

STANDARDIZED BUSINESS PROCESSES REDUCE RISK -- AND HELP AUTO DEALERS GET A BETTER NIGHT'S SLEEP

By Mike Sheridan

Ask independent auto dealers what keeps them awake at night and you'll get an earful.

Time after time as I criss-crossed the country over the past year talking to dealers and financial institutions about GDEXAuto, the first dealer-focused automobile loan portfolio transaction system, people told me how difficult it is to operate a financially viable dealership in the current business environment.

Specifically, dealers worry about:

- Declining profit margins;
- Managing cash flow;
- The crush of new regulations and increasing hassle and cost of complying with legal and other requirements;
- How significantly the sub-prime mortgage lending crisis will spill over into the automobile sector and increase competition for the top tier of buyers in that segment.

The good news is that more and more independent dealerships are taking steps to become more profitable in the years ahead. They are part of an emerging trend – the adoption by traditional buy here/pay here dealers of innovative new enterprise business “best practices” and process improvements that improve cash flow, profitability and efficiency. Increasingly, dealers are turning to consulting firms, dealer resource coalitions and individual service and solution providers for enterprise solutions that help them with accounting, cost analysis, loan portfolio management, taxes and other aspects of financial management and legal and regulatory compliance. In doing so they are reducing operating costs, limiting their potential exposure to expensive litigation or penalties for non-compliance, and taking charge of aspects of their business that previously seemed out of their control.

In summary, they are reducing risk. And risk is what keeps everyone awake at night.

Whether it's performing a financial or compliance audit, providing compliance or other training to dealership staff, pooling and selling loans or shopping for the best deals on insurance, solutions providers like Compli and Hudson Cook LLC are bringing clarity to some previously murky aspects of the auto finance business. At the same time, these

service providers and others are encouraging dealerships to think about their businesses in new and different ways – and to not be afraid to explore different approaches, work with new lenders and other providers, and otherwise map out a path to reduced risk and greater profitability in today’s challenging marketplace.

What’s Good for the Goose...

Dealers don’t have to look far to discover how this implementing enterprise-wide best practices can help improve the bottom line. For years, franchise dealerships have benefited from the application of enterprise technology and other process solutions implemented in the name of improved profitability and customer satisfaction.

Independent auto dealers can also look to the highly entrepreneurial world of real estate for guidance. Many brokerages have adopted online transaction management systems that enable a broker and agent (as well as the homebuyer, seller and lender) to track every aspect of a transaction to ensure compliance with all legal and regulatory requirements. The net effect of implementing a consistent, enterprise-wide process improvement? By standardizing processes, brokers have reduced the risk of litigation, and that has helped them cut the skyrocketing cost of Errors and Omissions insurance by between 30 and 50 percent. Further, by moving paper-based files to digital storage, they have eliminated the need to pay for costly offsite warehousing and eliminated the time and hassle of retrieving files at a future date. The prospect for dealerships to earn similar savings advantages by instituting enterprise workflow and efficiency processes is just as real, available and compelling – and reasonably easy to initiate.

Process Improvement and Your Lending Operation

It’s surprising how many dealers get out of bed each morning and ask themselves: “Am I in the auto finance business to make money or because I have to be in it?”

The answer may be a little of both. But if you’re primarily in it to make money (and you’re not making as much as you think you can), your first step is to evaluate your current processes and assess what resources and tools are available to help improve your margins in the finance office.

Here are some tips to help you get started:

- *Examine your relationships with lenders*

Take a look at your lending relationships. If you’re relying on a single lender or investor to purchase the loans you originate, consider broadening your horizons. You’ll be surprised how the picture can change when more than one institution is competing for your business.

- *Review how you manage lines of credit.*

Take a look at your warehousing line of credit. More active management of your line of credit may allow you to achieve better margins by receiving more favorable terms. A portfolio audit can help you understand your current status and help you decide when it makes sense to pare down your line of credit. It also may earn you some “Brownie points” with your lender, who will be impressed by your business savvy.

- *Manage your loan portfolio, instead of letting it manage you.*

You’d be surprised how many dealerships wait to package and sell loans they’ve originated until they are strapped for cash to fund urgent business needs. Lenders know this and play it to their advantage. Dealers can improve their chances of receiving top dollar for their loan portfolios by taking steps to more aggressively manage their loan portfolios and undertake a more strategic approach that puts you back in the driver’s seat. Solutions are now available which streamline the entire process and help both dealers and lenders more effectively work together.

- *Anticipate marketplace changes before they occur.*

Many independent dealers say they worry that franchised dealers down the street will target higher-end buy-here/pay-here customers as the sub-prime mortgage crisis drives consumers toward newer used cars. One strategy for competing on the lot is anticipating change and managing operating lines of credit, the packaging and sale of dealer-funded loans to the highest bidder, and doing so using technology processes that eliminate hassle and save resources. Access to more cash when you need it will help you maintain a competitive edge.

- *Remember: Anything you can do to reduce risk is good for you and your lender(s).*

Whether it is a lender or hedge fund investing in auto loan pools or a business insurer, reducing risk reduces the cost of doing business and frees up resources to fund more profitable activities. Implementing consistent business processes that reduce risk is one way dealers can differentiate themselves and create better customer service and satisfaction while reducing their operating costs.

And that will help everyone get a better night’s sleep...

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