

Selling Value To Volume

Dominate Your Market

Propel Your Profits

A White Paper

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Produced by First Approval Source

First Approval Source
Your Profit Services Company

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1. Preface

Which would you rather do in your store – sell volume and generate high inventory turns but at low margin per unit, or maintain high margins at the expense of inventory turns and volume?

Why do you believe that this is a choice you must make?

In this White Paper we examine the methods by which, through selling Value to Volume you can dominate your market, have high inventory turns with good margins and dynamically drive profits on a consistent basis.

Would you like to see profits grow steadily at a 20% - 30% rate? This White Paper is for you.

2. Value Or Volume – Or Both?

The widely held belief is that any give store can sell either value or volume. This concept holds that if you want to hold price and margin, you have to sell value, but that will reduce your total number of sales. Alternatively, you can be a price competitor and take less margin per deal as long as doing so sufficiently increases your unit sales to justify the lower price.

The principle of price elasticity seems to dictate that virtually all consumer items, including, and perhaps especially, higher ticket items likes boats and RVs, are subject to negative elasticity – the higher the price, the lower the volume, and vice-versa.

However, this may not always be the case – at least not as directly as it would appear.

Dennis Galbraith, a well know and very popular trainer, consultant and speaker on automotive marketing, and now the Chief Marketing Officer at Dealer E-Process, takes a different view. He created the “Dealer Strategy Matrix.” This matrix is illustrated below.

Branding	Service	Dominator
No Branding	Skim	Velocity
	Gross	Inventory Turn

An analysis of this matrix yields some very interesting results.

The x-axis is the classic Price Elasticity equation. To the extent that you hold Gross, you sacrifice volume. When you want to increase volume, dial down your gross. If this were the end of the story, the world would be a very simple place – but maybe not a very fun or profitable one.

The y-axis depicts what Dennis refers to as Branding versus No Branding. This reflects the extent to which you create a “value” brand for your store. How much is your store delivering an experience that differentiates it from the others and allows you extract value beyond price.

With these two dimensions in play, we can see that all stores fall into one of four categories:

- 1) Skim – These stores are content simply holding Gross without delivering much extra in the way of value. Their value might be, “I’ve been in business 20 years”, or “I’m your neighborhood store for this brand.” These stores “Skim” whatever business they can while holding Gross as high as they can.
 - a. When Is This An Effective Strategy – If the dealership is truly the only one with a particular popular brand in a significant geographic radius this strategy can succeed. If the store is simply a “lifestyle store” (and there is nothing wrong with that), where the owner just enjoys having the business and would rather sell to a few friends at a higher price than worry about the headaches associated with building either a brand or volume, then this is the only strategy.
 - b. When Is This An Ineffective Strategy – When there is sufficient competition to ensure that even with high Gross, there are not enough sales to sustain the business, this is a “going out of business” strategy.
- 2) Velocity – Everyone knows who these are. “You can’t beat my prices.” “Come on in, we promise the lowest payments anywhere.” Operating at virtually no margin, these dealerships survive strictly by doing whatever it takes to keep their inventory turns high.
 - a. When Is This An Effective Strategy – High inventory turns definitely reduce flooring costs and so make the margin per unit requirement less. If the population can support the volume at the reduced margin, then this is a viable approach to running a business.
 - b. When Is This An Ineffective Strategy – In down markets or periods of quickly rising interest rates, being a Velocity seller will result in significant hardships. The Floor Plan costs will increase ahead of price changes on the inventory and the volume will drop with no cushion. This can also be a difficult model to maintain in highly competitive markets, where price will ultimately come into play in most cases. In these markets, if there is nothing to sell but the price, beating the competition can be challenging.
- 3) Service – These are the dealerships that promise service excellent and strive to provide an outstanding customer experience. They justify higher prices and lower inventory turns on the strength of their demonstrated customer satisfaction. They typically have plush showrooms and a highly professional and polished sales and customer service team.
 - a. When Is This An Effective Strategy – This is an approach the yields customer loyalty and repeat business. If the dealership is part of a stable community where word-of-mouth and repeat business will drive sales, being in the quadrant will be effective. Note that there is not an absolute level of professionalism or service needed to move into the Service quadrant. It is only necessary that the “service” brand be demonstrably superior to the Skim dealer in the market.

- b. When Is This An Ineffective Strategy – Typically, service is expensive when being demonstrated at all touch points in a store. In very small markets, or in economically challenging times, the “Service” brand may have to be sacrificed at the expense of customer satisfaction, and the lasting impact of a change like that can be devastating.
- 4) Dominator – These are the stores that have a great “Service” brand AND are doing pretty spectacular inventory turns. What is interesting about the Dominators is that they may not necessarily be sacrificing margin, at least not as much as you would expect, to drive the inventory turns. They attract customers based on the experience they deliver and, while they may demonstrate some pricing flexibility, they turn inventory because they not only close a higher percentage of shoppers on their lot, they also attract more buyers to their lot. Unlike stores with No Branding, stores with Branding have more than simply price to drive inventory turns.

There may not be a Dominator in every market – but, you know them when you see them.

- a. When Is This An Effective Strategy – This approach works when you have the people, the management and the storewide commitment to deliver excellence both in front of the customer and behind the scenes. When that commitment is there, being a Dominator is less a strategy than a consequence.
 - b. When Is This An Ineffective Strategy – Spending what it takes to build and maintain a valued “Service” brand without the commitment at every level to maintain it quickly results in a very expensive collapse. Gross gets sacrificed too quickly, traffic falls off, inventory turns collapse and the store either reverts to a Velocity store and trims the expenses associated with being a Dominator or simply succumbs to market forces and goes out of business.

Price elasticity does still play a role, of course. Within each segment of the quadrant, the store that out-prices others within that segment may gain an inventory turn advantage. If there are two Skim stores in a given market and one simply elects to Skim at a slightly lower Gross than the other, the lower Gross Skim store should see greater volume. The challenge in the No Brand quadrants is that price is really the only dial. Seeing two Velocity stores try to out-do each other is like watching a death spiral. Seeing two Dominators compete is closer to watching a battle of the Titans where, while price will be a piece of the action, you will also see ever more creative ways of adding value and increasing the value of the Brand.

There is a place in every market for players in each quadrant. However, it should be clear that being a Dominator would be best for the store and the customer in virtually all cases. So why isn't everyone a Dominator?

3. Inhibitors To Domination

As opposed to being the “Terminator”, being a Dominator requires a lot more than just being strong, or even than just being smart or clever. Domination requires a commitment and alignment of goals that can be hard to find and maintain. There is also a significant investment in people, process and practice. The decision to become a Dominator is not for the faint of heart. In many, if not most cases, it may be much more practical to be a Skim, Velocity or Service dealership with full intent and simply make that work.

There are three major inhibitors to being a Dominator: inadequate owner/management commitment; insufficient training, and; non-supportive infrastructure.

Inadequate Owner/Management Commitment

Brand building starts at the top. It begins with a belief in the value of service excellence throughout the organization for the express purpose of delivering an outstanding customer experience and having buyers leave the store delighted. Without this objective firmly in the mind of everyone in the store, beginning with the owners and managers, the effort to become a Dominator is simply lip-service and will fail as soon as the brand is tested.

This commitment manifests itself in a wide variety of ways:

- An emphasis on customer consultation rather than high-pressure sales
- A clean, comfortable and enticing showroom or sales environment
- Enforcement of behavioral standards the place the customer needs first in every case
- Clearly articulated and communicated value propositions around every aspect of the sales, service and customer satisfaction experience, expressed and, more importantly, demonstrated in such a way that the customer never has to be told the value of the brand, but rather they simply are immersed in it
- Allowing price to be a part of the conversation, but never the lead
- Professional and friendly demeanor from 100% of the staff

This list could go on. When ownership and management are aligned in their commitment to being or becoming a Dominator the customer will feel it and they will be able to tell their friends about it. Their conversations will be about “how awesome the total experience was” first. They will believe that they received a great price, even though they have gotten a better price at a Velocity store.

The real challenge is not in agreeing on this commitment or coming into alignment, it is in maintaining it day in and day out. Not every customer is going to be delighted, no matter what you do – you simply have to maintain your standards and not give the disgruntled customer any fuel for their fire. You won’t sell everyone who walks through the door and there will be temptations to compromise brand integrity to make a sale. That can simply never happen.

Brand integrity and consistency are jobs one, two and three – and there is no job four.

Insufficient Training

Face it, not every new sales or service person you hire is going to come with a brand building mentality built in. The attitude and skill to sell and service in a high brand equity environment are not things people are generally born with. Moreover, there are lot more stores with Skim and Velocity tendencies than there are Service and Dominator dealerships. The background of the people you hire will likely have them coming out of the No Brand environments.

Training is key to creating and maintaining a Dominator store. You need to have a comprehensive training manual for each function in the dealership. More importantly, there needs to be management accountability to ensure that training is done, done properly and is ongoing.

What are the various aspects of function and behavior for which there needs to be training:

- Greeting customers – in the store, on the phone and online
- Understanding the value proposition for:
 - The vehicles and their features (articulated as benefits)
 - Financing
 - Extended Service Agreements
 - GAP Insurance
 - Credit Life Insurance
 - Service
 - The showroom environment
- How to sell (without selling price first) using the value propositions
- Follow-up
 - Pre-Sale – On a lead
 - During the sale – Especially where there is an extended period between the agreement and delivery
 - Post-Sale – Ensuring a repeat customer and a reference
 - Post Failed Sale – Turning a No into a Not Now and finally a Yes

Again, this list could go on, but once again the point is that being a Dominator requires a store wide consistency in approach, attitude and practice that must be enforced through initial and ongoing training. Failing to supply adequate training ensures that customers will receive very mixed messages throughout the sales and service processes which will engender mistrust and suspicion and will ultimately prevent successful Domination.

Non-Supportive Infrastructure

As we have seen, there are a lot of moving parts to being a Dominator, and as we will address in the next section, there are many areas that require on-going activity in order to assure the high Inventory Turns you are striving for as a Dominator. Even the training discussed above requires documentation, practice and process – not just sitting a new hire down with a video to watch and calling it good.

In order to succeed in Domination, you need to have physical and procedural infrastructure in place that not only supports the institution, communication, tracking, measuring and refining of all the various processes and procedures – and does so in a way that is as efficient and non-burdensome as possible.

It is okay to not have all the pieces in place as you begin your journey to being a Dominator. Moreover, you should never expect the infrastructure to be finished. There will always be ways to improve on various aspects at various times, but the commitment to put the infrastructure in place and then continually evolve it must be there.

Elements of the infrastructure can range from simple to complex, and the must include (but are by no means limited to):

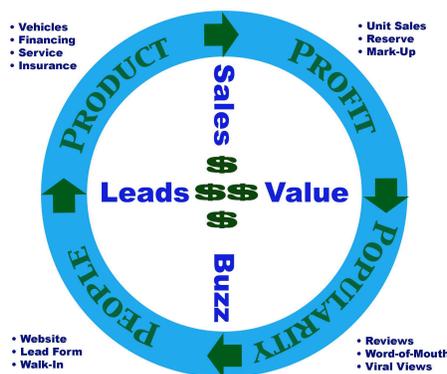
- Communications
 - Phone systems which minimize customer’s interaction with Voicemail – which make it easy for employees to reach each other
- Lead assignment and tracking
 - Follow-up tracking
- Social media monitoring and management
- Website platform that makes it easy to update and which integrates easily with lead systems and customer support and contact systems, including Live Chat
- Inventory management that is efficient and easily accessible
- Internal computer systems that are well integrated
- Deal desking and finance systems and processes that are easy for the customer and efficient for the store
- Phone and email communication monitoring systems
- Online training and internal announcement and updates systems and processes

This list is by no means exhaustive but it is indicative of the thought processes which must support a store on a Dominator trajectory. The key here is that the systems, processes and procedures must support an outstanding customer experience for both your external buyer and your internal employees. If the people who work in your store every day are not as delighted as the buyers leaving your lot, the engines will sputter and you will never achieve Domination orbit. A non-supportive infrastructure will leave you with less than delighted workers.

Becoming a Dominator is not a matter of simply wanting to. It is hard work...and a lot of it...but the rewards are an upward spiral of profit and profit growth – likely more than you imagined were possible. In the next section we discuss this upward spiral in more detail, and show how you drive high inventory turns with high margins and turn it in a never ending Virtuous Cycle.

4. The Virtuous Cycle

The Virtuous Cycle is a simple yet powerful paradigm adopted by every successful Dominator. The essence of the Virtuous Cycle is that success breeds success and that doing the right things in every area of dealership operations lead to an upward spiral of profit. This cycle is illustrated below:



People, in the form of leads and store traffic consume product in the form of sales. Sales properly executed drive profit which is generated by brand value. This perceived value creates popularity which appears online and in the community as buzz. Buzz causes more people to come to your site and your store and the cycle repeats.

Each spin of the cycle generates numbers bigger than the previous. Notice that, at no point in this cycle, price is never an element. Brand value generates the profit. Brand value generates the popularity. Popularity managed properly generates increased traffic volume. The increased volume, when treated appropriately leads to greater sales opportunities and on it goes. Higher and higher inventory turns holding margin all the time.

People

How are you ensuring that you are getting enough customers? What do you rely on for getting potential buyers in the door?

Your possible answers probably include some mix of:

- Traditional advertising – print ads, signs, possible radio or TV, physical mail, etc.
- Sales people cold calling potential customers – and that probably means buying lists
- Shows
- Email marketing – and that again means having or buying lists
- Social media
- Your website – and converting your web visitors to leads for your sales people to follow up on
- Digital advertising
- Community/charitable sponsorships with branding (usually or hopefully accompanied by PR and media coverage)
- Walk-ins due to location and drive-bys
- Word of mouth

All of these have value at one level or another, but they are certainly not equal.

The more “old-school” and traditional means of driving traffic, should not, generally be your major focus. Print and broadcast advertising should now be very limited and very targeted - it is of diminishing value when broadly used. Outbound cold-calls by your existing sales team is destined to fail – and if your sales people have time on their hands to be doing that, you have too many sales people. Shows are an exception as they always have been and always will be a necessary evil, but you have to maximize their effectiveness by making sure that people know you are there. Community events and charitable sponsorships will, potentially, increase your local stature and visibility, but these must be done because you truly want to help and not because you think they are a clever way to build business. Location based walk-ins are difficult to influence and will be what they will be – but you need to put your best foot forward and make your existing location as attractive as possible.

Technology based traffic drivers are where the majority of your attention should be. Email marketing is the exception here – unless you have truly remarkable lists to email to, capturing new customers through email is a waste of time and money. Social media in all its forms (FaceBook, Twitter, Pinterest, Instagram, YouTube, etc.) deserves a lot of attention and if you need to invest in some consulting help, here would be a place to do it – this is where your value message can go viral. Your website has to be top notch – and it has to drive and capture leads. Digital advertising, done properly, is a worthwhile investment, especially when coupled with remarketing. On-line reviews and recommendations are the new-age word-of-mouth and must be solicited and managed.

You use traditional media to bolster events and your community presence. You maximize the effectiveness of shows. Your walk-ins are better than ever. You make great use of digital advertising. You are the viral king or queen of YouTube for your brand and you amplify that with your social media presence. Finally, your website is consumer info capture friendly. You are driving more traffic to your site because of everything else you are doing...and you, instead of getting a 2% conversion to lead, are getting a 10% conversion to lead.

Products

Your store exists to move your manufacturer's vehicles. Whether you represent one manufacturer or several, the vehicles produced by these OEMs are, in almost all cases, your bread and butter. These are the primary products that bring people in; these are the products that, often, allow you to sell the rest of what you have to offer.

While it seems like this part of the product picture is obvious, there are nuances here that may well be missed. Are you also a broker? Can you get easy access to other vehicles which may be better suited to your customer, even though they came in to look at your specific products? Are you selling your ability to take and offer top dollar on trades? Extending your primary product offering through brokerage can make a huge difference. Knowing that you have access to broad resale network allows you to sell differentiated capabilities with trade-ins. These help drive product sales success in the Virtuous Cycle.

Are you selling financing? If you are not, you are missing a major product opportunity. If you ask your customers to arrange their own financing, you are definitely losing business. 55% of people who leave your store to arrange financing never come back. By offering financing you increase unit sales by 25% to 30%.

Most customers need financing for at least a portion of their purchase. To not offer financing is to provide poor customer service. Moreover, by making financing easy and competitive, you can drive profit growth. Even the buyer who says they are paying cash is a financing candidate. "Are we going to be placing a lien on this vehicle?" tells you if the buyer is arranging financing elsewhere – and you have the opportunity to make life simpler and better for them.

Offering the finance product also simplifies the sale of back-end products such as extended service agreements and GAP insurance. Offering these back-end products is also part of delivering a great customer experience. Once a customer is obtaining financing through you, these back-end products are simply offers of a monthly payment "with protection" or "without protection." These products add true value for your customers and you are doing yourself and your customer a disservice by not introducing these products early and doing a good job presenting their value.

Financing and back-end products continue to increase the velocity of the Virtuous Cycle.

Don't forget to sell the products in your "Pro-Shop" or "Enthusiast Market." People love many of these items. How often do you let them leave your store without even inviting them to look around? These are no pressure, no effort sales. These are sales that occur because people are basking in the excitement of their new purchase and just feel like this gadget or toy will just make their experience that much more special.

Finally, it is never too early to start selling your parts and service. Make sure you sell your routine maintenance packages (and make sure you have a premium package to offer.) Parts and service as a product will add consumer confidence in your store and even if nothing actually gets sold today, these products ensure future product sales.

Your product is not just a boat or an RV. It is the full package of everything that a buyer can take away from your store. You do not do your customer, your team or your store any service by offering less than the full plate of products. Of course, it goes without saying (hopefully) that everything you sell is sold with integrity, fairly and full transparency. Everything is sold based on its value to the customer.

When you sell all your products to each buyer, you add energy to that Virtuous Cycle and truly do maximize your sales.

Profit

Your manufacturers go to a lot of trouble to build value into their products. They don't want to just build vehicles that makes consumer reaction a bland, "Huh, that's interesting." The features, the extras, the bells-and-whistles are there to create delight and excitement for your buyers.

If you and your sales team and your service team and everyone else that works in your store can't be excited by your products, it is time to either change people or products, or maybe even industries. Your shoppers know if you are excited. Enthusiasm is contagious.

This positive, good feeling will permeate every aspect of your store and that will change the customers perception of their experience. Maybe they can drive a 100 miles and get a lower price...or maybe can stay 25 miles closer to home and get do a few dollars better...but they won't. Buying anything expensive is emotional and people buy the whole experience. It starts with you.

Now, some products simply are lower price than others. The point is not that you can take a higher price product and beat a lower price one – although you certainly can do that sometimes. The point is that you can, and should, get full price, or close for whatever your product is.

People want to be able to walk away and spread your enthusiasm for every feature as they brag about their new purchase to their friends. When their friend asks, "What did you pay, couldn't you have gotten it cheaper?", you want their answer to be, "Maybe I could have done a few dollars better for the vehicle, but I have never seen people more knowledgeable and excited about their product. I know that I can trust them and if I have have questions or problems later, they will take care of me. A couple of bucks is nothing compared to the experience I just had. Oh, and by the time we were all done, I felt really good about the entire package."

Okay, so you have your buyer nodding and smiling about a fair price. What about financing?

If you are not offering financing, do it. It is that simple. Offering financing will increase unit sales between 20% and 30%. 55% of people who leave your store to arrange financing never come back.

Some people say they are cash buyers, meaning that they have arranged their own financing. The convenience of doing everything in one place will certainly improve their purchase experience. That improved experience is added value.

As you offer financing, don't be afraid to maximize your profits here as well. You will get a buy rate for the loan and a sell rate. Take the points. How do you justify them when a buyers says, "But I can get .25% better somewhere else." First, you have to make the process as easy as possible. Make your credit application accessible. Make the entire finance process a convenience and a pleasure for your buyer. Your value is ease of purchase.

With financing in place, you need to be selling back-end products such as extended service agreements and GAP insurance. Offering these back-end products is also part of delivering a great customer experience. Once a customer is obtaining financing through you, these back-end products are simply offers of a monthly payment "with protection" or "without protection." You have a lot of flexibility in pricing these products – "full price" is somewhat ill-defined. You owe it to yourself and your customer to be fair and honest on pricing.

Once you start selling value everywhere, you are greasing the gears of the Virtuous Cycle machine and the profitability of your dealership will very quickly begin to grow dynamically.

Popularity

Technology has made viral popularity much more accessible. Are you capitalizing on your happy buyers and leveraging their satisfaction with all of the available technologies?

Are you taking pictures? Are you taking lots of pictures? Do you start taking pictures when your customers are out on test drives and continuing through delivery and then on to customer appreciation days?

Let's assume you are taking plenty of photos. Are you asking you customer's to tweet them? Do you have a Pinterest page with awesome pictures and great captions? How do you get these photos on your FaceBook page...and more important, how do you get them on your customer's FaceBook page?

Make it easy for your customers to become your Fan Club. If they are not social media savvy, give them simple instructions as to how they can help you. If they have kids, get them to help.

How about videos? Are you getting action videos of your buyer's taking delivery? How videos of vehicle prep that show how hard your store works in making sure that the buyers are satisfied? How about a contest with some simple prizes for the best videos of people using your products? Did you think to have the customers who win the contest come into your store and video them getting their prize and talking how much they love their boat or RV?

Okay...you have videos. Do you have YouTube channel? (If you don't, start one!) Point to it from your FaceBook page and use FaceBook to promote your videos. Videos are exciting. They generate emotion. Emotion drives buzz.

Your happy customer won't influence seven people...they'll influence hundreds...even, and especially, people they don't know.

By the way, don't be afraid to be bold. When you run your best videos contest, get a local TV station involved. Have them be the judge. Give them rights to the videos.

Don't neglect the power of Instagram as you build your visual library. Make sure you have some very short and attractive videos that work for Instagram or as Vines for Twitter.

The objective is to make each sale a gift that keeps on giving. You want everyone to know just how much fun your customers are having. It takes a little time, but the benefits are more than worth it.

Are you asking your buyers for reviews? Do you send out feedback forms? Do you direct buyers to review sites? Are your shoppers posting reviews on their pages?

90% of all shoppers look for reviews online before buying. If you are not generating reviews (by asking for them – which is legal – versus writing fake reviews yourself – which definitely is not legal), you are losing customer opportunities every day.

Soliciting reviews does carry with it the burden of watching your online reputation. You have to watch the review sites (like Yelp and Reputation.com) and your reviews as they are scattered across multiple online properties. Make sure you set a Google Alert for your store. You should look into monitoring tools such as HootSuite or trackur.

As you start to collect reviews, you will get some bad ones. Don't panic. Try to reach out to the reviewer directly and resolve the issue. Do not, ever, under any circumstances, respond publicly online. Bad reviews add legitimacy to your online profile. No one is perfect. These negative reviews should be learning experiences. You should keep your positive to negative ratio at about 7 or 8 positive reviews for each negative review. As long as you are doing this or better, your reputation will drive business.

Having delighted buyers is great and it is the starting point for driving buzz. However, it is only the starting point. You have to use all available technologies to turn a few referrals into dynamic lead generation. Photos, videos and reviews are your buzz generation fuel.

Once you have buzz, the virtuous cycle continues its happy spin, delighting you with ever increasing profits.

5. How First Approval Source Can Help

For years, First Approval Source has been helping dealers increase their profits while satisfying the financing requirements of their customers. The leader in customer service and customer satisfaction, the First Approval Source team is known among its dealer community as the quickest, most flexible, most responsive and most focused outsourced F&I provider in the industry. With a broad variety lenders to work with and years of experience in the marine and recreational vehicle industry, First Approval Source is often able to succeed in obtaining financing where others fail.

First Approval Source is your profit services company. We help you accelerate the Virtuous cycle through our expertise in F&I and with our partnerships that assist you in all the Virtuous Cycle segments. Unlike the narrow view taken by traditional financial services providers, First Approval Source starts by recognizing that more and better qualified leads results in more unit sales. Once we have helped drive the increase in unit sales, then our attention turns to helping deliver more profit per unit.

Unlike any other provider in the industry, First Approval Source starts with doubling highly qualified finance leads. It then serves as a comprehensive financial service resource for all F&I issues and requirements. Providing regularly updated information through its blog and social media outlets, First Approval Source not only produces profits for dealers through its all-inclusive F&I offerings, it also keeps dealers abreast of best-practices, trends, insights and breaking news. Through its unique dealer website offering, First Approval Source is also able to assist dealers in gaining more, finance ready, highly qualified leads.

The dealer's partner in all things F&I, First Approval Source continuously strives to maintain and improve on its "best in the industry" reputation. Originally founded by a team with over 30 years of dealership experience, First Approval Source knows what it takes to make you successful.

First Approval Source can help you be a Dominator.