

# TRADE-IN TRANSFORMATIONS: FINDING MORE GROSS

At Fremont's dealerships, the staff has taken on a new process: asking a buyer to help evaluate his own trade-in, handing the customer an iPad so he can go through the appraisal alongside the staff, providing information on the car's condition and history. It helps build transparency into the process.

"When we get the customer interacting in the trade, all the armor comes off. They feel very powerful that they are actually appraising the vehicle themselves. It slows the customer down and makes them think about what their car is like," Brad DeSelms says. "We all

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- Brad DeSelms, sales director, Fremont Management Co.

know we've got that scratch on the car we've forgotten about, or the tires have never been changed and there have been 35,000 miles on them.”

DeSelms is sales director for Fremont Management Co., which owns 13 dealerships across Wyoming and Nebraska and he's part of a growing trend to involve the customer directly in rating their vehicle.

The showroom collaboration tools, like those used by Fremont, are designed to lower stress for customer and sales employees. That's important with 66% of consumers

indicating that buying a car is a stressful process.<sup>1</sup> The guided experience changes the framework from a negotiation to a discovery session. The customer is put at ease and will rate their car realistically on a 10-point scale across the variety of features, naturally driving lower valuations.

"Most customers are going to rate their cars at 80% or below. If you get 10% lower than book out there, you are going to be in really good shape." DeSelms says.

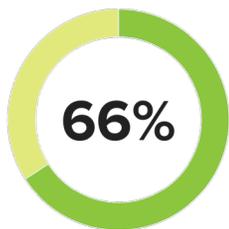
Starting at a strong consumer-driven discount from book translates into higher

total front-end gross and that's exactly what dealerships are seeing. Front-end gross is significantly higher across dealerships using the same showroom collaboration program as Fremont did, with average front end gross that is 47% higher than it was for those same dealerships prior to launching a guided experience on trade-ins.

"If 47% sounds high to you, think that the average dealer front-end profit according to our most recent study wasn't much more than \$1,000. Gaining \$470 per vehicle makes a big difference" says Mike Cavanaugh, executive vice president for MAX Digital.



MAX Digital clients saw an average front-end gross increase of 47% post launching a collaborative process



66% of consumers indicating that buying a car is a stressful process

<sup>1</sup> Mintel Car Purchasing Process, 2018



## PRO TIP: TRADE-IN BETTER THAN AUCTION

There's an old saying: You make your money when you buy. Dealers focus a lot of effort and energy on acquiring vehicles from auction. However, at an auction, you're competing against other bidders which drives up the price.

In contrast, a trade-in is an auction of one. That gives you a much better opportunity to acquire the car at the right price. Plus, you'll avoid auction fees, transportation costs and end up with a larger margin in that vehicle.

"I think there was a misconception in the industry for a long time, if I'm transparent with my process, if I'm collaborative with the process, if I let the customer be involved with the process, that means I'm going to make less money," Cavanaugh says. "And it's not true. The customer wants to feel they're part of the process. It's about having a conversation about how a dealer arrives at the trade-in value, taking into consideration the book value and the market price, but also the vehicle's specific history and what the customer says about the car's condition. The collaborative process drives more profit."

When customers are involved in the trade-in, they see the logic in how you price the car. That leads to less friction in the process and a greater opportunity to create an under allowance.

The collaborative experience has other benefits as well. Creating a simple, expedited, and repeatable process for dealership sales teams lowers the time spent within the transaction and raises satisfaction. It also can help the flow of the overall sales process to do the walk around of the potential trade-in and start the trade-in appraisal before the test drive.

"After the customer provides feedback on his trade-in, the manager can do an appraisal while the customer and salesperson are off doing the test

drive," Patrick McMullen, SVP of strategic accounts at MAX Digital says. "It can be more efficient, and eliminate 20 to 30 minutes from the purchase process."

Lee Porter, Toyota Certified and Used Car Sales Manager Vancouver Toyota found that to be true as they moved to a collaborative process, "The change has reduced the time needed to complete the sales process resulting in our CSI increasing to 96.74%."

Getting the buyer involved in appraising the trade-in is part of the larger process of building evidence which

increases transparency, cuts down on buyer angst and helps dealers hold prices. "The involvement of the customer has translated into a 5% higher closing rate," Porter says.

"There's no money on the front end of a car deal anymore, especially on new vehicles, so you have to make it somewhere," DeSelms says. "The best way to do it is on the trade."

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#### NEW CAR PROFITS ARE SHRINKING

In our 2019 Dealership Profitability Study, 60% of dealers reported new car profits were down the past two years by an average of \$170 per vehicle. Those same dealers saw only a minimal increase in used car profits, with \$25 per used vehicle sold.

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"If the customer is included in the trade-in process, because it was a mutual examination of the car, not just an appraisal being conducted by a guy behind the door, the customer understands the number he's presented with," McMullen says. "Dealers find they get a lot less pushback on the number. It ends up being more profitable in the long run, because dealers often acquire those cars at a lower cost. And in pre-owned cars,

we all know it's not just what we sell the car for, but what we buy them for that matters."

In the same study, 45% of dealers indicated they are considering changes to the sales process — and two-thirds of

those dealers said they were looking at ways to make the sales process more consultative.

Brad DeSelms agrees. "We think it's better that the appraisal of a trade-in is not just a piece of paper with a number written in Sharpie — and that when the customer asks why that's the price for his car, it's not just 'Because my manager said so,'" says DeSelms, "The more you involve the customer in the trade-in process, the more they see the logic in how you price the car and the more money you make."

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#### HOW TO MAKE TRADE-INS COLLABORATIVE

When customers are involved in the trade-in, they see the logic in how you price the car. That leads to less friction in the process and a greater opportunity to create an under allowance. Here's how you can do it:

- 1 Have the customer evaluate the car. Walk around the car with them and discuss scratches, worn-out tires, etc.
- 2 Take a test drive together. Let them tell you what that noise is and why it pulls to the left.
- 3 Let them know what you think it will cost to repair the damages and wear and tear, so you can sell it to another customer.
- 4 Show them what the market value is using Kelley Blue Book, NADA or Black Book.
- 5 Make a fair offer on the spot, whether they buy the car from you or not.