

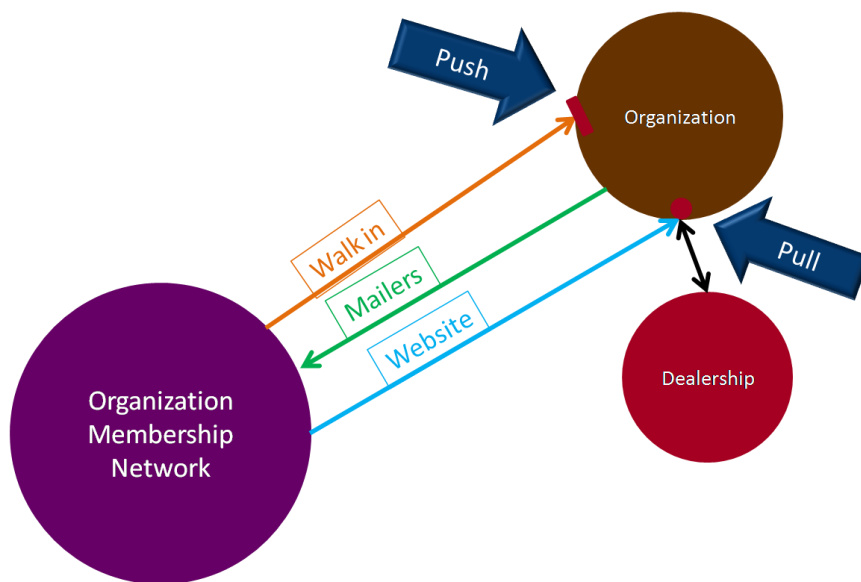


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Receiving Referrals from Membership Programs¹

Membership programs are often overlooked by auto dealers. Those who do utilize these programs generally lump them in with leads programs, resulting in less than full value from the service. It's not the dealer's fault. Membership programs are more complex than they first appear.

It may be helpful to step back and recognize these programs are a network interaction. Information flows back and forth between the organization and its network of members. Select dealers have information available that shoppers can pull at any time. In some cases, dealers have the ability to push co-branded information to shoppers as they visit the store. Most advertising options either push information or allow it to be pulled, not both.



Referrals, Not Leads

A lead is information that someone is interested in a vehicle. A referral is when a trusted advisor recommends a vetted merchant and facilitates the introduction. Membership programs provide referrals rather than leads. A poor understanding of this has led to an inappropriate appreciation for and treatment of the shoppers being referred.

It doesn't take much for a dealer to qualify for receiving leads or placing vehicle listings. Pay your bills, don't do anything to cheat or offend shoppers and you are in. It needs to be that way. Listings services, like Cars.com and

¹ Membership programs include Costco Auto Program, Sam's Club Auto Buying Program and BJ's Auto Buying Program (both offered through Member Services Inc.), various AAA auto buying programs, and many car buying programs offered through credit unions.

Autotrader.com, provide a fine service for shoppers by providing millions of vehicles to choose from and lots of information about those vehicles. The consumer decides what the value is.

Leads are also important to maintaining a well-lubricated free market economy. Sellers pay for the privilege of knowing who is in market for the vehicles they sell. The fact that they pay for this information provides additional incentive to make sure the leads are responded to in a timely manner. While some dealerships do not respond to every lead as quickly or completely as most consumers would like, the fact that they pay for the scrubbed leads has led to vast improvements in lead handling. Nonetheless, there is nothing to suggest that dealers who purchase leads are any better to consumers than those who do not. Additionally the initial price received from the dealer may or may not be the best available offer. The shopper's work is not yet done.

Some consumers would rather not wrestle it out in the open market place spending nine hours shopping online before they begin negotiating with a dealer. These shoppers have the most to benefit from a membership program. The price is predetermined and the dealership is monitored and vouched for by the one retailer they pay dues to.

It is no small matter that shoppers pay dues to shop at Costco and Sam's Club. Millions of them do, and they renew their membership year after year. The membership does not provide them with mindless shopping, but it does provide them with discounted pricing on quality goods. The consumer's belief is that the additional value they receive and the minimal effort they need to exert in order to claim that value is much greater than the annual membership cost. Transferring this trust to a chosen auto dealership adds additional value to the membership program for the consumer and the selected dealer.

This is a boon to the dealer. You can get a pretty good laugh by asking retailers at a local chamber of commerce meeting "who wants to co-brand their reputation for service and integrity with a car dealership." How is it that the only retailers shoppers pay money to be able to shop at can afford to risk their reputation on this type of co-branding? Membership programs cannot exist without three core competencies held by the membership organization:

- 1) Ability to determine good, not just fair, market value for the consumer
- 2) Ability to negotiate good market value for the consumer
- 3) Ability to vet and monitor auto dealer's treatment of consumers.

The benefit to the chosen store is that the shopper knows they are buying from the right dealer at the right price. Is it possible for the consumer to find a better deal somewhere else? Maybe. Is it possible to do so with greater comfort and less effort? Probably not. These are not the feelings of trust and confidence that most shoppers have when they approach a dealership. The dealership receives a more confident, more ready-to-buy shopper because of everything that takes place in the program preceding the referral process.

If I call one of my dealer friends and tell them I am sending a friend, neighbor, or family member to their store to buy a vehicle, I expect them to be treated well, and they almost always are. When a merchant receives a referral, they recognize that the probability of a sale is much greater than is the case with other inquires. They also know they need to treat the shopper well in order to keep getting referrals. There might be a need for training on how to handle referrals, but start with training that persuades everyone in the store that these are referrals.

It would not be overdoing it to have a dedicated person or team taking referrals from a specific program. In fact, it is a requirement of the Costco Auto Program. They have found that doing so contributes to the member/customer's sense that they are special and part of a special program. This improves close rates as well as CSI scores.

I cannot count the number of times I have referred a customer to a store and heard either "I'll put my best person on it" or "I'll talk to them myself." It is a normal and maybe natural response to referral business. A dedicated team would receive far more referrals per person per month, deeply incentivizing them to dig down and really

understand the program. The better they understand the program the better they work the program, thus achieving improved results.

There are two schools of thought when it comes to staffing a dedicated team. One is that shoppers come in more ready to buy, so it this is a good place to start new people and build confidence. The other approach is to put your best people on the best opportunities. The dominant thought is that this is a referral and should be handled in the best way possible. Great execution can lead to the buyer referring their friends and family to the store, whether or not their friends and family are part of the membership program.²

Some of the shoppers referred through the program will buy a different vehicle than they originally had in mind. Some will switch from a new vehicle to a CPO or used vehicle. It is important to keep this in mind as you structure your team.

Branding

Up to this point, I have talked primarily about the traffic-now benefits of these referral programs. Like print and online listings, SEM, and leads services, member programs are a traffic-now medium. However, like radio and television, membership programs offer branding benefits. The ability to associate your store with a trusted retailer helps position the store in a positive way. Having your product in front of the store helps generate desire for your products, but it is also a way of reminding shoppers that yours is the anointed store chosen by the retailer they trust to deliver value. This can translate across new and used vehicles.

Not every member who buys from you will go through the membership program; in fact most members never buy a vehicle through the program. But many members will be impacted by the co-branding association as a contributing factor in choosing your store.

This is where membership programs get complicated. The value of branding is best measured by its impact on perception. As an alternative, it can be measured in terms of reach and frequency. Branding advertising cannot be measured using source of sale or cost per anything other than impressions. The membership program is delivering two distinct benefits contributing to two distinct objectives. It is frustratingly difficult to combine the two in order to assess the complete value of using the service.

Valuing the Program

A good method of determining whether a store should continue with a membership program is to place a valuation on the sales made from the program using the cost per sale of competing traffic-now alternatives.³ If you sold five vehicles from the program, and an alternative program costs \$200 per sale, then the value of the traffic-now advertising is \$1,000. It would cost you \$1,000 in something else to quickly get those same five sales. If the cost of the program is \$1,500, then the value of branding must be worth at least \$500 as compared to other branding alternatives based on both the quantity of impressions and the quality of them. If this threshold is not achieved, then the program is cut. This method does not eliminate the need for executive judgment, but it does minimize it and isolate it.

One of the arguments against using cost per sale is that the membership program cannot be held accountable for the store's ability to close referrals. Here is the hard reality. Close ratios of greater than 33% should be expected. If a store cannot close even one-third of its referral business, it has a serious problem. However, traffic-now advertising should not be purchased if it cannot yield a positive result, regardless of whose fault it is. In some cases, stores need to cut back on their promotions until they can get their store operations worked out well enough to receive a good return from their promotions.

² Admittedly, I have a bias toward running a sales team to maximize sales rather than a sense of immediate fairness. Allowing new sales people to work their way up to improved opportunities seems fair enough.

³ This requires a very good sourcing program, which does not exist within most dealerships.

If sourcing is a problem, and it usually is, an alternative method is to compare the cost per referral to the cost per lead being paid for other traffic-now promotions. The dealer is then required to estimate how much more likely the referrals are to close compared to the leads. If the dealer receives 15 referrals that are estimated to close at twice the rate of the leads purchased, and leads cost \$20 each, then the value of the 15 referrals is \$600 (\$20 X 15 X 2). Again, if the value of the referrals is less than the total cost of the program, the difference can be compared to the value of the branding component when determining whether the service stacks up in total value terms to other alternatives.

Before any traffic-now program is dropped, it should be determined whether improved store operations can quickly generate a different result. Better handling of the referrals, like the use of a dedicated team, is one method. Improved sales training to increase close ratios would also enhance the value of the referrals. However, one must be realistic about how much store operations can be improved in a short period of time. Sometimes it is good management to limit promotional purchases to only those delivering an immediate profit until store operations improve to the point that additional programs can be profitably added on. Other times, it is important to overspend on promotions in order to retain top talent while the rest of the crop is being weeded out.

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