

# CAR DEALER

The Auto Dealer's Management Briefing

**INSIDER**

May 15, 2006

## Trend spotting

Contrary to the conventional wisdom, Buy/Sell activity among car dealers has continued at a fairly brisk pace. The trend, though, is an alarming decline in “Blue Sky” multiples among domestic franchises. A Lincoln-Mercury store near Dallas and Cadillac and Ford dealerships in upstate New York recently changed hands with no Blue Sky. The appreciated value of the dealership real estate was reportedly the driving factor behind the transactions. Meanwhile, Toyota and Lexus dealerships in Florida sold a couple of weeks ago at an estimated healthy six-times-earnings multiple and the selling dealers retained the real estate. For expert opinions on the current state of the dealership Buy/Sell market, go to [www.dealersedge.com](http://www.dealersedge.com).

Audi dropped its tiny A2 last year after disappointing results over five years. But the company won't give up and wants to take another shot at BMW's MINI. Several versions are in the works. One is the S1 aimed at the MINI Cooper. The S1 will come with a 240-horsepower, 2.0-liter turbo. Six-speed manual or seven-speed gearboxes are likely.

The 2007 Jeep Wrangler Unlimited will switch from a stretched two-door to a four-door body. The four-door Wrangler, a first for Jeep, will come with a convertible soft-top, an optional three-piece hard top, a folding windshield and removable doors. An extra 20.6 inches between axles will provide substantially more rear-seat space.

Suzuki's XL7 will be built on the Chevy Equinox platform, adding eight inches on to the back to make room for a third row. Suzuki goes its GM relatives one better with a 3.6-liter dual-overhead-cam V-6. Look for it in showrooms later this year. MSRP is expected to come in at \$23,000 to \$29,000 depending on options.

## Pay Plans That Work

# F&I pay plans driven by product sales, less focus on reserve

Trend reflects increased use of menus, caps on rate mark-ups, discrimination lawsuits.

**D**o your dealership's F&I pay plans support the menu sales effort and dealership conduct policies?

This is an issue that is cropping more and more as the use of F&I menus becomes commonplace. Dealers who have implemented menus without changing pay plans have come to regret the oversight, says Becky Cherneck, president of Cherneck Consulting (877-730-3663, [www.cherneckconsulting.com](http://www.cherneckconsulting.com)), a menu sales training firm headquartered near Atlanta.

The problem: some pay plans are still skewed to pay on overall profits in the F&I department. That can undercut the effort to present all-the-products-to-all-the-customers-all-the-time, the primary aim of using menus. Older pay plans provided incentives to sell the most profitable products rather than focusing on products the customers want and actually need.

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“I still see it all the time,” says Ms. Chernek. “Pay plans influence behavior.”

**Pay plans should reward product sales**

What’s the solution? Develop pay plans that place more emphasis on selling products and less focus on finance reserve income. Remember, the products offer value to customers, higher interest rates do not.

The shift makes good sense in today’s business environment. In response to consumer lawsuits alleging discrimination, lenders have crimped reserve income potential, in some cases imposing caps on interest rate mark-ups. One survey indicates that half or more of all dealership finance contracts are already effectively flat rate deals. The lenders set a fixed fee for originating the loan in lieu of reserve income.

A good way to approach F&I pay plans is to make them reflect dealership goals. For instance, a major east coast dealer group has set a target of 65 percent product income versus 35 percent reserve income for F&I deals overall. The pay plans are set up so that F&I managers earn 65 percent of their income by selling products. For high-line stores where leasing is more prevalent, some adjustment needs to be made.

Don’t make F&I pay plans too complicated. For instance, *Car Dealer Insider* counsels against matrix-type pay plans for F&I managers. These are plans that create a complex formula combining product sales, reserve income, unit volume and total income measured against target ratios and projected results. The F&I manager won’t know what his or her paycheck will be until the dealership controller plots it out on the matrix. It’s too hard for an F&I salesperson to make that necessary connection between performance and pay.

**Management Tip:** Spot-check some deals to make sure F&I managers are presenting the full menu to every customer and that they get signatures for products that customers opt to purchase or decline.

*Car Dealer Insider* has heard that some dealerships have taken the extra step of eliminating paying F&I managers for any reserve income since they can’t honestly defend the rate mark-up to customers. That doesn’t sound like a good idea. “I don’t think you should exclude paying people for the income they generate, even if it is (something automatic like) finance reserve,” opines Becky Chernek. That would be like not paying service advisors for warranty work.

The truth is: Dealers that don’t sell products in F&I these days will have a hard time making any money. ❖

**F&I Performance Evaluation Worksheet**  
 Use this worksheet to establish goals for F&I managers’ performance in the coming months.

Income per vehicle	_____	Store average	_____	Individual avg.	_____	Goal
Warranty penetration	_____	Store average	_____	Individual avg.	_____	Goal
Credit Life penetration	_____	Store average	_____	Individual avg.	_____	Goal
GAP penetration	_____	Store average	_____	Individual avg.	_____	Goal
A&H penetration	_____	Store average	_____	Individual avg.	_____	Goal
LoJack, Etch, etc.	_____	Store average	_____	Individual avg.	_____	Goal
Other products	_____	Store average	_____	Individual avg.	_____	Goal

# Four steps for preventing termination lawsuits

One bungled termination can lead to numerous legal claims. Find out what lawsuits discharged employees commonly file and how to prevent them.

**A**s dealership labor law expert John Donovan of Fisher & Phillips, LLC, is fond of saying, "Employment-At-Will doesn't mean what car dealers think it means anymore." To back up his assertion about At-Will employment, Mr. Donovan regales audiences with stories about the termination lawsuits former employees have filed against car dealers.

Involuntary terminations are an unpleasant, but necessary, part of every dealership manager's job. If poor performers or disruptive employees are allowed to keep working, productivity and efficiency are bound to suffer.

However, mishandled terminations can lower employee morale and lead to lawsuits. Terminating an employee can put a dealership at legal risk for liability based on discrimination and anti-retaliation laws and on tort and contract legal theories. Below is a discussion of these claims and four steps dealers can take to help prevent lawsuits.

## Discrimination claims

Employees often allege that their termination was illegal discrimination based upon their status as members of a protected class. A dealership's liability for alleged discrimination may arise from a number of federal or state statutes, including Title VII of the Civil Rights Act, the Age Discrimination in Employment Act (ADEA), and the Americans with Disabilities Act (ADA).

Many successful claims involve dealership managers who made inappropriate comments before terminating protected-class employees, or who treated them more harshly than others when taking disciplinary action. For example, in one 2002 case, the court determined that age may have been a substantial motivating factor in the termination of a 56-year-old F&I manager. His supervisor told him that management preferred younger single people who could work unlimited hours and then stated that the employee would not be happy at the dealership in the future because of his age.

## Defamation

Discharged employees also may claim that dealership managers defamed them by making false, disparaging statements about them to coworkers or others. These claims can also arise from an unfavorable post-employment reference comment. Employees even may allege that the dealership's actions at the time of discharge, rather than what was said, were defamatory.

## Intentional infliction of emotional distress

Employees may allege that they were treated in a manner that was intended to cause them emotional distress. The key word is intentional. A discharged employee generally must show all of the following elements in order to succeed in this type of claim: (1) extreme and outrageous conduct by the employer or its representatives; (2) the intent to cause emotional distress, or a reckless disregard for the fact that the conduct would cause emotional distress; and (3) an actual resulting severe or extreme emotional distress.

So, in a case dating to 1995, the court determined the dealership was liable for intentional infliction of emotional distress because of its supervisors' inappropriate behavior. Supervisors repeatedly called the employee vulgar names and verbally harassed him, spat on him, tried to hit him, called him at home to tell him to resign, and, after he was discharged, left a taunting message on his answering machine.

## Breach of contract

Discharged employees also may sue for breach of contract by alleging that they were terminated for reasons outside the terms of an employment contract. Furthermore, poorly worded or constructed personnel policies and employee handbooks may be considered legally enforceable employment contracts that limit your right to discharge employees.

## Retaliatory discharge

Retaliatory discharge is another claim terminated employees may allege if their termination is for ex-

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exercising some legal right. Examples are termination for filing a discrimination claim, reporting unlawful employment practices, or participating in an investigation, proceeding, or hearing.

### Four steps to prevent termination lawsuits

Clearly, a “bad” termination can leave your dealership exposed. However, attorney John Donovan advises that dealership managers can make termination decisions with greater confidence and reduce legal exposure by following a consistent process that includes the following four steps:

1. Follow the dealership’s own written dealership policies, particularly any progressive discipline

policy, and have a business-related reason to justify any deviations. Be consistent in how employees are treated.

2. Investigate thoroughly, especially in cases of misconduct, such as work rule violations, harassment, or theft.
3. Document the reasons for termination and include in the employee’s personnel file records that accurately support that reason, such as performance appraisals and counseling memos.
4. Limit discussions about the termination to those people who have a legitimate business need to know about it to prevent claims of defamation, invasion of privacy, or other personal injury. ❖

## DMS evaluation

# Boost ROI on your dealership IT investment

By Jerilyn Klein Bier

Self-audits help root out the waste and make your system work for you

**Y**our monthly computer bill is probably filled with hidden costs and other waste that sneaks by you each time it crosses your desk. The good news is that there are steps you can take now to expose and erase that waste either by putting your current system up for a competitive bid and/or rooting out the existing waste.

“Controllers need to take charge of DMS contracts because they are such valuable documents,” said Jim Skeans, Skeans Consulting Group.

### First Things First

If your DMS is up for renewal, you should send out a Request for Proposals (RFP) to get competitive bids from several vendors, Mr. Skeans said. Key to making this work in your favor, however, is to insist on getting a detailed, itemized proposal as part of any RFP. “It is a lot of work for the vendors, but you really need it,” Mr. Skeans said. A vendor who resists is probably not a vendor you want to work with anyway. Remember also that it’s hard to secure an itemized bill after you’ve already inked the deal with a vendor. Get it up front.

When reviewing billing, compare each line item in your computerized statement to an actual applica-

tion or peripheral. For example, isolate and cancel unnecessary maintenance charges for printers, terminals and modems. More important, watch out for support charges for items including:

- ▶ Non-existent applications
- ▶ Replaced applications
- ▶ Discontinued applications
- ▶ Unused applications
- ▶ Applications not set up correctly

### Watch For Price Hikes

Inflation, whether real or vendor-manufactured, can also pack a surprising punch if you aren’t careful, Skeans warns. To bolster your price increase management efforts, he suggests comparing each monthly bill with the last one to look for any changes. You won’t always be notified of them up front. Also, review your contract for the pricing parameters and compare any actual increases against those in the agreement.

To help curb costs you should also consider using refurbished equipment and maintain additional backup items such as keyboards and terminals (*see box, Skeans’ Resources*).

Finally, keep a close watch on common financial “sinkholes,” Mr. Skeans said. Those include:

- ▶ Showroom control
- ▶ Vehicle management
- ▶ Lease profit – lease quote
- ▶ Word processing
- ▶ Data scan
- ▶ Automated dispatch
- ▶ Custom programming

“Isolating underutilized functions and features” is a proven way to reduce DMS costs, Skeans

adds. To see how you measure up, take a look at the chart below.

For more information, contact Skeans at [jim\\_skeans@jimskeans.com](mailto:jim_skeans@jimskeans.com). ❖

#### Skeans' Resources

Good Source For Refurbished Computer Equipment:  
Peripheral Equipment 800-224-5242  
Good Source For Computer Supplies:  
CDW 800-895-4239

*Jerilyn Klein Bier edits the DealersEdge Dealer Business Briefing*

### Dealership Computer Utilization Score Sheet

- 10 Reconcile the bank statement with the computer or a PC (no hand written outstanding checks)
- 7 Are Financial Statements ready to print by the 3rd day of the month?
- 0 Pay the technicians from a computer generated report (or ERO download - no “press and sticks”)
- 3 Are service computerized appointments used (1 point for 1-10%, 5 for 40-50% etc. for RO opened from Appointments)?
- 0 Are more than 5% of the daily service transactions showing up on the override report?
- 0 Does the service department book work based on hours to sell as reported by the computer system?
- 6 Post all the car deals **without an invoice**- directly on the screen
- 0 Is a cash position report being generated from the computer (downloaded into Excel is ok)?
- 0 Is the Over Credit Report being reviewed monthly and limits adjusted?
- 0 Pay the salespeople **without writing** commission vouchers
- 5 Send customers a computer generated “Thank you letter”
- 0 Are electronic We-Owe used and interfaced with accounting?
- 0 Purify all rebate and incentive programs to a computer report
- 10 Does the sales department use a computer as their source for vehicle info instead of factory invoices?
- 7 Are the new vehicles ready to be sold within one day after arrival?
- 0 Does the DOC report the number of vehicles that F&I shows delivered as well as those processed by accounting?
- 3 Is info from the DMS database being downloaded into Excel Spreadsheets (number of spreadsheets being used divided by number using auto download)?
- 0 Are customers' special order parts being tracked on the system without hand written vouchers or notes?
- 10 Are more than 5% of the daily parts transactions showing up on the override report?
- 0 Is the parts management report reconciled to the GL each month?
- 61 Total (Max 10 points each for 200 = 100%)
- 30.5% Estimated Utilization

### How does your computer operation compare?

Consultant Jim Skeans uses this dealership computer utilization score sheet to help assess a company's efficiency. It can also be a helpful pre-diagnostic tool for auto dealers who suspect they're wasting money each month when they pay their DMS bill.

In this example, Skeans sizes up a typical dealership operation using a maximum ten points for each category for a potential total of 200. To see how you rate, give yourself a 1-10 grade in each category, then divide that total in half to get your estimated efficiency percentage rating. The dealership in this example scored a 30.5% rating, which would put them at the bottom of the second rung. Here's what your score means:

90% and higher: You are doing great.

60-80%: You are ahead of the pack, but there is room for improvement

30-50%: You need help.

Less than 30%: Stop suffering and get help fast!

Chart Source: Jim Skeans Consulting Group LLC

## HR Briefs

**Price keeps workers from enrolling in health plans.** The rising cost of medical care continues to prevent workers from enrolling in employer-subsidized insurance. A new Robert Wood Johnson Foundation report shows that, among workers who were eligible for employer-sponsored coverage, three million fewer enrolled in it in 2003 than in 1998. Nationwide, more than half of uninsured adults cite the high cost of coverage as the reason they are uninsured. Roughly 25 percent of uninsured adults said they lost their coverage when they lost a job or changed jobs, and another 17 percent said they were uninsured because their employer did not offer coverage, or they were ineligible for it.

**A presidential panel calls for increasing the capital-gains tax exclusion on home sales.** People who sell their primary residence typically may exclude as much as \$500,000 of the gain if they are married and filing jointly. For most singles, the limit is \$250,000. To qualify for the full exclusion, people need to have owned the home and used it as a primary residence for at

least two of the five years prior to the sale. These exclusion amounts haven't changed in nine years. Meanwhile, home prices have soared, and more sellers are getting hit by hefty tax bills. President Bush's Advisory Panel on Federal Tax Reform has proposed raising the exclusion to \$600,000 for joint filers and \$300,000 for most singles.

**Half of health care costs stem from 4 percent of workers.** Employers will be disappointed if they rely solely on employee incentives and consumerism to rein in health inflation, according to a new Watson Wyatt analysis. Just 4 percent of employees and dependents account for 50 percent of total medical costs in any given organization, Watson Wyatt reports. Those individuals make such an impact because they have catastrophic and/or chronic diseases. The healthiest group, 72 percent of participants, account for just 11 percent of health care spending. The sickest employees are unlikely to be won over by incentives and consumer-driven health plans, Watson Wyatt concludes, so those tactics alone can't curb health inflation.

## Extended service hours are the quickest route to improved production

By Rob Campbell

Dealership managers share their experiences in dealing with expanded service hours.

**F**ranchised car dealers looking for ways to improve cash flow ought to consider stretching the workday for the service department. While this may not be a new idea, most dealers are still leery about making this logical move. The reasons for their reluctance are rational: employee resistance, customers might not show up, staffing problems. But dealers who have made the move to longer service hours, and stuck with their plans, report some significant successes and few problems.

The obvious perils involve people management. There is an initial risk of over-staffing and having techs and advisors just standing around with nothing to do; or under-staffing with not enough people to handle the influx of work and not get it done thus defeating the purpose of extended hours.

### First, do the math

Start by analyzing the service department's current workload and scheduling process. The Repair Order Count is a basic DMS report that il-

illustrates the department's average workload. That was the first step reported by service managers we interviewed for this article.

Dan Phillips, service manager at Prestige Toyota in New Jersey, supervises 21 technicians with 13 repair bays. The shop used to operate under an 8 a.m. to 6 p.m. schedule. To improve shop utilization, Mr. Phillips proposed adding two hours on to the workday. To make his case to the dealer/principal, Mr. Phillips calculated his average daily repair order count and divided that into the number of hours the shop was open for business. He assumed that his dealership could generate enough additional business to maintain the repair order per hour average. Mr. Phillips then staffed up to handle the extra hours.

It turned out to be a very accurate way to approach the extended hours. But Mr. Phillips admits to making some adjustments along the way. For instance, he had to bring in more technicians because the later evening hours were busier than the average for the rest of the workday.

**Don't give up too easily**

"It's a little rough and nerve wracking at first, but you must formulate a plan and stick to it," said Michael Sheddman, service manager at Freightliner of Southern Connecticut. Mr. Sheddman manages twelve technicians with fourteen bays. His shop extended its operating hours every day until 6 p.m., a moderate change but one he needed to compensate for. Mr. Sheddman wound up adding three extra techs to handle the additional workload. "It only took some minor adjustments, but a good service manager will work at it and make it happen."

**Flexible scheduling is a must**

Donald Kohler, service manager of The Toyota Store in New Hampshire, was already open for business on Saturdays and took a different approach. Mr. Kohler extended the hours of his shop to 7 p.m. Monday to Thursday, 6 p.m. on Fridays and 5 p.m. on Saturdays. This added ten productive hours a week to his shop. He wound up adding three technicians and one service advisor and divided the shop into three teams of five techs with one service advisor apiece.

This presented some scheduling problems. Mr. Kohler went to what he referred to as a rotating schedule. Each team works four 10-hour days, and has three days off per week. Every third week a team works five days straight and then has two days off in a row. Although he was met with some resistance when the plan went into effect, Mr. Kohler has found that everyone involved is generally happier with his or her schedule. Since he switched to this scheduling plan, Mr. Kohler reports a 40 percent increase in customer-paid labor sales. "More time off equals happier workers, which leads to better productivity," Mr. Kohler said, and he has the results to prove it.

This is obviously a substantial increase, and when asked what advice he would give a service manager looking to extend his shops hours, Mr. Kohler responded, "Don't be afraid of change, and the griping that will come with change. It will pay off in the end if you stick to it."

The results will be worth it. ♦

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## Higher response rates and more leads Fool-proof advertising “Do’s” with vanity phone numbers

By Laura Noonan

Had it up to here with the Internet? The good old telephone is still a car dealer’s most effective sales tool.

**R**elatively new dealership services like Who’s Calling ([www.whoscalling.com](http://www.whoscalling.com)) and Call Command ([www.callcommand.com](http://www.callcommand.com)) help car dealers make more effective use of a tried and true low-tech sales tool – the telephone. The use of specially designed “vanity” 800-numbers can be a cost-effective way to get even more value from your dealership phone system.

Vanity phone numbers, like 1-800-FLOWERS, are proven to pull more responses and generate more leads when used in advertising. In fact, many business owners experience at least a thirty percent increase in ad response, and some are doubling, even tripling their responses. They attribute success like this to using a vanity phone number in all forms of advertising, like broadcast, print and outdoor.

Test it and track it. Create two separate ads using the same creative elements, just switch up a toll-free phone number for a vanity 800 number in one of the ads. Then track the response you get from each ad. It has been proven that people will remember a vanity phone number (one that spells something, like 1-800-PICK-UPS) in a radio ad fourteen times more than they will remember a numeric number.

*Laura Noonan is Vice President of Marketing with 800response. She can be contacted by e-mail at [news@800response.com](mailto:news@800response.com). For additional information on increasing advertising response rates visit [www.800response.com](http://www.800response.com).*

## New ideas

**Hidden Hitch** has a new 12-volt accessory adapter that plugs into a 7-way trailer connector, effectively turning it into a 12-volt power source. It is the only product of its kind on the market. A variety of electrical appliances can then be run from the adapter, including small refrigerators, coolers or radios. The adapter (part number 38012) retails for \$15.84. For more information, contact Hidden Hitch at 877-869-6787, ext. 445 or online at [www.hiddenhitch.com](http://www.hiddenhitch.com).

**The 4x4 Adventure Light** from ARB 4x4 Accessories offers an illuminating 75-watt glow, the versatility of the 16-foot power cord, and practical dual hanging points. The Adventure Light allows campers to set up for a good night’s rest. All accomplished with peace of mind that the low 1-amp current draw has not drained invaluable battery power. The newest and brightest addition to the product range is of good quality and easy to operate. The 12-volt fluorescent light is ideal for camping, four-wheeling, and various outdoor activities. The Adventure Light will connect to a 12-volt car cigarette lighter socket or a portable battery pack. The light output is stunning, yet has a low current draw of approximately 1 amp. For more information, contact ARB at (206) 264-1669.

**Cargo Containment System** from SofStor is the unique blending of three existing cargo technologies—cargo nets, cargo bars and cargo trays—that forms one complete unit for a simple, strong, dependable and durable answer to your cargo-carrying needs. The Web & Net assembly has been hand sewn together with military-grade webbing and 1,000-pound-per-square-foot safety netting, as well as heavy-duty thread and sewing techniques. The spill tray has been fabricated using thick, high-impact ABS plastic as the basis for construction; it’s approximately 3/16-inch thick. The cargo bars we use are the best on the market, and are made from an all-steel construction and built for long product life. Interested dealers should visit [www.SofStor.com](http://www.SofStor.com) for more product details.

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Editorial Director: Mike Bowers

Art Director: Jay Lander

Publisher/CEO: Jim Muntz

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