

Independent Dealer Uses Trade-In Tool to Maximize Inventory Acquisition & Improve Customer Handling

CASE STUDY | MAY 2016



Kelley Blue Book
KBB.COM
The Trusted Resource



Case studies from Kelley Blue Book are designed to illustrate how various types of auto dealerships across the country are using tools and technology to transform their businesses. This case study looks at an Independent dealer's experience with Kelley Blue BookSM Instant Cash Offer and how it supports a dealer's operations in the critical steps leading to a sale – specifically the areas of **vehicle selection, acquisition and customer handling** – to ultimately help deliver the kind of end-to-end experience that today's consumers expect.

About Driver's Way

Driver's Way was born in 1997 when Driver's Mart of Birmingham, AL relinquished its name following an AutoNation[®] acquisition of the Driver's Mart chain. All 15 other Driver's Mart locations assumed the AutoNation name, while the Birmingham location re-branded itself as Driver's Way and began evolving into a one-price pre-owned vehicle superstore. For nearly two decades, Driver's Way has worked to establish itself as a low-pressure retailer to used vehicle buyers with average to above-average income and good credit.

In order to forge its own path within a competitive regional marketplace, Driver's Way looks for innovative ways to optimize its operations, relying on high-tech tools such as VinSolutions for CRM, Haystack and HomeNet for marketing, vAuto for pricing and Kelley Blue Book Instant Cash Offer for perhaps their biggest operational challenge: inventory acquisition. To that end, Driver's Way currently operates a standalone location that serves as an Instant Cash Offer Buying Center—solely dedicated to offering free appraisals and purchasing vehicles – and two retail locations (that also serve as Instant Cash Offer Buying Centers) which strive to stock a wide variety of vehicle makes and models carefully chosen to appeal to their demographic. These vehicles come with fixed, no-haggle pricing and are divided into four categories:

Certified Vehicles – Driver's Way Certified Vehicles are late-model, low-mileage vehicles in excellent condition that tend to have robust features and options and which must pass a 240-Point Total Inspection.

Value Vehicles – Driver's Way Value Vehicles undergo the same inspection as Certified, but they may have body, trim, or cosmetic imperfections.

Clearance Vehicles – Clearance Vehicles are usually older, higher mileage models (with body, trim, or cosmetic imperfections) offered as inexpensive transportation solutions for budget-conscious customers.

As-Is Vehicles – As-Is Vehicles are inexpensive, older, high-mileage trade-ins with imperfections that are sold with no return policy or warranty but which undergo a basic safety inspection.

In order to consistently offer this range of inventory, Driver's Way has long accepted all types of trade-ins and will give customers a written trade-in offer on their vehicle good for seven days. Driver's Way offers free, no-obligation appraisals on vehicles (offered regardless of whether the customer decides to purchase a Driver's Way vehicle). They present competitive cash offers to all customers on most makes and models – even

Snapshot

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|---------------------------------|---|
| Dealership | Driver's Way |
| Type | Independent |
| Market | Birmingham, AL |
| Average Customer Profile | Average to above-average income, credit score & education level |
| New Inventory | N/A |
| Used Inventory | ~500 |
| Employees | 80 |
| CRM Tools | VinSolutions |
| Marketing Tools | Haystack, HomeNet Kelley Blue Book Instant Cash Offer |
| Pricing Tools | vAuto [®] |
| Average Monthly Sales | 250-325 |

those that don't meet their standards for quality and performance (they send such vehicles to auction). However, despite such an aggressive and customer-friendly inventory acquisition strategy, maintaining the ideal vehicle mix for their market remains a challenge. That's one of the primary reasons Driver's Way relies upon Kelley Blue Book Instant Cash Offer.

How Kelley Blue Book Instant Cash Offer Works

Kelley Blue Book Instant Cash Offer is a trade-in valuation tool accessible via Kelley Blue Book's KBB.com, Autotrader.com and participating dealer websites. Consumers complete an online questionnaire with information about their specific vehicle and the tool generates an Instant Cash Offer at no charge. The offer is valid for 3 days (not counting Sundays) and is redeemable at participating dealerships. To be a participating dealer in the Kelley Blue Book Instant Cash Offer Program, dealers pay a monthly fee that gives them access to consumers who generate an Instant Cash Offer for their vehicle through the tool.

"Kelley Blue Book Instant Cash Offer is an excellent way of acquiring inventory."

– Doug Anderson, General Manager, Driver's Way, Birmingham, AL

Dealers can simply liquidate the vehicle back at their local Manheim Auction for the amount of the Instant Cash Offer (within an allotted 3 days from acquiring the vehicle). **Kelley Blue Book Instant Cash Offer serves to shape the expectations of consumers as they begin the trade-in**

process with the dealer and provides an additional option to dispose of the vehicle.

According to Driver's Way General Manager Doug Anderson, the Kelley Blue Book Instant Cash Offer gives his dealership a unique ability to communicate with and engage consumers who are looking to sell their vehicles. "We have been inundated with offers as of March! But hey, that's a good problem to have," Anderson says, adding that March 2016 is likely "the best month we have ever had. A lot of that has to do with our inventory but the other thing, too, is our Kelley Blue Book ICO program and how we handle it." Anderson says that when competing dealerships in his area dropped their Instant Cash Offer Buying Centers, the offers generated through Kelley Blue Book Instant Cash Offer and sent to him nearly doubled. "It was dramatic," he says. "We try really hard to stay on top of the offers it generates."

Kelley Blue Book Instant Cash Offer provides an empowering customer experience by allowing the consumer to take an active role in generating a cash offer amount for their trade-in.

While Driver's Way's success with Instant Cash Offer is the result of the dealership's unique position in its market and its own operational strategy, **the national performance of Kelley Blue Book Instant Cash Offer is also trending favorably: 324,000 Instant Cash Offers were generated in March 2016 alone, and 18% of those were redeemed at participating dealerships.***

A Guest-Focused Sales Process

Using Instant Cash Offer allows dealers a means of initiating contact with consumers who are interested in selling their car to the dealership (and possibly negotiating a trade-in as part of purchasing a replacement vehicle) but it is only the first step in a process that requires operational rigor. "I make sure that when the Business Development Center (BDC) receives an offer, my BDC sends an automated response to the customer telling them that they should be getting an Instant Cash Offer from Kelley Blue Book soon and that one of our appraisers will evaluate their trade-in to see if there is a possibility that we might be able to give them a higher offer," Anderson says, adding that keeping up with the influx requires a staff dedicated to proper follow-up: "Thankfully I have got a great staff because while we used to get 10 or 15 Instant Cash Offer leads a day, this weekend was something else because we literally got a couple hundred over Friday, Saturday and Sunday. But we handled it."

Anderson adds that a dedicated appraiser looks at the amount of every Instant Cash Offer, and inputs it into vAuto. "Then we get back in touch with the customer," he says. "I always target 15 minutes because people don't like to wait. My appraiser looks at the amount and puts a note in vAuto

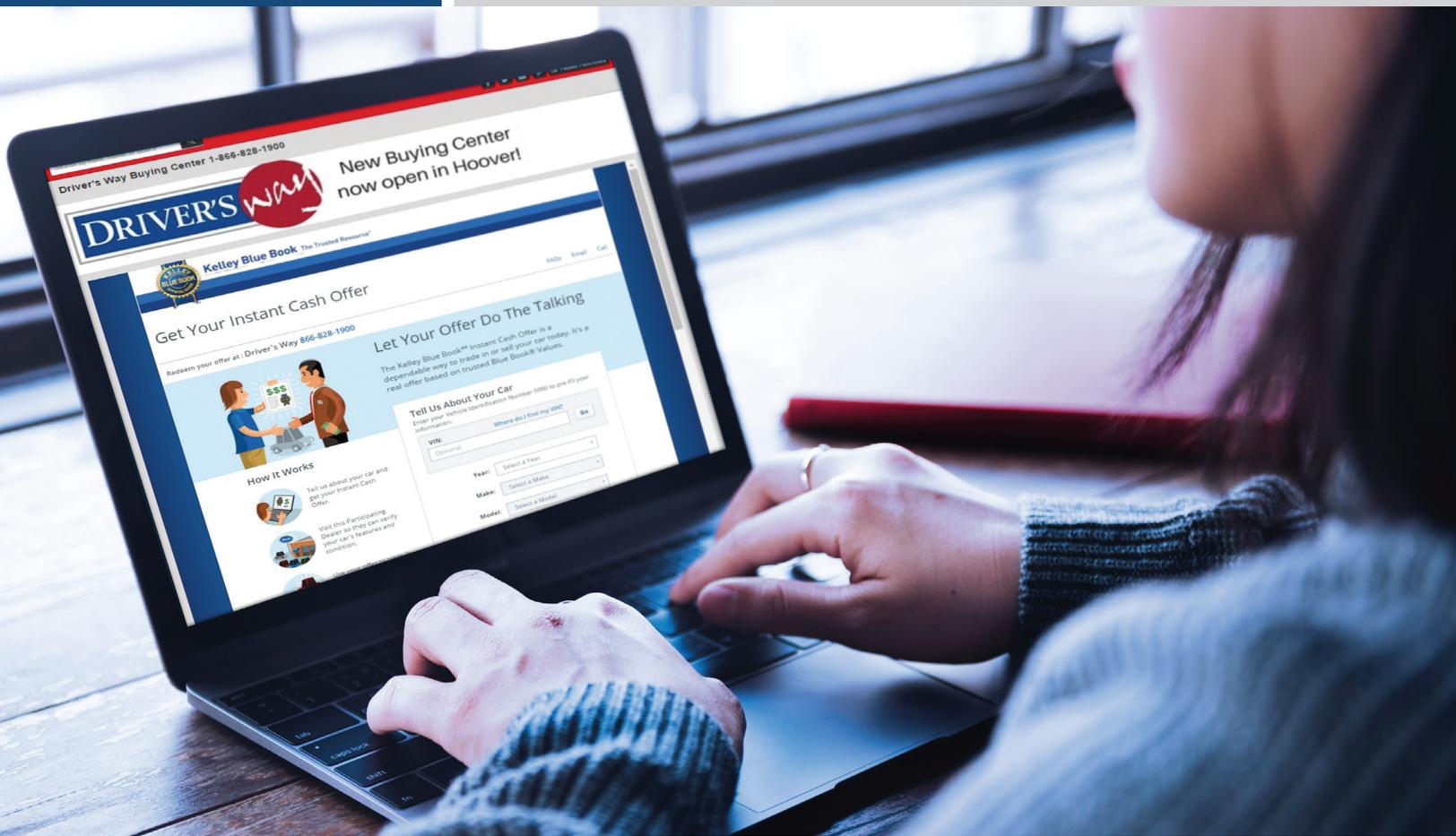
which the BDC pulls up and then contacts customer by whatever means the customer said that they wanted to be contacted. Some of them say 'call me,' some of them say 'email me,' and some of them say 'text me.' I have a lot of experienced people here and that program works really well for us."

Taking full advantage of the Instant Cash Offer Program requires dedication from every staff member across the Driver's Way organization "from the appraisers and the sales people to the sales managers, service people and the Internet people," Anderson says, adding that the Kelley Blue Book Instant Cash Offer has become an integral part of the dealership's overall sales process. "We built the right infrastructure and have the right mindset," he says. "Proper follow-up is critical."

Anderson says that the Kelley Blue Book Instant Cash Offer Program is a vital part of what they call their Guest-Focused Sales Process where a single dedicated representative handles all aspects of the purchase for each individual customer. "All our salespeople are trained to help the



*Driver's Way General Manager,
Doug Anderson*



Kelley Blue Book Instant Cash Offer and the Kelley Blue Book logo are featured throughout the Driver's Way website.

customer from the time they walk in the door to the time they leave. In a perfect world that is what happens. There are no sales managers involved, there are no F&I managers involved. If the customer has an objection about the car or if they are not going to buy the warranty or the GAP insurance, then that is where the sales managers might become involved. But it is just a very smooth process for the customer. We get tons of repeat business.” Anderson says that completing the purchase process quickly is key to achieving high customer satisfaction.

“We walk out there with an iPad and we start with the Instant Cash Offer online questionnaire right there,” Anderson says, adding that involving the customer in the valuation process helps build a rapport while also serving to set the customer’s expectations. “We tell the customer that the Instant Cash Offer is from Kelley Blue Book and it is an automated program, but sometimes we look at it and decide in our local market that their car is worth more than that. If the Instant Cash Offer is \$10,000, we might give them \$10,500 or \$11,000.” **Anderson says that the tool provides an empowering customer experience by allowing the consumer to take an active role in generating an Instant Cash Offer amount for their trade-in.**

Bridging the Online/Offline Shopping Gap

Anderson says that in addition to playing a vital role as part of the dealership’s in-store process, Kelley Blue Book Instant Cash Offer is also an

important part of an effective online strategy. “On the Internet you have to be competitive or you are not even going to be in business,” Anderson says. “You have got to be on the short list. Customers want to do as much of the transaction online as possible. People want to know what I’ve got in stock that they are interested in. If they want to look at 50 pictures, we take 50 pictures. They want to know the service history. They want to know financing. Sometimes they go ahead and apply for financing online. They want to know what their trade is worth and we can give them an offer based on Kelley Blue Book Values with the Kelley Blue Book Instant Cash Offer.”

The Instant Cash Offer online questionnaire empowers consumers by allowing them to enter information about their vehicle’s condition. Instant Cash Offers are generated using a proprietary tool that uses Kelley Blue Book Values. Kelley Blue Book Values incorporate data from Manheim to see in-depth, market-based vehicle desirability and disposability indexes and uses the consumer’s input on the vehicle’s physical condition. **A proprietary algorithm determines an Instant Cash Offer for the vehicle redeemable at participating dealerships for 3 days (not counting Sundays), which when combined with proper follow-up from the dealership can be a powerful incentive for customers to move from shopping online to shopping offline at the dealership.**

“Some people literally come in here and they know everything from shopping online, but they just haven’t touched the car. Maybe they just want

to touch it and drive it around,” Anderson says, adding that because Driver’s Way has a 3-day vehicle return policy, there are some customers who arrive at the dealership just to drive their purchased vehicle off the lot. “I have had some people that have said, nah, I’ll just take it and if I don’t like it I will bring it back,” he says, stressing the value of allowing customers to complete as much of the sales process online as they desire, including obtaining an Instant Cash Offer.

Reducing Inventory-Related Risk

While Anderson is pleased with the performance of the Instant Cash Offer Program as an enhancement to the customer experience, he also says that it is equally effective as an inventory acquisition tool: “Most people that want to dispose of their car want to get another one, which is great. But if I look at, say 60 cars that we acquired through ICO, I would probably say 35 to 40 of those weren’t trade-ins – they were vehicles that we would have just purchased outright. I would rather purchase a vehicle as a trade-in as part of selling a car, but if I buy it outright I don’t care whether it is a \$60,000 car or a \$300 car because I can take it to a Manheim Auction within 3 days and receive the amount of the Instant Cash Offer,” he says.

Anderson adds that another significant advantage of the Kelley Blue Book Instant Cash Offer Program is its ability to help limit the inventory acquisition costs, which increases margins. “Any vehicle that we buy off the street and retail makes more money for us because we have less acquisition costs. I am not paying an auction fee which runs about \$300 to \$500 and I’m not paying transportation fees which run me \$300 to \$700. And a lot of those vehicles came to us with an Instant Cash Offer. With auction cars I generally average hundreds of dollars less on the front-end gross because I am competing with everybody and I’m paying shipping costs and auction fees and everybody has got those cars,” he says. He also notes that cars

acquired through the Instant Cash Offer Program tend to be “more unique. There are not as many of them. I am able to price them competitively and they turn faster.”

When combined with proper follow-up from the participating dealer, Kelley Blue Book Instant Cash Offers, redeemable for 72 hours, can be a powerful incentive for customers to move from shopping online to shopping offline at the dealership.

Anderson says that the Kelley Blue Book Instant Cash Offer Program supports an inventory strategy that has been honed over the years to cater to the specific needs of car shoppers in the greater Birmingham market. “I am in a fairly good area, but because of the kinds of cars I have always stocked I have never been your low-price leader in town. When you are a one-price dealer you can’t monkey around with the retail pricing of your cars,” he says. “For years we were almost like a new car alternative store. All the cars I had were approximately 1 to 4 years old. But after a few years, they started coming out with massive rebates and we couldn’t compete as well when selling 1- or 2-year-old cars anymore. I figured out years ago that people buy cars with lots of miles on them. Now we’ve got cars that are 6 to 10 years old, with 120,000 to 180,000 miles. You just have to change the thinking pattern of your salespeople and you have to tell customers what they are getting.” **Anderson says that the Instant Cash Offer Program has helped him acquire the wide variety of vehicles that customers in his region are looking for.**





A billboard along the interstate adjacent to Driver's Way prominently features Kelley Blue Book Instant Cash Offer.

Marketing Advantages

According to Anderson, the Kelley Blue Book Instant Cash Offer Program is integrated into a holistic co-branded marketing approach that combines location and signage with a robust online presence. "I just opened an Instant Cash Offer Buying Center two lights down from CarMax[®]," he says. "If they can do it, I can do it. I have already got the process, I've got the reputation and I have also got co-branding with Kelley Blue Book."

A billboard along the adjacent interstate further accentuates the dealership's geographic advantage, but the rest of their marketing dollars go primarily to digital advertising. "We started off 19 years ago very strong in TV. We started off with newspaper and dropped the paper close to 10 years ago and really started picking up on digital even more. We started digital advertising when it was getting started in the late '90s. Over the years we have been pretty much just digital, with things like Autotrader and Search Engine Marketing through Haystack," Anderson says while stressing the importance of getting inventory online as soon as possible: "As soon as the car comes in, while I'm stocking it, I take 6 or 7 pictures of the car even before we have done anything to it just so that it hits the Internet within 24 hours of purchasing the car because people want to know what you've got. That may be the car somebody is looking for today."

According to Anderson, a critical part of both their online and offline marketing strategy has been including information about the Kelley Blue Book Instant Cash Offer. "If I put the Kelley Blue Book Instant Cash Offer participating dealer logo next to my logo, it is going to make a huge difference because everybody knows what Kelley Blue Book is even if they don't know what Driver's Way is. So I am excited about it.

"Everybody has known since their daddy's and their granddaddy's time that if I want to know what my car is worth I am going to go to Kelley Blue Book" Anderson continues. "Since I've had the Instant Cash Offer Buying Centers open and have been using the Kelley Blue Book Instant Cash Offer logo, people in town who don't already know who I am know that Kelley Blue Book will provide an Instant Cash Offer for their car. This sets me up to get customers with offers in the door and gives me name recognition. The Kelley Blue Book Instant Cash Offer Program is an excellent way of acquiring inventory."

About Kelley Blue Book

Founded in 1926, Kelley Blue Book, The Trusted Resource[®], is the only vehicle valuation and information source trusted and relied upon by both consumers and the automotive industry. Each week the company provides

the most market-reflective values in the industry on its top rated website KBB.com, including its famous Blue Book® Trade-In Values and Fair Purchase Price, which reports what others are paying for new and used cars this week. The company also provides vehicle pricing and values through various products and services available to car dealers, auto manufacturers, finance and insurance companies, and governmental agencies. Kelley Blue Book's KBB.com was ranked highest in its category for brand equity by the 2015 Harris Poll EquiTrend® study, and has been named Online Auto Shopping Brand of the Year for four consecutive years. Kelley Blue Book Co., Inc. is a Cox Automotive company.

About Cox Automotive

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