

IS YOUR NONPRIME BUSINESS READY TO GO HIGH TECH?



Before you even think about going high tech, you'll need to re-educate your entire staff on how to service the nonprime market. **Once you have training in place, finding the right software tool really comes down to a few considerations.**

BY BECKY CHERNEK

Last year was revolutionary in many ways, but especially in the way dealerships viewed their nonprime customers. Statistically, the nonprime market is currently the fastest-growing segment in the automotive industry, according to the National Automotive Finance (NAF) association. Technology is also making its presence felt by making the process of marketing and selling to special finance customers more feasible and unbelievably profitable for dealers.

Comparing 2005 year-end data to previous years, the NAF association's 2006 Nonprime Automotive Financing Survey (conducted by BenchMark Consulting Interna-

tional) reported that dollar delinquencies declined from 8.3 percent in 2005 to a mere 6.6 percent in 2006. Marguerite Watanabe, who wrote a white paper on the BenchMark study, said the percentages of applications processed in less than 30 minutes also increased dramatically, as well as the use of the Internet to advertise and service accounts.

Currently standing at \$260 billion, the industry is showing no signs of slowing down, noted John Scordo, chairman of the NAF, in Watanabe's analysis. Scordo also called the nonprime market "the fastest-growing segment of the auto industry, expanding at twice the rate of the industry overall."

But this isn't a recent trend. In the January issue I wrote

an article that sourced a study detailing how Household Finance Corporation, one of the largest subprime bankers in the nation, serviced nearly \$6.4 billion in 2001 auto loan receivables — almost double the amount the company serviced the previous couple of years. That study also reported that delinquency rates during that time varied between a paltry 1.77 and 2.89 percent, which was amazing considering the comparable percentages of delinquencies from the prime-rate lender General Motor Acceptance Corp. was 2.4 percent that year.

Dealers have also taken note, as many are increasingly raising the bar when it comes to their nonprime and below nonprime business. Most are now reaping a notable boost in sales and profits. Some saw these rising numbers as merely welcomed relief to the decline in new-car sales. Others viewed the noteworthy numbers as a lucrative reason to expand their subprime business. Still, others have bombed miserably. My take is: If you planted the seed without first plowing the field, chances are you won't benefit from a good harvest. Remember, the subprime business requires proper nurturing.

CHANGING THE SALES CULTURE

With the amount of secondary-finance software applications available to dealers, many overlook the fact that success in the nonprime business starts with the sales culture inside their dealership. Bottom line: Your sales representatives must be retrained.

Training starts with instruction on how to negotiate sales with customers from the time they are greeted to the time they leave the finance office. Salespeople must be able to differentiate between working with the credit-challenged vs. the credit-worthy. Your sales team must understand that a bank will only extend credit to slow-pay customers under specific guidelines, and will require additional information before granting loan approval. However, knowing when to obtain such information can make or break your salesperson's success in dealing with this market.

Customers with a slow-pay history are cautious, which means they will not readily accept any deal or payment thrown at them. Every customer has a payment in mind, and slow-pay customers are no exception. Teach

your sales reps to ask the right questions. The trick is for your sales reps to immediately qualify the customer after greeting them on the lot. The salesperson needs to know if the customer can buy, as well as which company is financing his or her current vehicle. They need to determine how long the customer has lived in his or her current residence, whether the customer is responding to your dealership's newspaper advertisement, and whether he or she is in the market for a new or used vehicle. Once the customer has been identified as one with a slow-pay history, then he or she can be invited into the dealership. And remember, rates, payments or down payments should never be discussed on the lot. Always teach your sales reps to never negotiate sales on their feet — only and always on their seat!

The screenshot shows the 'Auto Systems Online' software interface. At the top, there's a menu bar with options like 'File', 'Quick', 'Check', 'Rating', 'System Tools', 'Reports', 'DLA Online Training', and 'System Setup'. Below the menu is a toolbar with icons for 'Home', 'Main Menu', 'New Dealer', 'Add', 'Edit', 'Delete', and 'Print'. The main window displays a table of vehicle inventory with columns for 'Make', 'Stock #', 'Days', 'Vehicle Description', 'VIN', 'Bank Name', 'Plan', 'Payment', 'Term', 'Profit', 'Mar. Adv.', and 'Lot (Miles)'. Below the table, there's a 'Sort Approvals' dialog box with a 'Re-Sorting with zero in the adjustable figures will cause the default settings, shown in blue, to be used.' section. The dialog has buttons for 'Select', 'Select Lender', 'Sort', 'Show Market', 'Configure View', 'Post', and 'Cancel'. Below the dialog, there's a 'Adjust Sort Criteria' section with a table for '1. Select Lender', '2. Enter payment roll', '3. Add deal information (optional)', and '4. Check Sort'. The table has columns for 'Payment', 'Down Payment', 'Trade Allow', 'Trade Adv.', 'Trade Payoff', and 'Calc Deal Ar'. The 'Payment' column has a value of 375.00, 'Down Payment' has 4,000.00, 'Trade Allow' has 44,000.00, 'Trade Adv.' has 35,000.00, and 'Trade Payoff' has 44,500.00. The 'Calc Deal Ar' column has a value of 1,100.00. There are also radio buttons for 'Secondary' and 'Traditional'.

David Lewis and Company's Auto Systems Online is a full-featured desking system designed to handle secondary finance, leasing, desking, CRM, F&I and lead generation. Pictured is the attached-sort inventory screen from the company's secondary finance module, which allows the user to sort through the dealership's entire inventory based on the dealership's approved credit criteria.

Now we're down to the nitty gritty. This is where proper training and tools are critical. This is what determines whether the "harvest" will be bountiful or not. Once the customer fills out a credit application (customer statement), your sales reps must take the completed statement directly to their sales manager, one who can determine exactly what vehicle the customer qualifies for based on his or her credit information and various bank guidelines. Any sales manager who is not experienced

in subprime financing should never negotiate the sale without reviewing the sale with a finance manager.

Oh, you say your finance officers are not trained on subprime financing either? If your managers don't know how to properly desk a subprime deal, you're likely to lose out on this increasingly rewarding business. In order to be profitable in this market, all your managers must be well schooled on the procedures required to service this market.

INVESTING IN PROPER SOFTWARE

Now you're ready to compare your options and invest in a secondary finance software application. Many savvy dealers are utilizing these applications to enhance and support subprime desking, as the use of such software by re-educated managers will more readily guarantee a sale while maximizing profits. Once your managers and their staff have been properly educated on how to deal with secondary finance buyers, a software tool can greatly improve, speed up and standardize the process. If anything, it ensures that no details are left out.

Several companies provide subprime desking software applications that operate in similar ways (i.e., ProMaxOnline.com, David Lewis and Company's Secondary Finance module, and Auto Credit Express' LotPro). Each has particular features suited to meet your dealership's needs, which is based on the size of your inventory, primary clientele, and what percentage of your total business is devoted to special finance sales. Once you've made those considerations, basic operation of these systems is very similar.

After a credit criteria has been established by your finance manager, the application flags your customers based on their beacon score — generally from 600 and below — and provides vehicle selection suggestions from your lot based on payment, advance and bank provider guidelines (e.g., time on the job, advance, beacon score and income). Your sales reps can then present alternative proposals, allowing your customers to determine the terms and options available, as well as select a new or used vehicle based on their specific budget and down payment requirements.

Each of these software tools offer specific features that make such transactions easy to

ProMax OnLine ver 7.9.45.0 Dealer #866 Logged In: Tools | Contact Us | Log Out
PMOL Selling System | My EMail
Switch Location | Updates

ProMaxOnline
Maximizing Your Profit Potential Online version 7.0

*10 New Market Thief Leads
*31 New BK OnLine Leads

Back Desking Prospects & Customers Inventory Reports Administrator Import/Export Website **INSTANT MESSAGING**

F & I WorkScreen Deal Worksheet Deal Search **Special Finance** Multi-Vehicle Quick Quote Cash Deal Wholesale Deal Finance Products Only Ad Creator

Save Proposal H.P. Total H.P. Print Sort

Comparison Screen: 31 Total Vehicles

| <input type="checkbox"/> | Year | Make | Model | Style | Stock # | LOC | DAYS | Profit | Source | Payment | Max.Pay |
|--------------------------|------|-----------|----------------|--------------------|---------|------------|------|------------|----------------|----------|----------|
| <input type="checkbox"/> | 2006 | Chevrolet | Cobalt | 4d Sedan LS | 1962 | Elmore Ave | 131 | \$6,262.50 | Wells Fargo SF | \$317.57 | \$350.00 |
| <input type="checkbox"/> | 2006 | Chevrolet | Cobalt | 4d Sedan LS | 1962 | Elmore Ave | 131 | \$4,237.50 | Capital One | \$323.03 | \$350.00 |
| <input type="checkbox"/> | 2006 | Chevrolet | Cobalt | 4d Sedan LS | 1962 | Elmore Ave | 131 | \$3,897.50 | HSBC SF | \$273.52 | \$350.00 |
| <input type="checkbox"/> | 2005 | Pontiac | Sunfire | 2d Coupe | 2117 | Elmore Ave | 88 | \$5,661.75 | Wells Fargo SF | \$276.61 | \$350.00 |
| <input type="checkbox"/> | 2005 | Pontiac | Sunfire | 2d Coupe | 2117 | Elmore Ave | 88 | \$3,961.75 | HSBC SF | \$274.92 | \$350.00 |
| <input type="checkbox"/> | 2005 | Pontiac | Sunfire | 2d Coupe | 2117 | Elmore Ave | 88 | \$3,911.75 | Capital One | \$281.62 | \$350.00 |
| <input type="checkbox"/> | 2006 | Pontiac | G6 | 4d Sedan | 1965A | Elmore Ave | 105 | \$5,565.77 | Wells Fargo SF | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2006 | Pontiac | G6 | 4d Sedan | 1965A | Elmore Ave | 105 | \$4,185.00 | HSBC SF | \$325.80 | \$350.00 |
| <input type="checkbox"/> | 2006 | Pontiac | G6 | 4d Sedan | 1965A | Elmore Ave | 105 | \$3,960.00 | Chase Custom S | \$347.49 | \$350.00 |
| <input type="checkbox"/> | 2005 | Dodge | Dakota 2WD | Quad Cab ST | 1973 | Elmore Ave | 132 | \$5,362.62 | Wells Fargo SF | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2005 | Dodge | Dakota 2WD | Quad Cab ST | 1973 | Elmore Ave | 132 | \$4,147.48 | HSBC SF | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2006 | Dodge | Stratus | 4d Sedan SXT | 2179 | Elmore Ave | 26 | \$5,325.00 | Wells Fargo SF | \$319.06 | \$350.00 |
| <input type="checkbox"/> | 2006 | Dodge | Stratus | 4d Sedan SXT | 2179 | Elmore Ave | 26 | \$4,370.00 | CitiFinancial | \$347.60 | \$350.00 |
| <input type="checkbox"/> | 2005 | Ford | Taurus | 4d Sedan SE | 2109 | Elmore Ave | 90 | \$4,990.75 | Wells Fargo SF | \$270.32 | \$350.00 |
| <input type="checkbox"/> | 2005 | Ford | Taurus | 4d Sedan SE | 2109 | Elmore Ave | 90 | \$4,258.25 | CitiFinancial | \$275.59 | \$350.00 |
| <input type="checkbox"/> | 2006 | Ford | Freestar Wagon | 4d Wagon SE | 1984 | Elmore Ave | 153 | \$4,960.59 | Wells Fargo SF | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2006 | Ford | Freestar Wagon | 4d Wagon SE | 1984 | Elmore Ave | 153 | \$4,205.00 | HSBC SF | \$338.55 | \$350.00 |
| <input type="checkbox"/> | 2005 | Chevrolet | Venture | 4d Ext Wagon LS | 6275A | Elmore Ave | 143 | \$4,952.54 | Wells Fargo SF | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2005 | Chevrolet | Venture | 4d Ext Wagon LS | 6275A | Elmore Ave | 143 | \$4,758.43 | HSBC SF | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2007 | Suzuki | SX4 AWD | 5d Wagon Base Auto | 6348A | Elmore Ave | 11 | \$4,706.26 | EXPIRED | \$350.00 | \$350.00 |
| <input type="checkbox"/> | 2007 | Suzuki | SX4 AWD | 5d Wagon Base Auto | 6348A | Elmore Ave | 11 | \$4,215.89 | Wells Fargo SF | \$350.00 | \$350.00 |

ProMax Online maintains all Special Finance lender programs and maintains a booked-out vehicle inventory for the dealership. It then calculates every lender and vehicle for every customer and sorts the results by gross profit. The additional BDC features ensure proper follow-up for higher closing ratios — a must for every special finance department.

learn and use, and most companies will offer 24/7 technical support. Common features include comparison and proposal screens, as well as calculate-the-deal screens. Such features are important, especially when the customer is eager to make a deal. Some even help you track and qualify leads in your area. These tools will also offer lender guidelines and values that can be accessed with just a couple of keyboard strokes.

The benefit of these software tools is their accuracy. They ensure not only an increase in the volume of sales, but also a significant increase in gross profits. For your finance manager, these tools eliminate the guessing game, as he or she will know with just a glance what's available at a price the customer can afford. These tools also make the transaction process less confusing to your customer, as a printed document is more impressive, persuasive and credible

than verbal discussions.

Dealers I've talked to, and who have utilized subprime software applications, claim to have improved their secondary deals from a minimum of 20 to 40 vehicles to nearly 100 units per month, and tout gross profits of \$2,500 per unit. They also firmly believe their special finance buyers have become as much of a payment buyer as those with good credit, with most saying they can generate the same increases in sales and gross profits as they do with customers with good credit.

DEALERSHIP ACCEPTANCE OF SUBPRIME VENTURE REQUIRES COMMITMENT

No matter what, jumping into the non-prime arena takes 100-percent commitment. Goals must be set. Vehicle inventory must be appropriate for the market. Marketing schemes must be targeted, with the

re-education of every staff member being a critical component of your venture into this market. Bottom line: Success in the subprime market requires a consistent process, effective marketing, retraining of staff, inventory management control, and a solid sales strategy that's smoothly integrated with your software technology.

Whether you're taking advantage of it or not, the subprime market is here to stay. It offers lucrative potential, not only for your dealership, but for thousands of customers who need and deserve reliable transportation, as well as an opportunity to either establish or reestablish their credit. However, make sure to thoroughly investigate this important market before diving in. And remember to compare the software technologies available. Once you've done that, you can begin the re-education of your entire staff to use this new tool effectively. ■