

CAR DEALER

Profit Making Secrets for the Competitive Dealer

INSIDER

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Hyundai and DCX loosen ties

Daimler Chrysler claims it has an “Asian strategy” but no can figure out what it is.

They’ve pulled out of a deal with Mitsubishi, approved a joint venture to manufacture Mercedes-Benz in China, and “diluted” ties to Hyundai in preparation to sell its 10% stake in the manufacturer.

“It appears DCX is reversing its strategy. And that might signal a change in upper management,” commented Jack Fitzgerald of Fitzgerald Auto Mall in Rockville, Md., voicing the hopes of many who’d like to see a change in Daimler Chrysler leadership.

Few think the latest news will have a negative effect on Hyundai retailing.

“As far as I could see, Daimler Chrysler’s had very little influence with Hyundai – positive or negative,” says Steve Bierwirth of Palmer Dodge Hyundai West in

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Profit pressure rises with sales

Sales were up in 2003, but profits were down, according the annual NADA Data report on new car and truck dealers. It looks like sale volumes will continue to rise, but rising interest rates puts pressure on the bottom line. In the year ahead, used car sales and service revenue are going to be important profit generators.

Profit drivers for 2004

Return to jobs. Economic growth is important, but car sales are tied to jobs, not GDP, says Paul Taylor, chief economist at NADA. Many employers have been cautious about calling employees back to work, but that’s changed in the past few months.

Used cars are where it’s at. “Used car sales have been disproportionately affected by the economic downturn,” says Taylor. With an employment upswing, traditional used car buyers are returning to work. And those who remained employed are feeling more confident about their financial security. Average grosses for used cars rose 1.5% from \$1,530 in 2002 to \$1,553 in 2003 – and the increase could be 2% by the end of 2004 as vehicle depreciation slows and buying increases.

Gains in service. Dealers will remain competitive in the service market by capturing service contracts beyond warranties, increasing CPO vehicle sales and establishing dedicated service facilities. Another key differentiator is allowing customers to schedule service online. NADA estimates that 72% of dealers have this functionality. Increased consumer confidence also means they will schedule service more promptly.

Greater productivity of front-end staff. NADA anticipates that 16.8 million units sold in 2004, but without a significant increase in dealership personnel.

What to watch

Ad spend. More dealers are running spot TV ads. But in an election year, ad rates are on the rise – and not going down anytime before November. Consider reviewing your last six months’ advertising expenditure to see where you’re getting the best return.

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Profit pressure rises with sales
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Gas prices. So far the spike in gas prices hasn’t significantly affected consumer choice, says Taylor. But if prices remain consistently high for 18-24 months, then you’ll start to see some differences.

A look at last year’s performance – NADA’s results

The average dealership reported 2003 total sales of \$32.3 million dollars – a 3% increase from 2002 results. The bad news is that dollar profits are down 8% from the previous year to \$564,000.

New vehicle sales profits contributed a solid 27% to total operating profits in 2003 and total net profit was down slightly from 2002.

Used-car profits rose significantly in 2003 from \$87,120 to \$144,190 – and made up 27% of the average store’s total operating profits.

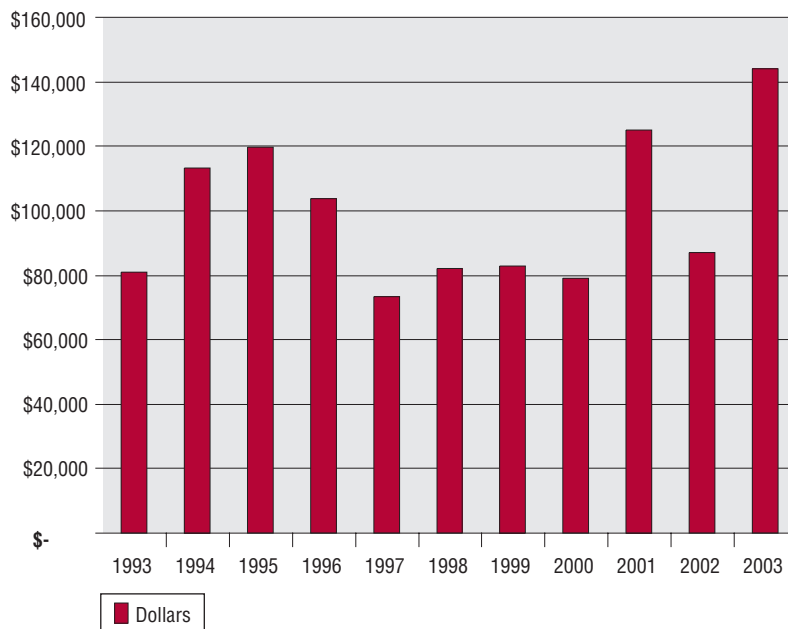
Total service and parts profits increased slightly in 2003, from \$236,292 to \$250,874, as margins improved and costs held steady. Service and parts department profits accounted for 46% of total dealership operating profits.

Hyundai and DCX (Cont. from page 1)

Indianapolis, Ind. “Hyundai is growing and we’re planning to grow with it.”

Continued factory support from Hyundai is what dealers should watch, says Rex Collins, an acquisitions consultant at K.B. Parrish in Indianapolis, Ind., specifically tier-one advertising and competitive incentive pricing.

Used-Vehicle profits see surge in 2003



Dealers need to catch the subprime wave

If you're looking to build your used-car business, one of the fastest growing markets is subprime. Audubon Ford of Baton Rouge, Louisiana decided in January of this year to capture new customers and made a few key changes to get a share of the subprime market. Their efforts won them their "20 Group Best Idea" competition last month.

1. Dedicate a manager to focus on subprime business. Audubon's subprime manager, Phillip Rodeillat, maintains relationships with lenders and serves as the point of contact for customers throughout the buying process. "Consistency is what's important in this job," says Rodeillat. "And you've got to be willing to investigate – someone may have mistakenly entered a bi-weekly gross income, rather than monthly. You've got to check these things out."

You need a dedicated person, but not a dedicated lot. In theory, almost any vehicle on the floor could be approved for a subprime customer, says Rodeillat, so there's little point in putting certain cars in a corner.

2. Establish relationships with diverse lenders. Audubon wanted a range of lenders for its range of customers. They're currently using a mix of national lenders such as Capital One, Transsouth, First Consumer and Bank One. You shouldn't have similar lending profiles in your core base of lenders, says Rodeillat. And know the quirks of each lender. For example, TransSouth likes to approve trucks, so Rodeillat knows how to speed a deal along if he knows that there's a match between lender and customer.

If you're starting from scratch, says Jay Prassel, NCM Associates consultant, then look at who is advertising in publications like Special Finance Magazine. But the best thing you can do, he adds, is tap into your dealer network. Ask around to see who others are using. When you've got a short list, get references from other dealers.

3. Stock the "right" vehicles, based on what lenders want to finance. The simplest thing to do is contact each lender and ask for a list of the top five vehicles they've financed in the last 90 days. Not all lenders have those stats on file,

says Rodeillat, but those who don't can usually talk authoritatively about financing patterns. Lender preferences are key, but customers can't be overlooked. Rodeillat is finding that subprime customers have become choosier in the last few years – "it's no longer a situation of taking whatever you can get" – and the inventory has to reflect those preferences.

4. Dedicate advertising budget. The budget doesn't have to be huge. Audubon spends about \$3,500-\$4,000 a month on print advertising, with an additional \$7,000-\$10,000 on bimonthly direct mail pieces.

Finding the right manager

A good subprime manager is someone with "perseverance and killer instincts" says Steve Bierwirth, general manager at Palmer Dodge Hyundai West in Indianapolis, Ind. Subprime managers need to have an F&I background and attention to detail. "But they also have to be excited about following 700 leads in order to close 50 sales," he says. The closing ratios are almost half of traditional sales, but the opportunities are huge, adds Bierwirth. "Subprime customers are used to being turned away. If you establish a relationship with them, the referral business you get is amazing." Bierwirth has a staff of three dedicated to subprime sales and typically closes 50 units a month.

Despite a dedicated subprime staff, all sales personnel at Bierwirth's store are trained to vet customers for the financial situation. At the meet-and-greet stage, every customer is asked if he's coming in for a sale and to indicate what sale. If that stage doesn't flag anything, then the salesperson usually asks a few leading questions – "What's your current financing situation?" or "What are your financing plans?" before taking a customer on to the lot. "We've found that people with credit problems are usually upfront about it," says Bierwirth. Once a customer is identified as "credit challenged," then the subprime staff get involved.

Dealers need to catch ... (Continued from page 3)

5. Establish a dedicated website for credit applications. Audubon set up a secure credit application site - www.batonrougeautocredit.com –separate from the main dealership website. People with subprime credit aren't usually looking at dealership Web sites; they're searching for places that are tailored to their credit history. This is an effective lead generator, says Rodeillat, because the buyer is generally motivated to buy, is currently on a job with computer access, and knows what is required of him before he completes the application form.

The site's home page clearly states the criteria applicants have to meet:

- A 12-month job that can be verified
- Min. of \$1,500 monthly gross income
- \$1,500 down – cash or trade
- 18 years of age

Applicants complete a web form that asks such standard questions as time at current residence, mortgage payments, and gross monthly income. Once submitted, the application is sent directly to Rodeillat's email. The easy-to-read format allows him to assess in minutes whether he should run a credit check on the person.

Out of 100 e-mail applications he receives a month, Rodeillat runs bureaus on 50. Of those, 30 get approved and 70% of those become closed sales.

Getting the word out

The web address is in all display advertising and individual liner ads in the classifieds – where many credit-challenged customers look for cars. There's also a small display ad that runs every day, rotating in different sections of the paper. Importantly, the ads lead with the customer's hot-button issue – poor credit history – not a car brand or dealership name. "It's critical to remember with subprime it's about the person – not the car," says Prassel.

Audubon also conducts a Capital One lender-sale every eight weeks to reach new customers. (Capital

Example Ads

Credit problems?

APPLY ONLINE

BatonRougeAutoCredit.com

Credit challenged?

APPLY ONLINE

BatonRougeAutoCredit.com

One has moved aggressively into the subprime market in the last year.) The lender drops a mailing that says recipients are pre-approved and provide the details of

Audubon's location with Rodeillat as the contact name and his number.

Audubon has been able to generate 15-20 sales off the back of these campaigns, at a gross of \$2,600 (F&B).

Results

Here's a look at Audubon's subprime department results:

February 2004:

14 sales \$41,765 gross (F&B) \$2,981 Average

March 2004:

16 sales \$40,633 gross (F&B) \$2,539 Average

Audubon hopes to raise the number of units per month to 40 or 50 in the near future.

Going online to find new customers

Subprime customers looking to buy a car are not usually thinking about dealerships, says Jay Prassel. That's one reason for setting up a unique web address that highlights auto credit in its name.

The other purpose in keeping the two apart is to maintain your dealership's reputation as premier seller of new and used cars, not as the "subprime" dealer in the region.

The costs of maintaining a site can be relatively low – roughly \$600/year. Visit www.autosuperstores.com for more information.