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5 ways to boost employee retention and improve financial performance

Automobile dealerships have historically experienced high levels of employee turnover. In fact, the average dealership turnover rate for all employees is 40%, according to the NADA *Dealership Workforce Study*. This soars to 67% for dealership salespeople.

The employee turnover problem for dealerships is being exacerbated in the current economic environment, with many businesses having a hard time staying fully staffed. What's more, the COVID-19 pandemic has brought about drastic changes over the past couple of years, including in how cars are bought and sold, which has changed the dynamics of hiring and retention for dealerships.

What can you do?

All of this makes now a good time to think about ways your store can hire and retain the best employees. Here are five tips:

1. Get the hire right. Boosting employee retention rates starts with hiring the right employees to begin with. Given current staffing challenges, however, dealerships sometimes resort to hiring "warm bodies" to fill open positions instead of taking the time and effort required to find the best employee for the job.

During the interview process, try to determine if potential new employees will fit well in your corporate culture. Industry knowledge and experience are certainly important, but they shouldn't be the sole criteria for making a hire. Finding employees who will buy into and support your store's mission and values can be just as critical, if not even more so.

2. Allow employees to achieve a healthy work-life balance. Job burnout is one of the main factors cited by a growing number of dealership employees who quit — especially younger employees. In fact, many of these employees consider work-life balance to be a more important aspect of job satisfaction than compensation.

When creating work schedules, ask employees to specify their preferred shifts and strive to accommodate their wishes for balance and flexibility whenever you can. For example, employees with school-aged children might want to work Monday through Friday from 9 to 5, while other employees might be more willing to work weekends and evenings.

3. Re-examine your compensation structure. There's a growing preference among salespeople today for a salary-plus-bonus compensation plan rather than a straight commission. This gives them more income stability and removes some of the sales pressure. Ask your salespeople which type

of compensation plan they prefer, and structure yours accordingly, if possible.

Also do some research to see if your compensation is keeping pace with the marketplace and your competitors. Industry compensation data is usually available through state and local dealer associations and automotive dealer groups. Adjust your salaries and wages if they're lagging behind.

Industry knowledge and experience are certainly important, but they shouldn't be the sole criteria for making a hire.

4. Offer training and advancement. Many people today want to work for businesses where they can grow their careers. Show employees how they can advance at your dealership along a well-defined career path.

This may require offering training and development courses so employees can learn new skills and take on more responsibility. A variety of specialized workshops and seminars (both in person and virtual) are available to help employees all across your dealership gain the knowledge and skills needed to advance.

5. Provide constructive feedback. Not knowing how well they're doing in their jobs can cause stress and anxiety among employees, so make it a practice to provide regular performance feedback. Annual performance reviews are just a starting point — once a year isn't nearly often enough for employees to hear how well they're performing.

Conduct an initial performance review with new employees after their first month or two and again after six months. In the meantime, offer regular feedback between these formal reviews, both positive and negative. Be sure to present negative feedback as constructive criticism by suggesting specific ways employees can improve their job performance and providing them the guidance and training that they need to be successful.

Breaking down the cost of turnover

High employee turnover costs the average automobile dealership $500,000 a year, according to the NADA *Dealership Workforce Study*. These losses come not only from recruiting and training expenses, but also from lost sales due to inexperienced employees and a lack of staff continuity with customers.

The costs of employee turnover can be broken into these main categories:

Employee separation. This includes costs such as unemployment insurance and exit interviews.

Employee replacement. These costs include advertising for new employees, pre-employment testing, and time spent recruiting and interviewing.

New employee training. This is the time managers spend to get new employees up to speed and productive.

Lower productivity. This refers to low-quality output on the part of new employees who aren't yet fully trained, as well as lower morale and production among existing employees.

Low turnover = high performance

It's not surprising that successful dealerships with the highest revenue and profits also usually experience the lowest employee turnover rates. Implementing these and other retention strategies could help you lower employee turnover and improve financial performance.

How can you protect dealership assets with a trust?

The past couple of years have been a bumpy ride for many dealerships. If you've managed to survive, and even thrive, through these volatile economic times, you certainly will want to take advantage of any strategies that can help you protect the assets you've managed to acquire. Here are some potential ways to ensure your assets can withstand challenges.

Try a family limited partnership

One asset-protecting vehicle worth exploring is a family limited partnership (FLP). In a typical scenario, you transfer assets to the FLP, and as its general partner you have discretion over how the assets and income are distributed. You then gift or sell limited partnership interests to your children or other family members. A common application is to transfer assets such as marketable securities and the real estate on which your dealership is located to an FLP.

The agreements are typically written with asset protection in mind, for the purpose of keeping the underlying assets safe from creditors. Also, if the FLP is properly structured and administered, the assets gifted or sold will be removed from your taxable estate.

Offshore trusts are typically funded with cash or readily movable securities, rather than real estate.

There are some drawbacks. Your franchise agreement may restrict transferring ownership interests in your dealership operations. Also, you'd need to be cautious when signing bank or creditor guarantees — they could undo the FLP's protective quality.

Consider a Crummey trust

Another vehicle to consider is a trust — in particular, a Crummey trust. If you gift assets to someone else, such as your children or other family members, the assets will, generally, no longer be vulnerable to your creditor claims. But you may not want to gift assets outright. Instead, you could transfer those assets to trusts for your family members. This allows you to retain a degree of control over their access to the funds *and* provide a measure of protection against their creditors.

Normally, gifts to trusts aren't eligible for the $16,000 (up from $15,000 for 2021) per recipient annual gift tax exclusion, because transfers must be of a "present interest" (meaning the recipient has immediate access to the funds) to qualify. But in a Crummey trust, after each gift to the trust is made, the beneficiaries are allowed — for a limited time — to withdraw the funds.

This withdrawal right allows the gift to qualify for the annual exclusion. You don't have to use up any of your lifetime gift tax exemption (or pay gift taxes) on the transfers. Plus, the assets, along with any future appreciation on them, are removed from your taxable estate.

But once the assets are transferred, you won't have access to them. And there's a risk that the beneficiary will take out the funds during the withdrawal period.

Weigh using an offshore trust

You can set up a trust in a foreign country with more favorable asset protection laws than in the United States. Offshore trusts are typically funded with cash or readily movable securities, rather than real estate. Bear in mind that even if the assets are off shore, you are liable for paying taxes on the trust's income. And the trust assets can still be subject to gift or estate taxes.

Offshore trusts offer protection from U.S. legal judgments and discourage litigation because of the expense and difficulty in pursuing a case under foreign jurisdiction.

On the downside: The costs to set up and administer offshore trusts can be high, making them a financially relevant choice only for high net-worth individuals who may be at risk for claims and lawsuits. Because these trusts often face IRS challenges, be sure to obtain solid legal and tax advice.

Consult a professional

We know from recent history that unexpected things can happen to pull the rug out from under your business. These are just a few strategies to consider as you attempt to shore up your financial security. A professional financial consultant and an attorney can suggest some steps you can take that are right for your particular situation.

Flipping the script

Meet inventory challenges by buying cars from consumers

One effect of the COVID-19 pandemic on the automobile industry has been a severe shortage of used car inventory on dealers' lots — largely due to the difficulty of obtaining microchips used in the manufacture of new cars. This, in turn, has impacted the used vehicle market, resulting in soaring used car prices that sometimes even surpass vehicles' original MSRPs.

Many dealerships have been pulling out all the stops to find high-quality used cars they can offer for sale. In an interesting twist, a new digital platform has been introduced that enables consumers to sell vehicles to participating dealerships looking to replenish their inventories.

The consumers

The automotive marketplace website CarGurus is debuting this platform, which is called Instant Max Cash Offer, in several states and is expected to roll it out further this year. The process is quick and easy for consumers who want to sell their vehicles — and for dealers who need to beef up their used car inventory.

The first step is for the consumer to enter the vehicle's information (such as VIN, mileage, condition and history) on the platform. The consumer usually receives an offer within minutes of clicking "submit," based on a sophisticated algorithm that uses hundreds of thousands of data points to make the best possible offer. If the consumer decides to accept the offer, a vehicle pickup date will be scheduled, usually within the next few days.

An inspection is performed when the car is picked up to make sure its condition and other details match what the consumer listed on the platform. If everything checks out, payment is made to the consumer via electronic funds transfer or a check.

Participating dealerships join a proprietary buying matrix that provides access to all the vehicles currently for sale on the platform.

Not all vehicles receive offers — including those with branded titles, high mileage, extensive damage or for which there is no local dealership interest. Exotic and rare models as well as vehicles that aren't in good condition also might not receive an offer.

The dealerships

Participating dealerships join a proprietary buying matrix that provides access to all the vehicles currently for sale on the platform. About 5,500 dealerships so far have enrolled.

After CarGurus picks up and inspects a vehicle and pays the consumer, the vehicle is delivered to a participating local dealership that's given the first purchase option. If the dealership passes on the vehicle, it becomes available to other participating dealerships for purchase.

The digital platform was originally designed to accommodate dealer-to-dealer sales and trades of wholesale vehicles. Recognizing the dearth of used vehicles in the marketplace last year, CarGurus decided to adapt the platform to allow consumers to "flip the script" on the traditional dealership-consumer relationship.

Right for your dealership?

How successful this new digital platform will be isn't yet certain. But the growing interest among car consumers in online transactions combined with the desire among many dealerships to more efficiently acquire much-needed used car inventory may bode well for it. It's also possible that other players could launch similar platforms. Talk to your team about whether this type of platform might be a good solution for meeting your used car inventory challenges.

ASC 842 may affect your dealership's ability to obtain financing

After several delays, including a postponement in 2020 due to the COVID-19 pandemic, the deadline for applying a new lease accounting standard adopted by the Financial Accounting Standards Board (FASB) nearly six years ago is finally here.

The new standard, Accounting Standards Codification (ASC) 842, changes the accounting treatment of leases under Generally Accepted Accounting Principles (GAAP). ASC 842 is now applicable for annual reporting periods beginning after December 31, 2021, for private companies. (It has been applicable for public companies since 2019.) And it could have a significant impact on your dealership.

Origins of the standard

The origins of ASC 842 go all the way back to the collapse of the energy trading company Enron two decades ago. Enron was a much riskier business than it appeared to be from its published financial statements — due mainly to its significant use of leases. Under the previous leasing disclosure standard (ASC 840), only capital leases had to be reported on the balance sheet.

The new lease accounting standard requires that both capital and operating leases of more than one year be recognized as fixed assets on the balance sheet. In the past, operating leases could be listed as a financial statement footnote instead of on the balance sheet, thus improving financial ratios and making it easier to qualify for financing.

Under ASC 842, dealerships must report a right-to-use asset and corresponding liability for obligations to make payments on leases longer than one year. This includes long-term leases for real estate used by the dealership, as well as equipment, vehicle and other leases.

The biggest impact of ASC 842 for most dealerships will be on their relationships with lenders. Classifying long-term leases as debt on the balance sheet could negatively impact financial ratios and debt covenants. And this, in turn, could affect a dealership's ability to obtain financing.

Therefore, it's important to talk to your lenders about ASC 842 as soon as possible. In particular, let them know that adopting the new standard could result in changes to your financial ratios that negatively impact debt covenants. This will give you and your lenders time to discuss potential remedies in advance.

Impact of ASC 842

There will likely be a learning curve on applying the new standard, so factor this into your planning as well. Contact your accounting professional if you have more questions about how ASC 842 could affect your dealership.

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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.

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- 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.

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