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5 financial and accounting processes that might be due for a revamp

If you ask some dealership owners why they do things a certain way, they might answer, "Because we've always done it that way." But with all the changes that have taken place in the financial and accounting realm, doing things the way you've always done them could be costing your dealership in terms of lost efficiency and profits.

Revisit your processes

Now might be a good time to rethink and revamp your financial and accounting processes, if you haven't done so already. Some of them may have been in place for a long time and outlived their usefulness. Here are five ideas to consider.

1. Use an automated payables (AP) system. If your dealership is using traditional paper-based processes to manage accounts payable, you could be wasting both time and money. AP automation technology solutions exist that can help you streamline the payables process by eliminating paper. The result is greater efficiency, lower cost, more security and the ability to capture early payment discounts that may be available.

Many dealerships don't reconcile their bank accounts until the end of the month, but there's no reason to wait this long.

With most AP systems, invoices are scanned in and posted automatically to the system based on the purchase or invoice number. The person responsible for reviewing the invoice (for example, the parts manager or general manager) makes sure everything matches and approves it for payment if it does. The invoice is then paid electronically based on the payment terms negotiated with the vendor. See "Go paperless (or close to it)" on page 3 for other paperless ideas.

2. Accelerate bank reconciliations. Many dealerships don't reconcile their bank accounts until the end of the month, but there's no reason to wait this long. There are many potential benefits to daily reconciliation, such as catching contracts in transit that have been cashed but not recorded.

Daily reconciliation also can help speed up monthly closings (see more below) by eliminating the reconciliation "crush" at month end. Consider purchasing software that can read bank records daily, automatically match outstanding checks that have cleared and update the payables check file.

3. Streamline monthly closings. Most dealerships are required to send their monthly financial statements to the factory no later than the 10th day of the following month. But they often don't start the month-end close process until a few days before the end of the month as they wait for month-end numbers.

However, you don't have to wait for standard monthly entries that remain the same, such as depreciation, prepaid expenses and property tax or insurance accruals. Integrated software can also shorten the monthly closing lag by feeding subsystems (such as accounts payable) into the general ledger. Starting your month-end closing process sooner puts less pressure on your accounting staff and improves the accuracy of your financial statements.

4. Use corporate purchase cards. Issue a purchase card (or p-card) to at least one employee in each department to cover small items — say, those under $100 — and travel and entertainment expenses. This will enable accounting to make a single payment for multiple small items, instead of processing a lot of small-dollar checks.

As an added benefit, most p-cards offer points and cash-back rewards that can add up over the year. These can be put toward dealership expenses, such as advertising, or simply used to boost the bottom line.

5. Use a standard chart of accounts. Each area of your dealership — new and used sales, parts and service, and finance and insurance (F&I) — should use the same list of accounts that makes up the store's general ledger. Standard guidelines also should be used for coding all transactions. Making all accounts and account numbers standard across the dealership will help increase reporting accuracy and eliminate redundancy and confusion.

Go paperless (or close to it)

Many dealerships have largely converted their paper processes to digital to help lower expenses, increase efficiency, meet compliance regulations and be more eco-friendly. What's more, today's tech-savvy customers increasingly expect dealerships to move from paper to the digital realm.

Using an electronic document management system could save up to 50% of physical and digital storage space and up to 40% on document handling. It could also reduce the time needed to create and modify documents by up to 90%, according to Gartner, a research and advisory firm.

While it might not be possible to completely eliminate paper in a dealership, plenty of documents can be digitized. These include parts invoices and repair orders, finance and insurance paperwork, invoices and payables, payroll documents, and deal jackets.

Several off-the-shelf document management solutions are available to help you convert from paper to digital. Examples include CDK, DocuPro, One View, Rubex by eFileCabinet and Scan123. Your CPA can help determine which solution is right for your dealership.

Ready to update?

Just because you've always done things a certain way doesn't mean that's the best way to do them. Talk to your department heads and accounting staff about which processes at your dealership might be due for an overhaul.

Buying another dealership?

Preliminary due diligence can improve your odds of success

Many dealerships have fared well during the pandemic as many commuters have turned to buying private vehicles over using public transportation and for other reasons. As a result of your success, you may be eyeing the purchase of another dealership. But before you take that plunge, consider these proactive measures.

Examine your financial health, franchise requirements

Is your business in good shape in terms of its cash flow, revenue and profitability? Combining two struggling dealerships rarely creates one strong operation. Your CPA can help you assess your financial position.

Consider if franchise requirements related to the deal will complicate the acquisition process as well as the dealership's future operation.

Also consider if franchise requirements related to the deal will complicate the acquisition process as well as your future operation. Is the manufacturer going to require you to reimage the facility, un-dual franchises or build a new facility? These could be significant costs that may have to be expended soon after acquisition. For example, if a dealership has two unrelated franchises such as Ford and Hyundai, the manufacturer may make them separate and require a new facility so they each have their own showrooms and service facilities.

Conversely, find out if factory assistance is available for consolidating several brands under one roof if that's what you have in mind. Don't forget

to evaluate the outlook for the brands involved. A weak brand today may be stronger tomorrow, or vice versa.

Lastly, assess the state of your banking relationships and your access to capital. A successful dealership — that's selling at a premium — will require a substantial initial cash outlay and likely pose challenges in generating an acceptable return on your investment.

Pinpoint risks

Generally, an acquisition should help you control risk. So consider to what degree the move would allow you to spread out your normal business risk. For instance, your skills and reputation may tempt you to expand *within* your community and choose a brand that appeals to your *current* customer base.

But doing so could expose your dealership to so-called "concentration risks" based on its location or customer base. For example, a future event that affects your customers — such as a natural disaster or the closing of a major local employer — could trickle down to your dealership.

However, you can hedge against concentration risk by diversifying into another geographic market or supplementing your product offerings with a complementary line that targets a different demographic. Consider, for example, the luxury vehicle dealer who also sells budget-friendly cars and SUVs. Alternatively, you might seek out a brand that offers more eco-friendly vehicles to take advantage of green energy initiatives that are expected under the Biden administration.

Size up the employees

Take a hard look at the people who work at the prospective acquisition target. That's easier said than done, of course — especially if the current owner doesn't want a potential sale to distract his or her staff.

However, it's still important to determine the strengths and weaknesses of the workforce you'll inherit, because auto retailing is ultimately a people business. Also check your prospect's employment and work policies for potential post-acquisition culture clashes.

Consider deal structure

Among many financial ramifications, the *structure* of an M&A deal can significantly affect the tax consequences. Generally, there are three common transaction types: 1) a taxable transaction, 2) a tax-deferred transaction, and 3) a hybrid transaction, in which the deal may be taxable, or partially taxable, to some or all selling parties.

You'll want to make the most of tax savings with your new acquisition and avoid a big hit from the taxman. To do this, you should decide how to structure payments (for example, a lump sum payment vs. an installment sale and/or an earn-out provision) and weigh the pros and cons of an asset vs. a stock purchase. Because auto retailing is a relationship-based business, some deals also may include a post-sale consulting arrangement or noncompete agreement with the seller — and you want the current owner to help (not hinder) your merged operations in the future.

Professional expertise

An acquisition can be a smart move. Your financial advisors and attorney can walk you through a myriad of considerations, including the structure of the deal and many other factors not discussed here. Before deciding to acquire, be confident you understand all the implications of the process.

An advisory board can boost your business

A growing number of businesses today are creating advisory boards to provide owners with assistance to help them meet specific challenges. This includes automobile dealerships, which have certainly faced their share of challenges over the past year.

Defining its purpose

An advisory board is an informal group of professional confidants who meet periodically with company leaders to offer advice, support and feedback. Your dealership could realize a number of benefits by forming an advisory board.

Advisory board members can bring an objective perspective on important issues you might be facing, such as strategic planning, growth and expansion, and business succession. In addition, advisory board members can:

- Brainstorm new ideas with you and your managers,
- Weigh in on important decisions you're facing,
- Help identify new opportunities your dealership could take advantage of, and
- Contribute expertise you lack on staff, for example, in the areas of marketing, operations, technology or sales.

Perhaps most importantly, your advisory board can offer unbiased opinions and serve as a sounding board for your ideas.

you to obtain diverse, well-rounded input without the group becoming too unwieldy.

Define board members' commitment. Typically, board members commit to serving for a year. This way, they'll know it's not an open-ended commitment, and you can re-evaluate things and make changes after a year, if necessary.

Selecting members

Advisory boards are typically comprised of professionals who possess the kind of experience and insight that can help owners grow the business. This often includes consultants, CPAs, manufacturers' representatives and other dealership owners, including members of a Dealer 20 group.

Getting the most out of your advisory board starts with selecting the right board members. Look for members who will challenge your ideas. Strive to obtain diverse opinions and feedback from several different perspectives, instead of choosing members who will agree with what you think or say.

As for structure, advisory boards typically meet several times a year for several hours at a time. Meetings can take place on or off premises, for instance, in a hotel conference room or private area of a restaurant. Draft a detailed agenda before each meeting and share it with board members to help them prepare.

Maximizing benefits

Here are a few tips to help you get the most from your advisory board:

Start small. Selecting three or four advisors is often a good beginning. This should enable

Keep lines of communication open. Since you'll only be meeting a few times a year, stay in touch with board members between meetings. For example, you could send them copies of monthly reports to inform them about your progress toward meeting certain goals.

Advisory boards often include consultants, CPAs, manufacturers' representatives and dealership owners, including members of a Dealer 20 group.

Finally, think of ways to reward board members for their service. Advisory board membership is typically considered a volunteer activity. But treating board members to a meal during meetings or paying a modest advisory fee is usually appropriate — and appreciated.

Powerful management tool

An advisory board could be instrumental in the long-term success of your dealership. Give some thought to how an advisory board could be a plus for your business.

Why you should encourage online prequalification

Many car buyers today want to start the financing process online *before* they visit a dealership, according to a recent survey by CarGurus, an online vehicle marketplace. Here are more-detailed findings from this consumer sentiment survey.

A nontraditional approach

Traditionally, car buyers have tended to select a vehicle at the dealership first and then arrange financing. But 93% of respondents to the CarGurus survey said that prequalifying for a car loan online *before* visiting the dealership would be helpful. In addition, 70% believe that getting prequalified will help them feel more confident and prepared to discuss financing at the dealership.

Interestingly, while most customers say that prequalifying online ahead of time would be helpful, only half of them actually do so. One of their main hesitations is that they'll have to repeat all the online prequalification steps once they get to the dealership.

About two-thirds (67%) of the respondents want to complete more of the car-buying process online before visiting a dealership. Given the increasing prices of new and used cars today, many consumers view purchasing a vehicle in a similar fashion to buying a home — they want to know more about financing in advance, instead of treating it as an afterthought.

Encouraging buyers to prequalify for financing online can benefit customers and dealerships alike. Not only does it satisfy a customer desire, but prequalified leads are 60% more likely to purchase a vehicle when they visit the dealership than those who aren't prequalified, according to CarGurus.

Transparency is critical

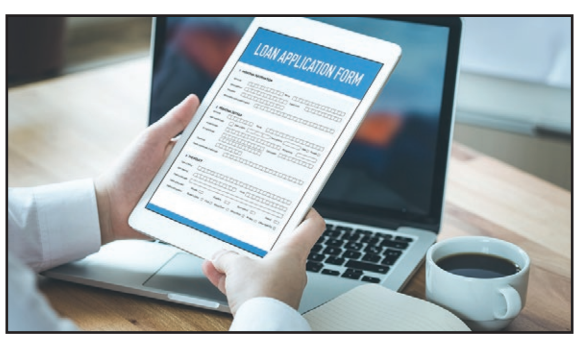
One of the main takeaways from the survey is the importance of dealerships offering more financing resources and rate transparency early in the car shopping process, including online. This is because the in-store finance and insurance (F&I) experience remains one of car shoppers' least favorite parts of the car-buying experience.

The survey found that 42% of respondents spent more than an hour discussing financing at the dealership. Among the biggest frustrations and fears car buyers have about dealership F&I are that the dealer's terms won't be fair (37%), the process will take too long (34%) and they won't be able to understand the loan terms (25%).

Other key takeaways from the survey include: 1) the need for dealerships to identify prequalified leads that come into the store's customer relationship management (CRM) system, and 2) the importance of preparing information on these customers before their arrival.

Time for change?

If your store doesn't allow customers to prequalify for financing online, now might be a good time to consider offering this option. It could be a win-win for your dealership and your customers.



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Proven expertise in helping dealerships build success

In automotive accounting, as in other specialized practice areas, experience matters. That's why dealerships throughout Massachusetts turn to Paul A. Cerrone, CPA for their tax, accounting and auditing needs.

Our more than 30 years of experience in the automotive industry enable us to excel in helping our clients advance their success. Our team is ready to assist you with these and other highly professional services tailored to your specific needs:

- Accounting, reporting and auditing
- Corporate and personal tax planning and filing
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- Payroll and bookkeeping
- Cash management and LIFO accounting
- Internal controls and accounting systems
- Budgets, forecasts and projections
- Business valuations and consulting
- Succession planning and ownership transition
- Gift and estate planning
- Representation before tax authorities

Paul A. Cerrone, CPA, MST, CVA, managing partner, is an ADP Certified CPA with more than 30 years of experience in serving automotive dealers. He specializes in helping clients minimize taxes, maximize profits and achieve their business and personal financial goals. Paul can be reached at 508-845-7600 or pcerrone@cgscpas.com.

We would welcome the opportunity to put our expertise to work for you, your family and your company.

Please call us at 508-845-7600 and let us know how we can help drive your success to the next level.