportunities for growth.

The professionals at Vawter, Gammon, Norris and Company, P.C. can answer any questions you may have about the trends covered in this article and how they will impact your business. Call us today.



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