DealerTracking

HELPING DEALERS SELL, FINANCE, FUND AND PROTECT

VOLUME TWO
ISSUE ONE
SPRING 2006

BIGGER is better

Get ballsy with leasing and maximize your profits.

INS AND OUTS OF DATA SECURITY

ELECTRONICALLY CONNECT TO MORE PROFIT

DEALER SPOTLIGHT LARRY CRAIN

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Welcome to the Spring 2006 issue of DealerTracking™ magazine.

As we jump into the new year, many dealers are looking for ways to boost their bottom lines. Quick hits are always nice, but the best profit generators are the ones you can count on into the future.

In this issue, we cover some new developments that you will want to keep in mind for adding to your long-term profitability. As always, we've also included cutting-edge 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.

Raj Sundaram, President of Automotive Lease Guide (alg), provides an insider's guide for capitalizing on the resurgence of leasing – a trend too compelling and too profitable to ignore. All you need is a little foresight.

David Trinder, President of DealerTrack Aftermarket Services, gives you a preview of the next generation of aftermarket sales – how you can link to your service providers electronically to obtain accurate ratings and real-time decisions.

Continuing our commitment to help the dealer community keep abreast of the latest compliance issues, DealerTrack's compliance staff reviews the changing landscape of data security – the computers in your dealership may require passwords to access them, but is that enough?

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. Thanks for your continued support, and enjoy our Spring 2006 issue!

Mark O'Neil
Chairman and CEO

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THE BIG **COMEBACK**

Prepare for the Resurgence of leasing. Knowledge is Power.

By Raj Sundaram

Leasing is on the rebound. Since hitting bottom in 2003, it has staged a potent comeback, and is poised for greater gains in the coming years. This resurgence in leasing can have a direct and lasting impact on your business, if you're prepared.

Smart dealers already are developing strategies to maximize profits and minimize risks during the leasing rebound. This article provides some insider tips to help you capitalize on this trend.

Knowledge is Power – and Profit

In a complex retailing environment in which leasing plays a significant role in generating profits, success will be fueled by market knowledge. Specifically, the success of your front end operation increasingly may depend on your knowledge and understanding of near-term future residual values: Not what the residuals are today, tomorrow or next week – but next month and the three months after that.

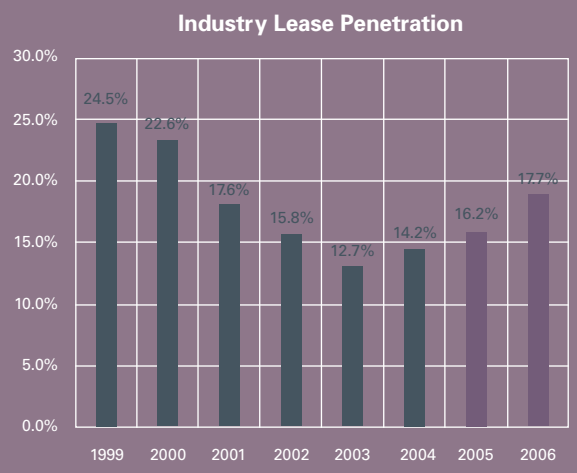
It's no secret that auto manufacturers have dramatically changed the equations they use to manage their production and profit margins. As a result, new car profits for dealers have been sharply limited. To compound matters, tougher regulations have led to shrinking finance margins, placing more pressure on dealers to find new sources of revenue.

Shrewd dealers are responding to these changes by becoming strategic about the vehicles they bring onto their lots, whether in trade or through wholesale. As flooring costs go up, the question of which vehicles to floor becomes absolutely crucial.

Here's where the capability to determine a vehicle's near-term future value is essential. For example, let's say that one of your customers wants a new vehicle and currently is two months away from the end of a lease on a Lexus RX330. Should you buy the customer out of the remaining months of his lease, wait for the lease to expire and then retain the vehicle for your used lot, or turn your back on this vehicle and move it at auction?

Hypothetically, if you could determine that, in 90 to 120 days, the market value of that vehicle will be $1,500 higher than the forecasted residual value (a.k.a. the spread), you could plan accordingly and make the most profitable decision. If you can predict the spread between the market value and the residual value, you can maximize your profit.

My point is this: Knowing the near-term future value of used vehicles can be a huge asset to dealers, because the used vehicle market is likely to be a dependable source of



What factors are driving the leasing renaissance? As you well know, the era of relentless rebating is drawing to an end. Interest rates are climbing. Resale values are stabilizing. Profit margins on new car sales are shrinking.

Under these conditions, leasing becomes an increasingly attractive option for both consumers and dealers.

Historically, the high-water mark occurred in 1999 when a quarter of all deals were leases. Over the next couple of years, leasing declined sharply until hitting a historical low at just over ten percent. This decline coincided with the start of the rebate wars, low interest rates and unstable resale values.

When the latest numbers are tabulated, expect leasing to account for about 16 percent of current deals, which is a 27 percent increase from 2003. Looking forward to 2006, the figure likely will rise to almost 18 percent – nearly a 10 percent year-over-year gain.

What kind of volume does this translate into? Each percentage point represents roughly 170,000 vehicles. That means about 2.7 million vehicles were leased in 2005, with more to come. That's significant volume.

profit for the foreseeable future. But you'll need to adjust your strategy for sourcing your used vehicles.

Knowing is Better than Guessing

How can you put this knowledge to use at your dealership? Consider this scenario: You have three vehicles, X, Y and Z. Vehicle X's MSRP is $32,195; Vehicle Y's is $33,500; and Vehicle Z's is $32,995. You're thinking of keeping all three, but want to make the greatest return. Which one has the potential to generate the most profit for you?

Calculating the spread between the Projected Residual Value and the Projected Market Value makes it much easier to decide which vehicle to acquire and which to dispose.

This straightforward approach takes the guesswork out of the decision-making process. It empowers you to act more consistently. Best of all, this approach is completely transparent and easily repeatable. But you will need to recalibrate your business planning from 15-day cycles to a 90-day or 120-day cycle.

	Vehicle X	Vehicle Y	Vehicle Z
MSRP	$32,195	$33,500	$32,995
Residual Amount	51.5%	52.6%	49.4%
Projected Residual Value in 3 months	$16,580	$17,621	$16,300
Projected Market Value in 3 months	$17,775	$17,772	$15,225
Spread	$1,195	$151	-$1,075
Decision	Acquire	Need More Specific Market Information	Dispose

Drivers of Value

As many of you know, Automotive Lease Guide is a leading provider of residual value information, analytical data products and software solutions to the automotive industry. For over 36 years we have been forecasting automotive residual values in both the U.S. and Canadian markets. We also publish annual Residual Value Awards to honor those vehicles in each automotive segment predicted to retain the highest percentage of their original price.

The tables in the sidebar rank luxury and mainstream brands by their residual values. Consumers typically find this type of information interesting and useful when shopping for cars. For dealers, tables such as these underscore inescapable trends in the automotive marketplace. In a sense, they are a road map for the future. The health of your dealership is likely to depend on your ability to analyze this type of information, and to profit from it.

Raj Sundaram is president of Automotive Lease Guide (alg), the industry benchmark for residual value information, analytical data products, consulting services and software solutions to the automotive industry.

Leasing has become an increasingly attractive option for both consumers and dealers.

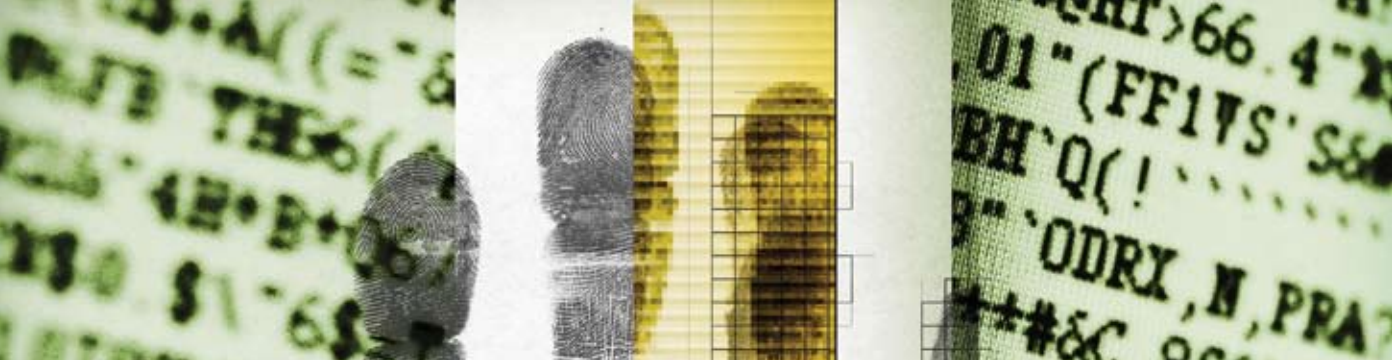
2006 LUXURY RESIDUAL RANKINGS

Brand	Residual
BMW	53.6%
Lexus	52.5%
Land Rover	51.2%
Mercedes Benz	50.8%
Acura	50.4%
Infiniti	50.0%
Luxury Average	49.4%
Audi	48.7%
Cadillac	47.8%
Volvo	44.9%
Saab	43.8%
Lincoln	40.2%
Jaguar	38.1%

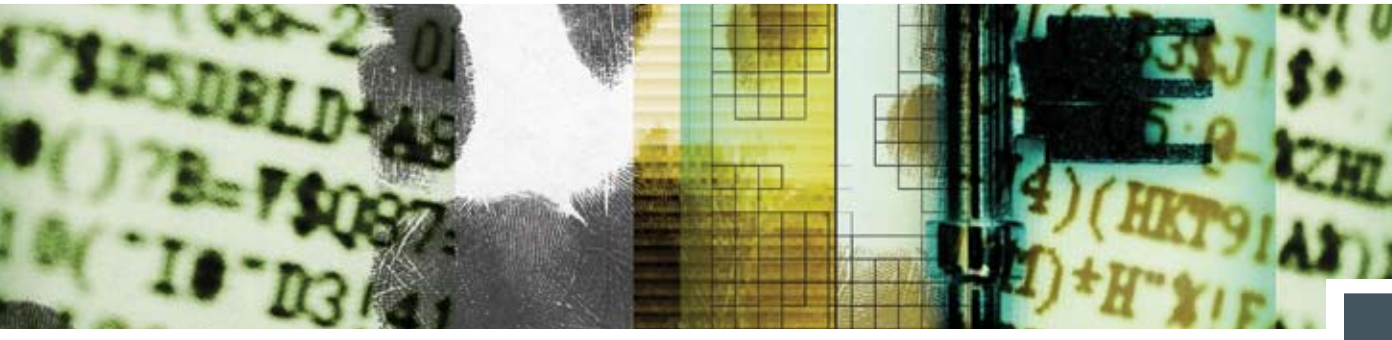
2006 MAINSTREAM RESIDUAL RANKINGS

Brand	Residual
Honda	53.0%
Toyota	51.8%
Volkswagen	50.6%
Subaru	50.5%
Nissan	48.6%
Jeep	46.8%
Mazda	46.5%
Saturn	44.6%
GMC	44.6%
Average	44.5%
Chrysler	43.3%
Hyundai	42.9%
Pontiac	42.1%
Ford	41.8%
Chevrolet	41.7%
Mitsubishi	41.5%
Mercury	41.4%
Dodge	40.0%
Suzuki	38.2%
Kia	38.1%
Buick	37.9%

Source: Automotive Lease Guide



SECURITY BREACH



By Randy Henrick

In 2003, California became the first state to enact a law requiring businesses to notify consumers if their personal, non-public information is wrongfully accessed from an unencrypted computer file or database. The law was passed to address customer concerns about identity theft.

By the end of 2005, at least 22 additional states enacted similar laws (see sidebar), with more states and possibly the U.S. Congress planning to follow suit in 2006. As an auto dealer, these laws obligate you to monitor access to your computers and take quick action if unencrypted customer information on your computers is wrongly accessed.

Overview of State Laws on Data Security Breaches

Although most of these new state laws have similar requirements, there are important differences among them.

Your first step should be to identify all the states in which your customers may reside. Why?

Because each state's law outlines the protections you must give to that state's consumers, regardless of where the computer file or database is physically located.

State laws also differ in how exactly they define personal information. As a rule of thumb, you can think of personal information as being a consumer's name, plus at least one of the following:

- Social Security Number.
- Driver's license or state-issued ID number.
- Account number – such as a credit or debit card account – and any PIN necessary to access the account.

Certain state laws cover additional information, so it is important to review the state laws that apply to you. For example, North Dakota includes unauthorized access to a consumer's date of birth or mother's maiden name as additional notice-triggering events, while Montana includes signature and passport number.

Defining Unauthorized Access

Unauthorized access to personal information can happen in many ways besides someone "hacking" into one of your computers. Examples include:

- A stolen password or computer that was used by an unauthorized dealership employee.
- An ex-employee whose system access was not turned off immediately when they left your dealership or were terminated (including their DealerTrack ID).
- A disgruntled current employee who sees financial gain in stealing someone's identity.

Notifying Your Customers

Once you determine that someone did, in fact, wrongfully access personal information, you need to be very deliberate in the way you notify your customers:

- Delaying Notification: Most states require you to delay notification of consumers if giving notice would impede a law enforcement investigation. Even if you are not required to delay, it's usually best to methodically review the situation and understand the scope of what actually happened before notifying your customers.

If your dealership is in one of these states, or if any of your customers reside in one of these states, you should review the legal requirements that apply to unauthorized electronic data access:

- Arkansas
- California
- Connecticut
- Delaware
- Florida
- Georgia
- Illinois
- Indiana
- Louisiana
- Maine
- Minnesota
- Montana
- Nevada
- New Jersey
- New York
- North Carolina
- North Dakota
- Ohio
- Pennsylvania
- Rhode Island
- Tennessee
- Texas
- Washington

- Method of Notification: Most states require you to give notice to your customers either by mail or by telephone.
- Review your FTC Safeguards Information Security Program. If you hired a third party service provider to create an Information Security Program for your dealership, they may have included a plan for customer notifications, which can simplify the process for your dealership.
- Notify State Agencies and National Credit Bureaus. Some states, like New York, require you to notify the Attorney General's office, while both New York and Nevada require you to give notice to the national credit bureaus under certain circumstances. Giving these notices does not absolve you from having to notify your customers individually.

KEY DEFINITION: Unencrypted Data

Encryption is the process of encoding information in such a way that only the person (or computer) with the decryption key can decode it and read it. Unencrypted data, on the other hand, can be read by anyone who gains access to it. Being "password protected" is not the same as being encrypted.

Penalties

Civil penalties and damages owed to affected consumers can be hefty if you fail to provide all the notices required of your dealership. In New York, for example, the Attorney General can sue on behalf of all customers who should have been notified to recover their damages "including consequential financial losses." In addition, for New York dealers that knowingly commit a violation of the law, the New York Attorney General can also collect up to $150,000 in fines. Fines and damages vary in other states. Bad publicity generally follows everywhere.

Best Practices

Here are four steps to prepare your dealership before trouble strikes:

1. Identify each state in which you have consumers whose personal information you, or your IT service provider, maintain in unencrypted computerized databases, and review what each state's law requires.
2. Update your incident response plan contained in your FTC Safeguards Information Security Program to comply with the applicable state laws. If you don't have an Information Security Program, consult your attorney or other qualified compliance professional.
3. If your customer database is kept by a third party – such as an IT service provider – make sure your service agreement requires them to inform you immediately of any unauthorized access (most of the state laws require them to do this as well).
4. Create a deliberate response plan. Review, test and update your plan regularly.

Creating a Response Plan

Your dealership's response plan should lay out, step by step, the process you will take to do the following:

- Stop the bleeding: Quickly identify and contain the breach of consumer information (even if it means shutting down access to the computer files while you investigate).
- Designate an IT professional to scope out the extent of the violation, verify all states that are in issue, and determine if law enforcement needs to be involved.
- Involve your dealership's attorney at an early stage, so you can have the most comprehensive support available.
- Decide which consumers should be notified, and how (mail or telephone call). If you cannot identify the exact consumers whose personal information was compromised, err on the side of notifying too many rather than too few.
- Collect prewritten notice letters, customer service scripts and potential media responses if news reporters call. Designate one person at your dealership to field media inquiries and customer contacts. Name that person in your notices.
- Include updated information in follow-up communications to affected consumers. Publish updates on your website if possible. Be proactive, not reactive.

Looking Ahead

As of the beginning of 2006, Congress is considering establishing a national system for notifying consumers if their personal information is accessed by unauthorized persons. Until then, your best course is to be prepared to meet the state obligations that impact your dealership by developing a thorough response and notification plan. Then hope you never have to use it.

Randy Henrick is DealerTrack's regulatory and compliance counsel and provides guidance on consumer credit and automotive finance related issues.

ELECTRONIC ACCESS TO AFTERMARKET PROVIDERS

Revolutionizing Sales & Fulfillment Performance

By David Trinder

"Maximizing the back end" has been a mantra for dealers over the last several years. Using menu selling strategies takes dealers part of the way to the profits they need. Electronically connecting dealers to aftermarket providers, just as dealers already are connected to financing sources, is the next step in revolutionizing the F&I process.

Streamlining the Back End of the Back End

Increasingly important to dealerships are the back end profits from the sale of aftermarket products such as vehicle service contracts, GAP, security systems, paint and fabric sealants and other aftermarket coverage products. However, until now, the more aftermarket products dealers sold, the more potential grief a dealership had to deal with on the "back end" of the aftermarket product sales process.

Based on conversations with dealers and aftermarket providers, about 30 percent of aftermarket vehicle service contracts require some type of manual follow-up to correct errors. The most frequent problems include:

- Misrating or misquoting the product – due to misclassification or, too often, using rates copied from out-of-date manuals.
- Ineligibility – transactions that don't meet the eligibility parameters for a given product.
- Overlooked surcharges – resulting from increasingly complex plans and rate charts.
- Simple data entry errors – generally made late at night after a busy sales day or at month-end.

If this isn't aggravating enough, the sheer volume of paperwork itself can be an obstacle to getting things right the first time and moving on to the next deal.

While the errors may seem relatively small, the consequences can be significant. Dealers who undercharge customers for aftermarket products are on the hook for the difference. Adding to the difficulty is the lag time between selling to customers and finalizing the contract, which can

DealerTrack's Aftermarket Network – which is free to dealers – streamlines the contracting process for aftermarket coverage products. Dealers get real time connections to accurate rates from their aftermarket providers who participate on the network. Dealers will also soon enjoy Aftermarket Network integration with DealerTrack, eMenu, electronic submission of contract data to their aftermarket providers, and online generation and printing of contracts.

To learn more, contact DealerTrack at 866.339.5723 or visit www.dealertrack.com.

stretch to 45 days or more. Too many dealers have experienced the drop in customer satisfaction that occurs when customers drive off the lot after purchasing aftermarket products – such as wheel protection or a service contract – then return a few days later with a problem covered by the contract, only to learn the contract has not been processed.

Innovative dealers have been looking for a way to make aftermarket sales and contracting intelligent, fast, accurate and secure: a network through which dealers can electronically connect to their preferred aftermarket providers, similar to the DealerTrack network they already use to connect to their preferred financing sources.

Features of this aftermarket network include:

- Seamless integration of the entire aftermarket process – from selling to contracting.
- Real-time access to accurate quotes, eligibility and rates for products from a dealer's aftermarket providers.
- Quick online creation and printing of contracts for signature, complete with final data.
- Online submission of contracts for products from participating aftermarket providers.
- Easier month-end remittance and cash flow management.

The key is making the process fit seamlessly with both the current dealership workflow and the F&I systems dealerships already use.

Higher Profits, Lower Risk and Greater Visibility

Automating the aftermarket contracting process promises tangible benefits for dealers. Electronic rating of insurance and other products will drastically reduce errors by delivering accurate, real-time quotes from the service provider for all types of vehicles and all types of products. Driving profitability and CSI, accurate numbers and verification of eligibility help to limit chargebacks and avoid re-contracting situations.

When dealers combine the aftermarket network with menu selling techniques, Owners and General Managers can get unprecedented visibility into sales performance: real-time reporting on aftermarket presentation performance, product penetration, gross-per-unit and profit.

Win–Win–Win for the Industry

What's in it for aftermarket providers and agents? Fewer errors and electronic processing of contracts reduce administrative costs and allow easy remittance. Additionally, because dealers typically have excellent relationships with their providers and independent agents, the aftermarket network will ensure those relationships remain strong.

Instead of rehashing the number of contracts sold, the amount owed or the accuracy of paperwork, dealers and providers will be able to collaborate on ways to sell more products and make more money.

Further, agents accustomed to helping out with paperwork after busy sales days will appreciate the extra time they have available to consult with dealership staff on ways to sell more products – and even achieve more bundle sales.

So it really is a win–win–win for the industry, because of the tangible benefits for dealers, aftermarket providers, agents and, ultimately, customers.

What's in It for You?

Higher profit – from increasing the speed, accuracy and efficiency of the aftermarket contract process, and by avoiding contract errors that normally you would have to absorb.

Higher CSI – from tightening the aftermarket process so customers can move to the part of the sales experience they enjoy the most: taking delivery.

Greater insight into your cash-flow – by taking the complication and hassle out of the month-end remittance process.

David Trinder is president of DealerTrack Aftermarket Services, Inc., the leading provider of automotive aftermarket sales and administration solutions.

IN THE NEWS

Gary Allgeier, Finance Director at the Suburban Collection in Troy, Michigan, has been selected as one of four Regional F&I Pacesetters for 2006 by F&I Management and Technology magazine. DealerTrack is proud to have nominated Gary for this award, and congratulates both him and his staff on their commitment to technology and innovation in F&I.

At NADA the magic number is . . . five! NADA Booth #2206

DealerTrack proudly announces the launch of five new products:

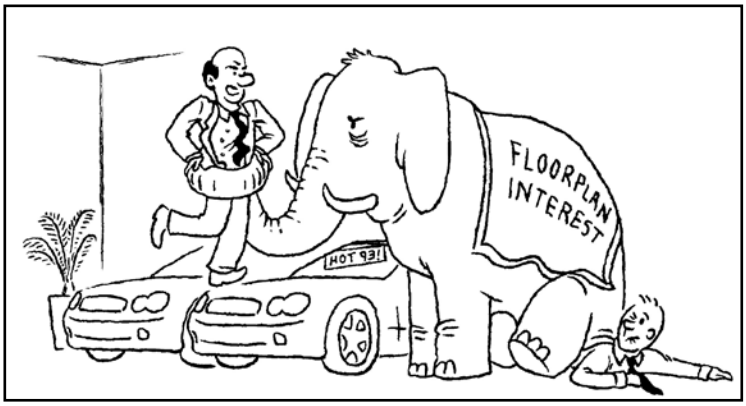
- SalesMaker™
- BookOut Pro
- DealWatch™
- ExactID™
- Aftermarket Network™

To learn more about these products and to get the latest information about how to elevate the profits and performance of your dealership, visit **NADA Booth #2206**, call **866-339-5723** or visit **www.dealertrack.com**.

Corrections & Updates

In the "Top Tips to Run an Informational F&I Process" on page 7 of the Winter 2005 issue of DealerTracking, tip # 6 may have been interpreted by some readers to suggest delivering vehicles without the consumer understanding their obligations. Our intention was not to encourage this behavior (since tip #2 on the same page explicitly states otherwise), but to suggest that "spot" delivery is a viable dealership practice in instances where you are positive that required financing will be obtained subsequent to delivery. Spot deliveries require clear documentation so the consumer is fully aware of his or her obligations.

THEPAINPOINT



Um, Smith? Remind me again why you haven't subscribed to eContracting? Get it . . . and get me out of this mess!!!

DealerTrack's fully integrated eContracting solution simplifies the contracting process by allowing you to transmit contract information electronically to financing sources and receive your funding as fast as the same day. No more lengthy paperwork. No more contracts-in-transit. No more costly errors. It's contracting without the hassle.

Call 866-339-5723 or visit www.dealertrack.com

What's your pain point? Write a caption for a future cartoon. If your idea is selected, you'll receive an original framed illustration for your office. Submit to: editor@dealertracking.com

SPOTLIGHT

Q&A with **Larry Crain**

Larry Crain is President of The Crain Group in Little Rock, Arkansas

DT: Will leasing rebound in 2006?

LC: Yes, definitely. After a couple of lackluster years, leasing is making a strong comeback. There are several reasons. Interest rates are higher. Rebates are declining. Leasing makes great sense to many buyers who effectively don't "own" their vehicles outright anyway.

DT: How should dealers prepare for the resurgence of leasing?

LC: Dealers must develop effective ways of presenting the true value of leasing to prospects. Dealers must be prepared to demonstrate the advantages of leasing over buying, and to calculate different scenarios at various price points, quickly and with confidence. Dealers should be ready to show prospects a range of alternatives and options for leasing.

DT: Which aspect of today's retailing environment is most challenging?

LC: Legal compliance at the point of delivery is clearly an issue that every dealer has to deal with. Customers who spend thousands of dollars on an automobile deserve to be treated fairly, and they are demanding it. It's not always easy to keep up with all the new rules and regulations, but you have to do it.

DT: You're a veteran of the auto industry's ups and downs. What advice can you offer newer owners and general managers?

LC: Stay focused on the long term. Take care of your employees. Your employees will take care of your customers. Do whatever you can to build customer loyalty. Repeat customers and customers who refer other new customers to you are worth their weight in gold. Treat them well and they'll return the favor.

DT: Where do you see the most growth?

LC: Sales and F&I. They are our most important sources of revenue, which is why we're keeping a sharp focus on building long-term customer relationships.

DT: What advice do you have for managing dealer relationships with aftermarket providers?

LC: Aftermarket providers are necessary partners for dealers, either because they provide services that the OEMs don't, or because they provide them at lower costs. The big problem is integrating the aftermarket providers into the dealership framework. When properly done, aftermarket partners enable us to provide better, more efficient service at lower costs.

DT: Which manufacturers do you see making the strongest moves in 2006?

LC: The "big three" Japanese imports are perceived by consumers as the "best value" manufacturers and have a great deal of momentum. The other Asian imports have an open window to improve North American market share, particularly Kia and Hyundai. But Ford and GM have a great deal of intrinsic value. If the domestic manufacturers seize the moment, I believe they can turn the tide on eroding market share. Most of the products of all the manufacturers are quite good. The manufacturers who work closely with their dealers and execute their plans will end up on top.

DT: What's your outlook for 2006?

LC: The economy appears strong and consumer confidence seems good. Consumer expectations are evolving. As long as dealers stay focused on delivering top-quality experiences in sales and service, dealers will prosper.

To be considered for the next SPOTLIGHT please contact editor@dealertracking.com.