

# THE HORN

Published by:

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Bulletin No. 588

May, 2017

## 2017 AACT Business Conference-Hilton Head Island, SC

Mark your calendars!!! The 2017 AACT Business Conference will be held September 7-10, 2017, at the Hilton Head Marriott Resort & Spa, Hilton Head Island, SC. Conference Chair Sandy Crews' Committee developed an excellent program, and they want to invite all members and prospects to join them on the island. Go and experience Hilton Head's fine dining and beauty. This is our first Conference at Hilton Head, so let's make it one of our best!!! Refer to the complete schedule on page 8. We hope to see you there!!! I KNOW I'LL BE THERE!!!

— Max Miller, AACT President, Benson, NC

## LEGAL/ LEGISLATIVE

### Auto Care Association Keeping Tabs on OEMs as “Right to Repair” Deadline Nears

The 2018 model year marks the deadline for full “right to repair” compliance under the infamous Massachusetts law and subsequent nationwide OEM-aftermarket agreement, and the Auto Care Association is watching to ensure automakers live up to the law and bargain.

**Under the memorandum of understanding (MOU)**, automakers were required to sell tools and repair information to non-dealership mechanics and collision repairers at a “fair and reasonable price,” Auto Care Association regulatory and government affairs Senior Vice President Aaron Lowe.

OEMs already had to provide diagnostic information and tools to the aftermarket under the 2014 agreement. But by the 2018 model year, the signatories also agreed to allow third-party devices to interact with on-board diagnostic and repair systems (one method is the frequently cited J2534 standard) - the final piece of the 2014 agreement. 2018 model year vehicles should be appearing this summer or fall, but OEMs have been making good on the agreement already.

“We still are monitoring repair facilities in Massachusetts,” said AutoZone government and community relations Vice President Ray Pohlman. To the OEMs’ credit, observers are “not detecting too many problems” in that state, according to Pohlman.

In February, the Auto Care Association and Coalition for Auto Repair Equality contacted all signatory OEMs for an update on their compliance. About a third responded, all assuring they’d meet the demands of the deal, according to Pohlman. However, the groups haven’t heard from some of the larger OEMs yet, and “that’s giving us a little bit of concern,” Pohlman said.

Lowe said that questions still remained over how many model years prior to 2018 will have on-board vehicle diagnostics and repair information available under the terms of the law. Honda, for example, had promised to make older models available, but that’s not necessarily going to be the case for all OEMs, he said.



# MANAGEMENT NOTES

## Elements of a Plan to Sell to Insiders

By Carl Rogers

Today, we discuss the essential elements of a plan owners use to transfer a business to insiders that keep the owner in control until he or she is paid the sale price. If you suspect that the children, key employees, or co-owners you would pick to succeed you do not have the funds to cash you out, consider the following 10 elements that make insider transfers successful.

### **Element 1: Time**

A transfer to insiders takes time: time to plan, time to implement, and time for successors to pay the departing owner. Typically, the more time owners take to transfer the company, the less risk they incur and more money they receive from the new owners.

Thus, the first question an owner must answer is, “Am I willing to take time (typically three to eight years) to execute and complete an insider transfer (while maintaining control)?” If the answer is no, then it is probably best to consider other Exit Paths.

### **Element 2: Defined Owner Objectives**

If owners are willing to devote the time necessary to transfer the business to insiders, they also must define and/or quantify their objectives. These may include the following.

- Financial security and independence.
- Departure/retirement by a chosen date.
- Keeping family legacy or company culture intact.
- Rewarding key employees.

Taking the business to the next level on someone else’s dime.

In a well-designed transfer plan, these objectives are met before control is transferred.

### **Element 3: Cash Flow**

Healthy cash flow is critical to any sale. No buyer, whether outside third party or insider, wants to buy a company with anemic cash flow. However, in a transfer to insiders, cash flow assumes gargantuan importance, because initially, it is the major, if not sole, source of an owner’s sale proceeds.

### **Element 4: Growth in Business Value**

Like healthy cash flow, buyers look and pay top dollar for companies that have the potential to grow in value. In transfers to insiders, ownership transfers generally occur only if cash flow continues to grow. Thus, it is vitally important that owners contemplating an insider transfer install and cultivate Value Drivers before and during their exit transition. (For a quick refresher on Value Drivers, please contact us for one of our Value Drivers white papers.)

### **Element 5: Capable Management That Desires Ownership**

Having a motivated management team capable of replacing the owner is hugely valuable to any buyer, especially when that buyer is an insider. The management team that succeeds the owner must desire ownership and be willing to sign personally for any acquisition financing or ongoing company debt. Owners often assume that their management teams want to own their companies, but sometimes, management teams balk when they realize that they have to pay for ownership. Thus, assuring that the management team not only desires ownership but is willing

### **Element 6: Minimize Taxes**

Most owners don’t want to pay any more taxes than they are legally required to pay. Owners who are contemplating insider transfers must take special care to minimize taxes. In an insider transfer, it is imperative that owners and their advisors structure the sale of their businesses to minimize taxes on the company’s cash flow (pre-tax income), because without planning, cash flow is taxed twice: (a) once when the insider receives it (as the new owner) and then pays taxes before paying the owner to purchase the company and (b) when the owner pays taxes on the proceeds received.

One goal of tax planning is to subject the company's cash flow to taxation only once. Accomplishing this feat takes considerable planning, but it's worth the time and effort to save a third or more of the company's cash flow from this type of double taxation. One-time taxation means owners receive more money more quickly and thereby reduces the risk that the exiting owner will not be paid in full.

### **Element 7: Regulate an Incremental Transfer of Ownership**

One of the most important advantages of a well-designed insider transfer plan is that it gives the owner the ability to regulate how ownership is transferred, when it is transferred, and how much ownership is transferred. If company performance falters, employees stumble, or the owner chooses instead to sell to a third party, a well-designed insider transfer Exit Plan keeps the owner in the driver's seat.

### **Element 8: Increasing Control Means Decreasing Risk**

While business owners take risks every day, they don't relish risking their own and their families' future financial security. Therefore, we use strategies to keep voting and operational control in the hands of the owner. This shifts operational business risk from the exiting owner to the incoming owners so that exiting owners stay in control of their companies until they receive the entire sale price. (If you'd like to talk about the many ways we accomplish this for our clients, give us a call.)

### **Element 9: Written Road Map With Deadlines**

To succeed, we believe that owners must put their transfer plans in a written document and communicate it clearly and regularly to the eventual owners. If the plan is not in writing, it simply is not credible, and neither the owner nor his or her employees will take it seriously. More importantly, the written plan is the playbook for owners' exits. Owners will use their written plans to coordinate their actions with those of their advisors, thus reducing delays and costs. The plan should include a timeline and provide accountability (i.e., who will do what, when) for all participants, including the owner. Without incremental, staged checkpoints, it's nearly impossible for owners to exit on their terms. You'll never finish a marathon if you don't have mile-by-mile goals to meet.

### **Element 10: Owner Education**

Owners need to understand the ins and outs of insider transfers because, unlike sales to third parties, they will control their businesses and the Exit Process until they've been paid in full. That education begins as you read this newsletter. We would love to teach you more about the ins and outs of insider transfers, and share our experience and proven success in addressing these elements with you. Please contact us today to begin addressing the elements of an insider sale or to learn about which strategies we can help you implement to assure that you exit your business on your terms.

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# INDUSTRY NEWS

## Auto Execs, Consumers Disagree Over Ownership of Vehicle Data

Connectivity, big data, autonomous vehicles and artificial intelligence are driving new economic models for automakers, and most see tremendous revenue potential and consumer value in leveraging driver and vehicle data, according to the *2017 KPMG Global Automotive Executive Study*.

KPMG's research – which polled nearly 1,000 executives with the world's leading automotive companies – found that 76% said one connected car generates more revenue streams than 10 conventional cars. In fact, expectations for data-driven revenue are so great that 71% said measuring OEM market share based on units sold is outdated.

"The game has changed for automakers, as cars have evolved into rolling computers. And, consumers have been quick to embrace autonomy, connectivity and mobility-on-demand," said Gary Silberg, KPMG's automotive sector leader. "A car is no longer defined by its utility, it is defined by the experience it provides to the driver and passenger. And, that opens a tremendous pipeline for new revenue streams and business services that KPMG projects could top \$1 trillion in the next decade or so."

Eighty percent of executives in the KPMG study stated that data will be the fuel for future business models, and 83 percent of the executives agree that a car needs its own ecosystem/operating system as, otherwise, the consumer or vehicles data will be most likely routed through third parties.

In conjunction with the executive survey, KPMG surveyed 2,400 consumers from 42 countries to compare their perspective against the opinion of the auto executives.

KPMG found that consumers agree. Sixty percent of consumers said that, as we move toward autonomous driving, they will only care about what they can do with the time they are in the car, rather than the attributes of the car.

Both executives and consumers agree that data security and privacy is the top purchasing criteria in the self-driving age. "You cannot overstate the importance of data security in the autonomous era," Silberg said. "The massive amount of data that is being collected presents a tremendous business opportunity for auto companies. Addressing information security concerns is a critical priority for automakers, and one they cannot afford to get wrong."

Executives and consumers don't see eye-to-eye regarding who should own that consumer and vehicle data. Auto execs are split between thinking OEMs (31%) and consumers (27%) should own the data, while consumers overwhelmingly believe only they should own it.

## Ford aims to disrupt its aftermarket competitors

By Jim Henry, Fixed Ops Journal

Ford Motor Co. is pursuing two fixed-operations initiatives designed to work together: a new brand of replacement parts for non-Ford and non-Lincoln vehicles, and a renewed effort to persuade its dealers to build Quick Lane service centers.

With the new Omnicraft brand, Ford wants to sell more parts at its dealerships and to independent repair shops and distributors. At first, independents will have to buy Omnicraft parts from franchised dealerships with wholesale parts operations. Eventually, though, Ford plans to sell parts directly to independents.

Ford started shipping Omnicraft parts last month, says Brett Wheatley, executive director of Ford's customer service division in North America. Aside from selling more parts, Ford expects Omnicraft to help the company make new-vehicle conquests, Wheatley told *Fixed Ops Journal*.

For dealers, Omnicraft is intended to be a more convenient and less expensive source of parts for other makes and models. Dealers say they already buy plenty of parts for competing makes, to recondition trade-ins and to service used vehicles.

But Ford and Lincoln dealers previously had to buy those parts from outside suppliers. Ordering parts from Ford Motor should be cheaper and more efficient, Wheatley says.

"We're delivering parts every day," he says. "That's really a big advantage for dealers. Instead of going down the street to some third party, who may or may not have the part you need, it's on your own shelf."

Alan Chan, owner of Babbitt Ford in Flagstaff, Ariz., agrees that Omnicraft offers an opportunity to Ford and Lincoln dealers. "It's a natural fit," Chan says.

Ford is launching Omnicraft with 1,500 commonly requested parts, such as oil filters, brake pads and rotors, struts, starters and alternators. Eventually, Ford says, it will make available as many as 10,000 parts.

"Our challenge is to begin to compete with the independent repair shops and the retail outlets," said Frederiek Toney, president of Global Ford Customer Service.

"We're going to be very competitive from a price standpoint," Toney said. "We have the distribution network to do it, so why not? Instead of everyone disrupting us, let's go disrupt them."

You can reach Jim Henry at [autonews@crain.com](mailto:autonews@crain.com)

## INSURANCE NEWS

### Five Questions about Long-Term Care

Provided by: John J. Bottega, Waddell & Reed

#### 1. What is long-term care?

Long-term care refers to the ongoing services and support needed by people who have chronic health conditions or disabilities. There are three levels of long-term care:

- Skilled care: Generally round-the-clock care that's given by professional health care providers such as nurses, therapists, or aides under a doctor's supervision.
- Intermediate care: Also provided by professional health care providers but on a less frequent basis than skilled care.
- Custodial care: Personal care that's often given by family caregivers, nurses' aides, or home health workers who provide assistance with what are called "activities of daily living" such as bathing, eating, and dressing.

Long-term care is not just provided in nursing homes--in fact, the most common type of long-term care is home-based care. Long-term care services may also be provided in a variety of other settings, such as assisted living facilities and adult day care centers.

#### 2. Why is it important to plan for long-term care?

No one expects to need long-term care, but it's important to plan for it nonetheless. Here are two important reasons why:

*The odds of needing long-term care are high:*

- Approximately 70% of people will need long-term care at some point during their lifetimes after reaching age 65\*.
- Approximately 8% of people between ages 40 and 50 will have a disability that may require long-term care services\*.

*The cost of long-term care can be expensive:*

For many, the cost of long-term care can be expensive, absorbing income and depleting savings.

Some of the average costs in the United States for long-term care\* include:

- \$6,235 per month, or \$74,820 per year for a semi-private room in a nursing home
- \$6,965 per month, or \$83,580 per year for a private room in a nursing home
- \$3,293 per month for a one-bedroom unit in an assisted living facility
- \$21 per hour for a home health aide

\*U.S. Department of Health and Human Services, December 1, 2016

#### 3. Doesn't Medicare pay for long-term care?

Many people mistakenly believe that Medicare, the federal health insurance program for older Americans, will pay for long-term care. But Medicare provides only limited coverage for long-term care services such as skilled nursing care or physical therapy. And although Medicare provides some home health care benefits, it doesn't cover custodial care, the type of care older individuals most often need.



# “Sailing into the Future”

## Automotive Aftermarket Association of the Carolinas & Tennessee

### 2017 BUSINESS CONFERENCE

### HILTON HEAD MARRIOTT RESORT & SPA

HILTON HEAD ISLAND, SOUTH CAROLINA

September 7-10, 2017



#### **Thursday, September 7, 2017**

7:00 p.m. - 9:00 p.m. -----Dinner for all Attendees at the Resort (Cash Bar)

#### **Friday, September 8, 2017**

8:00 a.m. – 5:00 p.m. -----Conference Registration

9:00 a.m. – 12:00 p.m. -----AAACT Board of Directors, Past Presidents and Past Directors Meeting

12:00 p.m. – 12:15 p.m. -----AAACT Conference Committee Meeting

6:00 p.m. – 7:00 p.m. -----AAACT "Welcome Reception"

7:00 p.m. -- Until -----Dinner on Your Own

#### **Saturday, September 9, 2017**

7:00 a.m. – 8:00 a.m. -----Breakfast

8:00 a.m. – 11:00 a.m. -----Conference Registration

8:15 a.m. – 9:00 a.m. -----"OSHA Compliance Awareness" -- Sherry Robertson, IGO Insurance Agency

9:00 a.m. – 9:15 a.m. -----Break

9:15 a.m. – 9:45 a.m. -----AAACT Annual Business Meeting and "AAACT Programs & Services Review"

9:45 a.m. - 10:00 a.m. -----Break

10:00 a.m. – 11:30 a.m. -----"Key Changes In the Aftermarket Now & Over the Next 10 Years"-- Philip Atkins, Automotive Aftermarket Suppliers Association (AASA)

6:30p.m. – 7:30 p.m. -----President's Reception

7:30 p.m. – 9:45 p.m. -----Banquet, Awards, and AAAC T Scholarship Live Auction

#### **Sunday, September 10, 2017**

8:00 a.m. -- 9:15 a.m. -----Breakfast and Inspirational Message

9:15 a.m. -----Conference Adjourns