



Why Traditional Dealers Miss the Mark

by : Dale Pollak

Recently, I spoke at a 20 group of dealers in Chicago. The moderator started the meeting by asking each attendee to state the most significant challenge facing their used vehicle department. One attendee after another cited the same two problems: lack of showroom traffic and the inability to attract and keep salespeople. At first, these two recurring themes seemed to be distinct, but then it occurred to me that they might be symptomatic of a common problem. Why is it difficult for dealers around America to attract people, whether they are shoppers or sales employees?

While the discussion in the room centered on new approaches to advertising and pay programs, I came to the conclusion that as an industry we are not addressing the root cause of our problem. I believe there is one reason most traditional dealers are finding it difficult to attract shoppers and employees: our basic business model is broken. After all, the used car superstores are not struggling to attract customers and retain salespeople in the same way as traditional dealers.

So who are the superstores and how do they succeed? This question bears so much importance that I've devoted an entire workshop to answering it at the 2008 NADA Convention in San Francisco. But in short, the "used car superstores" are those who recognize and address the realities of the "new" used car business.

Let's take a step back. Although used vehicle sales transactions are more robust than ever, our lots are quiet. In the past, used vehicle shoppers would regularly visit dealerships to "walk the inventory." If they didn't find a vehicle they liked, they proceeded to the next dealership. This traditional form of used vehicle shopping kept our lots and salespeople busy. The customer's shopping ritual created an atmosphere of action, productivity and, at its high point, it occasionally created a frenzy of activity.

Today, however, people consider their time to be more valuable and given the ease and the efficiency of the Internet, there is just no need to physically walk the lots to identify a suitable vehicle. While there is an equal or greater amount of used vehicle shopping occurring each day, it is being done in the virtual, rather than the physical realm.

This means the dealership's front line, facility, and location are no longer the primary drivers of traffic and sales. Today, the Internet is the staging ground that directs traffic to dealerships that possess the skills to win the shopper's attention. Interestingly, these new skills that make the phone ring and the doors swing are ones that are often relegated to third parties, porters, and new employees. While dealer principals and experienced managers are keenly aware of their facility's condition and the orderliness of their front lines, they are often oblivious to their appearance on the Internet. Examples include poor quality photos of vehicles as well as vehicle's descriptions highlighting insignificant features such as power steering, power brakes, and even cup holders. Most egregiously, dealerships price the majority of their inventory \$3,000-\$5,000 higher than competing vehicles with comparable miles and equipment. When viewed from the perspective of an Internet shopper, it is no wonder why some dealerships fail to see or hear from shoppers considering vehicles like the ones they own.

The changes created by the Internet have left most dealers wondering why their showrooms are quiet, while simultaneously allowing a relatively few number of dealers to feast on the fruits of their effective Internet strategies. Ironically, the dealerships that have the less desirable locations, facilities, and brands seem to be

enjoying more telephone and foot traffic as a result of the Internet. This is largely because of necessity. These dealers have learned that if used properly, the Internet is the great equalizer that is capable of bringing giants to their knees. Alternatively, what were once the most successful dealers, with the best brands, locations, and facilities are the last ones to figure this out because they simply didn't have to. This is validated when I visit dealerships with no particular distinction of brand, location, or market that consistently produce used vehicle production of 70, 80, 90, or even 100 retail sales units each month.

So the answer to the showroom traffic problem just comes down to the difference between those who get it and those who don't. In other words, those who understand that traditional merchandising or advertising tactics won't solve this problem are the ones who get it and who are winning at the expense of those who are still relying on the traditional sales model.

With the persistence of this broken merchandising model, we get our first clue as to why it is difficult to attract and retain talented individuals to work in our showrooms. Who would want to pursue a career selling products to consumers who seldom show up? Moreover, who would work on a commission basis selling products that can readily be compared to identical vehicles being sold for less? Additionally, there is now little appeal in today's Internet era to haggle or negotiate. The Internet has bred a culture where the art and desirability of negotiation has become a relic of the past.

Despite these realities, we continue to write new ads, create new compensation programs, and even hold job fairs to attract people to do something that no one wants to do or can do well.

On the other hand, operations like CarMax and other emerging rivals are far exceeding the traffic of their traditional dealer counterparts. They are also demonstrating an ability to attract and retain sales professionals in abundance.

The basic secret that defines the superstore model is recognition of and the ability to execute essential Internet merchandising strategies. The centerpiece of their new and more effective Internet strategies is efficient pricing. These stores have learned that efficient pricing is the key contributor to increasing traffic as well as solving the salesperson challenge.

Specifically, two phenomenal things happen when vehicles are properly merchandised and priced on the Internet. The first is that people show up quickly and in large numbers. The Internet is an extremely effective medium that rewards dealers that price more competitively at the expense of dealers who do not. The second occurs more slowly, but with no less certainty. People that show up will negotiate less and, in some cases, not at all. This is because they have already satisfied themselves that they have found a fair value.

These two phenomena create positive effects for both the dealership and sales personnel. For the dealership, traffic and sales improve. This inevitably leads to higher total gross profit and the opportunity for additional sales of financing, insurance, and related products. Also, over time dealerships find that their variable selling expense is as much as 20 to 25 percent less than their traditional dealer counterpart. This is because they are able to hire and retain sales personnel that do not need to possess the same level or in some cases, any, negotiation skills. Such individuals are less expensive, easier to hire, and easier to retain.

From the perspective of the salespeople, the superstore environment is livelier and upbeat. These individuals consider themselves as product specialists, rather than used car salespeople. Simply stated, these superstores have redefined the job to be one that is highly appealing to a mass of Americans.

While there are many additional key lessons to be learned from the successful superstore, make no mistake that these operations have created a new model that is proving successful in creating greater traffic and more desirable employment opportunities. Perhaps the greatest endorsement of this new model came late last year when the iconic Wall Street investor Warren Buffet took an initial 6 percent stake in CarMax. Warren Buffet's reputation for identifying and investing in companies whose business models are superior to those of their peers is unparalleled. I believe we all must invest the time necessary to understand the new model for used vehicle sales if we want to be successful.

Drawing from 13 years experience as a dealer principal and eight years as a successful high technology executive serving the automotive retail industry, **Dale Pollak** is an authority on maximizing dealership profits from pre-owned vehicle operations. Pollak is the founder and chairman of the board of vAuto, Inc. a pre-owned inventory management solutions company.