

NADA 2020 REVIEW

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WELCOME TO THE 2020 NADA REVIEW

Last year the question US attendees were asking was what was happening in relation to Brexit. This was not mentioned at all this year, however David Cameron was the keynote speaker to the conference on the Sunday afternoon. One of his key messages was that as a leader you need to ensure that you have time to think strategically about the business rather than being immersed in doing business. This time will let you make those crucial strategic decisions.

He also noted that free trade is important to all nations in the world and the use of tariffs only results in slowing business down. It will be interesting to see what happens with tariffs both in the US and in the EU in due course. NADA itself continues to have a powerful voice in the US and as an organisation continues to lobby Capitol Hill on legislative and regulatory points.

Whereas the mood in 2019 was slightly less downbeat than in previous years, the mood was more positive at the conference this year. The decline in registrations in the US has only been around 1.5% which is much less than we have seen in the UK.

The key challenges and opportunities for the sector in the US are for the main dealers to enhance their aftersales offering (only about 35% of vehicles are serviced by main dealers), making the journey for the customer easier and more frictionless whilst at the same time considering the needs of the millennial generation both in the workforce and as customers.

So these challenges and opportunities are very much aligned with ours in the UK.

NADA continues to see its role as providing innovative solutions that help dealers not only survive but thrive in these ever-changing times. In the following pages we share the key points and learnings obtained from the seminars we attended.

If you would like to discuss any of the content, please do not hesitate to contact us.



MALCOLM THIXTON
PARTNER – MOTOR RETAIL



STEVE LE BAS
PARTNER – MOTOR RETAIL



A DATE FOR THE DIARY:

The 2021 NADA conference is to be held in New Orleans from the 21st January to the 24th January.

THE 2020 NATIONAL AUTOMOTIVE DEALERS ASSOCIATION WAS HOSTED IN LAS VEGAS.

This annual event continues to be the largest dealer convention in the world with over 25,000 people attending from over 53 different countries. This is the largest attendee number in convention history.

This year there were over 60 different seminars that dealers could attend and the most one person could attend was seven. These seminars were across six different areas being:

- Dealer/executive
- After sales
- Human resources
- Legal and regulatory
- Marketing inc digital
- New and used vehicle operations.



DEALERSHIP OF TOMORROW: 2020 UPDATE

GLEN MERCER | GM AUTOMOTIVE LLC



An update on the original report produced by NADA some two and a half years ago, overall this session presented a positive outlook for the US auto dealer market. There continues to be change but nothing revolutionary or disruptive was expected as the industry moves from the recessionary era to “the age of the operator” where better managed stores will continue to lead in their marketplace.

The study looked at the market from an “Inside” and “Outside” context.

INSIDE



NEW CARS SALES OUTLOOK



NATURE OF THE STORE



STRUCTURE OF THE STORE NETWORK



CHANGES IN DEALER ECONOMICS

New car sales volumes have remained extremely stable in the US at around 70m units, prices have risen as buyers have become more affluent, but returns to dealers have fallen with a worrying trend to rely on OEM incentives. The original report expected sales to fall as the percentage of millennial customers increased, but the evidence is that, whilst they are deferring their purchase, the middle of the market is holding steady and the older generation are driving for longer than before.

The number of stores of around 18,000 has at worst flat-lined but is more likely showing a small increase, whilst the ownership count has shrunk as consolidation slowly continues. The expected increase in public company ownership / consolidation has plateaued often down to OEM framework limits.

New car profitability remains a challenge but this has been offset by higher used car volumes, good performance in the service department and record returns from F&I despite the significant risk from the increasing regulatory framework. Used car margins are under pressure as pricing transparency increases and competition mounts. Units sold per salesman have remained constant despite more sophisticated IT tools, big investment in training, and well-structured pay plans.

Service department outlook is steady with some potential upside which has always been a huge opportunity that to date has proved elusive. Convenience is becoming more important to customers with menu-driven service options and location key.

OUTSIDE

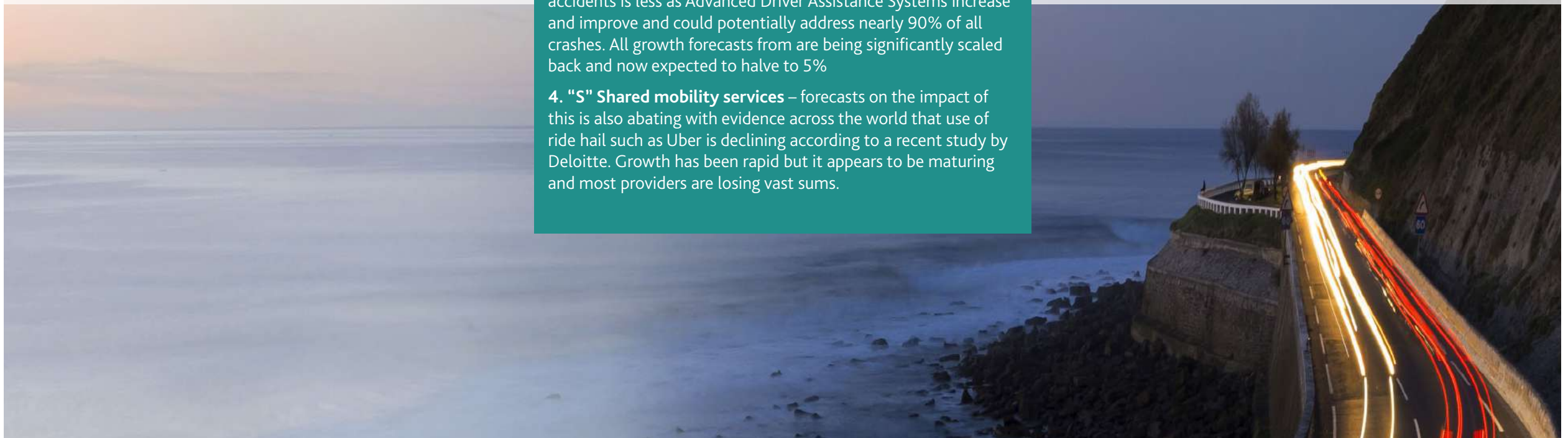
Centred on "ACES" - looked at from expected impact on dealers and ranked lowest to highest impact:

1. **"C" – Connected car** – for service updates direct to OEM and dealer plus health reports and automatic recalls. Minimal dealer impact is expected with tighter linkage of car to service bays
2. **"E" – Electric vehicles** – currently at 1.5% market penetration expected to increase to 6% by 2025 as battery prices fall and charge points increase, but this increase is largely due to people swapping out of hybrids. Less servicing is required on EV's but customer retention is much higher. Key will be dealer approach to retain customers.
3. **"A" – Autonomous vehicles** – the case based on reducing accidents is less as Advanced Driver Assistance Systems increase and improve and could potentially address nearly 90% of all crashes. All growth forecasts from are being significantly scaled back and now expected to halve to 5%
4. **"S" Shared mobility services** – forecasts on the impact of this is also abating with evidence across the world that use of ride hail such as Uber is declining according to a recent study by Deloitte. Growth has been rapid but it appears to be maturing and most providers are losing vast sums.

Concluding, Glen said that the US new car franchised dealership system is about 125 years old and so this often leads forecasters to predict change, but the industry's persistence is a good indicator of its ability to adapt to changing circumstances. The current challenges are not the first and the current system has responded to and survived threats from:

- The rise of public chains
- Forward integration attempts by Ford and GM
- The launch of disintermediates such as CarsDirect
- The arrival of Tesla.

Of course, the industry must not become complacent, but it does have a track record of overcoming challenges.



DRIVERS OF BLUE SKY AND REAL ESTATE VALUES IN TODAY'S BUY-SELL MARKET

ERIN AND RYAN KERRIGAN | KERRIGAN ADVISORS

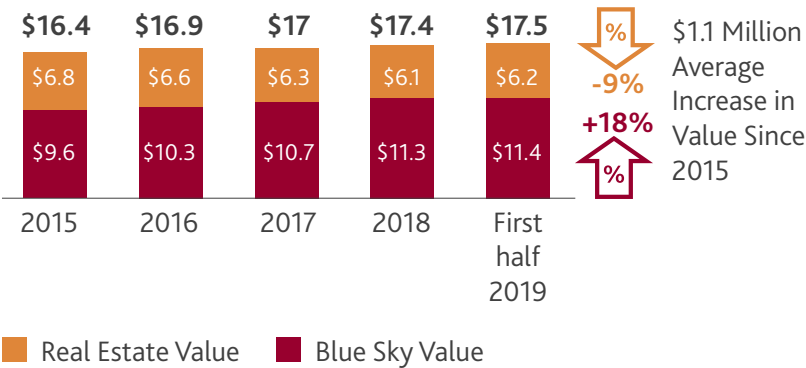


Erin began the session with some background to trading in the US where, despite the often gloomy picture painted for the future of motor retail, the number of acquisitions in the US had remained at a consistently high level of around 200 deals pa over the last six years with around 25% of these for multi-franchise dealerships as opposed to single sites.

Values remain at an all-time high and currently average \$6.2m for blue sky and \$11.4m for real estate where average annual revenues have stabilised at \$62m and pre-tax profits at \$1.4m. Service and parts departments have been achieving good profitability in the US, increasing by around 28% over the last five years and now contributing 75% of gross profit. Expenses have increased but typically contain more variable than fixed elements giving flexibility when required. Return on equity is also consistently high and currently averages around 23%.

TRANSACTION VALUES REMAIN AT ALL-TIME HIGHS

Average Dealership Blue Sky and Real Estate value



Source: Nada, Kerrigan Advisory Analysis

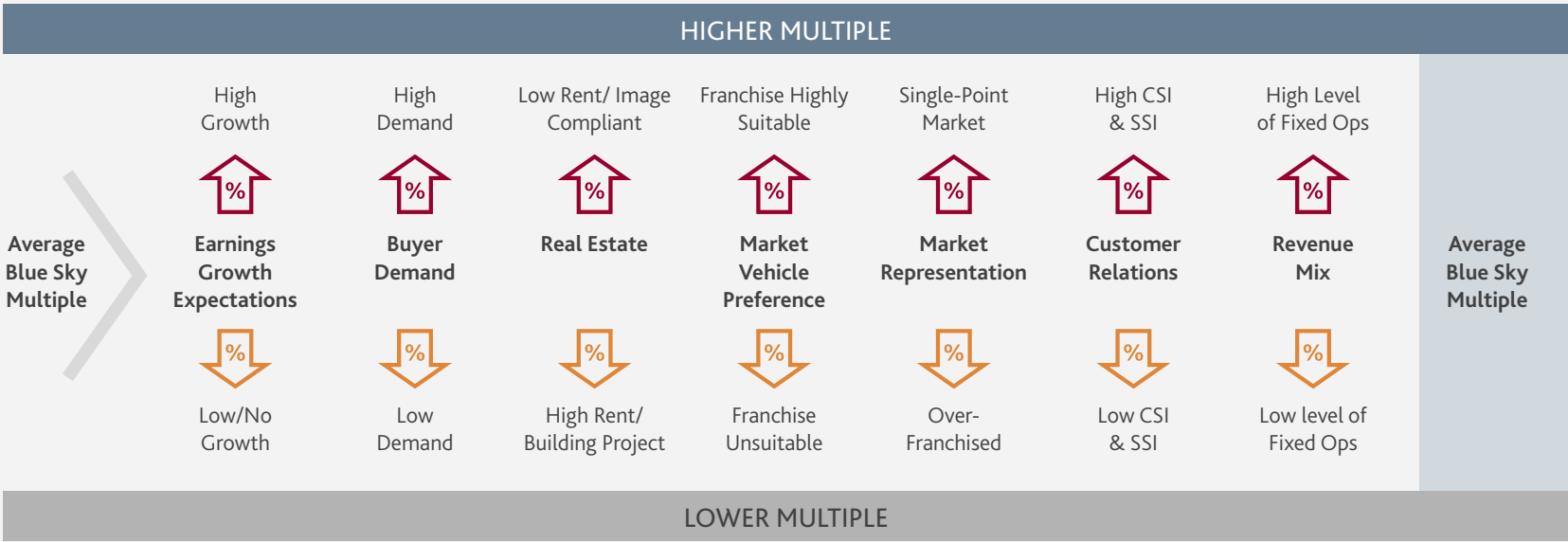
Ryan then went on to outline some of the drivers of value:

- Sales per franchise, where this is higher then the perceived risk is lower
- Higher demand for particular franchises is an obvious factor
- The credit rating of the OEM as an indicator of access to capital impacted risk
- Consistency of profit and higher values were seen where profits were driven by the franchise rather than the operator
- Luxury franchises also tended to have higher sale multiples.

In addition they identified seven key factors affecting variability in franchise multiples:

- Earnings growth expectations
- Buyer demand
- Real estate elements including level of rent and compliance with OEM standards
- Customer franchise preferences
- Market representation in the dealerships geography
- Customer relationship scores
- Mix of sales between fixed operations and vehicle sales.

FACTORS AFFECTING FRANCHISE MULTIPLE VARIABILITY



Strategies to increase valuations included: diversifying into other retail channels such as fleet management, parts distribution centres, bodyshops, a focus on tighter geographic areas and moving to a single price vehicle sales model.

DEVELOP HIGH PERFORMING MILLENNIAL AND GEN Z SALESPEOPLE

JARED HAMILTON | CEO DRIVING SALES

There have been huge societal changes that have impacted on the Millennial and Generation Z age groups. Jared focussed on 18 to mid-30 year olds and explained that these people are key to the profitability of motor groups today and the future.

There are three big trends/pressure points in the industry today:

- **Consumer experience expectations have increased**
- **Movement in digital retailing** – consumer demand for digital retailing is only around 5%, so in the next three to five years this will be a huge growth area
- **Millennial and Gen Z work force** – They are becoming the majority in your teams. Not recruiting them or retaining them properly and then not engaging with them will impact on your business. 61% of all new staff are millennials and this number will only grow.

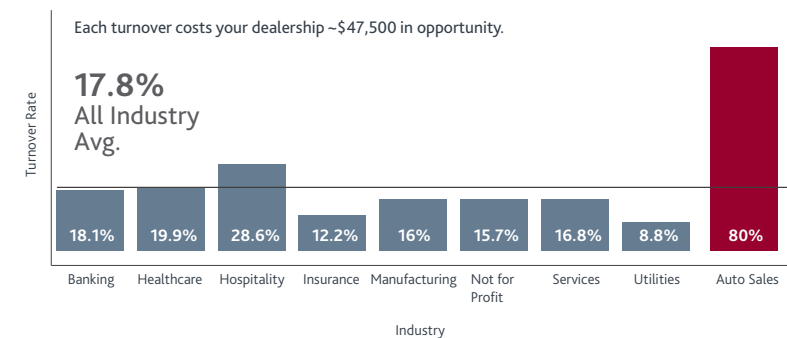
Understanding your workforce is vitally important as dealers are a people business. If you cannot get the right people then the dealership/digital retailing/consumer experience will not work.

UNDERSTAND THE MILLENNIAL CHALLENGE AND THE FINANCIAL IMPACT OF THE STAFF TURNOVER

57% Millennial turnover rate (all positions)

219% Millennials turnover more than Boomers

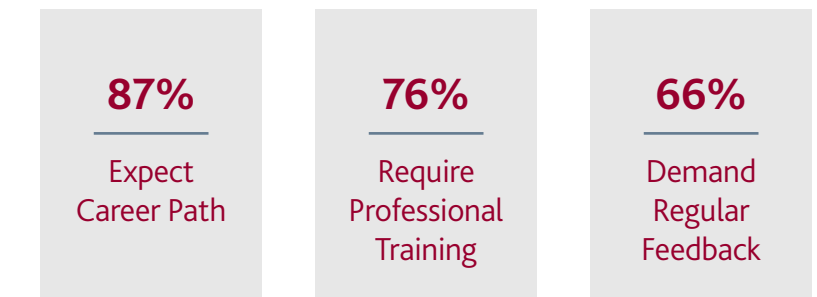
61% of all dealership new hires are Millennials



What is acceptable staff turnover? – The target is sub-20% outside of car dealerships, however in the industry it is over 40% with the vehicle department even worse.

Each staff leaver costs you \$47,500 due to loss of productivity and more being spent on marketing to try and close deals that they might have started with customers. Therefore staff retention can massively enhance a dealer's profitability.

WHAT ARE THE THREE MOST IMPORTANT FACTORS TO MILLENNIALS



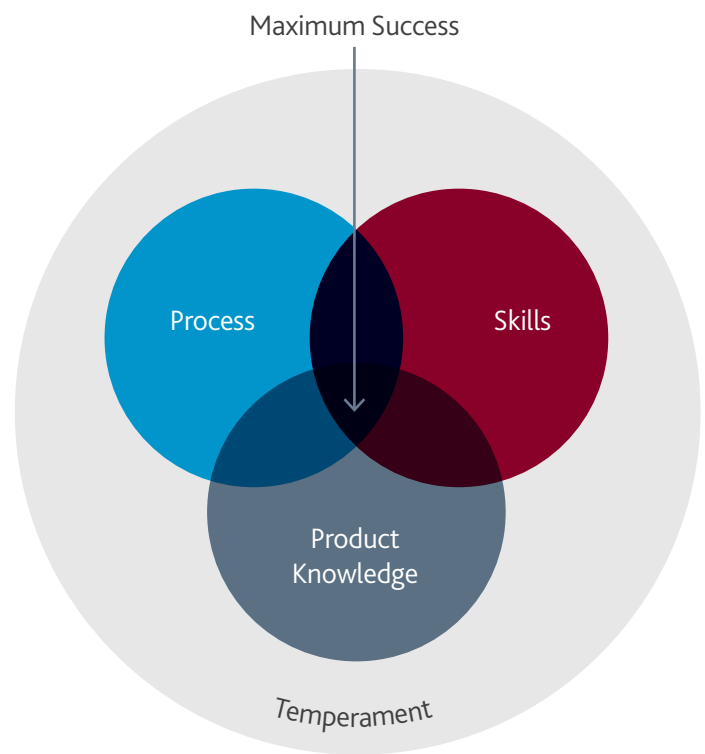
76% of millennials think professional development is one of the most important elements of company culture

66% of Gen Z needs formal feedback from their supervisor every few weeks to stay at their job.

87% of Millennials rate Career Growth and Development Opportunities as strongly important to them in a job.

- 1. Career path** – other industries are offering this so dealers need to keep up with them
- 2. Professional training** - they want to better themselves and the environment round them. Dealers should consider engaging with local universities and colleges to provide courses with their employees
- 3. Demand regular feedback** – 66% will look for another job if they do not receive feedback every 3-4 months, i.e. they need more than an annual review.

Jared stated that an embedded process overcomes any operational issues the dealership may have.



1. CAREER MANAGEMENT PROCESS

Give them visibility of their career and promotion opportunities, set them training requirements to ensure promotion at each level from very basic initial training to more advanced training as they progress, including habit requirements and performance requirements. When the employee has completed these then they will be ready for promotion. They are in charge of their own career and driving their career which then drives your profitability.

2. PROFESSIONAL TRAINING PROCESS

Provide a training process and to address the three key areas of skills, knowledge and temperament

3. FORMAL FEEDBACK PROCESS

Have a monthly performance review with the member of staff. Each member of a staff has a scorecard relevant to their department and their roles.



LEVERAGING DIGITAL AND DATA GIANTS TO IMPACT YOUR DEALERSHIP

JULIO GONZALEZ | GOOGLE, AMANDA FLIPPIN | FACEBOOK

Mobile is key in today's world and online research is heavily influenced by mobile usage.

91% of car buyers research online, 72% of research includes a mobile device, and 71% do not perform a "legacy lead action" in final month to purchase. 65% of searches are done on mobile, 35% on other devices – so mobile is key.

Dealers need a mobile first strategy.

HOW CAN THEY HELP A DEALER'S PROFITABILITY?

The most profitable dealerships in the country spend more on digital vs traditional. More qualified customers mean less customer visits.

3 TRUTHS

CAR SHOPPERS RESEARCH HEAVILY

63% discover their purchasing dealership online. You can't win on the showroom floor if you don't first win online.

...OVER A THREE-MONTH PERIOD

81% of purchasers spend up to 3 months doing research.

...AND ARE READY TO BUY WHEN THEY ARRIVE AT YOUR DOOR

71% of purchasers do not submit an online lead action (up from 39% in 2013). 41% have their first communication with you when they arrive at the store.

3 TRENDS

NEWER ISN'T ALWAYS BETTER

55% of new car shoppers consider used or CPO (up from 30% in 2016).

I'M ON THE PHONE!

69% of shoppers will ONLY interact with your mobile site.

SEARCH IS STILL #1

88% of purchasers are still searching just 3 days before purchase. And search is the #1 last step before visiting a dealership.

1 SOLUTION

AUTOMATE TO DRIVE PROFIT

Focus on the business objective to grow your business profitably. Then let Google automation deliver the results you need to achieve your goal.

You need to gain insight into the performance of your Google Ads campaigns using conversion tracking and then define success metrics based on business outcomes closest to sales.

HOW CAN FACEBOOK AND GOOGLE HELP THE DEALER?

You need to move on from the metric of leads as only 10% of customers now complete a lead form. The new lead is messaging, 69% of customers feel more comfortable about the brand and 58% feel more confident in buying a car if they have engaged through messaging. 75% of messaging conversations led to a sale – so a fantastic conversion rate.

WHERE ARE LEADS COMING FROM?

51% of global car buyers start their research online. There is now a digitised customer journey. On average five individual dealer websites are visited, two in three find the purchasing dealer online and there are over 60m digital test drives watched on YouTube every month.

This is not just relevant for car sales but also for parts and service – if you can get a customer in twice for a service then they are 80% more likely to buy from your dealership next time.

43% called an aftersales department directly from search result – so this is key as can ultimately lead to a vehicle sale.

Where should you focus your advertising? The most watched type of video content are vehicle features and technology highlights at around 43%, with performance highlights only being 29% and safety at a similar level.

Facebook's 'Automotive Playbook for Dealers'.

SO WHERE SHOULD YOU BE SPENDING ON ADVERTISING?

Dealers need to engage and leverage of the use of video. Currently only 20% of people are streaming. This is going to be massive growth area and a dealer's video strategy is going to be key in the future.

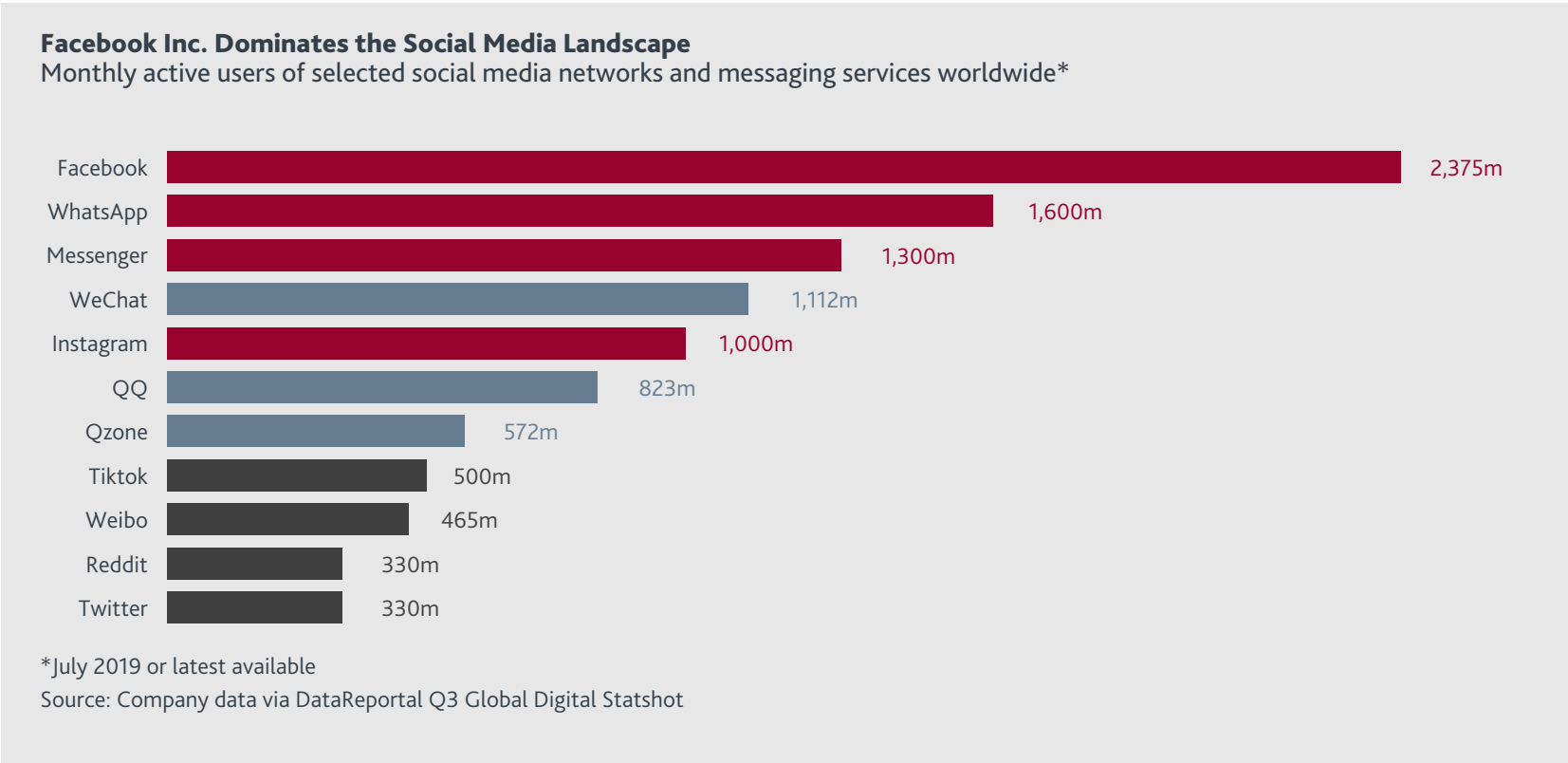
Automation is the next big thing. Machines are now working out how close you are to buying and will start to anticipate what you want before you know you want to buy the product. Automation will anticipate what matters to the customer. This will drive the sales process quicker and make it more efficient and ultimately more profitable whilst at the same time increasing customer satisfaction as it will reduce their time commitment to the process.



CREATE AN EFFECTIVE FACEBOOK STRATEGY THAT DOESN'T FEEL EVIL

MATTHEW STOFFEL | 9 CLOUDS

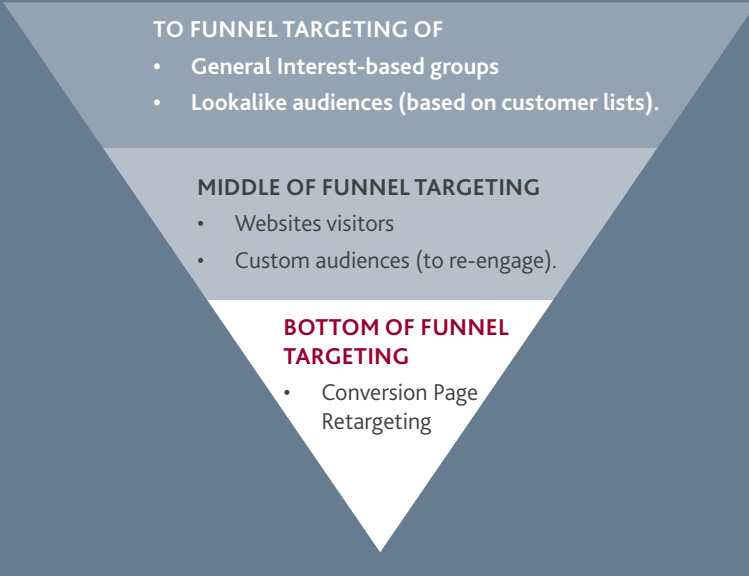
Matthew began the session setting out his views on the reality of Facebook - that it is part of a digital advertising duopoly and, although it has had a tricky past with user data, it is the town square of the internet with unparalleled targeting so it has to be used.



He said that paid Facebook is imperative as only about 6% of your audience sees your organic posts. It is cost effective as evidenced by inventory retargeting adverts having an average cost of just 14 cents per click. The Cambridge Analytica crisis had meant changes were required to the approach to using Facebook but the new Dynamic Adverts and Marketplace for new vehicles should be watched closely.

It was, he explained, still possible to reach buyers while respecting their privacy concerns:

- By using consumer-conscious targetting, building community trust and giving a better tailored experience to generate better performance
- Facebook advert interest based targeting on a geographic or demographic basis was still possible (albeit with wider target audiences). Using your CRM data you can target your campaigns on existing customers or 'lookalike' customer basis. In addition you can use third party data
- In terms of retargeting it was important to have clear boundaries and keep frequency reasonable to prevent fatigue/outrage. Dealers should sculpt the ad funnel to match the buyer's journey and outpace competitors in key moments of engagement.



Mathew went on to explain:

- Third-party data is still available through agencies with a data partner and includes information on vehicle, credit and housing.
- Marketplace was only working in some communities with shoppers looking for 'Craigslist' deals where dealers needed to be quick and present a human face. New Vehicles would be back on Marketplace when they thought it added value.
- Organic Social Marketing was dead, with only about 6% of your audience seeing your organic posts.

Looking ahead Mathew talked about what was coming next for Facebook:

- Automotive Inventory Ads
- Facebook-only Used Dealers
- Expansion of Facebook Watch – a streaming platform for video content
- Government regulation was likely to increase.

Wrapping up the session Mathew emphasised the benefits of targetting in a sculpted funnel, the need to keep user experience top of mind, respond quickly to any questions asked by buyers on Facebook, and stay informed on further likely changes to the Facebook platform.



HOW AI MAKES DEALERS MAKE FASTER, MORE PROFITABLE DECISIONS

BEN FLUSBERG | MANHEIM

Ben started the seminar by commenting that dealer margins are being squeezed as customers have more information at their fingertips and have more access to stock.

He likened the use of AI to the film Moneyball. When it was first used in sport it was ground-breaking and controversial, however most sports now use AI to enhance performance and decisions that are made. The use of AI has and will continue to grow in the motor industry.

But only 24% of dealers find it easy to source the right stock ie. clean and well-priced cars, as it is too competitive a market.

OPPORTUNITIES THROUGH USE OF AI

Nearly half of all wholesale vehicles are purchased through a digital channel, every transaction creates data and a virtual portal dealers should look to use AI solutions to use all this data and enhance their process to buy the right car at the right price.

63% of dealers agree that AI is necessary to adapt to changing dealership pressures.



So how can dealers use AI to make smart decisions in a competitive and time sensitive environment?

01 PERSONALISATION

Netflix and Amazon currently are great examples of this, the machine knows what you want and what other people like you might want so provide recommendations for you.

So AI for a dealer will look at what car you want based on your previous purchasing activity, what others customers like you have bought and what cars are most popular at present.

The Holy Grail is to get to a place where customers do not have to search anymore. This basically takes time out of a customer's search process and making it easier for the customer to buy.

Personalised recommendations increase dealers buying activity by 10%-20%. This will only increase as personalisation increases.

There is technology that you as dealers can enter what type of car you want, what profit you want to make and then AI will find these cars for you to buy and stock. This ultimately will increase a dealer's profitability.

Ben stated there is currently an 85% take up rate by dealers on matched offers.

There is also AI that will review your customer database and work out which 10% of your customers are about to buy a car, and which further 30% might want to buy in the next couple of months. In addition, it will tell you what type of car and price they want to buy. This will help the dealers in the car buying process and in personalisation.

There is a five times greater chance that "ready to buy" consumers purchase a car within next 30 days.

AI will also help your digital marketing campaigns – it will work out what works well and what has the best penetration.

02 VEHICLE VALUATIONS

AI can review all cars in your local area and will compare the price of these cars and work out what the car is worth. However the AI can move from an average value to a VIN specific value. A VIN level data driven approach improves valuation by 20%-30%. The more specific the price, the less friction in the market which allows the buyer and seller to come together even quicker.

In addition, AI can assist dealers valuing a trade-in car, so takes out the personal bias or opinion and replaces it with fact.

03 COMPUTER VISION

We are engaging with this every day through photos on mobile devices. But this is newer in the car industry. There are apps that you can use to take photos of the car that then give you a 360 view. This helps digitise the vehicle, customers don't need to see it, sit in the car etc as they can now virtually see the car which helps sellers list the car quicker and more cheaply and allows the buyer to speed up the buying process. Less friction leads to more sales and happier customers.

AI will start to classify damage (automated damage techniques) and it will price up what the repair will cost which will allow a more transparent process.

SO AI ENABLED SOLUTIONS WILL HELP YOU:

- Be relevant, source well priced stock faster
- Be efficient, more precise and confident in buy/sell decisions
- Engage with consumers in a more personalised way
- Saves time, transact faster and increase margins!

Ben concluded that the perfect solution will be the right balance between AI and personal interaction. AI will help people work more efficiently and productively. Dealers need to adapt or die!

DEMYSTIFYING THE FUTURE OF CAR SHOPPING AND BUYING

JESSICA STAFFORD | AUTOTRADER

We are all aware that transforming our customer interaction is necessary to improve customer retention levels.



Only **36%** of consumers are very satisfied with their vehicle dealership.



89% of dealers agree they must find alternatives way to sell and service cars if they want to survive.

Autotrader carried out a detailed review and engaged with large a research group of consumers. This resulted in 30 ideas, many of which were around being frictionless, and Jessica focussed on three of them:

SERVICE

Dealers could remove a lot of friction.

Consumers want a personalised experience - 88% of consumers want dealers to know something about them as they think this would make any process quicker and simpler. From the research 67% of customers would change their dealership if dealers did this.

Jessica stated that in the US main dealers only service 35% of the market so this provides is a huge area for potential growth. Price and location is key, so the easier dealers make the process ie. collecting and returning vehicles the more likely the customer is to use them.

UNDERSTAND FORWARD-LOOKING, TECH-SAVVY CONSUMERS

This group is growing, so you need to understand them and their requirements. One in five of the population are currently automotive 'trailblazers'.

- The consumer of today wants to go to a brand location – speak to product geniuses, not a sales person, and they want to test drive and know the product better before thinking about buying.
- 62% of consumers want help from consumer staff and 61% want help from a product specialist rather than a salesperson.
- They want to learn and not be sold to.
- 62% of this group want a relationship with their dealer that extends beyond just the transaction
- They want test drive delivery – they want a 24 hour test drive where the car is delivered to their home
- They want travel extension partnerships – dealers to be able to help when they are travelling/ on holiday etc and provide solutions to them.

Trailblazers prefer more tech-forward concepts in order to create a completely frictionless and personalised experience.

- They want 360 holograms
- They want virtual visuals – virtual test drives and use of virtual reality
- They want AI lifestyle integrations that make their day easier – vehicle, phone, media synchronisation.



INNOVATION IS INCREASING FASTER THAN EVER

Long term is not 10-20 years, it is one to three years as innovation is so fast. So dealers need to be thinking and planning to a shorter timeframe.

Jessica completed the seminar by noting the five top ranking concepts from the research group and this is detailed below.

TOP RANKING CONCEPTS	% FOUND APPEALING	#1 BENEFIT
1 Service Drop-Off & Pick up + Loaner	89%	Saves time
2 Purchase Vehicles Swap/Return	85%	Convenience
3 Test Drive Delivery	83%	Convenience
4 Purchase Vechile Delivery	82%	Saves time
5 At-Home Maintainence	79%	Saves time



FIXED OP CUSTOMER EXPERIENCE FOR GROWTH, RETENTION AND PROFIT

DAVID FOUTY, XTIME AND TULLY WILLIAMS | THE NIELLO COMPANY

David began by stating the aftersales department has three current challenges:

- Lengthening maintenance intervals
- Improving quality means fewer repairs
- Over the air software updates that don't require a dealership visit.

However, in the US the share of consumer visits in the past 12 months is up 3% over the previous year, so aftersales have been performing well. This will be partly due to increased vehicle sales over the last five years.

Vehicle age is increasing which in theory should be good for aftersales as repair costs increase, however, data shows that customer retention reduces as the car gets older. So how do you improve this?

Top five reasons why the customer does not return:

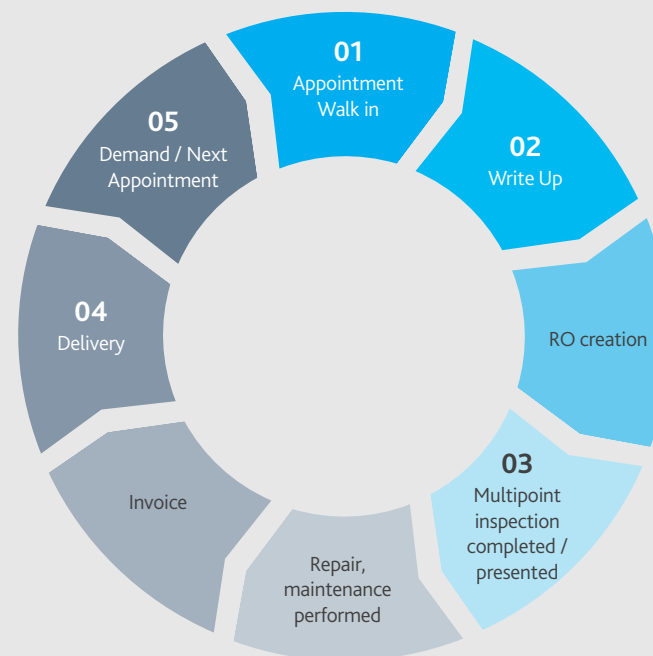
- Cost of service
- Dealership location
- Fear of overcharging
- High cost of labour
- High costs of parts.

So dealers need to make it easier for the customer to access the website and dealership and recognise that customer expectations are increasing as a result of their experiences with other retailers such as Apple, Dominos, and Amazon.

The ultimate goal is profitable growth which is based on repeat referral business.

SERVICE PROCESS WITH CUSTOMER TOUCHPOINTS

5 Opportunities to Win or Lose



01 APPOINTMENT

- Don't have a closed for business sign
- Manage capacity for online appointments
- Display prices online – price for the majority



71%

of consumer's biggest issue was wanting a transparent cost estimate when setting appointments.

02 CHECK IN

- Very important to know the customer, why they are coming in and vehicle history
- Use a tablet to inform the customer and position them to make decisions i.e. meet them at the car not over a desk. Data shows that the use of tablets increase retention by 7%.
- Communicate throughout the service. Customers want updates during the service visit

CUSTOMERS WANT UPDATES DURING SERVICE VISIT

55%

"Definitely Will" Return for service when updated via phone

67%

"Definitely Will" Return for service when updated via text

3%

Receive text message updates

Source: J.D. Power 2017

03 INSPECTIONS

- a. Improve same day sales for additional service recommendations
- b. Inspect every vehicle with quality
- c. Make it easy for the customer to say yes

04 DELIVERY

- a. Link to online payment for more time to sell the value
- b. Ask for the next appointment
- c. Remember to say thank you!

05 BETWEEN SERVICE VISITS – A GREAT OPPORTUNITY TO ENGAGE WITH THE CUSTOMER

- a. Follow up communications – shows you care if it is specific to the vehicle, informative not pushy and you provide convenient next steps
- b. Recall marketing
- c. Focus on what happens when they say yes

Data shows that 58% of additional work is declined per month. Monetising this leads to loss of revenue exceeding c£200k per month.

They concluded the session noting that dealers should work on pay plans that bring service and parts departments together. They both depend on each other but in the main will have different targets and different pay plans and bonus schemes that are not interlinked to drive the dealer's profitability in a joined up way. So pay plans should have the same focus i.e. selling hours.



INTERNAL LOSS PREVENTION: ENSURE YOU HAVE THE TOOLS TO PROTECT AGAINST FRAUD

EDIE WINES | CERTIFIED FRAUD EXAMINER NADA, **MAYA SUTANTO** | MANAGING DIRECTOR CROWE LLP

The session began with some sobering facts about the amount of fraud that occurs globally and across all industries, equating to 5% of annual revenues with a median loss of \$130,000 per known case. There is not much specific information to automotive but a study in 2013 of 550 cases identified that 70 (13%) were motor related.

Edie then went on to outline a number of real life examples where staff had embezzled on average around \$300,000 and dealerships were lucky to see any recovery of the amounts lost, or if they did it was only a small proportion or they would collect in monthly instalments over 20 to 40 years!

As Edie explained each case, Maya from Crowe LLP outlined some of the missed warning signs and, more critically, some key controls that dealerships should have in place. Any one of them would have detected and prevented the amount of loss becoming excessive.

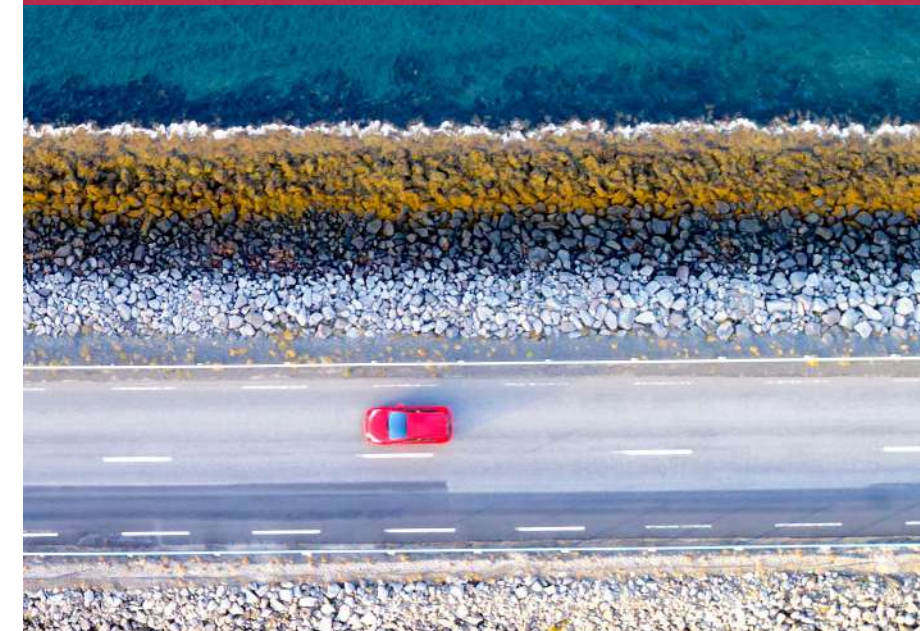
WARNING SIGNS

- Unreasonable or lavish lifestyle of the perpetrator (or a sudden increase)
- Staff possessive of their work, reluctant to let anybody help them in the detail, taking few holidays
- Repeated excuses for discrepancies
- Excessive number of adjustments to ledgers or stock values.

KEY CONTROLS

- Tone at the top, culture of scepticism from top to bottom, train all employees to spot the red flags or warning signs and put in place a whistle blowing policy and hot line
- Segregation of duties, no one person to have ability to collect cash or make payments and make all accounting entries recording the transactions
- Detailed process for regular (if not random) review of journals back to source documentation and strict controls of who can produce and process them
- Regular use of data analytics across all major transaction areas, including tests for duplicate employees, regular payments to specific bank accounts, and unexpected journal entries (by amount or where they are posted)
- Independent reviews of account reconciliations including sales, purchase and nominal ledgers
- Bank reconciliations only to be performed by someone not responsible for making payments or recording incoming cash
- Clear authorisation limits and detailed reviews of refunds and credit notes
- Independent review of stock check results and resulting adjustments.

Overall the strong advice was to establish a culture and process of accountability, don't take your eyes off your business, trust your people but verify their work, be clear on your performance are the results below expectations, and be sceptical.



FINANCIAL MANAGEMENT

HEATHER WESTMAN AND TOM SHAUGHNESS | NADA ACADEMY INSTRUCTORS

Tom opened by saying that the workshop should be more correctly titled "Frozen Capital" which he defined as "cash tied up in your inventories and receivables that should be used to generate additional gross profit".

The key is to clearly identify appropriate working capital KPI's that define your frozen capital, identify where it lives and then drive the business to measure on a regular basis and chip away at it.

Frozen capital can live in your stock, work in progress, trade and warranty debtors and NADA gives guidance on typical levels it would expect to see in an average dealership, including:

01 | Fixed operation debtors not to exceed 15 days' sales

Your goal should be to collect your cash and maintain your trading relationships, so chip away, be persistent and communicate regularly with your customers. Ensure you have a good credit application process and make it easy for people to pay you.

02 | Warranty Debtors – your target will depend on how often your OEM processes the claims

Your goal is to submit clean warranty claims that get paid on first presentation, so set internal write off limits and check who your warranty administrator reports to and have a schedule of when you will review debtor balances.

03 | Pre-owned vehicle stock not to exceed 30 days' supply

Your goal is to know your starting point from when the vehicle comes into stock to the date it is on display and be clear on your exit plan.

04 | Parts stock not to exceed 45 days' supply

Your goal is to have good visibility of what is in your parts store, what is obsolete, what you can return and how much special-order stock you have.

05 | Vehicle receivables not to exceed three days

The goal is to be clear about how much is in each category from wholesale, trader or fleet sales and enforce strict collection KPI's

06 | Work in progress not to exceed 1.5 days or 12 hours per technician

Focus on regular detailed reporting of open repair orders and WIP increases

Once you have set your KPI's you should then regularly report on your Frozen Capital or "Iceberg". Typically the average in NADA 20 groups is around \$1m which if a dealership could "thaw", it would on average generate around 12% gross profit or c\$100k per month so in excess of \$1m pa!



HOW WE CAN HELP YOU

If you would like further information about this publication or our specialist knowledge of the motor retail sector, please contact:

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