

**DealersEdge**

# 30 Innovative Methods for Cutting Dealership Expenses

With

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has extensive experience in accounting, with emphasis on the automotive industry. He has performed individual and corporate financial planning, automotive factory financial statement analysis and departmental internal control analysis, product cost studies and inventory valuations, preparation of compilation, review and audited financial statements, liquidations, mergers and consolidations and cash flow planning.

Mr. Burns is a partner with the Firm of Mironov, Goldman, Wortzel, Sloan & Parziale, LLC. He joined the Firm in 1982 and is presently a co-director of the business valuation department of the Firm, as well as a supervisor of accounting staff members. The Firm specializes in the automotive industry, with approximately 225 automobile dealerships as clientele.

# **30 Innovative Methods for Cutting Dealership Expenses**

## **FIRST STEPS**

Run a trend analysis report to see which expenses have increased and why. At the same time pay attention to sales accounts and cost of sale accounts. If there is an out of line you should research that area to see why there is a fluctuation from other periods.

## **VARIABLE EXPENSES**

### **Floorplan Interest**

- Do not floor plan any used cars unless absolutely necessary.
- Pay off cars timely, some dealerships use the bank holding their floorplan because they let you offset the Contract to payoff the floorplan.

- Do a monthly floorplan reconciliation to make sure there aren't any vehicles on the floorplan in error.
- Some banks give you a reduction in your floorplan if you do a certain percentage of your lending with them.

### **Demo Expense**

- Make employees responsible for the deductible if there is an accident.
- Many dealerships give car allowances in lieu of a demo because it is less expensive

### **Delivery Expense**

- Closely monitor this account and make sure there aren't too many items hitting the account. Make it a policy to have internals and other items charged to the inventory when possible. This will reduce the amount of commission payable on the vehicle. If the cost of the vehicle is increased then the salespeople should increase the selling price.
- Some dealerships charge items such as gas and PDI here and then give credit for the money back to the dealership. You could expense these items to the car and take the credit elsewhere.

### **New Car Policy**

- Monitor this the same way you do delivery expense

### **Advertising**

- Advertising expense can be high for obvious reasons, but the results of each expense charged to this account should be tracked to see what is working.

### **Personnel Expenses**

- At the end of the week, management should have to sign off on overtime before submitting the time tickets to the payroll administrator.
- Pay careful attention to overtime pay when there are holidays, sick time or vacations. Know the labor laws and when an employee is exempt from overtime pay
- Make sure your dealership has a contractual rate to avoid paying technicians overtime for flat rate hours worked.
- Hire smart, whenever you train an employee it costs money, if they leave you may be subject to unemployment. When you have a lot of turnover your employer payroll tax expense will increase. Each time you hire someone new you begin paying FUTA, FICA, SUI AND SDI all over again

- Cross train employees so that in the event business slows down you aren't reluctant to let someone go. As a manager you may even notice how much more efficiently one person performs a job than another.
- Use the computer system to the max. There are many manual tasks performed which can be done very quickly by using the computer system. Hire a consultant if you need help or ask your computer company to send someone out. Many times they will send someone out for free.
- Pay managers off of the bottom line, even if you add this to their payplan you will be amazed how concerned they become with your money when they think it is theirs. At the dealership I worked we had the mindset each manager's department was "their company." We were convinced we were lucky enough to be given a business without even paying for it. We would be rewarded by how successfully each one of us could run our business. It became a challenge and very satisfying when each one of us watched how much more money we saved and began to make.
- Hold a weekly management meeting and recognize the efforts of each department and share ideas.

## **Employee Benefits**

- See what other dealerships are doing as far as employee contributions

## **Absentee Wages**

- Set all absentee wages up at the beginning of the year in a liability account and spread the expense evenly throughout the year. Each time someone is out charge the liability account. This will help each department budget their expenses without any surprises, particularly around vacation time.

## **SEMI-FIXED EXPENSES**

### **Office Supplies & Stationary**

- Join a group where you can get a discount and receive dividends in return
- Lock the supplies up
- Allow only one person to order supplies and make sure this person is someone other than the person who does payables for control purposes.
- Buy through automotive Co-Ops where available.

### **Shop Supplies**

- Cost out the shop supplies on a repair order for control purposes
- Keep the supplies in the parts department locked at night

### **Shop Policy**

- Make this an important factor in service department commission plans, be aware many service departments will then charge items to cost of sales accounts etc.(look at page four of your financial statement and pay attention to your gross profit percentages).
- Any item charged to shop policy must be signed by a service manager (be careful this is another individual who is being paid on shop policy)

### **Outside Services**

- Are usually a tremendous expense that should be reviewed regularly.
- Can include credit card fees that can be reduced by shopping processing companies
- Accept Debit Cards that offer a lower fee (Discover & Master Card and Visa.)

- American Express rates are generally the highest rate. Rates may be lowered if your volumes of credit card transactions increase, make sure to ask.
- Another company processes the information for the credit card companies. You can ask for a discount from them as well.

### **Legal & Auditing**

- Accrue for some of the expenses you will incur at year end. Try to spread the expense throughout the year so employees who are commissioned on the bottom line will share in these expenses. This also allows each department to forecast their sales to make a profit each month. If these expenses fluctuate too much it becomes difficult to know the sales needed to be profitable.

### **Telephone**

- Use employee codes to monitor usage.
- Review service contracts especially with multiple dealerships.

## **Postage**

- Review your overnight charges to see if you can get a better rate with a different carrier. See if multiple packages are sent to the same lender each day.
- Take advantage of bulk mailing

## **Training**

- Is a necessary expense which is difficult to cut

## **Data Processing Services**

- Have a consultant review your monthly computer bills. You will be surprised to see some of the things you are paying for and don't even need.
- When it's close to your renewal period, compare other companies for competitive rates.
- Keep your current provider honest by letting them know you intend to shop around.

## **Miscellaneous**

- There should not be a lot of activity in this account. Use this only when current year expenses just don't fit any other

category. An office manager should review the activity in this account every month by running a general ledger detail on the computer screen.

## **FIXED EXPENSES**

### **Repairs & Maintenance**

- Review maintenance agreements yearly to make sure they are still needed

### **Insurance**

- Have a consultant review the dealership's garage & liability insurance policy.
- Make sure during the workmen's compensation audits the employees are classified correctly.

### **Utilities**

- There are consultants who will come to your dealership and help reduce your utility expenses using more efficient products

### **Equipment Repairs and Rentals**

- Review rental agreements annually.

### **Other Deductions**

- This can include miscellaneous items, so run a general ledger detail report on this monthly and review.

### **Unapplied Labor**

- Make sure this write off is low. Make sure it is under \$1500 per month. If not, this means technicians are not being used to their potential or repair orders are not being costed properly.

### **Cost Segregation**

- Cost segregation breaks out property into shorter depreciation schedules.

## **CONCLUSION**

- Engage employees to accelerate the process to trim expenses.

- Make expense control not only your responsibility but also your employees.
- Offer quarterly or monthly rewards for employees who have helped save the dealership money or generate income.
- Pay attention to the cost of sale accounts as well.

## NOTES

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