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Profitable Ideas for Automobile Dealers

401K Sponsor Responsibilities - Internal Controls

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Consider this. You are opening a new dealership and, along with it, an operating bank account. Your bank is custodian of the funds. Your dealership personnel make deposits and write checks.

Most likely you also have an outside CPA firm that goes through your books at least once a year. Even though you have a bank that holds your money and a CPA that probably looks at your cash to some degree each year, you establish internal controls for daily operations. You require two check signers, documentation to support checks being issued, and reconciliations to the bank statements. In other words, you implement internal controls to prevent or quickly detect mistakes and misuse or diversion of funds.

As a 401K sponsor the Department of Labor (DOL), the IRS and your plan participants expect no less. Once you decide to open a retirement plan, you are expected to protect the assets of the participants and adhere to the rules and guidelines that you have represented to them through your plan document. One way to accomplish this is to establish internal controls within your organization pertaining to your plan.

So, you ask, what internal controls should I be implementing?

A good first step is to know what parties are involved with your plan (the trustee, the third party administrator, the record keeper and the CPA firm if the plan is required to be audited). You should know what role each party plays. For example, what parties are involved in approving a participant loan? More importantly you should know what roles they do not play and that you would be responsible to fill. If a problem arises down the road saying "I thought my trustee was handling that." is not a good defense. You should know for sure. After all, the ultimate responsibility lies with you.

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Leveling the Playing Field - Retail Warranty Reimbursement

Edited by Vawter, Gammon, Norris & Co., P.C.

The factory-dealer relationship is anything but a level playing field; and unfortunately, the behaviors of some manufacturers have necessitated state laws to protect dealers' interests. These laws cover a myriad of issues, but one that is critical to your bottom line is a mandate that the manufacturer pay a dealer the equivalent of his Customer Pay repair rate for Warranty parts reimbursement. These laws exist in 36 states, with more states to come on board in the not too distant future.

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401K Sponsor Responsibilities

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Here are some other internal control procedures that a plan sponsor is expected to implement:

- Compare deferral elections with amounts deducted from employee wages.
- Verify that new participants are indeed eligible.
- Verify that payroll deductions are deposited timely into the participant accounts.
- Verify eligibility and proper approval for plan distributions and loans to participants.
- Compare amounts being deducted and amounts credited to the participant's account.

These are just a few. More information may be found at www.irs.gov/Retirement-Plans or contact Bishop Norris or John Gibbs at vgncpa.com.

For more updates: vgncpa.com/vgncvoice

Retail Warranty Reimbursement

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For years, most dealers have submitted for annual increases to their warranty labor rate but have been stuck with an artificially low parts markup stipulated in their dealer agreements. This markup is typically 40% over cost, although some manufacturers will pay you list or MSRP. By the way, don't be fooled by the "list" claim you may hear; you are not collecting 67%, which is anecdotally thrown around by your factory rep or by your managers – you are actually being paid a markup in the low to mid 50s.

Based on the law in states where favorable statutes exist, you are entitled to collect "retail" from your manufacturer for parts used in a warranty claim. No, retail is NOT list price or MSRP; it is clearly defined in the law. Basically, retail is what your customers pay you for a warranty-like repair; and the formula for this calculation is clearly defined in 21 of the applicable statutes. In the remaining 15, there is no formula. In a store with typical pricing and discounting practices, the markup normally falls in the 75% to 85% range. For dealers utilizing a list pricing model, you should expect something in the 60% range. So even in a conservative pricing environment, a dealer should expect to improve his warranty gross profit by 50%; however, something on the order of doubling the gross is very realistic. This is a one-time process and does not need to be repeated, unless you materially change your parts pricing strategy.

This is not to say that the manufacturer will simply lie down and grant you a 100% improvement in your gross. First of all, these laws mandate a submission and detail what is required of the dealer; but that's just the beginning.

Several things need to be considered in order to ensure the best possible result:

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Retail Warranty Reimbursement

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- **Thorough understanding of the law** – Rest assured certain manufacturers will read the statute differently from you. Sometimes the positions they take are rather shocking, including those that will simply refuse to follow the law or others that will attempt to include non-warranty-like repairs in a deliberate attempt to lower your markup.

- **Following the manufacturer's protocol** – It's critical to understand the factory's guidelines for the inclusion or exclusion of various aspects of the submission; each of them has different rules, and they typically won't disclose them to you. If you can determine what they are, you should follow them within reason; do not be combative or send up "legal signals" out of the gate.

- **Optimization** – Absolutely key to this process is achieving the best possible result, and that can only be done through the proper selection of your submission sample – this is something that should not be left to chance or inferior technologies. Missing your mark-up by even a few points can cost you thousands every year, perpetually. Do yourself a favor, and explore this aspect with some attention to detail – it will be worth it to you in the long run.

- **Warranty Auditors** – Beyond technology, however, is the need for a thorough audit process. Your declaration will be scrutinized by factory auditors that know every nook and cranny of countering retail warranty submissions, and you should have someone familiar with their techniques in order to refute their sometimes questionable positions. Here again, it is better to get along with these folks, and in many cases, this is not a problem; however, some are extremely difficult.

- **Factory Responses** – In many cases, your approval will not be smooth; and the manufacturer may rebut your calculations or, in some instances, summarily reject your submission. Responding in the proper manner is critically important since it could be the difference between achieving a substantial increase in your warranty parts gross or getting nothing at all. There are many dealers that have submitted two, three or four times over the course of a year or two, costing themselves multiple six figures in lost profit.

The bottom line is that you have an extraordinary opportunity to receive a fair reimbursement for the parts utilized in the warranty work you perform. If this process is approached in a judicious and professional manner, you can quite possibly double your warranty parts gross profit. There are many pitfalls for the uninformed, but tremendous upside for those that perform the submission process properly.

If you have questions about warranty reimbursements for your practice, please contact one of our professionals today.

We invited Joe Jankowski from Armada Dealer Solutions to submit the following article. Joe addressed our group, the National Alliance of Auto Dealer Advisors (NAADA) at a recent meeting. If you have any questions regarding this article and would like to speak with Joe, please let us introduce you to him.

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