JULY/AUGUST 2015

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Dealer Digest

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ACCOUNTANTS & ADVISORS

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Dealerships today receive leads from many sources. In addition to the tried-and-true telephone, leads also come in from the Internet, online chats, e-mail and text messages sent by vehicle shoppers.

While getting more leads is obviously a good thing, it does present a challenge: how to manage the leads most effectively. To meet this challenge, many dealerships are creating business development centers (BDCs) responsible for handling the leads before they're given to salespeople.

Renewed interest in BDCs

BDCs aren't new. They've been used for many years as a tool for managing incoming leads. But there's renewed interest in BDCs today as a way to better handle the high volume of leads coming in from sources like the Internet and mobile devices.

The specific role and function of the BDC varies by dealership. In general, though, BDC employees (often referred to as business development representatives or BDRs) are responsible for fielding and following up on all leads that come into the dealership, regardless of their source. BDRs are usually responsible for qualifying the leads, gathering pertinent information from prospects, and setting appointments with salespeople.

BDCs tend to be more cost-effective for midsize and larger dealerships than they are for smaller dealerships.

The biggest benefit of creating and staffing a BDC is that specially trained employees will handle the all-important first contact with prospects and be responsible for scheduling sales appointments. There is a difference in the skills required to respond to leads effectively and those required to lead customers through the sales process. Having a BDC is meant to ensure that the best-qualified employees perform each of these key functions.

It's important to note that BDRs aren't the same thing as customer service representatives. The latter are generally responsible for handling customer questions and complaints. Conversely, BDRs are specially trained in persuading prospects to make an appointment to visit the dealership and meet with a sales representative.

They do this by conveying a sense of trust, excitement, comfort or urgency with prospects that validates their selection of the dealership. This recognizes and capitalizes on the fact that cars are rarely sold over the phone or the Internet. Instead, the phone or Internet is the instrument used to get a prospect into the dealership, where a trained salesperson can take the reins.

Cost vs. benefit analysis

Of course, there's a cost to building and staffing a BDC — primarily the hiring and training of good BDRs. So dealerships must weigh this cost against the potential benefits they might derive from a BDC. In general, BDCs tend to be more cost-effective for midsize and larger dealerships than they are for smaller dealerships.

One cost-saving alternative is to outsource BDC functions to a service provider that specializes in handling leads and setting appointments for dealerships. This is often a more cost-efficient option for smaller dealerships than creating and running their own in-house BDC.

Another option is to run a "hybrid BDC." With this model, Internet leads are usually segregated from phone and text leads due to the unique nature of online sales. Internet BDRs keep their leads and try to close the sales, while salespeople receive phone and text leads themselves and are responsible for setting their own appointments.

Prompt and proper lead responses

Most dealerships spend a tremendous amount of money on marketing and advertising to generate leads from qualified car buyers. But if no one responds to these leads promptly and properly, the dealership is essentially wasting its marketing and advertising money.

Creating a BDC is one way to help ensure that leads are handled correctly, regardless of how they come in to your dealership. A well-run BDC can help optimize the benefits you realize from your advertising and marketing efforts — and even pay for itself in the long run. ■

Maximize your BDC results

Using a business development center (or BDC) is one way to manage the leads that come into your dealership from a growing number of sources. Here are four tips for getting the most bang from your BDC bucks:

1. Define your BDC objectives. Determine specifically what you hope your BDC will accomplish for your dealership, and then frame this in the form of measurable goals. For example, one of your goals might be to bump up the percentage of incoming leads that are converted into sales appointments from 50% to 75%.

2. Hire the right business development representatives (BDRs). Your BDRs don't necessarily need to have auto dealership experience — you can train them. It's more important that they have strong communication and persuasive skills, both verbal and written.

3. Properly incentivize your BDRs. Compensation for BDRs can be on a straight-salary basis or salary plus commission. If you only pay a salary, hold contests periodically to give BDRs additional financial incentives to set more appointments.

4. Ensure open communication between BDRs and salespeople. Sometimes, friction can develop between BDRs and salespeople if one feels the other is encroaching on his or her territory. Carefully define the responsibilities of BDRs and your sales team, and make sure the lines of communication between them remain open.

Make employees a priority with performance evaluations

"Our employees are our greatest asset." Many dealership owners would agree with this statement. But their actions sometimes contradict this, especially when it comes to providing feedback on job performance.

To perform at their best, employees need feedback on how they're doing. The most effective way to provide this feedback is by conducting formal employee evaluations and reviews on a consistent basis. Doing so can help boost employee morale and job performance.

Keeping them informed

It's human nature to want to know how we're doing, and this is especially true with regard to our jobs. When employees don't receive feedback on their job performance — whether good or bad — they don't know whether to keep doing what they're doing or change course.

Unfortunately, managers get so busy with all the tasks involved in running the dealership that performing employee reviews often gets pushed to the side. It can be easy to put off a performance review for a week or two (or longer) if there are other pressing priorities. This can lead to several problems:

- ❏ Employees receive no useful input on their job performance in a timely manner, so poor performance continues while the opportunity for improvement is lost.
- ❏ Poor performance might cause issues to continue uncorrected, which can hurt overall dealership performance.
- ❏ Employees receive the subtle message that they aren't a high management priority, which can hurt morale and make employees feel apathetic about their jobs.

In addition, employee reviews serve as a formal record of employee performance. This may provide the formal documentation needed from a legal perspective if you decide to terminate an employee for poor performance.

An evaluation and review process

The best way to make sure employee reviews happen on a regular basis is to implement an employee evaluation and review process. This will put in place a formal, structured procedure that should be followed by managers when conducting performance reviews for all employees.

Here are a few points to keep in mind as you devise such a process:

Make performance reviews a management priority. Require managers to conduct reviews on time, every time, for every employee. Otherwise, they'll inevitably get postponed as other more urgent tasks crowd them out.

Create a standard, yet flexible, performance review template. This template should include general performance criteria and standards that all employees are measured against, as well as standards that are unique for different jobs. A salesperson, for example, would have performance criteria different from those of a service technician.

Ask employees for self-assessments. Before getting started, managers should obtain a self-assessment to get the employee's input on his or her performance. This will help the manager view performance from the employee's perspective, which is obviously different from the manager's point of view.

Seek input from the employee's co-workers via 360-degree feedback. Keep co-workers' feedback confidential so they feel comfortable being honest in sharing their thoughts about the employee's performance. To make the process truly full circle, you might also want to solicit feedback on managers from the employees.

Annual and interim reviews

Formal performance reviews should generally be conducted on an annual basis, with interim reviews conducted every six months. This will demonstrate to employees what they're doing well (and poorly) so they have time to make changes before their annual review begins.

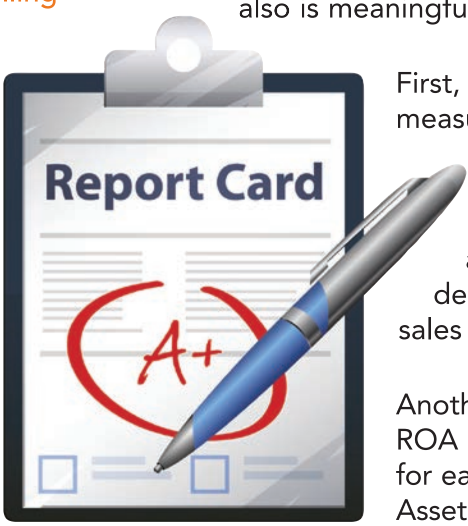
Resolve now to implement a formal employee evaluation and review process at your dealership. Show your employees that their performance counts. ■

Dealership report cards

Is your store making the grade?

When you were still in school, you likely brought home a report card, maybe as often as three or four times a year. The report cards let you and your parents know how you were faring overall and excelling — or not excelling — in different areas of the curriculum.

As a dealership owner or manager, you can still benefit from a regularly distributed "report card" — that is, a record of your business's performance in key areas. The following suggested metrics can help you assess your dealership's health.



Determine your return on assets

Key insight into your dealership can be gained by examining your return on assets (ROA). In the 1920s, chemical manufacturer DuPont broke down ROA into two components: operating efficiency and asset utilization. Although traditionally used in a manufacturing context, the DuPont analysis also is meaningful to auto retailers.

First, operating efficiency is measured with the profit margin ratio, which equals net income divided by sales. To improve profits — and, therefore, ROA — dealers can either increase sales or decrease costs.

Another way to try to improve ROA is to generate more sales for each dollar invested in assets. Asset utilization is measured in terms of the total asset turnover ratio, which equals sales divided by total assets. For example, a total asset turnover

of 1.3 means that, for each dollar invested in assets, the dealer generates $1.30 of sales (assuming it takes less than $1.30 of additional expenses to increase the sales).

In general, there is a tradeoff between operating efficiency and asset utilization. To illustrate, luxury dealers might earn a higher profit margin per vehicle, but they generally turn inventory more slowly than economy car dealers.

DuPont analysis provides a methodical approach to improving ROA. Dealers who think in these terms are better able to brainstorm specific action plans. Cost cutting isn't the only way to make more money. Other options include selling more cars, carrying less parts and vehicle inventory, adding service hours, or divesting underused equipment and facilities.

Address customer service

No dealership report card would be complete without addressing the customer service index (CSI). Successful dealers value their customers. High service ratings equate with goodwill and repeat business.

Industry analysts evaluate customer satisfaction. For example, J.D. Power and Associates computes CSI by surveying five measures during the first three years of vehicle ownership: service quality, service initiation, service advisor, service facility and vehicle pick-up. Scores are reported on a 1,000-point scale (the higher the score, the better).

Manufacturers pay close attention to CSI — and will let you know if you receive an unfavorable survey. Find out where your dealership stands. If you're not an industry leader, train your staff on ways to cater to customer needs. Make customer satisfaction a top priority.

Monitor employee productivity

If employees are an asset, what's your return on investment? You spend a lot of money on each employee — salaries, benefits, training and demos — and everyone should contribute to the bottom line.

For example, each salesperson should have a minimum monthly sales goal, and every technician should achieve a certain number of chargeable hours. Even the F&I manager should have, say, an extended warranty sales goal each week. And all of these goals should be monitored.

Communicate your expectations and help rookies learn the ropes. Those who fail to carry their weight after sufficient training and performance feedback may not be worth their expense. No one wants to hand out pink slips, but it's an unavoidable part of running a successful business.

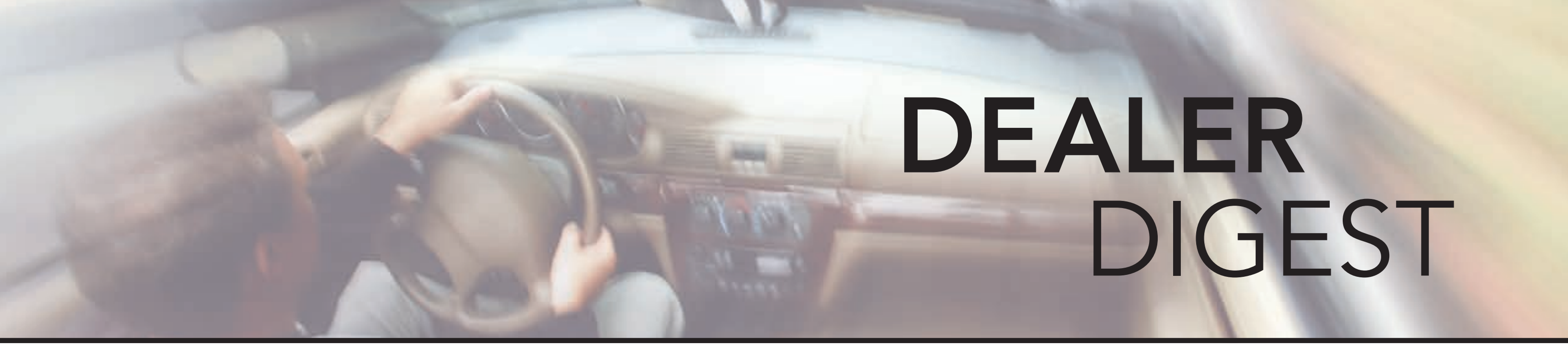
Circulate the report cards quarterly

Distribute quarterly report cards to your management team. These reports can serve as the springboard for continuous-improvement discussions.

Each department should set and monitor specific goals aimed at improving ROA, customer satisfaction and productivity. Your action plan should include short- and long-term expectations.

Gain objectivity

One of the main advantages of using metrics to measure your dealership's performance is the objectivity factor. Using well-constructed measurements can reveal more about the realities of your business than personal opinions and conjectures. ■

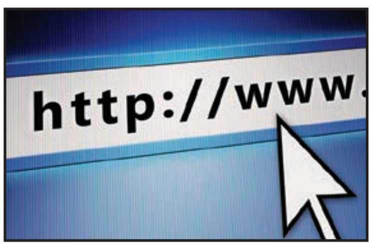


DEALER DIGEST

Is TrueCar worthwhile for dealerships?

TrueCar was founded as an automotive buying website in 2008 to help car buyers get the best price without having to haggle with dealership salespeople. The website promises to bring more transparency to the car-buying process and prevent buyers from overpaying for a vehicle.

About 25% of all U.S. auto dealerships now use TrueCar to get leads, and TrueCar is a party in about 3% of all new vehicle sales. According to TrueCar, the average buyer using the service saves about an hour of time and $3,000 compared to buying a vehicle the traditional way.



Dealers pay a $299 fee for each new car and $399 for each used car sold via a TrueCar lead. So, is TrueCar a good way for dealerships to generate more leads? Answering this question goes beyond deciding whether or not you want to pay the TrueCar fee.

To sell a vehicle using TrueCar, you must bid against other dealerships in what is essentially a reverse blind auction. TrueCar implemented changes to the bidding process a few years ago — dealerships can no longer see each other's price offerings. Some say this has helped dealerships maintain higher profit margins on TrueCar vehicle sales.

The TrueCar model, already showing its influence on other third-party websites, could be the wave of the auto-selling future. This makes it something that dealerships may want to examine going forward. ■

Spouse definition changed for FMLA

The definition of a "spouse" has changed as it applies to the federal Family and Medical Leave Act (FMLA). Any eligible dealership employee who wants to take unpaid, job-protected leave to care for a spouse with a serious health condition may now claim this leave for a legal same-sex, common law or foreign-celebrated marriage.

Validity of a marriage for FMLA purposes is now based on the law where the marriage took place, not the law where the dealership is located or the employee resides. Consider revising your dealership's leave policies to reflect this new definition of a spouse under the FMLA and let your employees know about the change. ■

Auto sales forecast: Nearly 17 million

The upbeat U.S. economy appears to be having a positive impact on the automobile industry. Automakers are forecasting sales of 16.9 million new vehicles in 2015, just shy of the record 17.4 million vehicles sold in 2000, before the burst of the dot-com bubble and the 9/11 terrorist attacks. If the projections hold, 2015 will be the fifth consecutive year of rising auto sales. ■