

CAR DEALER

The Auto Dealer's Management Briefing

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EXECUTIVE SUMMARIES

Shifting Gears: dealers crank up focus on special finance and used vehicle service retention 2

Challenge:

▶Dealers are searching for ways to boost profits this year in a tough economic environment, despite forecasts of a somewhat brighter second half. Being proactive and willing to embrace change can help fuel more success.

Solutions:

- ▶Special finance or credit-challenged business offers growing profit potential in many markets as consumer credit challenges mount.
- ▶To be successful in special finance, your staff must have the expertise and time to efficiently process applications and manage units and gross, and you have to allocate enough marketing dollars.
- ▶Giving up a tough franchise in an over-dealered market can free up your facility for other more profitable ventures. For one auto group: a used vehicle superstore.
- ▶Dealerships can boost new and used vehicle service retention by employing the same tactics – which start with scheduling that first service appointment at the time of delivery.

Technology giants will help dealers tackle HR, Internet marketing, and “Red Flags” challenges 3

Situation:

▶The largest dealer management systems providers don't want to just help you tackle your accounting and basic operational needs these days. They're rolling out new solutions to help you make better staffing decisions, sell more vehicles over the Internet, and make sure you're in compliance with the FTC's “Red Flag” rules by the November 1, 2008 deadline.

Details:

- ▶Reynolds and Reynolds has made its first foray into human resources management, with a new HR module for its ERA management system and its TestFirst Hiring pre-employment diagnostic tool that can also be used to help manage current employees.
- ▶ADP is offering a couple of new solutions to help dealers more effectively manage marketing spend. Its new Business Online suite of solutions is designed to ensure consistency between the customer's online and in-dealer-ship experiences.
- ▶DealerTrack emphasizes that the new DealerTrack Arkona DMS platform will be an open solution that'll let dealers chose their own third-party providers.

R & R's Brockman sheds light on dealer concerns 4

Conundrum:

▶A number of dealers using Reynolds & Reynolds DMS still don't know what to make of the company's third-party provider certification program.

Some answers:

▶Chairman Bob Brockman tells *Car Dealer Insider* that dealers will be notified of the cut-off date for unauthorized third-party providers and will receive at least a year's notice on any mandatory upgrades. GM dealers under IDMS will continue to be supported until there's a resolution, he says.

Care of Armed Forces members now covered under FMLA 5

Law update:

▶Effective immediately, certain family members will be able to take up to 26 workweeks of leave to care for a member of the Armed Forces – including the National Guard or Reserves – who is undergoing medical treatment. Employees will also be permitted to take up to 12 weeks of FMLA leave for “any qualifying exigency” that arises when a spouse, parent, or child is called to active duty; guidance on this is pending.

Live chat and video e-mails give dealership business a big boost 6

Innovation:

▶Live chat is helping one auto group consistently close vehicle sales with 50 percent of customers who use it. Video e-mail is also being favorably received by its customers and has helped boost business.

Ease of use:

- ▶Neither requires technical expertise or a lot of money.
- ▶“Being yourself” is the key to coming across more effectively in video e-mails.

Warranty payments to car dealers expected to trend down in 2008 8

Forecast:

▶Believe it or not, total warranty payments by vehicle manufacturers to franchised dealers have remained essentially constant for the last five years. Variations from franchise to franchise can be attributed to sales fluctuations.

Rationale:

▶Published figures indicate that vehicle manufacturers have been increasing their warranty reserves over the last five years.

Trend spotting

Satellite service facilities are an idea that *DealersEdge* covered in 2002. The idea is that dealers, pressed for space and eager to compete head-to-head with independent operators, would open separate service facilities to provide maintenance and light repair services. These facilities, of which there are now hundreds, service all makes and all models and carry no franchise identification. The idea is to use these satellite facilities both to generate additional gross profits on their own and to serve as a referral source to send more complex jobs to the parent dealership. Setting up one of these facilities requires dealers to adopt a different mind set especially in the areas of management and staffing. *Automotive News* reported recently that Toyota will permit certain dealers to establish satellite service facilities under the dealership's name.

Red Flag Rules were established by the Federal Trade Commission to help combat the nation's fastest growing white collar crime – identity theft. The rules mean the automotive finance community has to be extremely vigilant when it comes to detecting credit fraud. The Red Flag Rules require that car dealers and lenders establish prevention programs. While dealers and lenders have until Nov. 1, 2008 to implement observable and measurable programs, it can be difficult and time-consuming to make sure an organization is meeting Red Flag requirements. This is particularly true for smaller lending institutions and independent auto dealerships that have limited technological and staffing resources.

“Fear not pain for it is temporary. Fear not death for it is inevitable. But fear always the loss of identity, for that is the way of true destruction.” - Parker East

Shifting gears: dealers crank up focus on special finance and used vehicle service retention

By Jerilyn Klein Bier

Optimistic is the last adjective to describe most dealers at the recent NADA Convention. Even if the economy does rebound a bit in the second half of the year as now predicted, it'll still be a long, tough road with numerous obstacles. But dealers are a resilient bunch and every one we spoke with in San Francisco had some sort of plan of attack in place or at least one in mind to help weather more uncertainty.

It's not just the mega-dealers that have viable solutions. Small dealers we spoke with also told us of ways they're boosting business, cutting expenses, and in some cases even expanding their domestic franchises.

Not surprisingly, most dealers told *Car Dealer Insider* they're relying more heavily on their used vehicle and fixed operations departments. Even dealers and managers in stronger U.S. markets are focusing on niches that can give them an edge.

Mark Rehkopf, a VP and general manager with the Russell & Smith Automotive Group in Houston, a market that's been somewhat insulated economy-wise due to the oil industry, is one of them. As the GM of R&S's Honda and Mazda stores, he also oversees variable operations for the Ford business.

“Good market, bad market, I'm trying to increase my share...It's easier to increase business in a down market than an up market,” says Mark. Those who increase share while the competition is cutting back will be stronger when the market rebounds, he notes.

“There are a couple of ways out of this. Everyone is working on cutting expenses. We're trying to increase gross. It's great if you

can do both,” says Mark, who adds that his heart goes out to dealers in more economically troubled areas. His big focus has been special finance (a.k.a. credit challenged) customers. And he's done a 180 recently to help boost that business.

Special finance shift

In October 2007, Mark had combined the regular and special finance operations at the Ford store as a cost savings measure but quickly realized it was actually hurting revenues. As business slowed down and lenders got stricter and dropped out, he realized he needed a special finance manager with a dedicated sales force to more efficiently process applications and manage units and gross. “Special finance loans take longer to come to fruition,” he notes. So at the end of January he promoted an assistant manager to the role of special finance manager.

“We've already seen, without marketing, an increase in the used car business – in volume and gross per unit – since we separated out special finance,” says Mark, who credits the time and expertise of the new special finance team. A couple of salespeople have been assigned to work with the special finance

continued on page 7

NEWS YOU CAN USE***Dates to save, trends to watch***

Protect your dealership data! Spend 90 minutes with Dealership IT Director Grant Brosseau to learn how to protect your most valuable asset. Learn how to limit systems access, handle a stolen customer database, monitor e-mail attachments, and much more during this March 27 TeleSeminar conducted via phone. Visit www.dealersedge.com or call 800-321-5312.

Hazmat protection. Ship an air bag module without any marks, labels, and shipping papers and you may commit as many as 24 separate and distinct violations of the Hazardous Materials Regulations (HMR) – adding up to a \$1.2 million penalty. Criminal penalties can also run \$500,000 per citation and/or up to five years imprisonment. A \$299 annual subscription to online training program HazmatU – created by the North American Automotive Hazmat Action Committee (NAAHAC), CCAR®, and ShipMate® – lets you train as many employees as needed during a 12-month period. For more info, call 1-888-686-4445 or visit www.haxmatu.org.

Tool plan progress. The IRS has established a cross divisional team to address significant concerns with certain Service Technician's Tool Reimbursement Plans that purport to receive tax-favored treatment as "accountable plans" under IRS code. The IRS is also revising its 2000 Coordinated Issue Paper on such plans to reflect facts consistent with those plans currently being marketed.

Technology giants will help dealers tackle HR, Internet marketing, and "Red Flags" challenges

San Francisco's Moscone Center was humming with technology companies that flocked to last month's annual NADA Convention to pitch their latest auto dealer solutions. The Program and Exposition Directory listed nearly 70 companies apiece under the headings "Computer Services" and "CRM" and more than 100 companies under "Internet Services." Although the categories included some company overlap, dozens of dealership solutions providers are convinced they've got a way to help you improve the way you do business – and your bottom line.

Dealer Business Briefing scheduled meetings and demos with many solutions providers of all sizes who were eager to show off their latest and greatest. Here is a quick snapshot of just a few things we learned from the industry giants:

Reynolds and Reynolds

Reynolds unveiled two new solutions to Convention-goers: Test-First Hiring, a pre-employment diagnostic tool that can help dealerships evaluate prospective employees, and Test Drive Videos, a Web and CRM tool that enables online shoppers to experience full-motion vehicle test drives on the Web or through e-mail.

TestFirst Hiring includes an online test, valid in all 50 states, that can help answer whether candidates

have the right personality traits and work habits before calling them in for an interview. It also gives suggested interview questions and career development suggestions based on results. Reynolds is encouraging dealers to use the tool with current employees too, says Corporate Communications Director Tom Schwartz. Cost: \$5 a test, with a minimum 20 tests per month.

Reynolds also announced its new HR Module for its ERA Management System. General release for the module, currently in pilot phase, is slated for June or July. The module eliminates keying errors between dealership payroll and HR systems. It makes it easy to store and access employees' historical earnings, performance

continued on page 4

continued from page 3

reviews, required forms, disciplinary actions, training records, and more.

ADP

New introductions from ADP's Dealer Services Group include Virtual Marketing Representative Service, Digital Advertising managed service, and the Business Online suite of solutions. ADP Dealer Services also launched F&I Results, a video monitoring technology that the company says can provide better F&I processes within the dealership.

ADP Virtual Marketing Representatives will work with dealership personnel to review customer demographics and buying patterns, identify and evaluate tactics dealers have executed in the past, and pull together a plan that makes sense for specific dealer markets. Digital Advertising – designed to maximize dealer marketing spend, drive traffic to the dealership website, and convert more prospects into buying customers – offers a number of packages including lead generating microsites and landing pages, eye catching display ad design, search engine marketing and search engine optimization services, and behaviorally and geographically targeted ad placement.

“A key goal of ADP's Business Online is to ensure the customer's online experience is consistent with the same service they receive in the physical dealership,” stated Joe Bihner, Vice President of Technology Solutions for ADP Dealer Services – including quotes, trade-in and payment options, sales appointments, and more. Business Online is the technology being used in Lithia Motors' new L2 online concept for used vehicle car buying, ADP told us.

DealerTrack

DealerTrack, a leading provider of on-demand software and data so-

lutions for the U.S automotive retail industry, is now “an end-to-end technology provider,” announced Chairman and CEO Mark O'Neil. The company, which acquired web-based DMS provider Arkona, Inc. last June, recently signed on its 500th active financing source and supplies online solutions to approximately 90 percent of all franchised dealerships in the U.S.

The DealerTrack Arkona DMS platform, recently embraced by the 124-franchise Asbury Automotive Group, will be an open solution that'll let dealers chose their own third-party providers. Rick Von Pusch, SVP for Sales, Marketing and Operations, explained that DealerTrack generally pushes data to dealer-authorized vendors. Should dealers make agreements with vendors for bi-directional data flow, DealerTrack will work with them very closely, he told us. DealerTrack says it has few special hardware requirements, easy-to-read bills, and shorter agreements (typically 12 to 36 months.)

The company also announced at

NADA the launch of DealerTrack RedFlags™, a new solution to help dealers support their identify theft programs and comply with the Federal Trade Commission's recently issued “Red Flags Rule” which requires full compliance by Nov. 1, 2008. DealerTrack also launched a free compliance resource website, www.thecompliancguide.com, and the third annual edition of its hard-copy *Compliance Guide*. To obtain the free guide, go to Complianceguide.com, register, and click on “request free compliance guide” under the Resources category.

Is anything in the works for a partnership with another big retail dealership organization like Asbury? “A lot of things are in the pipeline,” Rick told us. ❖

We'll talk to dealerships in the upcoming months that are using some of these solutions and others to see what they think. Discovered any new technology offerings that are working well for you? We'd love to hear about it! E-mail editor Jeri Bier at jkbiere@dealersedge.com.

R & R's Brockman sheds light on dealer concerns

It's been 16 months since Reynolds and Reynolds Co. and Universal Computer Systems, Inc. joined forces, and dealers have many questions about the “new” Reynolds. *DBB* sat down with Chairman Bob Brockman at the 2008 NADA Convention to get some answers.

We hear dealers express concern that their third-party providers will be cut off under Reynolds' vendor certification requirements. What's the mandatory timeframe for certification? How many companies have you already certified, how many are in the process, and how many to you ultimately expect to certify?

About 120 are certified, with 15 to 20 companies in the process at any time. There's no ultimate target number – it's based on demand. As for the bandit folks who come in through a dial-up modem, we're working on securing this but are still a ways from this. Dealers will get a notice of the cut off date. Up to this point, we haven't encountered any third-

party vendors we couldn't work with.

We're also hearing some concern in the dealer community regarding contract changes and mandatory upgrades.

The Reynolds contracts haven't changed under my watch. Upgrades depend on how old a system is. It will be mandatory for old stuff, but dealers will be notified at least a year in advance.

General Motors and Reynolds are battling in court over the GM Integrated Dealer Management System and you've just announced you'll no longer be selling it. What will happen to dealers on the system? Will the terms of their contracts still be honored and will they still get support?

Four hundred dealers are on IDMS. Their contract is with GM,

not us – and our contract is with GM. GM dealers under IDMS will continue to be supported until there's a resolution. We're concerned about our reputation in the market as a dependable supplier. As for whether the terms of the dealers' contracts will still be honored (if the GM contract is breached), that's a more difficult thing to say. In the meantime, everything runs.

Are you growing market share?

We have something a little in excess of 40 percent of dealerships. We're basically static. The competition in the marketplace is fierce, but there's very little change. *[Editor's note: ADP Dealer Services spokesperson Andy Tippet told DBB that ADP has 38 to 39 percent of the dealer market and is winning at a rate of 3:1 – meaning that for*

every three DMS it sells, it's only losing one.]

Dealers are struggling financially; we're hearing this over and over at NADA. What if a customer can't pay their bills – is there any leeway?

Dealers may reduce what technology they're using. If a good customer is a little behind in their payments, it doesn't behoove us to cut them off. They should talk to us if they're having a problem so we don't treat them like a deadbeat. This is not a new issue – I've been through five downturns since I started in the business in the fall of 1970 during the longest GM strike.

Can we expect more new products?

Yes. We're announcing things pitter patter, pitter patter. ♦

Care of Armed Forces members now covered under Family and Medical Leave Act

The Family and Medical Leave Act of 1993 (FMLA) was recently amended to permit a “spouse, son, daughter, parent, or next of kin” to take up to 26 work weeks of leave to care for a “member of the Armed Forces, including a member of the National Guard or Reserves, who is undergoing medical treatment, recuperation, or therapy, is otherwise in outpatient status, or is otherwise on the temporary disability retired list, for a serious injury or illness.”

The caregiver leave provisions of the FMLA – amended by the National Defense Authorization Act for FY 2008 (NDAA) signed into law by President Bush on January 28, 2008 – are effective immediately.

The NDAA also permits an employee to take up to 12 weeks of FMLA leave for “any qualifying exigency” arising out of the fact that his/her spouse, son, daughter, or parent is on active duty (or has been notified of an impending call or order to active duty.)

The active duty provisions are *not* effective until the Secretary of Labor issues final regulations defining

“any qualifying exigency.” In the interim, the Department of Labor encourages employers to provide this type of leave to qualified employees. FLMA experts expect that having to arrange for child care as a result of a family member's call to active duty will be considered a qualifying exigency.

Legal information provider Nolo's Employment Law Blog explains that employees are permitted to take a total 26 weeks – not 26 weeks plus 12 weeks of FMLA leave for other reasons. It also appears to be a one-time-only entitlement, notes the blog, since the law says the 26-week leave will “only be available during a single

12-month period.”

Reminder: employers who employ 50 or more employees for each working day during each of 20 or more calendar workweeks in the current or preceding calendar year are covered under FMLA.

Several states, including California, New York and Illinois, have their own leave laws for military families, reported the *Wall Street Journal*. ♦

Know a dealership employee who is taking time off to care for a wounded veteran? We'd like to honor both of them. Send an e-mail to jkbier@dealersedge.com.

Live chat and video e-mails give dealership business a big boost

What do you get when you add live chat to a dealership website? For one Texas auto group, it has meant consistently closing vehicle sales with 50 percent of the customers who use it. Its well-received video e-mails have also helped boost business.

The David Thomas Automotive Group's stores, Subaru of Plano and Subaru of Dallas, have used live chat for about a year, says eCommerce Director Chris Hanson. He introduced the auto group to video e-mailing back in 2004.

Relatively few dealerships are embracing these effective technologies, but Chris can't imagine dealership life without them. One of his biggest success stories, reported by *Computerworld* magazine several years ago: a customer impressed by a video e-mail Chris sent in response to her questions drove 300 miles that same day to the Chrysler dealership he was working at – and purchased the vehicle.

"Video gives us a chance to introduce ourselves and add some personality," Chris tells *Dealer Business Briefing*. His salespeople also film walk-arounds, highlighting vehicle features. "It's like we're standing next to you explaining it."

Video e-marketing requires a lot less equipment, technical expertise, and money than you might think. The salespeople who handle video e-mailing for David Thomas (two in the Dallas store and three in the Plano store) are each provided with a webcam used on their computer (about \$50) and a separate digital camcorder for walk-arounds (about \$300). The camcorders have USB streaming, enabling video to automatically stream into the dealership's web-

based video system, which runs \$99 a month per user.

Chris's biggest advice: "Be yourself. Don't try to create a commercial. The more normal you look it's amazing how you'll come across as a person, not a salesperson."

Customers receive the videos just a couple of minutes after salespeople hit the send button. They receive a link to click on rather than having to open an attachment – less threatening and less time consuming. To see a sample video e-mail by Chris, go to www.dealersedge.com and click on "free stuff."

For live chat, Chris uses a \$40 a month software program that's loaded onto the dealership website. One salesperson handles live chat in the Dallas store, three in Plano (same folks who do video e-mailing.) The live chat feature operates only when employees are at their computers. When they're not, customers receive a message

saying the salespeople are offline; it asks if they'd like to leave an e-mail message.

The key with live chat: "You have to type quickly to respond but do it slowly enough to think about it," says Chris. "You have to calculate what you're going to say. It's no different then with e-mail – it's all in the words, no facial expressions." Chris, who reviews all the chats that come through, also reads scripts to salespeople and asks them what they think. He reminds them to emphasize the "help" part and not sound short or vague. For some of his suggestions, see "Live chat lingo." ♦

Chris Hanson – who has sold cars on the floor and online and performs Internet sales training and consulting – is presenting a two-day Internet Sales Workshop in Plano, Texas on March 24-25. For more info, visit his website, www.followupforsuccess.com, or contact him at 972-890-7714 or carguy@helloworld.com.

Live chat lingo

eCommerce Director Chris Hanson recommends sounding upbeat and helpful when communicating with dealership customers via live chat over the Internet. Words he suggests using:

- Great
- Be glad to
- I can definitely help you with that
- I don't know, but I will get you an answer
- That'll take me a little bit – can I get back to you in an hour? Is it best to call or e-mail you?

continued from page 2

manager to interview customers and help in the vehicle selection process.

Mark has also taken some money out of the regular marketing budget and put it in special finance. "As people drill down into expenses, they need to focus on where there's growth potential," he says. He just launched a marketing campaign through a local vendor, with a direct mail letter, to target this segment.

"Credit challenged customers exist in every market and I believe it will become a bigger segment," says Mark. As for the quick shift in management strategy, he tells us, "In today's market, I don't think you can wait to make changes. We all hate change but things change whether we like it or not and we need to be more proactive."

Know when to go

Michael Baker, CEO of the Bob Baker Automotive Group, one of Southern California's largest auto retailers, also knows about change. In late 2007, the group – which includes Volkswagen, Subaru, Jeep, Chrysler, Mitsubishi, Toyota, Scion, Lexus and

Capturing service

In addition to setting up a first service appointment and assigning a specific service advisor at the time of delivery, the Bob Baker Automotive Group also uses these strategies to boost service retention among new and used vehicle buyers:

- ▶ Each customer is photographed taking delivery. That photo, along with the photos and contact information of their sales consultant and service advisor, is dropped into a template that is e-mailed to the customer. (Bob Baker captures e-mail addresses of 60 to 80 percent of customers through the F&I office.)
- ▶ The service department sends customers a congratulatory letter that includes the dealership URL and other information including hours.
- ▶ The service advisor calls the customer within seven days of delivery to remind them of their first service appointment.
- ▶ An automated call service contacts customers with a reminder three to seven days prior to their scheduled appointment. The auto group tries to have the service manager or service advisor's voice on the automated reminder.
- ▶ If the customer doesn't respond, he or she receives another recorded message that basically says "sorry you missed your appointment – we'd like to reset it at a convenient time." Over 50% of customers – new and used – who missed their original service appointment now come back.

Source: Michael Baker, Bob Baker Automotive Group

Chevrolet – consolidated and gave back its Ford franchise.

"We were doing OK but were in an over-dealered market. San Diego County, which had been selling 3,000 to 4,000 Fords a month, dropped to below 2,000 a month in the last year and a half. There were 13 Ford dealers and it's tough," says Mike. So on November 1 the facility took on a new identity: Bob Baker's Betterway used car superstore.

Used vehicle push

The used car superstore concept is a good fit for Bob Baker which has been putting big emphasis on used vehicles for a couple of years – particularly in the service arena. But being a non-franchised dealer has its own set of challenges. "When you take the franchise sign down, people don't automatically walk in thinking you have their vehicle," says Mike, who cites industry statistics that one out of two used car buyers are looking for a late-year model of the same make.

Over the last 30 days, Bob Baker's Betterway has been reducing its cost of inventory by selling more vehicles in the \$9,000 to \$12,000 range to better fit how the store is perceived in the marketplace.

Service retention strategies

The auto group has also made great strides in boosting customer service retention on both the new and used side. A few years ago, its stores were capturing just 5 to 15 percent of customer pay work in the first year after a vehicle purchase and only about 5 percent on the used side. By late 2007, those figures were running about 40 to 45 percent for new and 35 to 40 percent for used.

"We put in a process for new cars that's emulated for used cars," Mike tells us. The foundation of this, he explains, is bridging the gap between the sales and service departments. Step one: scheduling a first service appointment for all customers at time of delivery. Customers are also assigned a particular service advisor.

"It's a formal transition to who will take care of you after the sale," says Mike, who adds that the process strives to "create comfort, awareness and knowledge." For more steps being taken, see "Capturing service."

"For the average dealership in the U.S., 55 to 60 percent of selling gross is coming from fixed ops. Why wouldn't it be in the dealer's best interest to try to retain every new and used car customer?" says Mike.

He also reminds dealers that older vehicles are more inclined to need services sooner than new vehicles and have shorter intervals between factory recommended services. ❖

Warranty payments to car dealers expected to trend down in 2008

Since the last time *Car Dealer Insider* checked in with automotive warranty providers in September 2007, another quarter has gone by and another \$3.6 billion has been spent on warranty claims. As we await the filing of all their annual reports (probably by mid-March) let's see how trends have continued through the first nine months of last year.

According to *Warranty Week*, the highest payout period for U.S.-based automotive warranty providers remains the fourth quarter of 2006, when more than \$3.8 billion in claims was paid – reported by some 130 different OEMs and suppliers. It's possible that when all is said and done the fourth quarter of 2007 could top that by a slight amount, but the trend suggests otherwise.

Slight rise in warranty payments

Here's a headline: warranty claims in the automotive sector are up by only 0.6% for the first nine months of 2007, compared to the first nine months of 2006.

The OEM category is anchored by the heft of General Motors and Ford. The latest data shows GM at a 2.58% claims rate and its spin-off Delphi Corp. at 0.44%. Ford is at 2.45% and Visteon Corp. is at 0.34%. This roughly two percent gap has been with us for at least five years, if not longer.

For the record, warranty claims in the first nine months of 2007, compared to the first nine months of 2006, are as follows: for automakers, \$8.21 billion, up 0.3%; for parts suppliers, \$1.29 billion, down 2.0%; and for "other," \$1.36 billion, up 5.0%.

On the flip side, warranty accruals in the first nine months of 2007, compared to the first nine months of 2006, are as follows: for carmakers, \$8.48 billion, up 5.9%; for parts suppliers, \$1.56 billion, up 4.6%; and for "other," \$1.31 billion, down 8.9%. Keep in mind that these are raw dollar figures, without sales fluctuations added into the mix.

The claims rate trend may be a bit misleading, how-

ever, because of the lag time between when a vehicle is made or sold and when the warranty work is done. A 2005 model may show up in 2004 or 2005 revenue, but its warranty claims may not show up until 2006 or 2007. So the ratio we're computing uses new claims on old vehicles and compares it to new revenue on new vehicles.

Accrual rates have none of this time lag. Theoretically, a manufacturer books the product revenue and sets aside an amount equal to what they believe will be the future warranty cost. So it's a comparison of new revenue against new accruals.

Narrowing the gap?

If that's a better measure, then the trend is positive for those hoping to close the gap. While the gap between the automakers and suppliers in terms of accrual rates has also been close to 2% for most of the past five years (and in one instance jumped to 2.2%), the gap has been closing throughout 2007, as it was in 2006. But that's the problem: the gap narrowed in each quarter of 2006 before widening again. And now it's narrowed once again throughout 2007. So what's ahead in 2008?

The warranty claims total for automotive OEMs has remained close to \$2.8 billion per quarter for several years. And while in 2005 that represented a little more than 2.5% of sales, in 2006 and 2007 it represented a little less than 2.5%. But again, keep in mind that GM and Ford set the pace in this category, so the bulk of that down trend can be attributed to them. ❖

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Member Services Phone & Fax: **609-879-4456** or Toll Free **800-321-5312**
 Editorial Director: Mike Bowers Ext:802
 Editor: Jerilyn Klein Bier Ext: 808
 Art Director: Denise Blain
 Layout: Sandra Duhrkopp
 Publisher/CEO: Jim Muntz

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