You are only as good as your numbers!

Well, another year has come and gone. The last few years for most have not been the best, but 2011 improved for most dealers. If you compare your prior year financial statements, you will see how you have done during this time.

When comparing your prior year financial statements, you need to ask yourself if you are only as good as your numbers. If you have not done well, and think you should have done better, then you need to re-evaluate where you are now and where you are headed for 2012. If you think you are better than your prior numbers, then you need to make some changes very quickly so 2012 doesn't end up the same as 2011 and prior years.

Where do you start? The first thing you need to do is to review the past three to four years of your financial statements side-by-side for every department and every line item in each department. After you have completed this, then you need to place some NADA guidelines and/or your Twenty Group best performing dealers' numbers next to your analysis. Now you can start to complete your review to obtain some of the changes you need to make for 2012.

Start with sales in each department. Are your unit sales what they need to be?

Are your grosses substandard? Remember when comparing your numbers to others in your Twenty Group, they may have posted incentives and objective income to the grosses and/or to other income. This can make a huge difference in average gross profits per unit.

After looking at sales and gross profit, you are ready to review your selling and general and administrative expenses. Again, be careful when reviewing them for differences. Based on the size of your dealership sales and volume, your dollars can be much different from others. The amount of selling expenses and some semi-fixed expenses as a percentage of sales or gross profit dollars should be a more reasonable guide for you to achieve.

If you are achieving a lower percentage of expense than the comparative numbers, it could be the way the expenses are characterized and posted to your books versus the method other dealers are using. Some of the differences may be related to how well you have accrued for expenses versus other dealers in matching up your true monthly expenses to the income generated during that time.

Some of the largest amounts in variable and semi-fixed expenses are commissions and advertising expenses. Both of these are very controllable. Commissions are controllable due to the pay plans you have set up, the spiffs you pay to move various units, month end commissions and the number of "mini" commissions paid on lower than normal gross profits. Advertising is very controllable if you are truly monitoring and tracking your ups and other people who show up at your dealership. By tracking what really brings people in, you should be able to revise your advertising dollar budget to what is really working and effective. This should also result in a reduced percentage for advertising expense as a percentage of sales/gross profit.

Next you are ready to compare your fixed expenses to comparative dealers. Fixed expenses as a percentage of sales and/or gross profit will decrease as sales/gross profit increases. If the expense percentage has increased, your sales/gross profit has probably decreased. Fixed expenses normally don't increase as a function of sales/gross profit but tend to remain relatively stable over time. If your expenses are out of line, you will need to review the detail for those accounts for the year(s) to find out what expenses you have been incurring. Can any of these be reduced through better management or different processes?

You also need to review other income and deductions. These accounts can include many different items. If these accounts have not been separated on your general ledger by types of income and deductions, your will have to manually do this to compare the amounts by year.

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Some examples of these accounts are Doc/Admin Fees, incentive and objective income, EBE type income (GM), discount income, interest income, interest expense, etc. If you are not separating your other income and deductions in various types, you need to review the detail for 2011 and setup the new accounts for 2012. You could also make year-to-date entries for 2012 to separate the activity so you have the comparative numbers ready for next year.

After you have finished, you need to summarize your findings in writing and make comments on your spreadsheets to justify the differences. You should also make another column on your spreadsheet to enter what changes, if any, you are going to make for 2012 and the time frame to accomplish this in. This will give you a written plan to monitor your progress throughout 2012.

You are not done yet but you are closer. You need to sit down with your managers and review the results. Find out what their comments are and record those also on your spreadsheets. Document what they say you should change going forward on the same reports along with your comments. This will help you throughout 2012 to monitor if the changes you have all discussed are actually taking place and happening in the time frame you have allowed.

What you can do lastly is to enter a 2012 budget for the amount of sales, units, gross profits, expenses, etc. you hope to incur based on your comparative year analysis and changes you are going to achieve. Once you have entered these amounts, you hopefully arrive at a more profitable experience than 2011 or have incurred in prior years.

I know this seems like a lot of work, but you have to start somewhere and have a plan to follow and track your progress. You have to have your managers “buy” into it and be willing to make it happen. Failure to do so will let you see the same results at the end of 2012 as 2011 and prior years. I don’t think you want to do that.

TAX TIP

PATIENT PROTECTION & AFFORDABLE CARE ACT

The Supreme Court's decision to affirm in part and reverse in part appellate court rulings on the healthcare law preserves the heart of the *Patient Protection and Affordable Care Act*, which requires most Americans to buy health insurance by 2014 or pay the government a tax penalty.

There were two main issues to be determined in the case.

1. Whether the individual mandate to require all Americans to purchase health insurance is constitutional.

2. Whether the federal government can force state to accept changes in Medicaid or lose their funding.

The Individual Mandate
The Court held that the healthcare law requirement that almost all Americans must purchase health insurance or suffer a penalty is constitutional. This was not based on the Commerce Clause in the U.S. Constitution, but on the taxing power of Congress. Five Justices agreed that the penalty citizens must pay if they refuse to buy insurance is, in effect, a tax that Congress can impose.

The High Court noted that Americans subject to the individual mandate can lawfully forgo health insurance and pay higher taxes, or buy health insurance and pay lower taxes. The only thing that they cannot lawfully do is not buy health insurance and not pay the resulting tax.

What Does All this Mean for You?
There are so many provisions of the *Patient Protection and Affordable Care Act* that are applicable to almost all Americans. Here are 10 basic ways the law may affect you:

1. Most Americans must have healthcare insurance by 2014, or pay a penalty tax for not having it.

2. An insurance company cannot turn children under age 19 down for coverage because of pre-existing conditions. Beginning in 2014, this protection extends to cover all Americans.

3. Many young people will be able to stay on a parents' plan until they are age 26.

4. Seniors may pay less for prescription drugs.

5. Insured individuals will generally be entitled to certain preventative services without a charge.

6. The private sector will continue to provide health care financed by the insurance companies.

7. More low-income people will likely be covered by Medicaid.

8. Starting in 2014, employers with 50 or more full-time equivalent employees which do not currently offer health insurance as a benefit will be required to do so, or a penalty will be imposed. However, businesses with less than 50 employees are exempt.

9. Insurance companies cannot cancel your policy and beginning in 2014, they cannot impose lifetime dollar limits on your benefits.

10. There are many tax implications in the new law for individuals and businesses.

If you have any questions about how the healthcare law may affect your business, please contact your ATA representative.