CUSTOMERS WANT TRANSPARENCY

THAT MEANS MORE PROFIT FOR TODAY’S CAR DEALER

Black Book®
Online Division
From the desk of the President

We chose transparency for the topic of this white paper because it summarizes how the internet has changed the selling process.

Not too long ago, our industry kept the trade for the last discussion, after having the customer take a test drive. Finance information was shared at the highest level to protect margin opportunity. Most dealers sold with a four square and the front end margins were pretty good. Some dealers still believe this is the right philosophy, but many have changed.

Fast forward to today’s internet department. Websites carry inventory and pricing information which is supplemented by BDC’s, internet chat is growing along with access to information by mobile devices. There is simply no way to control the amount and type of information available to customers who want to piece together their deal at home and simplify the buying process. Where does it end? Where should dealers draw the line between transparent selling and disclosing so much information that customers become confused or afraid to engage?

We believe dealers will make the choice that is right for their local market and business philosophy. When making that choice, you may wish to weigh the various factors offered in this white paper. It offers customer insight from a Harris Interactive poll we commissioned along with an opportunity to compare your philosophy against your peers based on a dealer survey.

We believe in transparency because it empowers everyone to make better, more balanced decisions. I hope you find this white paper helpful.

Best,

Mike

Mike McFall
President, Black Book Online Division
That Means More Profit For Today’s Car Dealer

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Transparency – What Is It?

Transparency is a matter of survival for automotive dealers today.

Dealerships that continue to cling to old ways of doing business – not providing price, using bait and switch tactics, or shafting customers on the trade in – will not survive long in today’s world.

Shoppers are demanding information and are taking their business to dealerships that make what they are looking for readily available. That is good news for today’s car dealer because it means they have the opportunity to create happier and more satisfied customers while making more money in the process.

“Transparency” is a relatively new, yet very important, buzz word in automotive retail. It is a critical word because it represents a shift in thinking for progressive dealers that understand providing car shoppers with as much information as possible gives them a tactical advantage over dealerships that are wary of revealing too much.

As a concept, transparency sounds good, but what does it really mean? Fortunately, consumers have given a strong answer to that question.

Clearly, an overwhelming number of customers say they want dealers to be transparent. According to a recent study by Harris Interactive (conducted for Black Book Online), 91% of car buyers say the information provided by car dealerships should be both more complete and more accurate.

What information do car shoppers say is important? There are four main areas in which consumers are looking for transparency:

1. Pricing information
2. Financing information and options
3. Trade in value of current vehicle
4. Inventory

And this information has to be visible and prominent on the dealership’s website. In fact, consumers say having this information helps them select which dealerships they are going to visit. (See Figure 1)

* See survey methodology on page 13
Although it’s clear in which areas shoppers want transparency, some dealers question whether providing too much information creates a playing field in which consumers have too much advantage, thus reducing profitability.

The answer is simple. Not being transparent enough puts a dealership at a significant disadvantage today. Consumers are going to buy cars from the dealerships that provide them with the information they are seeking. Ninety-three percent of car shoppers surveyed in the Harris Interactive study strongly indicate that dealers who take the time to understand their needs have a better chance of getting their business.

Providing as much information as possible early in the process has two key ingredients that create highly satisfied customers:

- Customers feel empowered and more confident they are getting a fair deal
- It speeds up the car purchase process

Dealers are starting to get the message. At least 72.6% of franchise dealers believe their dealership’s philosophy is to answer prospect questions directly.* And 89.5% of dealers believe customers expect dealers to provide candid and honest information about areas such as pricing, trade values and financing.*

* From Franchise Dealer Survey compiled by Ray Fenster.com March 2011

Figure 1

IMPORTANT SERVICES OR TOOLS WHEN SELECTING A CAR DEALERSHIP TO VISIT

<table>
<thead>
<tr>
<th>Car Buyers</th>
<th>Not/Slightly Important (Net)</th>
<th>Somewhat Important</th>
<th>Important/Very Important Absolutely Important (Net)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full disclosure of the price at which the dealership is willing to sell the car</td>
<td>6%</td>
<td>7%</td>
<td>87%</td>
</tr>
<tr>
<td>Ability to compare car loan rates</td>
<td>17%</td>
<td>12%</td>
<td>71%</td>
</tr>
<tr>
<td>A website with an up-to-date list of the dealership's inventory</td>
<td>19%</td>
<td>14%</td>
<td>67%</td>
</tr>
<tr>
<td>Ability to get pre-approved for a car loan</td>
<td>26%</td>
<td>13%</td>
<td>61%</td>
</tr>
<tr>
<td>A tool on the dealership's website that would enable me to determine the value of a trade-in car</td>
<td>23%</td>
<td>17%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Harris Interactive Car Financing Survey - April 2011
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Pricing Transparency

One area in which car shoppers are demanding transparency is pricing. Consumers say it is important for two reasons:

- 87% say full disclosure of the car price factors into their decision of which dealerships to visit.*
- 89% indicate having the price of the vehicle is a critical piece of quickly completing the purchase. Quicker purchases lead to more satisfied consumers.*

As more dealers recognize the importance of being transparent, dealers not providing price are quickly becoming the minority and likely will stand out as not being customer-friendly. And, as the data above shows, not having a price on the website likely will push consumers to look to other dealerships, eliminating whatever chance the initial dealer had for a sale.

Essentially, dealers not providing a price online, on the phone or in email responses are finding themselves not even in the game.

One concern is that as more dealers provide pricing, it’s becoming a “race to the bottom” as dealers try to outdo each other in being the lowest price option, therefore killing gross margins on the vehicles.

“We’re not seeing that,” says Jim Bell, e-commerce director for Don Ayres Honda in Ft. Wayne, IN. Being transparent in its pricing has actually helped the store’s gross margins. “Your dealership doesn’t necessarily have to be the lowest price, but it does have to be reasonable,” Bell says. “You have to be able to justify your price and then you have to hold the line on it.”

One way dealers can defend their pricing is to employ pricing information from third-party sources and to share that information with customers, Bell says. Apparently, consumers agree. According to the Harris study, 81% of consumers questioned say having access to pricing from a third-party source is helpful in the buying process.

Bell also uses information from inventory management tools to lend credibility on the dealership’s pricing.

* Source: Harris Interactive Car Financing Survey - April 2011
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Financing Transparency

Financing transparency is perhaps, the area that has the most potential for both dealers and customers.

Most dealerships today make available on their websites an online pre-approval form for customers to complete prior to coming into the dealership. Additionally, dealers also provide financing options to customers who have not yet secured a loan for their purchase.

Although both are important, customers apparently want more from dealers in the way of education, transparency and privacy.

The Importance of Educating the Consumer

While most car buyers (95%) understand the importance of knowing about car financing when purchasing a vehicle only 44% say they themselves actually are knowledgeable about it.*

It’s important to note most consumers say they don’t find the process of learning about financing intimidating, only that it is a chore.

This represents a great opportunity for dealerships to help customers better understand the financing process by providing objective third-party information and advice about financing and car buying.

It’s also a great opportunity because not only are consumers looking for information about financing, most dealerships aren’t providing it according to the Harris study, an area in which car buyers (67%) give dealers a C grade.*
Dealers who go out of their way to help educate car buyers about financing the vehicle purchase will likely stand out and differentiate themselves from the competition.

Consumers are looking for financial information from dealerships in three areas:*  
- Help with determining what cars they can afford (85%)  
- More guidance on how to obtain an affordable car loan (84%)  
- Comparison information about rates and different institutions (76%). *(See Figure 2)*  

*Source: Harris Interactive Car Financing Survey - April 2011*  

**How to Be More Transparent With Financing Options**  
Today, most dealerships assist their customers in securing financing for the vehicle purchase. The customer completes the application either online or in the dealership. It then gets shot gunned to any number of lenders via financing software. Once a customer’s application is approved, then the purchase is finalized.

Customers end up accepting financing terms on which they have no idea of whether they are favorable or not.
Although assisting customers with obtaining financing is a valuable service, consumers say they want more disclosure of what options and terms are available. Approximately 76% of consumers say they would like dealerships to provide comparison of auto loan information across different banks and credit unions. Another 69% want information on what options are available to that specific dealership’s customers.*

Consider this statistic: at least 91% of consumers surveyed say dealerships that are open about financing details have a better opportunity of getting their business.*

**Credit Score Challenges**

Another critical area in which dealers can help consumers is information about their credit score. Approximately 75% of car buyers understand the importance of knowing their credit score before buying a car, but a large number neglect to put in the effort of learning what that score is.*

- Nearly 15% (12 million) of people saying they plan to buy either a new or used vehicle in the next 12 months admit an unexpected credit score prevented them from completing a vehicle purchase
- 43% of car owners who financed their previous purchase never found out their credit score when buying the vehicle.

According to the Harris study, 74% of car buyers are reluctant to provide information online such as a social security number or driver’s license number when trying to obtain a credit score or applying for credit online.

Providing an online tool to help car shoppers determine their credit score is one way to help consumers. Although customers realize the importance of knowing their credit score prior to buying a vehicle, privacy concerns keep many from finding out their credit score

**The Benefits of Offering a Credit Range**

Another option is to provide customers with a narrow range in which their credit score resides.

The Harris study shows 76% of consumers would like to obtain an estimated credit score if they don’t have to give up personal identifying information.

Using a tool such as Black Book Online’s Credit Activator customers can answer 12 questions – none of which ask for personal identifying information – and obtain a range in which their credit score likely resides.

* Source: Harris Interactive Car Financing Survey - April 2011
While not an exact credit score, customers can use credit range information to shop for a vehicle.

It’s another way for a dealership to show they are attentive to their customers’ concerns and yet provide information that will help them in the car buying process.

Dealers benefit because the number of leads that have much higher closing ratios increases, simply by providing a non-threatening and hassle-free process for customers to learn about their credit scores.

“The bottom line is creating that feeling of trust with the consumer to where they want to do business with you,” says Chris Fousek, e-Commerce Director for the Village Automotive Group. “If the website has tools that show you can help people who are looking to purchase a vehicle, then you’re likely going to move them further down the funnel and increase your chances of turning them into long term customers.”
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**Transparency in the Trade-In Process**

“How much will you give me for my trade?” is a key question in most car buying transactions. But how dealers determine a price for that trade is one of the most mysterious aspects of the car buying process for customers.

The problem is, any part of the process that creates uncertainty for the customer is bad for business and for the industry.

About 57% of car buyers say they would like to know the trade value of their vehicle prior to their first trip to the dealership.

Additionally 82% believe knowing the trade in value helps speed up the car purchase – a key factor in determining the level of customer satisfaction.

Also important to consumers is that knowing the value of their trade before coming into the dealership helps them feel empowered to make a good decision on their vehicle purchase.

Online trade appraisal tools, now a common tool on dealer websites, involve the customer in the process of determining the vehicle’s value. The price is based on the description provided by the customer, not a used car manager’s gut feeling.

Dealers that provide a tool, such as the one offered by Black Book Online, on their website that helps potential customers determine the value of their trade have an advantage over stores that don’t. At least 60% of car buyers indicate an online trade-in tool on a dealership website is an important factor in deciding whether to visit that dealership.

Savvy dealers also realize being able to show customers credible third party information of how much the trade is worth using tools such as Black Book Online, FirstLook, AAX or vAuto can help build confidence on the part of customers that they are getting a fair deal.

It helps build a level of trust between the customer and the dealer. It’s easy to see why dealers report that leads created by the online trade appraisal tools close at a much higher rate than leads purchased from third-party sources.

Dealers report that leads generated by such tools as Black Book Online’s Activator, have the highest closing ratios – as high as 15%.
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Transparency of the Inventory

How important is having an up-to-date list of the dealership’s inventory on the website available for car shoppers to see?

Perhaps a better question would be, “How will a customer buy a vehicle without knowing what’s available?”

At least 67% of consumers, according to the Harris study, say a website with an up-to-date inventory is a key factor in deciding which dealership to visit.

“Our research shows dealer sites that have inventory search capability easily accessible on the home page outperform the norms in nearly every metric,” says Eric Brown, CEO and cofounder of Dataium, a firm that measures and analyzes consumer online behavior. Metrics include areas such as percentage of shoppers returning to the site; ratio of unique visitors to conversion; and leads per inventory search.

For used vehicle shoppers, showing you have the inventory is just one step in the process. Smart dealers now are finding ways to provide more information to the consumer about their used inventory.

“Having the inventory is just the first tier,” says Chris Fousek, of the Village Automotive Group. “Customers today want to see the vehicle’s complete history whether it’s Experian’s CarCheck or the CarFax report,” he says. “They also want to see what kind of reconditioning has been done on the vehicle.”

Fousek believes providing that information and making it available online helps the dealer demonstrate that it’s the type of dealership customers will want to do business with.
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Summary

The truth is, dealers can be transparent and make more money. However, it’s still a difficult idea to grasp for many dealers. Historically, car sales have been an adversarial process. Whoever gave up that first piece of critical information – what’s the lowest you’ll sell the car for versus what’s the highest you’ll pay – lost. It was simple, but not customer friendly.

As profit margins on new vehicles continued to shrink through the years, dealerships often relied on uninformed customers for the “homerun” deal to make money. It’s a different world today. The Internet enables consumers to find whatever information they need to shop intelligently. As a result, those “homerun” deals have become almost extinct. Dealers are finding there are financial benefits to providing shoppers with the information that will help them be more intelligent buyers.

For starters, car shoppers want information and they want it quickly, and whether a dealership offers the information they are looking for is a critical factor in determining which dealerships to visit. Ninety-three percent of car shoppers surveyed in the Harris Interactive study strongly indicate that dealers who take the time to understand their needs have a better chance of getting their business.

Dealers are listening. According to the Franchise Dealer Survey, 99.8% of dealers agree providing a relaxed and enjoyable experience leads to better closing ratios and a better reputation.

Providing as much information as possible early in the process has two key ingredients that create highly satisfied customers and lead to more profits:

• Customers feel empowered and more confident they are getting a fair deal
• Because customers are informed when they visit the dealership, the car purchase process is much faster and more efficient.

The information customers want includes: Pricing data; financing information and options; trade in value of current vehicle; and up-to-date inventory listings.

Dealers that provide as much information as possible in these four areas will have a clear advantage over competitors as they create highly satisfied customers.

Doing so will create customers who are confident they are getting a fair deal and create a process that is quick and friendly and will help differentiate the dealership from other dealerships that do not provide a friendly experience for the customer.
Methodology

This survey was conducted online within the United States by Harris Interactive on behalf of Black Book Online from Feb. 24 to March 4, 2011 among 1,063 adults ages 18 and older who indicate they are at least somewhat likely to buy a car in the next 12 months. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated. For complete survey methodology, including weighting variables, please contact Cindy Kamerad at ckamerad@webershandwick.com.

About Harris Interactive

Harris Interactive is one of the world’s leading custom market research firms, leveraging research, technology, and business acumen to transform relevant insight into actionable foresight. Known widely for The Harris Poll and for pioneering innovative research methodologies, Harris offers expertise in a wide range of industries including healthcare, technology, public affairs, energy, telecommunications, financial services, insurance, media, retail, restaurant, and consumer package goods. Serving clients in over 215 countries and territories through our North American, European, and Asian offices and a network of independent market research firms, Harris specializes in delivering research solutions that help us – and our clients – stay ahead of what’s next. For more information, please visit www.harrisinteractive.com.

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About Black Book

Black Book® Online (www.blackbookonline.com), based in Boca Raton, Fla., pioneered the online vehicle trade-in valuation industry, creating the most effective sales leads in North America. With the launch of Activator Complete™ in April 2011, Black Book Online now provides automotive shoppers with an instant and accurate credit score estimate along with a trade-in value range. Combined, these tools offer the highest quality sales lead available and represent the “Super Lead” for dealers and OEMs.

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