



AUTO DEALERSHIPS

A Multi-Faceted Approach to Risk

Lowers Risk Group – Risk Mitigation White Paper Series



LowersRiskGroup™
Protecting People, Brands, and Profits



**LOWERS
& ASSOCIATES**
International Risk Mitigation Partners

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AUTO DEALERSHIPS A MULTI-FACETED APPROACH TO RISK

THRIVING IN HARD TIMES

Every dealership faces risk. If properly managed, risk drives growth and opportunity. If ignored, small problems can turn into big ones. In our current economy the stakes are high. Now, more than ever, dealers can ill afford to make the wrong decisions when it comes to risk, decisions that ultimately affect their employees, their business, and their customers.

Dealers that approach risk from a holistic or enterprise level by proactively identifying and systematically addressing the complete spectrum of risk that the dealership faces, improve their odds of weathering just about any storm. By using established methods and proven processes to assess and classify risk, assess its relevance and impact, implement risk mitigation measures that incorporate industry best practices, and create metrics to cost-effectively manage risk, dealers will be able to make more prudent business decisions and thrive in both good times and bad.

SALES & MARKETING

Car dealers are favorite targets of state attorneys general. That's one good reason why you should be concerned with how you conduct business, starting with your sales and marketing efforts. There must be a commitment to, not just a concern for, compliance and ethics. Just as your salespeople can get into trouble by over-promising and under-delivering, unsubstantiated advertising claims -- such as misleading vehicle prices or loan rates -- can lead to unwanted outside legal scrutiny of your dealership.

A review of your Sales & Marketing policies, procedures, and operations can help you gain a better understanding of what's actually taking place on the showroom floor or in your print/on-line advertising. The following are examples of what should be addressed:

- Credit authorization system
- Control of customer numbers
- Protection of customer credit, drivers license, and insurance information
- Sales discounting controls
- Customer test drives
- Key control
- Dealer plates
- Internet sales, marketing, and CRM

SERVICE

Top dealers work harder at building customer loyalty. An increased effort on improvements in the Service Department helps dealers win repeat business, reduces customer acquisition costs, and ultimately drives up profitability. Follow-through with your patrons wins customer loyalty.

Service policies, procedures, and operations can lower your operational risk and help you generate greater interest, traffic, and profitability in your Service Department. The following is a list of issues that should be addressed:

- o Dispatch
- o Repair order dispatch
- o Wireless service advisor and/or equivalent
- o Customer use of loaner and rental vehicles
- o Employee use of tow trucks, dealership vehicles, and non-owned vehicles
- o Vehicle / key control

PARTS / INVENTORY

Although Parts / Inventory lacks a heavy customer-facing component, it can impact your bottom line every bit as much as Sales or Service. Parts / Inventory (including Fixed Assets) represents a significant exposure to loss through shortage, theft, or diversion. In addition, although a tremendous profit center, dealer add-ons can lead to customer complaints and legal issues.

A thorough risk survey of your Parts / Inventory / Fixed Assets policies, procedures, and operations is important. This can provide a legitimate outsiders assessment of the practices to the overall business that would be well received by your financial institution partner and your insurers, not to mention the manufacturer franchiser. The following is a list of some of the issues your survey should address:

Parts:

- o Access & personnel movement
- o Physical & technical security
- o Carton and wholesale parts controls
- o Protection of high value shipments
- o Shipping documentation
- o Parts return
- o Tractor / Trailer security

Inventory & Fixed Assets:

- o Control of fixed assets, incl. inventory
- o New / Used vehicles
- o Sales floor, open lot, on / off site storage, service, or satellite location inventory storage
- o Control of parts and shop supplies
- o Complete inventories & 'cycle counts' conducted; results reconciled
- o Inventory adjustments (shrinkage, mark-downs, obsolescence, mfr. returns)
- o Access and personnel movement control in storage areas
- o Vehicle / Key security
- o Protection of high value inventory
- o Physical & Technical security controls

FINANCIAL SERVICES

Sound Financial Services practices can make all the difference in your bottom line and compliance abilities. No dealership can afford "paper losses" in today's economy. More so, every deal that a car dealer makes touches no less than ten FTC regulations. Regulatory compliance, audit and controls reviews, and incident investigations designed with an eye toward white-collar theft, fraud, and embezzlement are key components in a Financial Services review.

A solid Financial Services review / assessment will shed light on Accounting, Bookkeeping, and Accounts Payable policies, procedures, and operations giving you peace of mind knowing that your business is being run as it should be. The following is a list of some of the key issues that a Financial Services survey should address:

- o Invoice approval & payment controls
- o Check storage, issuance, and reconciliation
- o Emergency payment controls
- o Bank account reconciliation
- o Wire transfer and ACM controls
- o Mail controls
- o Control of cash transactions
- o Contracts-in-transit
- o Deposit preparation controls

HUMAN CAPITAL

According to management guru Peter Drucker, the last bastion of competitive advantage is your people. An ongoing challenge for every dealership is the identification, acquisition, development, and retention of talented people. Now, more than ever, your dealership can ill afford to make poor hiring decisions.

Your first line of defense is the consistent use of a formal hiring process and the proper, thorough, and organized screening of employees. For existing employees, top dealers use training and long-term incentives to retain top talent. For key employees, you can rely upon staff augmentation or interim management capabilities. Lastly, a proven risk assessment process will help examine the nature and extent of internal controls used to address HR risk, particularly as it pertains to internal theft, fraud, and crime.

A risk review / assessment of your Human Capital policies, procedures, and operations, can improve turnover, HR compliance, and employee performance. The following is a list of issues that should be addressed:

- Pre-employment screening policy / program
- Policy on background screening of existing key employees
- Screening of part-time employees, contractors, vendors, and others with sensitive access requirements
- Employment related practices
- New and existing employee orientation, training, and recurring training
- Customer service standards expectations
- IDs / access credentialing
- Uniforms
- Employee turnover review / analysis
- Employee file review
- Authorized drivers
- Payroll: Personnel additions, changes, deletions policy
- Payroll: Processing and reconciliation procedures

IT / INFORMATION SECURITY

The need to safeguard digital assets and to mitigate exposure to risk originating from malware and unauthorized internal / external access to business critical networks, systems, databases, information, websites, and other entrees to sensitive employee, customer, and dealership information is vital to keeping a dealership secure.

Consideration should be given to a full review / assessment of IT / Information Security policies, procedures, and operations. This type of review / assessment can identify risks allowing the dealership to adjust in order to help safeguard your assets. A solid IT review should include [but is not limited to] the following:

- Physical security of mainframes, servers, PCs, & laptops
- LAN / WAN security
- Internet security (CRM and dealer website)
- Intruder detection systems (IDS) / Intrusion prevention systems (IPS)
- Maintenance of hardware & software
- Virus protection
- Password controls
- User rights and privileges
- Computer & telecommunications redundancy systems
- Backup procedures
- Disaster recovery procedures

CONCLUSION

Every dealership faces risk. If properly managed, risk drives growth and opportunity. If ignored, small problems can turn into big ones. Well designed and implemented risk mitigation policies are integral to all profitable front-end operations.

According to a McKinsey & Company study, top performing dealerships are more than three times as profitable as average ones! The study found that the internal practices of top dealers substantially affected performance. Further, the more profitable dealerships focused on practices in the Service Department that promoted customer visits. Lastly, at top-performing dealerships, automakers' field representatives devoted more time to coaching, performance reviews, and long-term business planning.

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ABOUT LOWERS RISK GROUP

Lowers Risk Group combines the services of three industry-leading companies – Lowers & Associates, Proforma Screening Solutions, and Wholesale Screening Solutions – to create a complete risk management service offering for organizations of all shapes and sizes. Employed in concert or on a standalone basis, we provide comprehensive enterprise risk management and human capital risk solutions to organizations operating in high-risk, highly-regulated environments. Our specialized background screening and crime and fidelity risk mitigation services protect people, brands, and profits from avoidable loss and harm. With Lowers Risk Group you can expect an experienced and professional approach to your risk assessment, compliance, human capital and risk mitigation needs to help move your organization forward with confidence.

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ABOUT GREAT AMERICAN INSURANCE

The Fidelity / Crime Division of Great American Insurance is one of the largest mono-line crime insurance underwriters in the U.S. We have specialized in protecting virtually every class of business from crime-related losses since 1995. Our industry experience and crime insurance know-how is second to none.

The expertise of Great American's professional staff, exceptional claims adjusters, and recognized prompt policy service, along with the financial strength of Great American Insurance Group, allows our Fidelity / Crime products to be regarded as among the finest in the industry.

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