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Hitting the brakes on demos



Please route to:

- Dealer principal
- General manager
- F&I manager
- Sales manager
- Service manager
- Office manager

Hitting the brakes on demos for salespeople

Imagine how much a dealership would suffer if a salesperson, driving while intoxicated, collided with another car killing an entire family. It could be difficult for a dealership to recover from such an incident. The negative publicity could destroy the business, not to mention the devastating financial impact of punitive damages that can result from this type of loss. (Punitive damages are not insurable in some states)

Yet salespeople do drive demos. The risk has become so prevalent that the IRS has vowed to crack down on dealer demonstrator vehicles. Could you survive an IRS audit of demo use in your dealership?

Consider alternatives

Dealerships across the country have found that providing demos is not essential to hiring and retaining good employees. There are options that can be beneficial to everyone. A car allowance, attractive lease agreement or increased incentive program can keep the employees happy while at the same time making them responsible for insuring their own vehicle. In risk management terms, this is referred to as "risk transfer." Responsibility for insuring the vehicles is "transferred" to the employee, where it should be.

Understanding the total cost of demo vehicles

Providing demo vehicles involves costs beyond the vehicle itself. Dealerships should consider factors including:

- Vehicle depreciation
- Fuel costs
- Maintenance expense
- Registration and license fees
- Insurance costs
- Potential deductibles following a loss
- Administration requirements related to vehicle use

Evaluate these factors to help determine whether demo vehicles align with the dealership's overall business and risk management objectives.

Safeguards if continuing to offer demos

If the dealership chooses to furnish demo vehicles, consider implementing controls to help manage the associated risk:

- Drivers assigned a demo vehicle should undergo periodic MVR reviews to verify continued eligibility and identify new violations, suspensions or driving concerns.
- Written policies should clearly define authorized drivers and prohibit use by unauthorized drivers.
- The demo should not be furnished to a customer awaiting delivery of a replacement vehicle.
- Only the employee whom you furnished the demo is allowed to drive — no family members, friends, etc.
- In addition, establish procedures for the prompt recovery of the demo vehicle when employment ends or eligibility requirements are no longer met.

Overall premiums may be reduced over time due to the reduction of the demo exposure. Without the exposure of sales staff in demos during non-business hours, your dealership has reduced the potential for auto liability and collision losses which could improve your overall loss experience. This should be considered a win-win for everyone.



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