Virginia Automotive Report

Virginia Automotive Association-

E Newsletter for October 2019





As you already know, effective July 1 the fee for what a shop can charge for a safety inspection increased to \$20. Of this amount, the shop keeps \$3.80 with the other \$.20 going to the State Police. As we stated in our March newsletter when we announced the increase, the \$.20 to the State Police was part of a compromise in order to get the bill passed in the Senate. We knew it would not make it through Senate Transportation without something going to the State Police. Senator Carrico, chairman of the committee was a strong supporter for the increase, but also recognized needs for the State Police. The amount was to be designated back to the Safety Division, and would help to expedite the process of getting an inspector certified.

Recently VAA President John Kline, VAA Legislatve Chairman Mike Fortune, and VAA Executive Director Steve Akridge sat down with Captain Ronnie Maxey and Lieutenant Matt Patterson, both with the State Police Safety Divison to get an update. While the \$.20 just took effect July 1, and thus the program has not yet generated much income to the department, they are moving forward. With this new income, they will hire 3 new Sergeants and 21 part time employees. These part time positions will mainly be filled by retired ex troopers from the Safety Division, who are familiar with the safety inspection program. There will be 3 in each of the 7 Divisions, with the flexibility to move them around in case some areas are busier than others. While these positions will not replace the assigned Trooper to each station, these new positions can supplement a station visit and they will assist with getting new inspectors certified, and any other needs from the station. They hope to have the new positions up and running by the end of the year.

This should also help to expedite the process of stations expanding, and the criteria needed to open a new station. We did address concerns from some members who have expanded, telling us this process is taking a very long time, in some cases up to 3 months.

Concerning background checks for existing owners who are expanding here was their response: "the corporate officers don't need to complete the criminal history request form, or undergo the usual background investigation. In these situations, our Department is only concerned with the personnel who will be responsible for handling and securing the inspection supplies. So, any new management would need to undergo the background, but the existing owner and any already certified inspectors at the additional location would be exempt. The building would have to meet specifications, required equipment would have to be on-site, and they would have to provide the proof of garage liability insurance for the location. The regulations that may be of particular interest to you would be 19VAC30-70-10 and 19VAC30-70-10.1. 19VAC30-70-10.1 paragraph A (1c) specifically addresses your question about additional locations".

Over the past few years, a frequent issue has been breakins at shops for the sole purpose of stealing inspection stickers and inserts. Stickers were being sold for up to \$100, and in most cases with the breakins, the thieves only took the stickers and inserts. This seemed to go in spurts, and was particularly prevalent in the Richmond area. Currently the breakins are very few, due in part to the changes made to the stickers which are now in color, and will change colors each year, and the inserts which are now accountable. The latest scheme is counterfit stickers being printed and sold. Some are good copies, but the texture is usually much thinner.

When we asked about inspectors' tests being open book, it was explained this was meant to make the inspector get familiar with the manual, and be able to find answers in the manual when on the job. As the manual is also being updated frequently, they want inspectors to be in the habit of referring back to the manual more often.

The Department will continue to upgrade their website and their technology with a effort to simplify everything from ordering, billing and payments. They are currently working on a marketing campaign, geared towards promoting the program and all of it's benefits to the citizens of the Commonwealth. They hope to have the campaign up in the first quarter of 2020. VAA is also updating the Inspection Brochure listed on our website to include more current statistics as of the end of 2018.

Lastly we asked if the Department had received complaints concerning the fee increase to \$20, and they indicated there had been very few. In polling VAA members, most are reporting no complaints at all from their customers.

OUR PARTNERS

The following Supplier Members have committed to our Partnership Program, and to support the good work of the VAA at the very highest finanacial levels. Each Partnership also includes Sponsorship and Exhibit booths at our annual Convention and Trade Expo. We are very grateful for this support, and will continue to recognize them in every Newsletter issue throughout the entire year, and exclusively on our website. We ask our Dealer members to show your thanks by giving them your business...support those who support us.

Platinum Level Partners

Advance Auto Parts / Autopart International American Tire Distributors Federated Insurance Napa Auto Parts NTW

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VAA Contacts:

Steve Akridge, Executive Director Email: sakridge@vaauto.org

Web: www.vaauto.org Phone: 804-739-1400

Accounting Office:

Roxanne Elliott, Bookkeeper Email: relliott@vaauto.org 8814 Fargo Road, Ste. 225 Richmond, VA 23229

Virginia Automotive Association

President's Corner By John Kline



Do you have THAT person?

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold timid souls who neither know victory nor defeat." ~ Theodore Roosevelt, April 23, 1910 – The Man in the Arena

While I am certain Teddy Roosevelt did not give this speech with the intent of it being used to reference an automotive business and the working within, there are still many motivators within! Do you have a person or a few people who you feel you can trust almost completely to "be in the arena" of your business with you? They are willing to tell you things you might not want to hear, but need to? They call you to swing back by the shop to congratulate a tech for reaching Master Tech status? They tell you where you are hemorrhaging money or where you might benefit investing a little? That person, those people who have the grease on their face with you.

As the owner of the business, you need the grip to oversee your business while also being able to have the freedom to step away to put your business out in your area. Whether you participate with Rotary, American Legion, Boy Scouts or your child(ren)'s school, making yourself available to the public is also putting yourself in the arena. Fortunately, I am able to say I do have this person! Old Dominion Tire opened its 1st door in Dec of 1985. Even before that day, my wife Barbara committed herself to helping me go after my dream of owning a successful tire business. Knowing I had someone I could trust with many aspects of the business, as I was out selling to and calling on customers, was irreplaceable. We have been in business just shy of 34 years now, and that trust and faith in her (and the trust and faith she has in me) is still my greatest business asset. Fortunately, the 2nd generation for Old Dominion Tire is also climbing in the arena unconditionally too! My challenge to you: evaluate your team. Do you have that person? Those people? If so, encourage them, let them know you appreciate them. No, do you have someone who could be? What would it take? Do you need to find someone new?

Remember, the VAA is here to help with developing the business relationships you need to have in the arena with you. The fellow business owners who do not mind helping you work through problems and love celebrating your joys!

Until Next Time, John Kline



Evolving Dealer Bay Parts & Labor Pricing

"A growing number of Dealers are offering alternatives to OE Brand parts with the intention of attracting older vehicles and a wider range of nameplates to their service bays."

"This all-makes, all-years bay strategy (which many Dealers are adopting) often involves Dealers not using OE parts when servicing selected vehicles. This enables Dealers to be more competitive with Independent (non-Dealer) service outlets in the rapidly expanding Do-It-For-Me (DIFM) market for older cars and light trucks."

Dealer Bays Broaden Their Vehicle Mix

Many Dealers are exploring the use of alternatives to OE Brand parts as a means of appealing to consumers with older vehicles (consumers who tend to be price sensitive) and to attract a broader mix of vehicle nameplates (in addition to those that Dealers sell new) to their service bays.

Non-OE Brands are also commonly used by Dealers to refurbish used vehicles, which are accounting for a growing share of Dealers profits.

Two Developments Affecting Dealer Bay Business

As a result of the plunge in new vehicle sales following the 2008 Great Recession, there was an abrupt reduction in vehicles 5 years and younger on U.S. roads (the primary vehicle age group Dealers were servicing in their bays). This reduction in the population of vehicles 5 years and younger continued through 2014, until new vehicle annual sales topped an average of 17 million between 2015 and 2018.

While there are exceptions, the quality of new vehicles is reducing warranty work, which has been a traditional mainstay of Dealer bay activity.

These two developments have made it necessary for Dealers to expand the range of vehicle ages and nameplates they attract to their bays.

Changing Market Mix

Dealers are using a variety of methods to satisfy changing consumer needs and to adapt to the increase of older vehicles.

The growing significance to many Dealers of used vehicles along with the addition of Quick Lube and Quick Service lanes by many Dealers have also expanded the variety of nameplates and vehicle age categories serviced by Dealers.

Three Parts Levels: Good, Better, Best

A growing number of Dealers are offering a Good, Better, Best parts selection for service bay work.

This enables Dealers to attract older cars and light trucks to their bays along with nameplates other than those they sell new.

OE Brands: Best Parts

OE products are the Best level of parts sold by Dealers. They are generally used to repair younger vehicles with the nameplates sold new by Dealers.

Article continued on Page 5



Lang Marketing Continued from Page 4

OE Supplier Brands: Better Parts

Many Dealers are using lower priced "Better" brands from OE Suppliers, which are generally available in the aftermarket. These parts are more price competitive (to aftermarket brands) but often are equal to OE quality. In some cases, OE Supplier brands are provided to Dealers by Independent distributors authorized by carmakers. Other times, Dealers buy them from aftermarket sources.

Aftermarket Brands: Good Parts

Some Dealers are using aftermarket sources for Good brand level parts: price competitive parts (for older vehicles) and parts for nameplates other than those that they sell new (all-makes, all-years strategy). These brands are often used by Dealers to recondition used vehicles.

Labor Rates

In addition to offering a variety of parts at different pricing and quality levels, some Dealers vary labor rates, according to the vehicle age category.

With average Dealer labor rates topping \$120 per hour, offering lower labor prices allows Dealers to be competitive with Independent repair outlets, particularly for work performed on older vehicles.

Competition for Independent Outlets

The Good, Better, Best parts mix that many Dealers offer in their bays coupled with labor rates that can vary by vehicle age are enabling Dealers to compete with Independent service outlets in the repair and maintenance of older vehicles across a wide range of nameplates.

DIFM Market Impact

Evolving Dealer strategies are having an impact in the Do-It-For-Me (DIFM) market.

Lang research shows that Dealers DIFM share has risen over the past four years, with Dealers recording one of the largest gains in repair parts and labor volume during 2019.

Six Major Takeaways

- Dealers are opening their bays to a wider range of vehicle age groups and nameplates.
- To attract a broader mix of vehicles (other than the nameplates they sell new) and to appeal to consumers with older vehicles, Dealers are offering a variety of parts as alternatives to OE Brands.
- Many Dealers are offering a Good, Better, Best parts selection for service bay use. These parts vary in price and quality, relative to OE Brands.
- OE Brands are the Best level parts used by Dealers, and Better parts are represented by OE Supplier brands. Good parts (generally aftermarket brands) are obtained by Dealers from a variety of sources.
- With average Dealer labor rates topping \$120 per hour, many Dealers are lowering their labor prices for work on older vehicles in order to be more competitive with Independent (non-Dealer) outlets.
- Evolving bay strategies of Dealers are having a DIFM impact, as Lang Marketing projects Dealers during 2019
 will record one of their largest gains in service bay parts and labor growth in many years.aintenance of older
 vehicles across a wide range of nameplates.

Lang Marketing, Jim Lang, Publisher

260-399-1699



Welcome New VAA Members

Please join us in welcoming the following Companies Who have joined VAA in 2019:

Expert Auto, Inc., Donald Cutlip, Bowling Green Referred by Andrea Ellett

Sandston Automotive, Kevin Driscoll, Sandston Referred by Don Schultz

Tread Connection, Mike Buerger, Alexandria Referred by Roy Littlefield

Modern Automotive, Chuck Swain, Christiansburg Referred by Palmer Sasscer

Bimmer Rescue, Patrick McHugh, Richmond Referred by Andrea Ellett

Quality Auto Parts, John Brubaker, Winchester Referred by Andy Reed

> MRM&P, Mark Turak, Cary, NC Referred by Clint Farrar

David's Automotive, David & Mary Mann, Mechanicsville, Referred by Jim Groves

Williamsburg Automotive, Steve McCue, Williamsburg Referred by Bryan Patterson

Help Us to Grow the VAA

The 2019 Session was one of our most productive ever as we helped to kill a few bad bills and helped to raise the Safety Inspection Fee. One thing the General Assembly has taught us over the years is we cannot be complacent. We do not know just yet what the 2020 Session will bring, but we do know we have to be ready. We will once again retain the services of our legislative counsel, The Keeney Group, to monitor the upcoming session. We need to grow our number of members to remain a strong voice for our industry. If you know of a shop in your area or a vendor you do business with that is not a member, invite them to join us and support the work we do. Go to:

www.vaauto.org and Click "Join VAA" Tab.

Support the Organization That Supports You

Save The Date

April 24-26, 2020
VAA 2020 Convention & Trade
Expo
The Omni Homestead, Hot
Springs, VA
More info coming soon at
www.vaauto.org



The Convention Committee has met and planned the complete Agenda for our 2020 show. Stay tuned for more details and our complete lineup of speakers.

Convention Registration and The Homestead Reservation info will be available soon.







DOL Issues Long Anticipated Final Rule – Overtime Regulations

On September 24, 2019, the Department of Labor (DOL) released the long anticipated final rule defining Overtime Exemption requirements, including guaranteed salary requirements, for the White Collar Exemptions- Executive, Administrative, Professional and Highly Compensated.

Key provisions of the final rule are as follows:

- 1) The new rule goes into effect January 1, 2020.
- 2) The new guaranteed salary requirement is a minimum of \$684.00 per week (\$35,568.00 annually). This salary requirement applies to the Executive, Administrative and Professional Exemptions.
- 3) For the Highly Compensated Exemption, the new salary requirement is \$107,432.00.

Of noted importance, and as it relates to the Executive, Administrative and Professional Exemptions (Highly Compensated excluded), is the ability for the employer to apply Non-Discretionary Bonuses and Incentive Payments (including a valid commission payment) to satisfy up to 10% of the guaranteed salary level requirement of \$35,568.00. Please note that Non-Discretionary Bonuses and Incentive Payments, such as commissions, must be well defined and meet the DOL's requirements under the regulation.

The DOL did not change any of the White Collar Exemption duties tests. Further, the DOL permits the compliant use of the Fluctuating Workweek Method of Payment which is a pay plan that may be recommended for select positions/cases by SESCO.

We recommend that you begin to review positions that may be impacted by the new salary threshold but not to make any pay plan changes at this time. The SESCO team is available to discuss pay plans with our clients and client associations.

For assistance, please contact us at 423-764-4127 or by email at sesco@sescomgt.com

Through our retainer with Sesco, VAA members get no cost phone consultation. Answers to your HR related questions are only a phone call away.

Note: Sesco President and CEO Bill Ford will be leading a Peer to Peer Roundtable discussion for Owners at our 2020 Convention on Saturday, April 25 at The Omni Homestead.



Sales Tax Audits of Shops Continue- are you in Compliance?

Due to recent Sales Tax audits in Virginia, we thought it might be helpful to give a refresher update to our members.

The list of Items— "Taxable or not" can be found on our website, www.vaauto.org for reference. Over the past few years, VAA has worked to keep our members educated as to whether or not an item is taxable or not. We did a newsletter feature written by Terry Westhafer of Central Tire in Verona, as he gave an account of his audit and what it entailed step by step. We then did extensive research with the Virginia Department of Taxation to determine rulings on items frequently used in a shop. This research helped to close up the "grey areas" of an audit, and give shop owners an answer to each item..... Is it taxable or not.

Shop Supplies has always been difficult to define. During the 2016 session VAA was involved with a bill to change how shop supplies are taxed, which passed. This put the burden of determining the details on the Department of Taxation. We were also very involved in this process and was able to give input to the Department on determining what is considered a shop supply and how the new regulations would apply. This was a big victory for every shop in Virginia as it put the burden of sales tax on the consumer by making the Shop Supplies line item on the invoice taxable, and not on the shop as it had been, when purchasing these items. Take the amount you spend on these items considered shop supplies, which include wheel weights, and multiply that number times your sales tax rate; that is what you are saving. The Tax Bulletin, which took effect July 1, 2017 and lists all items considered shop supplies, can also be found on our website.

One of the items on the list that is often targeted in an audit is **Diagnostic Charges**. While you might think of this as straight labor, which is exempt from sales tax, the Department of Taxation looks at this differently. Here is the ruling:

Diagnostic Charges <u>are not</u> taxable if no parts are installed on this invoice as a result of this test. So your customer comes in and you recommend running a diagnostic test to determine the issue. After the test is run, you recommend the needed repairs. The customer declines at this time and the only line item charge on the invoice is the Diagostic Charge, then this charge is not taxable.

Diagnostic Charges <u>are</u> taxable if a part is installed on this invoice as a resullt of this test. Same example as above except the customer agrees to your recommended repairs. The part and Diagnostice Charge are both taxable; the labor to install the part is not taxable.

The Department of Taxation treats this differently from other items such as a brake job where the brake parts are taxable and the labor is not. They treat similar examples for other industries the same. An example– you buy a new suit and there is a line item Alterations charge on the same invoice. Even though it is labor, it is related directly to the sale of a product (tangible property) and thus the charge to alter is taxable. You gain or lose some weight and take the same suit back a year later to be altered, the Alterations charge is not taxable as no tangible property is sold on that invoice.

Recently we learned of a shop who had been audited, and had not been taxing Diagnostic Charges at any time. The majority of the back taxes, penalty and interest from his audit was tied to this one item.

While you may not agree with this interpretation, this is how it will be treated if you are audited, and it will most likely mean you have to have this item listed twice with your computer system- one taxable and one not.

If you are unsure of any items on this list, consult with your tax professional to be certain you are correctly accounting for sales tax on items you sell at your shop.





Fire Prevention Not a Once-a-Year Responsibility

How often do you think about fire prevention? Weekly? Monthly? Yearly? On the off chance you come across an article on the subject?

Unless your answer to that question is "daily," you have some work to do.

That might sound dramatic, but the U.S. Fire Administration received more than 100,000 reports of non-residential building fires each year from 2014–20161. In those incidents, about 90 deaths, 1,350 injuries, and \$2.4 billion in property damage costs were reported. That last figure is about 20 percent of the total dollar loss from all fires.

Some fires have common causes — cooking, faulty electrical wiring, or smoking, for example. But others come from less obvious sources. Here are just a few:

Dust and debris piles near heat sources or electrical outlets Dily rags stored in the open or in a container that isn't sealed Deverheated electrical equipment or appliances

While you should review your overall fire safety plan a couple times a year, you should constantly be on the lookout for fire risks. This sounds like a big task, but if you integrate it into your business's everyday procedures, the time commitment will be minimal. Update your cleaning checklists to include inspection of any new potential hazards you've identified. You and your employees will barely notice a change in routine, but your fire risk management strategy will be much more effective.

Also, remind your employees and managers to constantly be on the lookout for anything unusual. Are there any strange noises coming from machines? Any flickering lights? Do vehicles appear to be operating properly?

While it's true that no matter how diligent you are, a fire is still possible. But if you take proper steps and keep fire prevention at the top of your priority list, you have a better chance of avoiding a catastrophe. Fire Prevention Week runs from October 6–12. It's a great opportunity to remind yourself and your employees of the importance of fire prevention, but it shouldn't be the only time of year you think about it.

1FEMA Topical Fire Report Series: Nonresidential Building Fires (2014-2016), July 2018, https://www.usfa.fema.gov/downloads/pdf/statistics/nonres_bldg_fire_estimates.pdf. Accessed August 2019.

This article is for general information and risk prevention only and should not be considered legal or other expert advice. The recommendations herein may help reduce, but are not guaranteed to eliminate, any or all risk of loss. The information herein may be subject to, and is not a substitute for, any laws or regulations that may apply. Qualified counsel should be sought with questions specific to your circumstances. © 2019 Federated Mutual Insurance Company.

To Find the Nearest Federated Marketing Rep, call Joe Merritt at 804-346-4678 or Email: jwmerritt@fedins.com



Around the Commonwealth

For VAA Dealer and Supplier Members. If you have news about your company–opening a new location, a significant anniversary or announcement, a major remodel, a special event or community recognition. email Steve Akridge at sakridge@vaauto.org., to put your story in the next Virginia Automotive Report.

PAPCO/World Fuel Services Event at the Richmond Raceway

On September 27, Papco/World Fuel Services hosted a lunch meeting complete with a ride and drive at the Richmond Raceway. Bryan Patterson of Papco/World Fuel discussed new programs and Steve Akridge gave a VAA update. Their customers were then treated to laps around the track in real Nascar fashion.





Auto is ready to ride





Bryan Patterson

Winding Brook Tire Pros Opens 2nd Location

Winding Brook Tire Pros in Milford (Caroline County) has opened a second location in Ladysmith. Led by Anthony Greci and his two sisters, Andrea Ellett and Alison Buckingham, the new location is better suited to serve their customers on the western side of the county. The new location will focus on tires, brakes, oil changes and tune up services while the Milford location does complete auto and tire service. A grand opening was held October 5.



L-R: Matt Maloney, Andrea Ellett, Alison Buckingham, Anthony Greci

VAA Members 301 Auto and Titan Auto Take Top Spots in The Best Contest

The Richmond Times-Dispatch "Best of The Best" contest recently announced the 2019 winners at it's annual gala banquet. In the Auto Repair category 301 Auto Repair Tire Pros in Mechanicsville took the top spot with Titan Auto and & Tire with locations in Colonial Heights and Moseley, finishing runner up. A big congratulations to Mike Lippa, Andrea Lippa-Martin, Joey Lippa and the staff at 301 Auto, who finished runner up in 2018. And also congrats to Butch and Kim Taylor and their staff at Titan for finishing second. Past winners include VAA member CarTech Tire & Auto, Kyle and Melody Reynolds who finished first in 2018.

Virginia Tire & Auto Changes Leadership Structure

Virginia Tire & Auto has announced changes to its leadership structure, including the creation of a Chief Operating Officer position. Moving forward, current CEO, Mike Holmes, and President, Julie Holmes, will act as Co-CEOs. The husband-and-wife team have been at Virginia Tire & Auto for 12 and 9 years, respectively, carrying on the legacy started by Julie's parents, Myron and Carole, who founded the company in 1976. Ben Wilson, previously a General Manager, has been promoted to the position of COO. "Ben's promotion recognizes the enormous contributions he has made to Virginia Tire & Auto over the past few years and reflects the work he has already been performing by leading major company initiatives," Mike Holmes says. "I'm grateful for the opportunities I've had with Virginia Tire & Auto thus far," Wilson says, "and I am excited to use my experience to lead business operations during such an important time for our company."



Mike & Julie Holme

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