



# values

**Values** is an informational newsletter for attorneys who assist clients in answering valuation questions and claims adjusters who work to pay the proper amount of a claim.

*By analyzing sales trends, we can often identify outside factors, like changes in consumer tastes that could affect a business' insurance claim.*

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## Navigating the Maze with Experience



The Hampton Court Palace Hedge Maze covers a third of an acre of riverside gardens just outside of London along the Thames River.

It is literally a walking maze created with walls of hedge-bushes. Its fame comes from the fact that it was originally planted in the late 1600s in honor of King William III, making it the oldest hedge maze in the world. As a popular tourist stop, the maze's half-mile of pathways befuddle inexperienced visitors. However, those who have been through the maze before know how to quickly navigate it and avoid the dead ends to find their way to the end point in the middle quickly.

*So, what does this have to do with calculating actual economic loss?* Well, in many cases, calculating business loss requires you to wander through endless piles of information, trying to sort useful information from dead ends. However, with experience, you learn tricks and insights that can give you a quicker, more direct route to the final destination. In a nutshell, experience pays.

For example, we have a lot of experience working with claims related to auto dealerships. Auto dealership claims can be much more complex than the average "main street" business. You have potentially huge inventory dollar values. Complicated looking factory formatted financial statements. Factory-financed expenses. Sales draws, commissions and bonuses based on performance.

Factory-to-dealer sales incentives. And, on top of all that, you have subjective trends, consumer brand preferences, market and seasonal timing and factory rebate programs that can play a big role.

### Knowing Where to Start

Gathering information is never a problem with auto dealership losses. The problem is that you can easily get overwhelmed with more information than you'll ever need. Auto manufacturers and financing companies have sophisticated business management software and systems that feed you more reports with more detail than you could ever possibly need.

Knowing what information is available and where to find it is the most important part of handling a loss for an auto dealership. Having handled dozens of these types of losses, it's easy for us to know exactly where to find the information we need – and how to quickly sort it out from everything else. This experience alone can often pay huge dividends in calculating claim losses.

### Digging Into Data

If finding information is the easy part, determining how to use the information is the hard part. Did the damage to the dealership require a total shut down – or were some operations able to remain open? If the showroom and new car lot were closed, but the service center was able to remain open because it was housed separately, that business income was still available to the dealership – thus, possibly not part of the loss.

*An experienced forensic accounting firm will have broad experience working with a variety of different kinds of niche companies. That experience can be invaluable in determining actual economic loss in a complex business insurance claim.*

Salespeople at dealerships are often compensated on draws/commissions –with bonuses paid at month-end based on sales performance. Depending on the exact compensation structure, compensation for these workers could be considered a direct or indirect cost due to the loss – and could be treated differently under a loss based on the exact structure.

Determining when a dealership actually incurred an expense is important. Even short suspensions in business for an auto dealership can lead to large business loss claims. However, policy limits on business income and monthly limits on indemnity can be lower than the claimed losses. Sometimes, that can result in “shifted expenses” where an unscrupulous dealer may try to show expenses that did not actually occur during the period of coverage.

#### **Determining Actual Loss**

Even after you’ve been able to sort through the data and determine the potential loss, there are other subjective factors that can still weigh heavily on a loss involving an auto dealership.

Competitive forces can quickly change sales forecasts. A manufacturer that promotes a low-interest financing plan can draw customers away from a competing dealership. The time of the year also affects auto sales at dealerships – as activity can ebb and flow as new models are released.

Trends in consumer taste can also have a big impact. A year ago, when gas prices were a dollar higher than they are today, gas-guzzling SUVs were difficult to sell, while new, flexible-fuel hybrids were gaining momentum. Dealers who maintained a high-inventory of SUVs were likely not selling at the same rate they were the year earlier. By analyzing sales trends, we can often identify outside factors that could affect an auto dealer’s insurance claim.

#### **Experience Matters**

*Think that’s complicated?* Now imagine working with a manufacturing company loss. They often face even more complex issues – like calculating the proper amount of manufacturing overhead absorbed into the cost of the products manufactured. If you’re not working with someone who has experience with those kinds of analysis, you’re entering a whole new maze.

With decades of experience, Cremers, Holtzbauer & Nearmyer can make it easier to help you determine the actual economic loss in a business loss. In fact, because we’ve handled losses ranging from hurricane damage to fraud investigations and fires to damages caused by blizzards, you’d have a hard time finding a forensic accounting firm with more experience than CH&N.

**Give us a shot at your next challenge.**

#### **Can We Help You?**

Dale Cremers, Bob Holtzbauer & Roger Nearmyer have experience to help you address questions about forensic accounting. Please call for more information at 515-274-4804 or e-mail us at [info@chncpa.com](mailto:info@chncpa.com).

