

## Optimism and Ideas from NADA 2010 in Orlando

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If Orlando was a bit lacking in Fahrenheit (it was cold!), the convention hall got a thermal boost from a higher body count, helped in part from the fading memory of a dispirited NADA a year ago. Optimism was present on the floor, albeit guarded. Vendors weren't talking to themselves and it wasn't New Orleans. In this dealer environment, green shoots are easier to find if you're also looking for them. Here's what I found:

### What's New?



Probably the most intriguing item on the Expo Hall was COINDATA's "DocuPad." It has the potential to remake the F&I process. Simply, F&I products are sold with interactive presentations facilitated by a computer laid flat on a desk. The sales effort is revitalized from a higher level of engagement between the customer and F&I staff, enabling more eye contact, a good thing. It also produces a consistent sales presentation, aided by video on a high-definition display. The software captures all customer choices, which may be assisted by recorded video extolling the benefits of various F&I products, from GAP to service contracts. All paperwork is electronically signed and stored, except for customer take-away copies.

The software ensures all boxes are checked and all required forms are signed. The F&I person is still controlling the sales function, but the customer interaction gets more life from the self-direction of choosing where they have interest. The software also records the time spent with menu sales, so there's built-in accountability that steps are not skipped. As the process evolves, it is possible to see some future consolidation of sales staff and F&I personnel. I was impressed. For more details, see <http://www.coindata.com/index.html>.

### Computer DMS Update

There never seems enough change with computer system vendors to satisfy me. Microsoft was supposed to be the "game-changer" when it booted up interest at NADA over four years ago, although I had my doubts back then. At least it now has a name: MSDMS (for Microsoft Dealer Management System). MSDMS has European origins and is built on Microsoft software --it is not owned by the Redmond Company. One pilot dealer in the U.S. is expected to be running it live later this year. No responsible CPA would recommend any DMS in the "test-pancake" stage, unless you are the Barney Clark kind of individual who wants to be first. Whether it's an artificial heart or a DMS, it's a critical decision, so do your due diligence. Your options after ADP and Reynolds & Reynolds ("R&R") are with second-tier vendors, like DealerTrack (formerly known as "Arkona") and ACS, among others.

ADP and R&R are the safest choices from the standpoint they serve over approximately 85% of all dealers in the U.S. They are also premium-priced, unless your dealership is realizing the potential of

features unavailable from the smaller vendors. In other words, your effective cost is less if you are doing more business from a full feature set, as difficult as they may be to quantify. If your priority is low cost only, here are some key questions to ask second-tier vendors under consideration:

- Is the server in-house, or is it an "ASP" (Application Service Provider) model that doesn't rely on an in-house server? Deploying a DMS solution deployed on the Internet is also known as "cloud computing," and it is the future (here now in the case of DealerTrack).
- How many customers (or "rooftops") does the DMS have? I would be wary of any DMS with fewer than 300-400 installations. For valid comparisons, you should subtract any used dealerships from the total number of customers the second tier vendor provides.
- Does the DMS integrate with your preferred third party CRM (customer relationship management) or inventory management software? You also need to learn if the integration is unidirectional or the preferred bi-directional kind that feeds data back into your DMS to limit double entry of transactional detail.
- How much training is included in the proposal? This is the single-most overlooked detail AND your best opportunity to make the most of your selection.
- Ask for references of other dealers that compare with your dealership and have been running it long enough to form a considered opinion. Don't limit your discussion to the owner, who will likely favor its lower costs. You need to also interview department managers to learn how it has impacted their operations, favorably or otherwise. While you're checking references, call your factory rep. to learn if the DMS is certified, or otherwise integrated for factory communications.

### IRS News

Terri Harris is IRS' point person for the automotive industry. She attends every year, making herself available for questions that arise from a tax code that is a burgeoning 70,000 pages. And dealers have a right to be wary of higher taxes coming from Congress and new IRS initiatives. Here's the short list as it directly relates to dealers:

- **Sec. 263 (UNICAP):** NADA argued an excellent appeal to IRS and Congress for common sense on UNICAP, which effectively increases your taxable income by disallowing certain inventory costs as deductible expenses. IRS audits have levied six-figure tax assessments to dealers based on an assertive interpretation of UNICAP rules. There isn't any new UNICAP legislation, but IRS scrutiny and audit efforts are new. The issue may wind up in tax court, but in the meantime you should be evaluating your own exposure to the rules by doing one simple thing: Find last year's copy of your business tax return and verify that Box 9e on Schedule A of Form 1120 is checked and there is an amount reported on line 4. If your return doesn't report such information, you should consult your tax advisor to learn why. It's possible you may be eligible for an exclusion if average dealership sales are less than \$10mm. Otherwise, you may find yourself in the crosshairs of a future IRS audit if it prevails on the issue.

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**Schedule A Cost of Goods Sold** (see instructions)

1	Inventory at beginning of year		
2	Purchases		
3	Cost of labor		
4	Additional section 263A costs (attach statement)		
5	Other costs (attach statement)		
6	<b>Total.</b> Add lines 1 through 5		
7	Inventory at end of year		
8	<b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on page 1, line 2		

9a Check all methods used for valuing closing inventory: (i)  Cost as described in Regulations section 1.471-3  
(ii)  Lower of cost or market as described in Regulations section 1.471-4  
(iii)  Other (Specify method used and attach explanation.) ©

b Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c) . . . . . ©

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) . . . . . ©

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 9d

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? . . . . .  Yes  No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? . . .  Yes  No  
If "Yes," attach explanation.

- **Used Car Write-Downs:** Congressional action may disallow the write-down of used vehicles for tax purposes. This will **not** interfere with your ability to write down used vehicles for your financial statements.
- **Future of "LIFO" (Last-In, First-Out):** We're hearing mixed signals on the future of the LIFO method for inventories. The world of international accounting standards is pushing against LIFO in the U.S. Foreign corporations have as much regard for the LIFO method as the "FISH method" (First-In, Still-Here). But there's nothing frivolous about LIFO's disappearance from legislation action, as significant tax consequences may result. It's likely taxable income associated with LIFO recapture will be spread over eight years, mitigating the hardship of repaying this tax deferral all at once. As an example, the present value of approx. paying a total of \$280,000 of tax over 8 years on an \$800,000 LIFO Reserve approximates \$232,000. Your mileage will vary.

### **"Re-Purposing" a Dealership Facility**

The alternatives for turning the lights back on a vacant dealership facility are limited without a new vehicle franchise. However, a company called "All Things Automotive" may give your building a second life. It's a franchise that combines a used car superstore with a full-line service department. All Things Automotive is the equivalent of combining a CarMax-type business model with a Pep Boys-type operation for service. Ex-communicated Saturn dealers are the most obvious target by rebranding a quality building that leverages the history of a reputable dealership to sell used cars and perform service work. Too, the dealer's customer list can deliver a parade of past customers. The idea is not limited to Saturn dealers: pink-slipped dealers looking to stay in the car business are good candidates. Parts will be available at prices comparable to what franchised dealers pay by way of its strategic alliance with CARQUEST. They have plans to enter Washington State by the time you read this. For more information, call me for contact information.

### **Customer Relationship Management ("CRM")**

The ubiquity of CRM vendors at NADA a few years ago made choosing one a challenge. The CRM landscape was ripe for a shakeout: it's now getting easier to pick and you might start with two well-regarded providers of CRM: DealerSocket and Car Research. Software solutions to improve sales to existing customers and to find new ones at a cost that makes sense now offer more capability than ever before. With a disciplined effort, these packages can pay for themselves. They are also web-based, which is an advantage provided you have redundancies that protect your Internet connection from going off-line.

NADA 2010 was less a discovery of new ideas than a revelation that a simple reassessment of past choices of solutions is in order. The components may already be in-house, but a renewed commitment to deploying them --whether it's people, processes and/or software--may be all that's really needed to see a profitable rally in 2010.