

# DealerTracking™

HELPING DEALERS SELL, FINANCE, FUND AND PROTECT

VOLUME ONE

ISSUE TWO

SUMMER 2005

## NEWS FLASH!

If you're not doing business with special finance customers, you may lose more than your shirt.

REAPING THE BENEFITS  
OF SPOT DELIVERY

GET MORE WITH eMENU SELLING

DEALER SPOTLIGHT

 **DealerTrack®**  
SELL | FINANCE | FUND | PROTECT



## Welcome to the second issue of DealerTracking™ magazine.

The goal of this quarterly publication is to provide you with unique insights into new ways to sell cars, finance customers, get contracts funded quickly and help protect your dealership in today's increasingly complicated regulatory environment.

Over the past year you may have noticed that DealerTrack has expanded to become more than the leading credit application portal. While we continue to see record levels of dealer participation, we've also been proactive in adding innovative technology such as eContracting, DeskLink and eMenu. In the past few months we've also expanded the DealerTrack family of companies to include Chrome, ALG and NAT in an effort to provide you, our customers, with data and reporting products to enable you to improve your business.

We are dedicated to responding to feedback from our over 20,000 subscribed dealers. Recently, many of our dealer customers have started to focus on special finance as a way to increase revenue and profits. While profits are not automatic, with the right process and training, selling to special finance customers can be

lucrative. That is why we are featuring this topic as our cover story.

We're always interested in hearing from you—whether it's ideas for our next issue of *DealerTracking* or ways we can better serve you. Please feel free to contact me directly at [marko@dealertracking.com](mailto:marko@dealertracking.com). Thanks for your continued support, and enjoy our Summer 2005 issue!

Sincerely,

Mark O'Neil  
Chairman and CEO



## SPECIAL FINANCE:

### Why lose valuable customers to your competitors?

# SELL

It's no secret that many dealers shy away from special finance scenarios, preferring to "broom" credit-challenged customers instead of going the extra mile to get the deal bought. Highly successful dealers know that turning their back on special finance is bad for business for two reasons:

1. It is a huge market
2. It is an incredibly profitable market

Why give your competitors an advantage? By following a few simple rules, you can lock in the loyalty and the value of an extremely profitable group of customers, who also are the life blood of the community in which you operate.

Jim Bass, chairman of the National Automotive Finance (NAF) Association, which represents the non-prime auto finance industry, remembers "the old days, when dealers would pull a credit report, and if you were below a certain level you got treated like tainted merchandise. The idea now is to give every customer a positive buying experience so that even if you

don't put them in a car, they'll go away feeling they were treated right, and will send their friends to you."

Paul Schmaeling, General Manager of Burgunder Dodge in Bridgeville, Pennsylvania, puts it this way: "Special finance can be a nice profit center if you've got the right people, the right inventory, and the right technology."

With a commitment in those three areas—people, inventory and technology—you can fully serve an important segment of your market and grow the profit base in your dealership.

#### **A Large and Growing Market**

There is no universally accepted definition of special finance, also known as secondary or non-prime financing. According to Paul Snider, chairman of the NAF Association's education committee, special finance deals traditionally involved customers with credit scores ranging from 620 on the high end, to the upper 400s on the low end. Today, participating financing sources often offer customized

programs to help get deals funded, sometimes taking credit scores into account, but other times ignoring them completely.

A better way to gauge the market size is to determine how many customers actually qualify for "prime" lending rates. According to Snider, barely half of U.S. adults do. The result: at least \$200 billion of new, non-prime automotive loans each year. Dealerships that turn away credit-challenged customers and reserve their empty showrooms for fewer prime customers are missing out on a significant opportunity.

#### **A Strong Revenue Stream**

"The biggest attraction of special finance is its profitability," says the NAF's Bass. "Gross profits per deal in excess of \$3,000 are not unusual, while on new cars the front-end gross is often closer to \$1,000." Although prime deals on new vehicles generally include incremental aftermarket product sales, special finance deals still tend to come out ahead overall.

# FINANCE

## QUICK TIPS FOR STARTING A SPECIAL FINANCE DEPARTMENT

**1 Choose a “yes” manager** who has a combination of attributes: Exceptional relationship skills, and a never-say-die attitude. Both are needed to get difficult deals bought, while generating a strong referral and repeat-buyer base.

**2 Invest in training,** since special finance managers are hybrids of sales and finance managers. Also, the subject matter can be difficult to master, since non-prime programs can be more complicated than prime programs.

**3 Develop a detailed checklist** for the steps required with special finance contracts. This will keep financing sources happy, reduce contract delays, and get deals funded faster.

**4 Beef up your used vehicle inventory** to ensure you can give customers a choice of cars for which they qualify. Focus on vehicles with sales prices below \$12,000 so the car is affordable and provides adequate gross profits.

**5 Invest in technology** that allows you to exhaust your inventory; present customers with multiple options while analyzing the profitability of each deal.

Industry experts estimate that between a quarter and a third of U.S. dealerships currently employ a dedicated special finance manager to bring special finance revenue into the store. Jimmy Lagle, Special Finance Manager at Fairway Toyota in Albany, Georgia, has done just that. Since he began focusing exclusively on special finance last January, he has nearly tripled his grosses. Previously, he handled finance operations for both prime and non-prime deals.

Experienced pros such as Lagle have learned that most of the challenges surrounding special finance sales are avoidable and unnecessary—assuming that you provide your team with the training, tools, and motivation they need to convert special finance prospects into profitable customers.

### **A Different Sales Process**

The work-flow of a special finance deal differs fundamentally from a prime deal. The typical prime deal scenario focuses on the vehicle. Most of your time with the customer

is spent discussing vehicle features and available options. Financing is usually discussed last.

In special finance scenarios, the spotlight is on financing. Successful special finance deals start by qualifying the customer’s financial situation with a few key questions: Did they see an advertisement? Was it the one about helping credit-challenged customers? Who holds their current auto loan? Is it a non-prime financing source?

In the course of answering a few simple questions, customers often volunteer crucial information. Your team can leverage this information to offer deals that are both appropriate for the customer’s situation and profitable for your dealership.

### **Tools to Manage Inventory Are Critical to Success**

After getting “payment calls” from interested lenders, the next step is identifying cars on the lot that the customer can afford. Some dealers continue to rely on their memories,



visually scanning their lots, or using hard-copy printouts to find an appropriate vehicle for the customer.

Successful special finance dealers, however, use inventory tracking and screening tools to match the customer's maximum monthly payment with all available vehicles, increasing the chances of finding one the customer will want. Through systematic screening, the right software program can quickly show which vehicles match both the customer's needs and the dealership's profit goals.

While other tools exist in the market, DealerTrack's FinanceWizard™ allows sales managers and special finance managers to run different scenarios, based on vehicle type, inventory age, dealer gross profit, or other custom criteria. Bookout data for valuing the customer's trade-in and the profit potential of the dealer's inventory are also integrated with the system.

FinanceWizard can identify multiple vehicles that meet both customer

**“Special finance can be a nice profit center if you’ve got the right people, the right inventory and technology.”**


and dealership needs. The system also allows dealers to structure in aftermarket products where possible, such as service contracts and insurance products, to further assist the customer in protecting his or her investment, and enhance dealership profitability.

“People like to have a choice, so out of about a hundred cars in our used car inventory, ideally we can show them five or six,” says Burgunder Dodge's Paul Schmaeling. “FinanceWizard makes it easy for us to see where we are from a gross profit standpoint, and easy to jump back and forth between possible deals.”

Danny Shelly, Finance Director at Rountree Moore, a Ford Lincoln-Mercury dealership in Lake City, Florida, says his special finance business has grown from 200 cars

annually a few years ago to about 300 today, while their gross per deal has jumped from about \$1,600 to \$2,500. “FinanceWizard helps us keep track of our inventory. If the customer wants an SUV, we can see what SUV is going to make us the most profit. It has increased our gross profit and enabled us to get by with fewer personnel.”

#### **Time to Sharpen Your Special Finance Skills**

There's no question that special finance poses special challenges. But it also offers unique opportunities to fill customers' pressing transportation needs, while also filling the dealership's need to broaden its customer base. Since the special finance market is both large and lucrative, your investment in the proper tools and personnel can reap significant rewards, now and well into the future. 



# SPOT DELIVERY:

## Risk Rewarded

**F**ew practices in the F&I department are more polarizing than spot delivery—sending a car home with a customer on the spot, before financing is complete.

Some dealers say they don't want the financial risk, or they don't want to ask their customers to accept less favorable terms if financing falls through. Legal cases—such as one reported by *The Washington Post* in which a dealer sold the customer's trade, then sent a tow truck to her workplace when the deal unwound—spark negative publicity.

On the other side stand the proponents, who are in the majority: One DealerTrack survey found that half of dealers spot-deliver at least half their cars, and a quarter spot 75 percent or more. Advocates say ethical spot deliveries improve customer satisfaction ratings. "The customer gets down the road right away, while the excitement of getting the perfect car is at its highest," explains Ivan Lawler,

finance manager of Russ Darrow Group, Milwaukee, Wisconsin.

Proponents also say the advent of electronic contracting has reduced financial risks. eContracting allows dealers to quickly and accurately create contracts and submit supporting documents, then communicate with financial institutions to get a deal approved, often within minutes.

### **Special Finance, Special Risk**

"Probably 95 percent of California dealers spot-deliver," says Lou Nichol, special finance manager for the Moreno Valley Megastore. Moreno Valley spot-delivers to most customers with C and D paper; these are customers whose deals are among the most likely to unwind. "They need to drive, too," Nichol says.

Best practices include reviewing the credit application: Typographical errors can delay a deal. Double-check income claims against pay stubs; check that the phone is

connected; check the residence against the insurance card, utility bill, driver's license—even MapQuest®. David Swayne, general sales manager of Douglas Nissan, Huntington Beach, California, adds that a "substantial down payment encourages customers to return with the vehicle if the deal unwinds."

### **Prepare To Re-contract**

Dealers report re-contracting rates anywhere from zero to as much as 15 percent. Some of the differential is strategic: accepting risk to generate sales.

Cardinale Automotive Group, a regular CSI award winner in northern California, turns re-contracting into a customer benefit. "Quite often we're actually saving people money because we're asking them to come back to sign for a lower rate or a shorter term," says James Yarbrough, F&I manager of Cardinale Mitsubishi in Seaside.

# FINDE

## SEVEN STEPS TO SUCCESSFUL SPOTTING

- 1 Assess the skip risk.** Low-risk buyers are prime candidates for spot deliveries.
- 2 Have customers sign a conditional delivery agreement.** Make sure the buyer knows the deal is not final.
- 3 Request a substantial down payment.** If the deal unwinds, the buyer will return for the money.
- 4 Park the trade** until financing is final. Some states require it. Even if your state doesn't, this avoids legal hassles.
- 5 Verify customer information.** Typos on the contract can delay a deal or cause unexpected funding problems.
- 6 Plan where you will submit the deal.** The longer you take to hang the paper, the more painful the deal will be, both for you and your customer.
- 7 eContract the deal.** Using the Spot Delivery feature of eContracting substantially lowers your risk of having to re-contract.

Yarbrough always stresses that a deal isn't final. Customers appreciate honesty if the loan is not approved. "In that case, we inform the customer: 'This is the amount you qualify for.' And if they're not happy with that, we put them in a car they can afford," Yarbrough says.

### Minimize Returns

One dealer estimates unwound deals cost as little as \$50 for DMV paperwork, saying his grosses don't decline on a returned car. Another says profits drop \$1,000. Others cite staff time. The rare repossession costs a few hundred dollars.

Yet dealers who embrace spot deliveries universally say their costs are minor, given the additional sales.

### Time Is Money

The largest expense can be interest on both the new car and the trade until the paper is sold. Meanwhile the customer is logging miles. Many dealers are turning to eContracting to reduce the time lag.

However, until recently, the eContracting process could not start without an approved credit application. On a busy weekend, dealers may not have time to submit applications—or financing sources may be closed. To bring the benefits of eContracting to these dealers, DealerTrack is piloting a "Spot and Shop" upgrade that mimics the paper process. It produces a signed contract and bailment agreement. Like the paper process, the new eContracting solution

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**The customer gets down the road right away, while the excitement of getting the perfect car is at its highest.**

# eMENU SELLING:

More profit – more protection



# PROT

**A** powerful new tool for dealers, the electronic menu-driven system, is eclipsing traditional methods of selling F&I products. Not only does eMenu selling help protect dealerships by increasing the amount of compliance available to a dealer, but it drives more F&I sales and profit than ever before.

“We had been making an average of \$800–\$900 per copy on the back end before using the eMenu system,” says Joni Evans, Finance Director at RK Toyota Scion in Hampton, Virginia. “With the eMenu we’re at around \$1500 per copy.”

Peter Maxwell, Executive Vice President at Providence Group, a Virginia-based dealership development company and F&I products provider, agrees. He tracks the performance of eMenu systems in hundreds of dealerships throughout the Southeast and mid-Atlantic. In every store where they have deployed an eMenu, says Maxwell, “I’ve seen a dramatic increase in F&I production.”

## Selling Evolution

Not long ago, calculating, presenting and verbally selling custom-tailored F&I products was a challenging and time-consuming process.

Then paper menus appeared—a small evolutionary step in the right direction. While they helped finance managers present products in a more systematic way, they lacked flexibility and didn’t always look professional. Cross-outs, scribbles, notes and other handwritten markings on paper menus created the perception of a sloppy, disorganized dealership. More often than not, customers left confused.

Chuck Kennedy, F&I Director of the Leith Automotive Group, with 25 dealerships in the Raleigh area, remembers negative results when his organization experimented with paper menus. “If you were busy, you

made mistakes,” he says. “That led to confrontations with customers when two pieces of paper said two different things.”

Finally, eMenu selling came to the rescue, allowing finance managers to maximize aftermarket sales while quickly producing professional documents tailored to each customer’s needs.

## A Clear and Simple Presentation

Dealers are grateful for eMenus, and so are customers. “Our customer satisfaction scores have gone up with the use of the eMenus,” says Evans. “It’s like mental judo—instead of customers using their energy to be skeptical of the finance director, the eMenu turns their energy back on them. They then apply their energy to making F&I purchases based on their personal situations.”

When customers are given lots of options through eMenu selling, without the perception of being pressured, they’re more likely to make a purchase decision.



## FIVE ADVANTAGES TO eMENU SELLING

- 1 Generate higher profits.** 100% of your customers see 100% of your F&I products, 100% of the time—you sell more with consistent presentations.
- 2 Train your staff efficiently.** Your F&I managers become great producers in less time because the system guides them in the selling process.
- 3 Manage your staff.** Accurately track your F&I team's performance in boosting F&I sales.
- 4 Help protect your dealership.** A signed menu shows exactly what the customer accepted and declined during the sales presentation.
- 5 Increase customer satisfaction.** Customers like eMenu selling because it's professional, comprehensive and flexible to their needs. Their satisfaction can mean greater product penetration, higher sales and other perks to the dealer that stem from higher CSI scores.

"Everyone wants choices," says Maxwell. "When customers are given lots of options through eMenu selling, without the perception of being pressured, they're more likely to make a purchase decision."

### Time On Your Side

When dealers are busy, especially at month-end, there's just less time to sell effectively. eMenus allow dealers to continue selling in spite of the crunch.

"In the old days, you sized a customer up and figured your profit," says Kennedy. "You'd sell your favorite stuff and not mention some other products. Today, when you're legally bound to show everything, eMenus are unquestionably a great time-saver."

"And," says Evans, "you don't have to think off the top of your head and possibly forget to show a product."

Additionally, the better eMenu systems allow dealer principals to efficiently monitor individual F&I

manager performance so they can ensure that presentations of F&I products are being made uniformly, to every single customer.

### More Compliance

There's more than one happy ending to the eMenu selling story besides increased profits. "Yes, your sales will increase," Kennedy admits, "but, to me, the most critical advantage to using eMenu selling is that it helps protect the dealer from litigation by increasing regulatory compliance."

With the ever-present threat of regulatory action and litigation, an eMenu's confirmation of sales presentations is reassuring to general managers and owners. If you have electronic documentation proving that every customer acknowledged seeing exactly the same products as everyone else, it becomes much more difficult to claim discriminatory sales practices.

"And, customers can't ever get convenient amnesia with the

eMenu," Evans says. "They can't come back and say, 'Oh, I didn't know I purchased this or that.' You simply pull out the final menu with their signature and prove exactly what they were shown and what they agreed to."

### Choosing the Right eMenu System:<sup>o</sup> Not All eMenus Are Created Equal

While eMenu selling unquestionably provides dealers great advantages, the eMenus available today are not created equal. There are two kinds: "free menus" and subscription-based menu systems. "Free menus" usually restrict you to selling a particular line of back-end products, with little or no opportunity to add any new products to your presentation. On the other hand, product-neutral, subscription-based menu systems, such as the DealerTrack eMenu™, support any combination of F&I products from multiple providers. All based on what a dealer wants to offer. The key is to

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*eMenu Selling*  
continued from page 7

allow dealers the independence to choose the best product mix for their customers, and to be able to change products at their discretion.

More flexibility in F&I products encourages higher grosses per vehicle. "We have shied away from

free eMenus because they become an obligation," says Kennedy. "I'd rather pick and choose my products—and my menu."

**Achieving the 300 Percent Rule**

Although eMenu systems are relatively new, they're making substantial contributions to dealers' bottom lines. With this powerful tool in hand, dealers are consistently

realizing the golden rule: They're showing 100 percent of their F&I products to 100 percent of their customers, 100 percent of the time.

This translates into substantial rewards: more back-end sales, increased compliance, higher customer satisfaction and, for dealer principals, more peace of mind. ≡

*Spot Delivery*  
continued from page 5

accommodates dealers who spot-deliver 24/7.

The upgrade also will enable quick shopping for terms. Funding will usually arrive within one business day of approval, thus speeding the trade to auction.

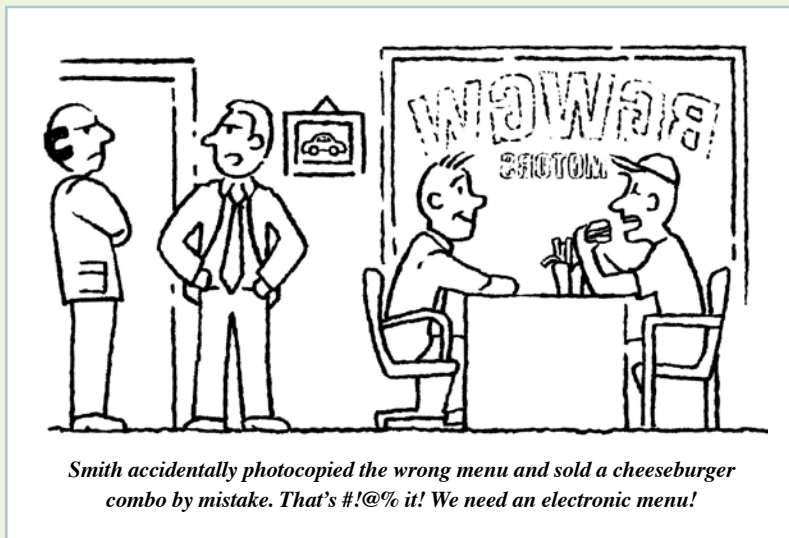
**Protecting Reserves**

Spot delivery proponents cite few risks to finance reserves. Dan Ryan, finance manager of Ken Grody Ford in Buena Park, California, says he never risks a finance reserve yet almost invariably meets anticipated terms. "The banks will bend," he says.

DealerTrack's forthcoming upgrade should open additional finance

sources for spotted deals even in markets less competitive than California. Cardinale's Yarbrough works with 50 different lenders, but dealers in many small communities in other states report DealerTrack gives them access to 15 or more lenders. "Never limit yourself," Yarbrough says. "If you're only using one or two lenders, you may be blinding yourself to other opportunities." ≡

# THE PAIN POINT



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# SPOTLIGHT



## Q&A with Brian Greve

**As a boy, Brian Greve knew his future would be in automotive retailing, so he worked his way through every position in his family's dealerships. He recently shared some of his insights with DealerTrack. Mr. Greve is General Manager at Greve Chrysler/Plymouth/Dodge/Jeep in Van Wert, Ohio.**

**DT: What are the benefits of using menu selling?**

BG: If you walked into a restaurant and the menu only had one option on it, you probably would not eat there. Menus present customers with more information and choices than they had before. They also enable the F&I manager to present products to every single customer every time. Sometimes F&I managers assume a customer will be a hard sell so they don't offer certain products like GAP or service contracts. Menu systems make it easier to offer those products to everyone in a consistent way.

**DT: Has menu selling improved your revenue?**

BG: My penetration on service contracts has really gone up since we've been using a menu. My other products seem to be pretty steady.

**DT: Does leasing have a future?**

BG: Yes, but it developed a bad reputation that we're still trying to overcome. In my store, we try to present a lease option to every customer, because they give customers lower payments and more choices at the end of their term. There are enough benefits for the customer that we should do a better job of selling leases.

**DT: How do you handle special finance in a small community?**

BG: Special finance deals are based on relationships. Because of this, we promote special financing through our Special Finance Manager, not the dealership. He works with people he knows and builds on those relationships. The people he sells cars to then tell others about him. The relationships you build in the community really matter.


**DT: Do you operate a Business Development Center (BDC)?**

BG: I just started one. My main focus is on retaining customers. Right now I'm able to retain 50–60%, but I want more in both sales and service. I want to keep them coming back, even for routine maintenance.

**DT: What is the best piece of advice you received when you started?**

BG: I grew up in a family store, so I realized that everyone was watching me: To do things better than how I would expect my employees to do them, and to work twice as hard to prove myself.

To be considered for the next SPOTLIGHT please contact [editor@dealertracking.com](mailto:editor@dealertracking.com).



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