

# 10 Huge Financial Missteps Automotive Shop Owners Wish They Saw Sooner

And What You Can Do To Fix Them Today!



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Hey there Automotive Shop Owner!

When is the last time you felt unsure of a business decision you had to make?

Are you afraid that you might be making serious missteps when it comes to running your Automotive Body/Repair and Maintenance Shop?

As an automotive shop owner, you must make hundreds of decisions every day about finances, accounting, taxes, payroll, banking, and not to mention running your shop.

And it can be hard to know if you are doing the right thing and making a good decision.

Every week I talk to franchise owners of multiple shops, single automotive shop owners, and mom and pop shops all over the US who are excellent at what they do but struggle with the business side of things.

If that sounds like you, it's not your fault. As a business owner, you've spent over 10,000 hours honing your craft and learning how to provide excellent customer care...

But you have probably received very little education and training on how to start and maintain a profitable business.

In fact, I have discovered that there are 10 financial missteps that over 90% of automotive shop owners make when running their businesses.

The worst part is, only one or two of these simple missteps can leave you working harder than you must and pocketing much less profit than you should.

But do not worry - all these missteps can be fixed with the right help, saving you thousands of dollars and dozens of precious hours.

So, let us go over each of the 10 huge financial missteps automotive shop owners make and what you can do to fix them today.

# 1. Not Understanding the Difference Between Profits and Cash Flow

One of the most important things you must understand when running a business is the difference between profits and cash flow. Every automotive shop owner starts their business with the goal of turning a profit. But what they do not realize is that cash flow is actually more important.

Imagine this hypothetical. You meet with your accountant at the end of the year to review your tax return, and they report that your business turned a substantial profit. While this is good news, you can't help but be surprised. Why? Because there's no cash in the bank and you have no idea how you're going to pay the income taxes on the profit.

This happens more often than you think. A lot of automotive shops turn a profit in their business while being cash flow negative, and others have lots of cash flow but no profit to show for it.





This is because automotive shops can have positive cash flow while having no profit if the cash comes from sources other than income, such as when an owner puts in their own money or if they take out a loan. These types of transactions are not income but rather liability or equity transactions that appear on the balance sheet.

On the other hand, automotive shops can have negative cash flow while having a large profit if the owners take cash out of the business to pay personal expenses or use it to make investments or loans to others. These types of transactions where cash is taken out of the business are also reported on the balance sheet, not the profit and loss statement.

As an automotive shop owner, you must understand this critical difference between profits and cash flow if you want to leverage your business to create lasting wealth.

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## 2. Failing to Maximize Retirement Contributions Early

Being self-employed gives you a certain measure of freedom, but it doesn't give you an excuse to skip out on saving for retirement. In fact, it makes putting money away that much more crucial, because unlike an employee who might have access to an employer-sponsored 401(k), you are on your own.

The biggest misstep automotive shop owners make when it comes to planning for retirement is not understanding the value of time. To effectively build lasting wealth, you need to harness the power of compound interest and put it to work for you. Warren Buffett, billionaire investor and business magnate, once said "My wealth has come from a combination of living in America, some lucky genes, and compound interest."

Consider this scenario. Let's say that I have \$100,000 invested today, and each year, I add \$25,000 to it. I expect a return of 8% per year. In 25 years, I'll have \$2.6 million. In 30 years, I'll have over \$4 million, even though I've added only \$125,000 over the additional 5-year period.



As you can see, it is important to begin saving early, and it's also important to live below your means, because the more you save and invest, the more compound interest will be able to work for you. Always be sure to max out contributions to tax-advantaged retirement plans, such as 401(k)s and IRAs, before investing excess savings in a brokerage account.

I also recommend automating your savings and investing plan. Decide on the amount you want to put towards savings each month and have that debited into a savings account. You can then invest the money in that savings account into your retirement plans and brokerage accounts.

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### 3. Not Managing Inventory Properly

The average automotive shop has \$20,000 to \$50,000 in inventory at any given time. This includes parts that can be quantified, tires, and unquantifiable shop supplies that are used for repairs.

At the end of a period an inventory count should be completed, and each count of each part should match up to what is in the system. If it does not, it creates what we call an inventory adjustment. Typically, an acceptable inventory adjustment is 2% or less of sales. This could mean several different things. If the part categories are each 2% one way or the other, it is acceptable, but if there are wide swings in each category, then we have issues and the potential for a bigger adjustment the next period.

Thousands of tax dollars could be sent to Uncle Sam if the inventory is not accounted for properly in an electronic sales system. If inventory is not counted or only counted once in a blue moon, and not periodically counted on a monthly or quarterly basis, not only are tax dollars being lost, but cash-flow is affected, and wrong decisions are being made.

I typically hear crickets every time I talk to small business automotive shop owners and I ask about the inventory situation. It is nothing to be ashamed of. However, it is one of the least paid attention to areas of automotive businesses. If you manage your inventory properly, you will be able to keep your gross profit accurate and your cash flow will improve.



## 4. Waiting Too Long to Expand or Purchase a Second or Third Shop

Many of the automotive shops owners I talk to everyday feel that expanding or purchasing a second practice is out of their reach. Several factors could play into this mindset.

Some feel that they're not creditworthy enough to obtain a business loan, due to their existing debt from other loans. Others might feel that they do not yet have all the business experience and financial knowledge needed to make such a sizable investment.

The truth is, there is never a "good" time to start or buy a new shop. There will always be other things going on in your life that will make the transition difficult, and you will never feel fully prepared to make the leap on your own.

To have the best chance of success, you need to work with an expert who has successfully guided dozens of automotive shop owners through the process of growing their business by expanding their existing business, acquiring other shops, or starting new shops of their own.

There are several critical steps you need to do to prepare to grow. You should work with your tax advisor and bookkeeper to make sure you have a clean set of books that will meet a lender's requirement so you won't have any trouble getting a bank loan.

You will also need to plan your tax strategy for this move in advance, because you won't be able to do anything about it in retrospect. But with a solid plan and the guidance, you can do it.





## 5. Not Separating Personal Finances from Business Finances

As an automotive shop owner, it's crucial to remember that your company is an independent entity that is separate and free-standing from you and your personal finances. Although it may seem apparent, there are many important reasons why you need to separate your personal and business finances.

You have likely invested time and money to incorporate your business as an LLC, partnership, S-corp, or C-corp. One of the reasons you probably made the decision to do so is for the legal protections that establishing a distinct, separate business entity affords you as a business owner. But in some cases, combining your personal and business funds can make you personally responsible for business liabilities.

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Combining of funds also makes accounting and tax preparation less accurate because there is always the risk that important business deductions can be missed. It can also cause you to incorrectly deduct personal expenses that won't be deductible or sustainable in an audit. This can result in severe fines and penalties from the IRS and state tax authorities.

Another reason why you want to keep your personal and business finances separate is because when they become intertwined, there is no way for you to determine how much money you, as the business owner, can afford to keep for yourself. This may lead you to make poor decisions based on a distorted perception of how your business is performing.

You want to establish a financial firewall between you and your business so you can make accurate decisions, protect your personal assets, and minimize taxes and risk when it comes time to file your tax returns.

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## 6. Failing to Track Your Investment Return on Marketing Campaigns

Automotive Shops growth can't be left to chance. According to [ratchetandwrench.com](http://ratchetandwrench.com), the average automotive shop experiences approximately a 20-25% erosion of their active customer base each year as customers relocate, die, and so on. In a healthy, growing business, the business will replace these customers with new customers per month. However, with technology and better tracking systems the attrition rates have been found to be 20% higher. You must stay on top of this number and the reasons behind this number.

This means that you need to be constantly marketing so you can get your name and business in front of potential customers. But too often we see automotive shop owners waste thousands of dollars on "hope" marketing with dubious results that are impossible to track.

Here in our firm we find that a lot of our automotive clients who are spending money on advertising and marketing are actually losing money. They put their blind trust in marketing agencies, but they don't really understand how to track the ROI(Return on Investment) on their ad costs. And that means that it's easy to burn through marketing dollars without getting any new customers or revenue.

That's why we've developed a simple, proven system to help our clients understand their marketing expenses and see which ads and promotions are driving shop growth. This allows you to double down on what's working and cut out all the waste.

It's also important to have processes in place to nurture your relationships with your current customer. Customer retention is one of the most important drivers of overall financial success due to the fact that it's 10x more expensive to acquire a new customer than to retain an existing one.

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## 7. Not Using a Specialized Automotive Sales Accounting System

You're an expert when it comes to keeping your customer's cars and trucks working and running in tip top condition, but you also have to make sure that your shop is financially healthy. One of the biggest financial missteps automotive shop owners make is not having a specialized automotive sales accounting system that gives you the data you need to make proactive decisions.

You also need an accounting system that is either fused with your sales system or is totally separate. The chart of accounts is the backbone of any accounting system. It is the list of accounts an organization can use to track revenues and expenses. Automotive Shops need industry-specific accounts to track certain revenue and expense items that aren't relevant to other businesses.





To understand your shop's financial health, you need a chart of accounts that is customized to your shop's unique operations. This will allow you to create budgets and run reports to analyze your shop's revenues and expenses.

You can then use that data to compare your numbers to industry benchmarks so you can see how your practice is performing compared to other automotive shops. These insights will enable you to make your business more efficient so you can make more money without working harder.

Setting up a specialized automotive accounting system and chart of accounts will give you the insight you need to grow your practice and streamline operations.



## 8. Not Having a Budget for Your Business or Personal Expenses

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It's not enough to have your automotive shop's finances in order. You also should have well-defined personal goals and make a budget that enables you to achieve them.

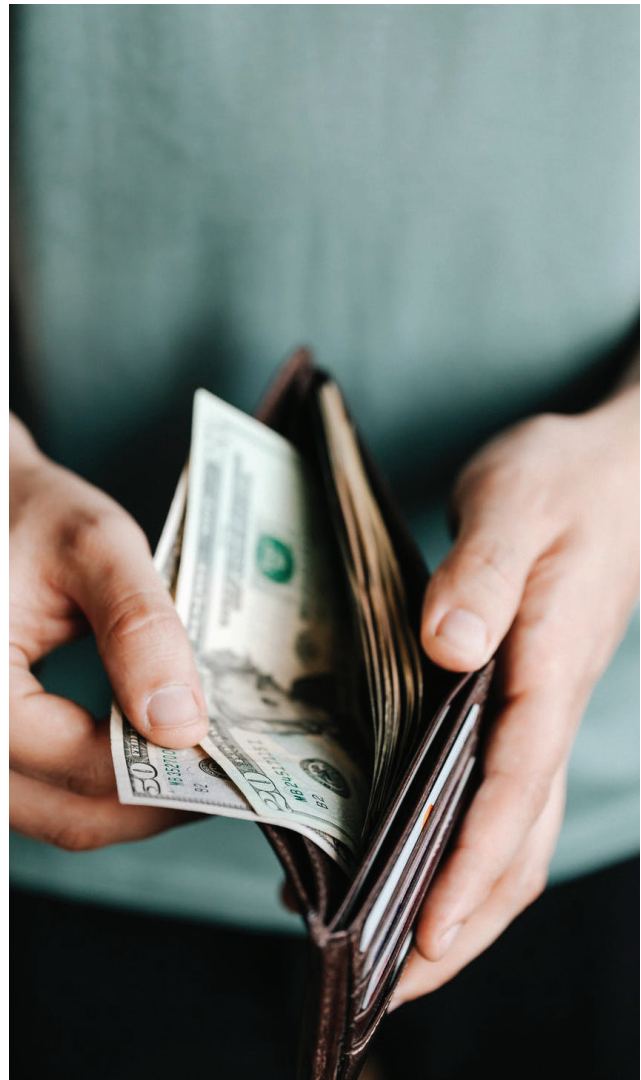
Too often, I've seen automotive shop owners, young and old, who believe that they do not need such a plan because they have a highly profitable business. They think that they can spend more than they can actually afford because the business's numbers look good.

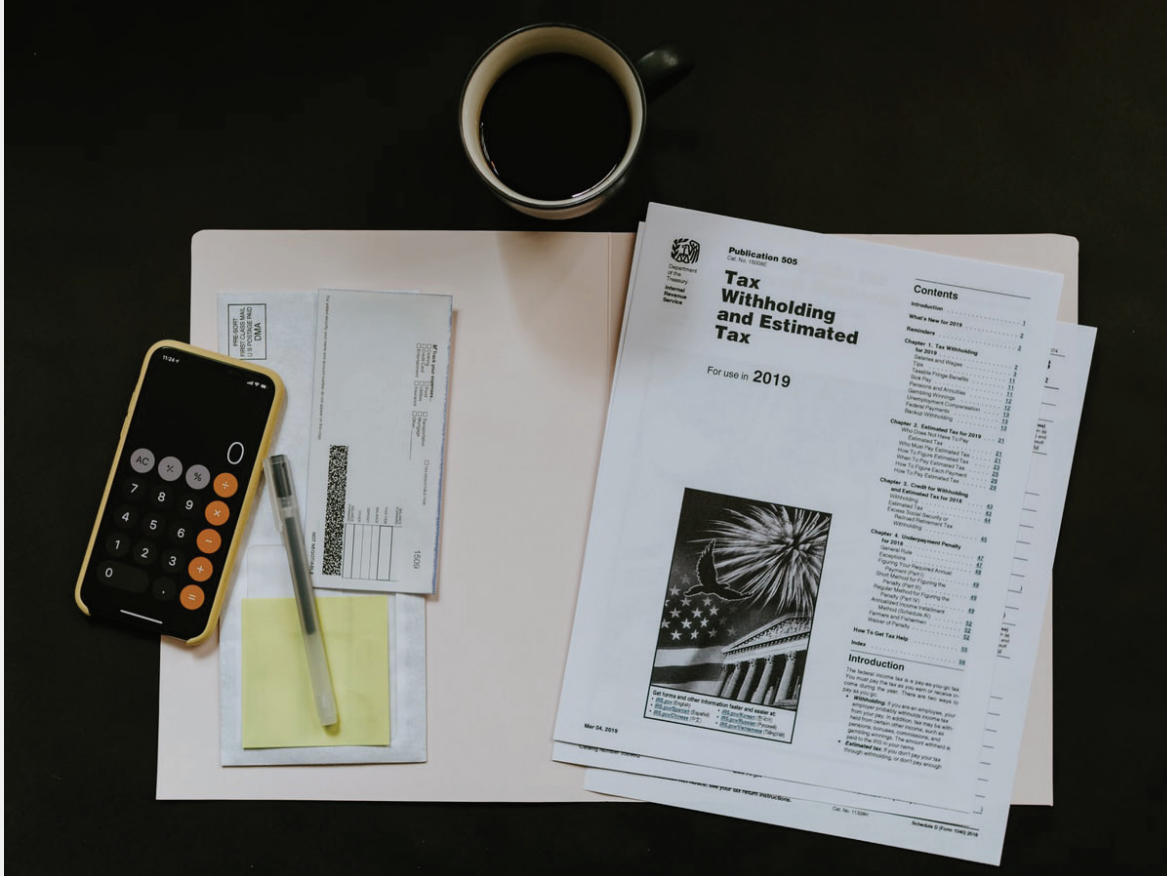
But the goal of owning and operating an automotive shop is not to have a high disposable income. The goal is to build lasting wealth that will benefit your family for many years to come.

It's simply not enough to rely on your business's financial statements when trying to plan how much you can spend on your personal expenses. You need to have a separate personal budget that tracks all your sources of income and each of your fixed expenses.

Automotive Shop Owners without a personal budget always spend too much and save too little. They miss important opportunities for wealth creation, such as investing in the efficiency of their practice or expanding to additional locations in favorable markets.

In addition to this, we apply the same concept to the business's financials. Without a budget, expenses can go up, no one will notice, the profit goes down, and then everyone is left wondering why. It could be one thing or a combination of things.





## 9. Being Late on Quarterly Estimated Tax Payments

As an automotive shop owner, making quarterly estimated tax payments towards your federal income tax liability is one of the many compliance obligations you have to the federal government.

When you own a business, you cannot just wait to pay your taxes at the end of the year. The IRS says that taxes are due regularly over the course of the year as you earn income.

If you have a source of income that isn't subject to withholding - such as dividends or profit distributions from your business that you don't pay yourself on a W-2 - you have to pay estimated taxes on that income instead. Estimated taxes are payments you make throughout the year based on what you estimate you will owe for the tax year.

Paying estimated taxes is one way to make sure you're giving the IRS enough money during the year to avoid owing a lump sum at filing time, and it also prevents you from incurring steep penalties for underpaying your taxes throughout the year.



## 10. Not Working with an Experienced Automotive CFO and Tax Strategist

As you've learned from going over the last 9 missteps, there are a lot of problems that automotive shop owners can run into while running and growing their businesses.

To avoid these deadly missteps and make good decisions that will enable you to leverage your business to create lasting wealth, you need to work with an accounting and tax expert who understands the automotive industry and can guide you through every stage of the automotive shop ownership cycle.

The sad truth is, many of the automotive shop owners I talk with don't have the tools they need to assess the profitability and overall financial health of their business. In fact, a lot of them are used to being behind on their financial statements and having to get "caught up" in time for tax season.



But by tax time, it's simply too late to take the steps necessary to minimize your tax liability. Tax planning needs to be a proactive process that considers the entirety of your financial situation.

Most CPAs can prepare an accurate tax return, but very few are well-versed in the unique challenges automotive businesses face. You need industry-specific advice and strategies to keep more of your hard-earned money in your pocket.

You also need a real-time, cloud-based accounting system that is customized for your business. You can then use this data to analyze which services are most profitable so you can focus on them and also to reduce your payroll, overhead, and marketing expenses.

How would you like to increase your automotive shop's profits & cash flow while minimizing taxes and risk?

If you have read this book and discovered that you might be making one of these 10 costly missteps in your business, and you feel that your missteps are too far gone, guess what.

There's hope for you too. This is what we do. We care about automotive shop owners and the automotive industry community. I'm here to help you overcome your missteps and plan a better future for your business.

I'd love to give you 45 minutes of my time for free where we can deep dive into your current business structure, tax strategy, and accounting system to make sure your business isn't leaking your hard-earned money.

You can book your free Strategy Session with me here:

<http://go.autogarage.tax/calendar>

There's no obligation whatsoever. I won't hold anything back. At the end of our call, you'll have a clear plan for what you need to do to turn your shop into a wealth-generating machine.

I look forward to hearing from you soon.

Eric G. Allred, E.A.



## About The Author

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Hi there! My name is Eric Allred, and I'm an automotive CFO and tax strategist who helps self-employed automotive shop owners and franchise owners leverage their businesses to create lasting wealth.

If you feel like you might be paying too much in taxes, or if you feel like you're working too hard for not enough money...I might be able to save you tens of thousands of dollars and dozens of hours of your precious time in just one 45-minute phone call.

On this call, we will review your current business structure, tax strategy, and accounting system to make sure that your automotive shop is operating efficiently and that you're not wasting any of your hard-earned money.



This Strategy Session is complimentary, and there's no obligation whatsoever. I won't hold anything back. When we're done talking about your business and your goals, you'll have total clarity and peace of mind about where you're at and where you're going.

If you want my help implementing the plan we design on the call, then I'll be happy to talk with you about working together, but you absolutely don't have to become my client to get massive value out of our conversation...

As an additional bonus, I am a licensed Enrolled Agent. I am licensed by the Department of the Treasury and I am authorized to represent taxpayers and fight for them before the Internal Revenue Service. So, if you have additional tax issues and problems in that realm, I can get those fixed for you.

If you want to take control of your financial future and keep more of your hard-earned money, book a free 45-minute strategy session with me here:

<http://www.ericallred.com>

I look forward to talking with you and helping you get clarity on how to create lasting wealth for you and your family.