



2011 Automotive Internet Study and the Role of Independent Internet Leads

How Successful Dealers Leverage
all Lead Sources for Growth

A KainAutomotive.com Study

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Contents

- Overview 4
 - Why a Study? 4
 - Study Information Sources 5
 - Online Advertising Choices Aplenty..... 6
 - Brief Glossary of Terms..... 6
- In the Beginning 7
- Rumors and Innuendo 8
- Multiple Forms of Independent Internet Leads 10
- What Makes Independent Internet Lead Sources a Good Option? 13
 - Catalysts for the Use of Independent Internet Leads 13
 - Why Do Some Dealers Rave While Others Rant?..... 13
- A Formula for Success 14
 - Progressive Leadership..... 16
 - Innovative Marketing..... 18
 - Continuous Process Improvement 21
- Study Conclusions 23
- About the Authors..... 26
- Quick Facts..... 28

Overview

In the automotive Internet space there are two competitive landscapes running parallel to one another: Dealer versus Dealer and Vendor versus Vendor.

One is well known and well advertised to the public: the Dealer versus Dealer landscape. Consumers enjoy the benefits of this daily competition with lower prices and better value for their hard-earned dollars. The other competitive landscape, which is equally aggressive but less visible to the public, is the Vendor versus Vendor battle. A battle fought between Automotive Internet Vendors / Service Providers all competing for the advertising dollars of car dealers. Of course, while nearly everyone understands the stakes associated with the Dealer versus Dealer battle, the stakes in the vendor battle can be exponentially higher - especially when you consider the dollars involved and the fact that the very nature of digital marketing spawns a confusing environment that dealers must navigate each day in their quest to obtain the best return on their advertising investment.

Analysts at eMarketer Digital Intelligence, a leading research firm, forecast a 14% increase in U.S. automotive online ad spending; pushing outlays in 2011 to \$3.24 billion. Further, they suggest that by 2015, the auto industry will be spending \$5.8 billion online. As one can imagine with the remarkable amount being spent, the companies vying for the dealers' budgets will pull out all the stops to position their offering as the best choice.

The knock on traditional forms of marketing has always been that advertisers knew half of their advertising was working: they just didn't know which half. As we learn every day when we interact with dealers, most dealerships have no idea whether their digital marketing efforts are delivering any positive return on investment. What becomes clear very quickly when you work hand-in-hand with automotive dealers is that most do not have the experience in online media spending to truly know which method will deliver their best return. Our hope is that this study will provide insight into the key variables dealers should consider when determining their online advertising spend, while also offering detailed guidance on how their internal sales processes and managerial oversight have the greatest influence on their Internet sales and profits.

Of particular interest to us was the continued value of independent internet lead providers (i.e., third-party lead providers) in a maturing digital marketing environment. As the first ones to the party, so to speak, it has been discussed and debated whether independent or third-party lead providers still provide good value when compared to other lead sources in the market. We are confident that this study will serve as a platform to settle that debate for now, and hopefully provide a stage for future discussion.

Why a Study?

Based on the sheer volume of often incorrect opinions presented as fact in this industry, we determined in late 2009 that a series of comprehensive and unbiased studies of various automotive digital marketing categories would not only be helpful to our dealer-clients, but to the industry as a whole. After reviewing the need for a study on everything from dealer websites to search engine marketing, we decided that a comprehensive look at traditional Independent Internet Leads (IILs) would provide the most immediate value to the automotive industry, so we chose this as our first study topic.

Beyond that – because of all of the digital marketing forces at work trying to separate dealers from their ad dollars and the biased and profit motivated “experts” plastering industry boards, blogs and even a few print publications with their thinly veiled advertorials – we felt compelled to

provide a comprehensive deep dive into the processes and factors that truly drive Internet sales in 2011, with IILs occupying a major focus of this research. Based on this overriding theme, we requested and received nominal sponsorship for this study from AutoNation's AutoUSA, the Dealix Division of ADP Dealer Services and Autobytel, Inc as an offset to the enormous amount of time and resources dedicated to develop a comprehensive study. This risk to the sponsors from the beginning was the understanding that the outcome would be impartial and without influence by any party and could potentially be unflattering even to the sponsors. While the sponsors did receive a copy of the final study one business day prior to its publication and release, they were not given advance notice of its contents prior to the completion of the study, nor were they granted access to influence the participants or authors of the study.

A large percentage of dealers have refocused much of their ecommerce sales efforts toward social media over the past twenty-four months. In fact, a small, but vocal group of dealers have completely sworn off Independent Internet Leads in favor of search engine strategies and new media. What drove these dealers and their management teams to these decisions? Why are so many other dealers, often regarded as market leaders, so focused on navigating the complexities of the ever-changing search engine landscape and squeezing a few sales from Facebook that they literally ignore (or worse) the more traditional forms of Internet marketing?

The likely answer to these questions is that everywhere you turn in the automotive digital marketing space the loudest and most heavily self-published individuals are touting the success-inducing aspects of gaming search engines, or over-leveraging Facebook, Twitter, FourSquare (probably not the FourSquare you have in mind) and even social buying services like GroupOn and LivingSocial for your dealership. These same pundits, you'll have to agree, have also downplayed nearly every traditional way dealerships acquired Internet customers in the past.

When we listened to what was being preached in our industry and we witnessed many previously practical dealerships abandoning successful customer acquisition activities, like Independent Internet Leads, website conversion and database marketing and moving much of their budgets to what amounted to acts of building goodwill, we knew there was a problem. We found the shift from the concrete (customer acquisition) to the abstract (building goodwill) interesting; and when you coupled that with the loudest industry voices screaming that dealers weren't making this shift fast enough, we found it all a bit alarming. Of course, this signaled to us that a comprehensive closer look was necessary.

Study Information Sources

We felt that to do justice to a study of this nature we needed to have a broad perspective from a large enough number of dealerships that had a history of Internet Sales Success. As such, we developed deep case studies with leading Internet dealerships that provided rich data on management, structure, processes, technology, marketing and metrics. In addition, during the last twelve months we interviewed hundreds of dealers and dealership managers, reviewed the closing data on nearly 4.3 million internet sales leads (provided by CAR-Research) and lastly reviewed the Monthly Internet Performance Summary data that KainAutomotive.com clients provide for their internal metrics reports. This comprehensive information gave us the data necessary to ensure the guidance provided in this study is right for today's marketplace. That being said, the market changes quickly and we encourage dealers to be alert to the process and marketing changes necessary to achieve exceptional results.

Online Advertising Choices Aplenty

When dealership managers review their online advertising options for any given month or year, they find they have choices aplenty. And although the medium is relatively new in the context of the entire history of media advertising, the digital marketing choices seem to grow at an exponential rate. (One can almost imagine in garages across America there are young entrepreneurs in the mold of Bill Gates, Steve Jobs or Mark Zuckerberg chugging Red Bull and developing the next “Must Have” technology to drive car sales.) A quick glance at today’s digital marketing alternatives suggests that dealers will need to balance their dollars among the following primary options, plus many more less prominent options:

- Websites
- Microsites
- Search engines
- Independent or Third-Party new-vehicle lead providers
- Online classifieds
- Online auctions
- Social media

Each of the above categories is well served by a variety of companies that claim they provide the best offering to generate quality prospects ready to buy a vehicle from the dealer. As one can imagine, the representatives from the companies competing in each of these categories are well versed at positioning their product or service as better than their competitors. Moreover, they are equally well versed at describing why the category their product competes in is more important to a dealer’s success than any other category. The fact is, most dealers could truly benefit from buying products and services in each of the primary categories available, but with limited budgets they find it necessary to select only the one(s) that they believe (or have been told) will provide the best return on their investment.

The big question for dealers is not just “which provider should I choose?” but also “which categories will provide me the greatest chance for success?” A budgetary tug of war takes place each day in our industry for dealer advertising dollars by competing vendors and competing categories; and the larger the dollar amount the greater the tug, with the dealers squarely in the middle trying to sort through the right choices. We will explore the answers to which sources provide the best return on investment and offer our opinions based on a variety of information we gathered for this study from successful Internet Dealers.

Brief Glossary of Terms

In an effort to assist readers of this study, we felt it would be helpful to provide a brief glossary of a few industry terms:

- Dealership websites – websites owned, controlled and managed by dealers generally provided by companies such as Cobalt, Dealer.com, DealerFire, etc.
- Dealership manufacturer-developed websites – websites owned and controlled by vehicle manufacturers, but managed by and typically paid for by dealers. Also known as Dealer OEM websites.
- Microsites – individual web pages or other websites developed by dealers to provide a broader online footprint to increase lead volume or to function as a supplement to a dealership website to increase the overall search engine visibility of the dealership.

- Parasites – third-party enhancements and add-ons to dealership websites for the purpose of generating additional leads (e.g., Black Book Online, ScreenCrafters, etc.).
- Search engines – websites that provide consumers the ability to search the web for their preferred search terms (e.g., Google, Yahoo! and Bing).
- Independent or Third-Party Internet Lead providers – lead providers or lead aggregators that generate and aggregate consumer-submitted leads to participating dealers either directly or via manufacturer-facilitated programs (e.g., Independent: Dealix, AutoUSA, Autobytel, etc. Manufacturer sponsored: FordDirect, ChryslerDigital, GM Third-Party, etc.).
- Online classifieds – online vehicle listings provided for consumers to view dealership inventory and request information either by phone, email or by visiting in person (e.g., AutoTrader.com, Cars.com, UsedCars.com, etc.).
- Online Auctions – websites that provide consumers with a selection of inventory that they can bid on in real time and purchase through dealers or individual sellers (e.g. eBay, etc.).
- Social Media – websites that allow consumers to interact with one another in a social manner for personal, professional and commercial reasons (e.g., Facebook, Twitter, FourSquare, etc.).

In the Beginning

For most dealers, selling online began in earnest in the late 1990s. To call it online selling was a stretch for most at this point because there were few dealership websites and the crowded landscape we now know was actually quite sparse. Autobytel, which started referring consumers to dealers in 1995, is often credited as the company that spurred the migration for dealers and consumers to start the buying / selling relationship online.

Dealers attending the NADA convention in the early days of the Internet were greeted by Autobytel floor representatives handing out pill bottles labeled with contact information and a slogan promoting online referrals as a cure for slow sales. It's quite a contrast to think of the lonely Autobytel booth on the NADA convention floor with the 80 exhibitors displaying at the 2011 Digital Dealer Spring Conference.

Autobytel's early website was designed to ask the consumer if they were "ready to buy" or "just shopping." If they indicated they were ready to buy, a sales lead was generated and sent to a participating dealer who was asked to provide pricing and availability information. If the consumer said they were just shopping, then no lead was generated and the consumer was left alone to mature into a buyer without being pursued by a dealer. Additionally, when a lead was generated, it was most often delivered to the dealership via fax machine and distributed to the first salesperson unlucky enough to walk past the desk.

These early leads were handled much like cold calls to manufacturer manifest lists of prospects or even akin to starting with the A's in the phone book: A quick call or an email to determine that the prospect was simply wasting the salesperson's time. Not until several progressive dealers developed quality follow-up processes did results actually occur. (As we found with this study, the quality of the communication and the commitment to the process are still the foundations of success regardless of lead sourcing or delivery method into the dealership.)

This early digital marketing landscape initially tapped by Autobytel is much different from today's environment where a large percentage of sites are simply "lead generators" capturing data on consumers and selling the information as viable, in-market leads to dealers clamoring for sales opportunities. The leads are often sent with little or no knowledge of the consumer's true position in the "buying / selling funnel." As such, consumers and dealers are often put together at times earlier than is productive, creating tension in the buying / selling process. (We will provide some

proven practices from successful Internet Dealers throughout this narrative to demonstrate how to effectively motivate prospects to become buyers over time regardless of where they are in the buying process or the lead source that generated the inquiry.)

Of course, not every seller of Independent Internet Leads today delivers inquiries to dealers from prospects that are unqualified. In fact, over the past few years we've seen a marked improvement in the overall lead quality from the industry leaders in the IIL space. The industry leaders have, in fact, worked very hard to improve their products and their service. From making quality pledges and creating easy return processes to improving lead scoring and sourcing, the major players in the IIL industry have taken great strides to keep pace with dealer demands. It is clear that the industry leaders have recognized that their future is clearly dependent on providing in-market prospects to a more discerning dealer body and unless they ensure lead quality they will be cut from future budgets.

Interestingly, the third-party lead has been declared DEAD by "the next big thing" more often than we can count. Once dealers got their own websites, they would no longer need IILs. With the growth of classified websites, eBay, Craigslist and others, the IILs were expected to drop like flies. After dealers discovered Pay Per Click advertising, IILs would be cast aside. As soon as dealers began to adopt search engine optimization, they would no longer need IILs. With behavioral targeting and retargeting using dealer banner ads, no one was going to have to buy these leads. Social media would surely spell the end to the IIL business... and so on.

To us, the reports of the demise of IILs seem a bit, if not greatly, exaggerated. Although they've survived and even thrived through the various predictions of their elimination, the term "third-party lead" is sometimes considered a dirty word in many dealerships today. This quality disagreement begs the question: "What is the value of IILs to today's dealer?" Not surprisingly, the answer to this question depends on whom you ask.

Rumors and Innuendo

While preparing for this study, we paid close attention to the buzz on the most active automotive Internet community discussion forums. We wanted to get a flavor for the discussions taking place on the key topics in this study. Much like newspapers seeking sensational headlines, it drives online views on discussion boards when the competing forces slug it out in public. One item consistently discussed was whether it is better to spend the money and time to generate your own leads through your dealership website and parasites without supplementing your lead volume with IILs. There seems to be a point of pride among dealership Internet and digital marketing managers that it is better to get along without purchasing IILs. Many dealers consider their use of first-party leads and decision to no longer purchase third-party leads to be a badge of honor.

While this may be a point of pride, we've witnessed firsthand when reviewing leading Internet dealerships' operational metrics that eliminating IILs will reduce sales and profit opportunities. With the realities of manufacturer agreements demanding dealers sell new vehicles in greater volumes, we've discovered that it is very risky to turn your head on IILs in developing your lead mix, as they've proven time and again to drive volume and return on investment.

Perhaps the feeling that a dealership is somehow smarter when it uses only self-generated leads is motivated by a bit of payback for the time when IIL providers were not aggressively monitoring their lead quality and dealer close rates suffered while their marketing costs increased. Though this may have been the case previously, in the past few years the industry has seen formidable efforts by lead providers to improve the quality of their leads in an effort to stave off dealer service cancellations. These efforts have paid off by making real strides to increase dealer close rates and profits. It's the beauty of a free market economy. When a business is losing customers they

either improve or they expire. (It's important to note that during the most recent downturn in our industry, most ILLs survived and even thrived as dealers sought efficient methods to generate prospects.)

Even ILL providers concede that dealers will likely experience greater close rates with leads generated from their own dealership website; but with most online automotive consumers visiting sites that generate ILLs, there is a great risk a dealership will miss opportunities when not considering these independent leads as a part of their overall lead mix. In fact, dealers that provided insight for this study indicated that they often use leads from ILLs to conquest markets to which they don't naturally have exposure. This makes sense because they claim buying leads in their competitors' markets does not "tip their hand" on their overall strategy like search engine marketing, newspaper ads and billboards would.

We also discovered a common thread when studying the posts on community forums and in advertising pitches by companies vying for digital ad dollars that ILL providers were actually competing against dealers. The advertising pitches and in-person positioning by competing category companies was that ILL companies buying keywords on search engines drives up the costs for dealers who are buying the same keywords. (For example: A dealer might create a search engine marketing campaign for "Ford Trucks in Versailles, KY" only to find that an ILL provider has purchased the same keywords while trolling for prospects.)

While it is indisputable that ILL companies buy some of the same keywords as dealers, it is less well known that they buy countless keywords that dealers do not purchase and that they secure leads from consumers who would prefer not to visit dealership websites. In the end, online consumers have proven to be a savvy bunch and tend to select the sites that best fit their shopping needs, whether it is a manufacturer site, a dealer site or an independent site. The lead acquisition strategies employed by ILL providers ensure dealers don't miss out on any prospects, even those who don't have an interest in visiting a dealership site or microsite.

In a J.D. Power New Autoshopper survey consumers indicated that independent sites are the most useful and are visited by 73% of all online auto shoppers. This survey further found that a dealer's best chance of receiving leads from brand defectors (80.2%) was through the purchase of leads from ILL sources. First-time automotive shoppers tend to prefer these third-party sites as well, with 69.5% using them compared to 25.1% using manufacturer sites and 35.8% using dealership websites for information. Even brand loyalists visit Independent sites at a rate far greater than they visit either manufacturer or dealership sites.

The bottom line: Online automotive shoppers still appreciate the information provided on the independent sites and, to the extent they generate requests for information on pricing and other items through these sites, it is in the best interest of dealers to keep them in mind when developing their digital marketing mix. Moreover, given the industry data that is so widely available, it is seems reckless for any digital marketing "expert" to suggest that dealers should abandon the third-party channel completely. As for dealership managers that proudly proclaim they've sworn off this marketing channel with the same sense of pride and accomplishment they would display if they'd quit smoking, we can only suggest that they are accepting that some prospects are not valuable to their business, especially if they come from ILL providers.

Given all the available information, why would companies state in their marketing collateral that ILL companies are not a good value? Well, it's likely as simple as the natural competition for dealership advertising dollars between ILL companies and website providers selling search engine marketing campaigns. The real answer is quite simple: measure your results on a continual basis and let your own metrics tell the story. The dealers in our study said it was important to ignore the conjecture of a vendor sales rep and to make up their own minds based on firsthand experience and proper measurement.

During our study, we discovered some companies who recommend that dealers exclusively generate first-party leads, because these same companies simply want to protect their position in a dealer's ad budget. While that may be the case in many circumstances, we also learned that some website companies actually encourage their clients to balance their advertising spend and consider Independent Internet Leads. (Although this position is less likely to be expressed unless the website company has a financial stake in dealers buying leads from other sources.) Progressive vendors in the market tend to understand that a strategically balanced lead mix was healthy for both dealers and vendors, and that there was risk in recommending an all in or all out strategy.

When examining the metrics of leading dealers, our study most often showed a balanced mixture of spending on websites, search engines, independent leads and online classifieds. We agree with this logic, because it allows dealerships to gain exposure to all types of shoppers, including those who may not see the value in visiting a dealership website before they submit a request for information. In our study, we learned dealerships that achieve consistently good results across the board use a balanced source mix and let their metrics determine their spend. This disciplined approach allows them to provide their own guidance and not rely on the pitches of a salesperson trying to secure a greater share of the ad budget.

As part of this study, we surveyed leading Internet sales managers, general managers and dealer principals. They suggested that excellent close rates depended more on proven processes and tactics than the actual source of the leads. These industry leading managers and dealers suggested that it was best to have a strategically balanced mix of lead sources to ensure the best overall return. Plus, the mix of lead sources recommended by top Internet sales managers appears to be more important today than it was just a few years ago.

In fact, in conjunction with our case studies, the close rates of nearly 4.3 million automotive Internet sales leads generated primarily from 2005 through 2010 were examined. These leads were a mix of all lead types including dealership website leads, online classified leads, OEM leads of all types and traditional third-party leads. This extensive data set (graciously provided by CAR-Research) allowed us to gain a unique insight into the history and trends of the average dealer's Internet sales effectiveness with various lead sources. A deep examination of the data revealed that while overall dealership closing ratios improved by 14.3% from 2005 to 2010, traditional sellers of third-party leads saw their closing percentages improve by 18.9%.

Clearly, improvements to dealers' own processes and practices contributed greatly to the closing ratio improvements of all lead types; but the improvements made by the IIL providers cannot be ignored. Simply put: The quality of the IIL has improved at a rate much greater than the rest of the automotive digital marketing arena and dealerships that purchase a mix of all lead types hold an advantage over those who are stuck solely on self-generated leads.

Multiple Forms of Independent Internet Leads

For the purposes of this study, it is important to point out that there are a multitude of independent leads available in the market. Nearly all of these leads fall into two main categories: root sources and aggregate sources. Allow us to explain.

Root-sourced leads are those generated by a consumer-facing website and given to or sold either directly to a dealer or an aggregator that will give or sell them to a dealership or manufacturer that then distributes them to their dealer body. Common examples of these websites are Kelley Blue Book, Autobytel, AutoUSA, InvoiceDealers and Edmunds. One could also consider root-sourced leads to be those that are generated by manufacturer websites and dealership websites.

Aggregate-sourced leads are provided by companies that purchase leads wholesale and then resell or “aggregate” them to their dealership or manufacturer clients for distribution to their dealer body. Common examples of lead aggregators are Dealix, AutoUSA, Autobytel and even manufacturer-based aggregators such as FordDirect.com and other similar manufacturer third-party lead sources.

Which source is best: Root source versus aggregate source? This became a focal point of the study and one that needs to be reviewed in a bit more detail before developing our conclusions. The rating of lead sources is one with which we have a great deal of experience at KainAutomotive.com. Since 2003, KainAutomotive.com trainers have worked with hundreds of dealerships to create Monthly Internet Performance Summaries that demonstrate a dealership’s return on investment from their Internet and BDC operations. This data, provided by KainAutomotive.com client dealers, demonstrates that a **strategic mix of lead sources is the norm in successful dealerships** because they provide for specific business needs.

The following example of an actual dealership demonstrates a typical method used to create the optimal lead mix.

Strategic Goal: A metro dealership with a desire to market to car buyers outside of its inner city location while maintaining their position in their natural market:

In this example, the dealership does not have the urban population size to organically support its new-vehicle volume goals, so it supplements its needs with a mix of options. This dealership needs to develop business from areas surrounding its urban center or purchase leads from sources that generate consumer interest in the population centers that best fit the franchise.

Option 1 – Develop more website traffic to enhance the chances of creating more “first-party leads.” First-party leads are generally considered those created on dealership website properties including the dealership’s own website, parasites, microsites, blogs, social media, etc. In opting for this strategy, a few items need to be considered, including building site traffic by creating a greater search engine presence through Search Engine Optimization (SEO) and Search Engine Marketing (SEM or Pay Per Click advertising).

This method is effective to generate more website visits, but can be expensive and usually requires the use of an outside company managing a budget provided by the dealership. The desired volume of site traffic and the type of keywords and competition drive the budget for SEM to a dealership site. Here’s the rub... even if dealerships drive the right prospects to their website in the desired volume, they may not convert into actual leads (i.e., consumers submitting their contact data) if their website is not well designed to convert website visitors into viable prospects.

Dealerships fortunate to have a site with a naturally high conversion rate are in good shape and driving traffic through search engines is a no brainer. However, in studying web analytics data from thousands of dealership websites, our conclusion is that most sites do not naturally convert above the 2-3% range. Therefore, if a dealership opts for the development of first-party leads in a sufficient volume to increase conversions and, in turn, sales through the website, it would mean all the ingredients must come together to generate enough volume to make the effort pay off.

(To be clear, our definition of a website conversion is a non-duplicated, viable sales prospect providing adequate contact information. We discovered many website companies touting to their clients a 15% or better conversion rates; though this data generally included service phone calls, duplicated or incomplete web form submissions and even “map prints” as viable sales leads. In reality, none of these is a viable **sales** lead.)

The key ingredient is improving the website conversion. If a website naturally converts visitors to leads (eLeads and Calls) in the 2-3% range, the return on the investment for SEO and SEM is in our opinion is too low. Our experience with clients has convinced us that a dealership needs a website designed to convert at a high level (in at least the 8-10% range) to get the full benefit of dollars spent on SEO and SEM.

Here's where it gets a bit complicated. To increase website conversion rates on a typical dealership website, the dealer may need to use outside service providers to create conversion tools on the website such as popup and pop-behind coupons, add a chat or click-to-call feature, develop "hook" offers based on the click path, provide third-party trade-in values and/or third-party finance conversion options and other offers to entice site visitors to submit data. If these website parasites do their job as expected, the dealership should generate sufficient volume to make the effort pay a fair return on the investment.

The reason the effort is generally worth the investment is because actual dealership results show first-party leads close at a higher rate than leads from other sources. In some cases these leads also generate a higher gross profit average on the vehicles sold. The math is simple: The lead volume may be lower from a dealership website, but the higher close rate and higher gross may make the effort worthwhile.

One challenge in using this strategy at most dealerships is having someone with the expertise to manage all the activities while also managing the process and people to sell the vehicles to the prospects. Another challenge has to do with capturing all the prospects possible given the proven desire of online automotive shoppers to visit independent Internet sites to gather information while shopping for a vehicle. If a dealership truly wishes to bring in greater volumes of prospects from outside, or even inside their market, they will need to consider supplementing this strategy with Independent Internet Lead sources.

Option 2 – Expand the current lead mix to include IILs. For the urban dealership in our example, a viable alternative to focusing solely on first-party leads to expand its current marketing area is to simply include the purchase of IILs in the overall marketing mix.

More than anything else, the traditional IIL providers have done a good job of allowing dealers to purchase independent leads in very well-defined territories. This "geographic certainty" that is so common in third-party leads is sorely lacking in other forms of marketing. Utilizing the best geo-targeting of search engine marketing doesn't come close to the GPS-like aspects of third-party leads, for example. (And please don't get us started on the customer acquisition limitations of many display advertising campaigns that claim to be targeted to specific in-market consumers. These programs have most often proven to be nothing more than branding; and for our dealer in this example, the need is squarely on customer acquisition – that is, leads.)

In our example, the dealer choosing this option could supplement first-party leads with consumer leads generated by independent sources in ZIP codes outside of the traditional marketing area. Using this method (and proper tracking and measuring) our urban dealer could buy specific lead quantities in specific ZIP codes for the exact makes and models that must be sold (something that is just not practical with any other form of digital marketing).

What Makes Independent Internet Lead Sources a Good Option?

Consumers have shown a high preference to use Independent sources to start the purchase process. Once they have narrowed their focus on a brand, these sites are logical submission points to request quotes and other information from participating dealers. This referral model is attractive to many consumers because they feel protected by the independent (and unbiased) source. They infer that they have arranged a streamlined process with quality dealerships. For this reason, consumers submit data at a high volume and, for the most part, show a tendency to purchase from the referred dealerships. Some consumers, of course, who submit sales leads at an IIL could ultimately submit similar requests at manufacturer and dealership websites.

In our study, it was found that leading dealerships generally prefer a strategic mix of leads from their own website and IIL sources. This was the case even though, on average, the close rate on the IILs was three to five percentage points lower than those from their own website. To use industry slang terminology, dealers feel the deal “still pencils.” This means the return is sufficient to cover the cost of the leads, given the minimal effort expended to generate the leads versus the high effort of managing the ecosystem to generate more first-party leads.

Our conclusion - after reviewing the information submitted by the dealerships involved in the case studies, as well as the many KainAutomotive.com clients submitting performance data each month - is that a strategic lead mix is essential. The typical mix consisted of a balance of dealership first-party leads, manufacturer leads and IILs.

Catalysts for the Use of Independent Internet Leads

“It’s easier” was a statement heard often when talking with dealerships that buy a heavy volume of IILs. “I don’t have to know anything about SEO and SEM, I just have to write a check.”

Another often stated reason for the use of Independent leads was the ability to hold the company providing the leads accountable for the quality. With the well-publicized efforts by these companies to ensure their quality with offers such as quality pledges (which guarantee a dealer can contact a prospect that is in-market), the risk factor associated with purchasing IILs drops dramatically. When comparing this environment of ease with the effort an average dealer exerts to manage all the ingredients to drive equivalent lead volume through their own website, even if the close rate and gross is better, it makes perfect sense to continue purchasing leads from IILs.

Why Do Some Dealers Rave While Others Rant?

In preparing for the study we spoke with dealer after dealer trying to understand why some dealers rave about IIL providers while others rant. It’s clearly important to consider what dealers stated as their reasons and to also offer our own findings for this phenomenon.

In case after case when dealership managers raved about their use of IILs, we discovered they commonly have well-structured processes and exercise a strategy of long-term prospect nurturing to ensure a high volume of sales beyond the first few days. They mentioned that prospects obtained from IIL sources generally take longer to purchase because their lead often did not originate with a VIN-specific vehicle like those generated at dealership websites and classified listing sites.

On the other hand, we discovered in our conversations with dealers that those who rant about the

ILL generally had a high expectation that those prospects should purchase more quickly. When shoppers didn't, the dealership personnel did not have the patience to follow them until they finally decided to purchase. Additionally, ranters often expressed a clear bias against these leads based on some prior negative experience.

For both the "ravers" and the "ranters," we also saw a clear confirmation bias. Confirmation bias (sometimes called myside bias) is the tendency for people to seek out facts and information that confirm their preconceptions and ignore any evidence to the contrary. In other words, those dealership personnel who loved or hated a particular lead source would ignore facts that didn't support this position and would look only for information that supported their beliefs.

Likely, this means that anyone with a strong confirmation bias against ILLs will discount this study as irrelevant to their dealership. Of course, a difference of opinion is welcomed, and is it suspected that dealers competing with these dissenters will encourage this practice because they can pick up the unwanted leads and expand their business.

We discovered in the study that ranters tended to focus heavily on a single poor-quality lead (rather than just return the lead for credit) and ignore the fact that they successfully closed sufficient quantities of the remaining leads to provide an adequate ROI for the dealership. Some of this has to do with the need to develop a lead return process in their dealerships. Leading dealers surveyed for this study indicated one success component was having a well-oiled process for claiming bad lead or duplicate credits. Instead of seeing a lead source as an asset, those with confirmation bias against ILLs tend to just see the problems, even if they can be addressed with a simple process. We agree that it would be better to never have to make a claim for a bad or duplicate lead, but one can surmise that even with well-planned PPC campaigns not every click is a good one (but search engines don't offer credits for bad clicks). Only by being devoted to strong tracking and measurement can a dealership overcome the confirmation biases of their managers and salespeople and truly benefit from a strategic digital marketing mix.

Interestingly, although we found many loud voices were raving or ranting, we discovered many more dealers that just go happily along their way with a mix of leads from all sources, including independents. These mainstream dealers just consider it part of their marketing mix and accept the fact that like the showroom, all customers are following their own purchase path. It is up to the dealership to stay in touch and motivate prospects to buy in their own time.

A Formula for Success

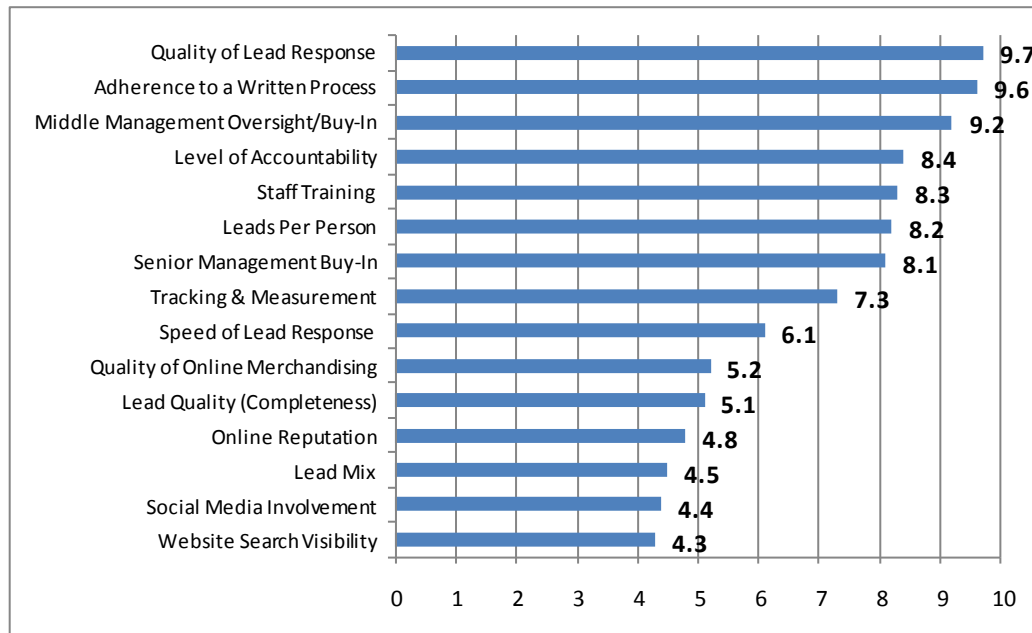
Progressive Leadership + Innovative Marketing + Continuous Process Improvement.

When we separated the best from the rest in our studies, the formula for success truly came down to three disciplines: progressive leadership; innovative marketing and continuous process improvement. Knowing the formula for creating a successful Internet dealership is only half the battle, of course. It's also critical to understand what progressive leadership, innovative marketing and continuous process improvement look like in successful dealerships.

Fortunately during the study, we were able to single out those activities/factors that, when done right, all but guaranteed Internet sales success. While some of what was discovered as top factors were expected, a couple were somewhat surprising. What was most surprising, however, is that factors such as lead quality (i.e., completeness of the information contained in a lead) and lead mix (i.e., buying from various lead sources) mattered very little relative to other factors. For example, successful dealers did a great job of closing leads that had no phone number, so long as they contained a valid email address. Albeit, these leads took more effort than those with a number, it was found that their communication tactics emphasized the value of a telephone call to review the request rather than pushing for an appointment or a sale right away. Additionally, it

almost didn't matter where a successful dealer acquired leads (third parties, website, OEM, etc.). They were successful regardless of their lead mix.

Using the data obtained in our case studies, we compiled the chart below to detail what we found to be the fifteen most important factors guaranteeing Internet sales success. We assigned each of these a relative weight (on a scale of 0 to 10) based on the importance of each factor to the subject stores' overall Internet sales success. The higher the number, the more important that factor is to driving sales and gross from your Internet operations.



Because these are relative weights, an activity with a weight of 9.6 (like "Adherence to a Written Process") is twice as important as an activity with a weight of 4.8 (like "Online Reputation"). It's important to note that these factors are weighted based on their contribution to a store's *Internet* sales success, not to a store's *overall* sales success. That should help explain why something as important as online reputation would rank so low, relatively speaking.

Online reputation, we discovered, has a fairly equal effect on a store's online and offline successes, so as a weighted factor in their online success, it has less of an effect than most other activities that are focused on just the Internet customer. It's important to note that many other influencers were left off the list altogether, so to even make the top fifteen one would concede that it carries some importance to the success formula.

For the purposes of this study, we looked at a combination of Internet sales closing percentage, Internet unit sales per person, gross profit averages and Internet sales as a percent of total store sales to determine the level of Internet sales success for each subject dealer. To be considered successful, a dealership would have to perform well on all four measurements. Generally speaking, the model dealership in this case would maintain an overall 15-20% closing ratio of all Internet leads, enjoy unit sales per person for dedicated Internet salespeople of at least 14-15 units per month, generate a gross average near or equal to their floor averages and record at least 35% of their store's sales from appointments sold from Internet leads.

For example, an Internet team could have a high closing percentage because they distribute far fewer leads per person than other dealers, but then they wouldn't be likely to have high unit sales per person or contribute 35% or more of their store's overall sales, so their Internet sales would not be considered "successful" by our measurements. One can, however, make some

exceptions where a store excels at three of the measurements and is “only” above average on the remaining measurement. In a case like this, one could argue that the store was a successful Internet dealer.

For the purposes of explaining the formula for success, we thought it best to frame the discussion around each of the disciplines included in the formula in terms of the fifteen most important activities/factors that guarantee Internet sales success.

Progressive Leadership

We heard it everywhere on the industry blogs and repeatedly in our studies of successful stores: *buy-in at the top*. It seems the one area, above all others, where the blogs, discussion boards and industry publications agree with the reality in today’s dealerships is the need for what we call progressive leadership.

Simply put, progressive leadership is more than just agreeing that the Internet is important or that it is not going away. Truly progressive leaders (in this case we’re referring to all levels of a store’s management including sales managers, general managers and dealer principals) learn to never say things like “this is the way we’ve always done it” or “when I was a sales rep, we...”

Progressive leaders understand that the world has changed, and it’s not going to change back... ever. In fact, progressive leaders also understand that the world is going to continue to change. They can either try to stay on top of the changes themselves, or they can hire the best and the brightest and get out of their way (but, support the heck out of them).

A store’s level of leadership is so correlated to their level of Internet sales success that the three factors related to this discipline are among the most heavily weighted of the fifteen factors that drive Internet sales success. They are, in order of importance, middle management oversight/buy-in (9.2), level of accountability (8.4) and senior management buy-in (8.1).

Middle Management Oversight/Buy-In (9.2). Clearly the most surprising factor that ended up near the top was middle management oversight and buy-in. While we knew that friction between the desk and the Internet team, or the Internet team and the new or used car managers occurred in most stores, we didn’t realize that these issues had such a negative impact on a store’s Internet sales success. In fact, if you’d asked us before the study if buy-in was most critical at the middle or senior management level, we would have insisted that buy-in from senior management was at least twice as important as getting the desk or sales managers to support the Internet sales efforts.

And we would have been wrong.

The case studies clearly showed that successful Internet stores not only had support at the middle manager level, but that this buy-in was truly a game changer for these stores. From little things like eliminating skating and ensuring a good customer experience during a T.O. to providing quality and efficient assistance during desking, F&I and delivery, middle managers impact so much of the process that their influence cannot be ignored. Unlike below average stores where the desk often takes pleasure in torturing the Internet salespeople, middle managers at successful Internet stores know that Internet sales are the future for their business and that their paycheck improves as these sales improve.

For dealer principals and general managers who think their Internet team has a great working relationship with their desk and sales managers; ask yourself whom you support when there are issues between the two? Ask yourself who’s been with you longer and who gets the bulk of your respect? You may be providing terrific support to the Internet team yourself, but if the desk, F&I

and sales managers are not following your lead, then your success will be limited (at best).

Level of Accountability (8.4). We were not surprised that accountability came in as the fourth most important factor to guarantee Internet sales success, but we are continually surprised at how even today middling dealers fail to hold people accountable to the very processes that they agreed would move them from worst to first in their markets. As a case in point, one of us spoke with a dealer near the conclusion of the study that just reverted back to using appointment setters to manage Internet leads.

This store had previously made an attempt at running a true Internet dealership by allowing the floor sales team to manage a mix of floor ups, phones ups and email ups. This attempt failed, and by moving back to using appointment setters, this dealership now enjoys higher labor costs than their competitors.

More troubling than the increased costs is the reason that they moved away from becoming an Internet dealership: It wasn't because their floor sales team was too busy to manage Internet ups along with traditional ups; no, the reason they stopped using the floor team to respond to Internet ups is that the floor salespeople weren't making the required phone calls to prospects. In other words, there was no one holding the floor sales team accountable to making their required phone calls. In successful operations we discovered the common denominator was progressive mid-level managers that see the value of effectively managing Internet prospects – and this includes accountability.

This store (like many others) put processes and rules in place, but failed to hold people accountable when they didn't follow the established and agreed upon direction. They had a solid written process in place – complete with required phone calls and emails to non-responsive prospects – yet they allowed floor salespeople to dictate whether the process was followed or not.

Successful Internet dealers demonstrate that holding people accountable is tough work, but it pays off for everyone in the end. Their salespeople make more money, they sell more cars and their customers are better served. Plus, when they hold everyone accountable to the rules that they set, they increase the satisfaction of their best employees. Successful people are drawn to successful operations, but they won't stick around for very long if you cannot hold everyone to the same standard of accountability.

Senior Management Buy-In (8.1). As the seventh most important factor to guarantee Internet sales success, senior management buy-in seems like a no-brainer, right? Surely those at the top of every dealership understand the need for a strong Internet sales effort, correct? Surprisingly, there are still many stores we encounter where the general manager (and sometimes even the dealer principal) struggles to see the value of providing their full support and attention to the Internet sales team.

Progressive leadership is much more than buy-in, and buy-in is much more than admitting that the Internet is important or even that 90% of your customers are online. No, buy-in (as we defined it in our study) includes elevating the Internet sales team to a status equivalent to your new car or used car teams and including this team's leader in your managers' meetings. It also means providing an adequate budget for lead acquisition and, more than anything else, it includes communicating the importance of the store's online efforts to all other managers – and holding those managers accountable when they do not fully support these efforts.

For the successful dealers in our study, there was never a question as to senior management buy-in. In fact, these senior managers can be seen interacting as often with the Internet team as they can be seen interacting with the desk managers. They are interested in the future of their stores and they know that this future lies in great part with their Internet sales efforts. Moreover, they look at their Internet salespeople and/or appointment setters as being part of the store's overall sales effort, not as a separate "department."

Innovative Marketing

As an element to the formula for success, innovative marketing can mean many different things to many different people. For those on the sometimes bleeding edge, they might assume innovative marketing means abandoning the often boring traditional customer acquisition activities for the fun and exciting world of social media. To us, and especially the dealerships in our case studies, innovative marketing means casting the widest net possible when trying to acquire new customers or deliver more revenue from existing customers. This means working through all the proven activities and avenues that deliver a strong ROI, while keeping a keen eye on the horizon for the newer activities and avenues that may not yet be in the mainstream.

Of course, this definition of innovative marketing is as much about what it doesn't cover as what it does. For example, it doesn't mean that successful dealers jump feet first into everything that's new and exciting. No... just the opposite. The successful dealers in our study were careful not to put too much faith in unproven methods or marketing; and while they weren't opposed to piloting new solutions, they never became enamored with the promises; only the results. (It's clear that for successful dealers, measurement goes hand-in-hand with innovative marketing.)

While this might come as a shock to most people reading this study, digital marketing in general had less of an impact on a dealer's *relative* success with their Internet sales than either leadership or process improvement. Because our study defines a successful Internet dealer by their closing percentage of Internet leads, their sales per person in the Internet department, average Internet sales gross profit and their percentage of total store sales from Internet leads, digital marketing activities that benefit the floor sales team as much or more than the Internet sales team skew toward being either unhelpful to a store's Internet sales success or tenuously helpful.

Even provided our rationale, many will probably take umbrage with the relatively low weight we assigned to the six activities/factors related to innovative marketing listed below. These six, while critical to a dealership's *overall* success, do not make or break a dealership's *relative* success of their Internet sales efforts. That said, all six are still important enough to be included in the study.

Quality of Online Merchandising (5.2). As we say in much of our dealer training, "the car is the star" when it comes to online merchandising, and the successful dealers in our study fully understand this. From displaying as many or more photographs online as their competitors, to writing compelling, interesting and unique used vehicle descriptions; successful dealers are able to make their vehicles stand out on crowded sites like Cars.com, AutoTrader.com and UsedCars.com. Moreover, they were able to show why their vehicle might be worth slightly more than competing vehicles.

As a lead driver, it has been well documented by the classified websites that vehicles with complete and robust descriptions, quality photos and market-driven pricing generate more leads. Empirically speaking, our case study dealers would agree.

Lead Quality (Completeness) (5.1). In our work with dealerships, we are often confronted by average salespeople who complain that customers provide fake or no phone numbers on price requests; and that this makes the leads unsellable. To us, this is really just an excuse, as successful dealers (our study found) can make any lead work. In fact, likely because of their high quality of lead response, successful dealers exhibit a very high connection rate even when some lead information is missing or incomplete. (Connection rate refers to the percentage of consumers that a dealer is able to connect with within 30 days of receiving a lead. As a rule, dealers should expect a minimum 50% connection rate as a best practice measurement.)

So, while somewhat important to overall Internet sales success, receiving a complete lead (one that contains 100% correct contact information along with an accurate name and address) is not as vital as some salespeople would have you believe.

There is an attitude, if you will, in successful Internet stores that limits the complaints and excuses and encourages a “can do” spirit. We believe that this positive culture helps successful teams look for silver linings where others see clouds. When an Internet salesperson at a successful dealership receives a lead with just an email address, they take it as a challenge to so completely engage the prospect that they score a connection almost immediately. The questions for dealers who cannot seem to connect with prospects when a lead is incomplete are these: How compelling is the response you’re sending? Is it high quality and prompt, or is it filled with typos and a day late?

We also found that dealerships that utilize “pre-desking” strategies, where a sales manager reviews the lead and coaches the first response, tend to connect on the first attempt, regardless of lead completeness.

Online Reputation (4.8). Obviously this may sound counterintuitive, but our study revealed that a store’s online reputation has little to do with the success of their Internet sales *relative* to the rest of the dealership. This does not mean that online reputation is unimportant; in fact it just means that the online reviews and complaints a dealer receives have an impact that reaches far beyond a store’s Internet sales department. It has been well documented that maintaining a great online reputation is critical to a dealership’s present and future sales and service business. However, our study shows that a dealership’s online reputation has a greater impact on that dealer’s offline sales than it does on their online sales.

Here’s why: An online consumer that submits a request at a root sourcing site often does not know which dealership will ultimately receive the lead. Because of this, they don’t see a rating and therefore, if the dealership provides great service they will likely purchase. It should be noted that as of this writing two leading online classified sites are integrating dealer ratings on their sites so online reputation will grow in influence. It will be interesting to see the impact of these strategies and whether dealers will rebel and perhaps drop services that disclose dealer ratings.

In today’s world of automotive Internet sales, we assert that a poor online reputation hurts a store’s offline sales more than it hurts its online sales, given that most Internet shoppers do not submit leads of any type and those who don’t submit leads (even if they gathered their buying information online) are considered traditional ups in virtually all dealerships. While prospects are unlikely to call a dealership and inform them that they decided against buying from them because of the dealer’s poor online reputation, there is much anecdotal evidence to suggest a great online reputation can compel consumers to almost literally drop everything and head straight for the dealership. Because the Internet shopper who also completes a price quote request or other lead form is still narrowing their choices, dealerships with five-star online reputations should therefore expect a greater impact to their foot traffic than their email traffic.

Finally, most dealers who care about their online reputation have ceded the management of this facet of their business to someone involved with their Internet sales efforts. Given that the positive or negative effects from online reviews impact the entire dealership, it seems to make sense to us that dealers move the oversight of online reputation to the department heads most affected by a good or bad reputation: the service manager, new car manager, used car manager and general manager.

Lead Mix (4.5). While this may seem like a contradiction of much of what we wrote earlier in this study, lead mix has relatively little impact on a store’s Internet sales success when weighed against leadership and process. That is, any *specific* mix of leads had a relatively small impact; though having an overall strategic and robust lead mix (complete with leads from numerous sources) was sometimes the difference between excelling at online sales and merely participating

in online sales.

To frame this another way, successful dealers generated sales leads from a large number of sources and did not specifically exclude an entire category of digital marketing vendors just because of a bias or desire to be more “self-sufficient.” In fact, there is almost a direct correlation showing that the higher the number of lead-generating vendors used by a store, the greater the overall Internet sales success for that dealership.

This makes sense when you consider that the typical automotive Internet shopper is not at all typical. While millions of web surfers visit AutoTrader.com in a given month, for example, the classified site by no means garners a visit from even the majority of in-market customers. Likewise for a dealership or manufacturer website. It’s just not possible to be in front of the majority of in-market shoppers in your marketing area without casting a very wide net... and this means maintaining a robust lead mix.

Additionally, because not every website where vehicle inventory is listed does a good job of generating phone calls or email leads, dealers who cast the widest net possible may capture a sales lead from one source, even though the prospect who submitted the lead may have interacted with the dealer’s inventory on other websites (though just not submitted a lead).

Now, if you were hoping we had discovered a secret recipe that sounds something like “two parts Cars.com, plus one part dealer website and three parts AutoUSA” then you’re going to be unhappy. The truth is that to be a successful Internet dealer, you need to understand that the specific ingredients don’t matter as much as the quantity of ingredients does. It seems that dealers who put away their egos and use a large pool of providers to drive their Internet sales efforts are much more successful than those who try to stick to just first-party leads.

Social Media Involvement (4.4). The jury is still out for most dealers on whether this medium can drive the short- and long-term value that so many have promised. As a barometer for whether a particular dealership was going to be successful with Internet sales, however, there are no strong correlations between the number of hours a dealership spends on their social media management or how many “likes” they collect and how many cars they sell through their Internet department. This is not to say that social media has no effect on an automotive dealer or that dealers should not engage in social media marketing. It’s just that in our study and in interviewing leading dealers, these leaders indicated that “today’s success” was driven by more traditional digital marketing sources.

Like a dealer’s online reputation, the benefits of their social media involvement (if any), seem to fall as much to the offline side of sales and service as they do to the online side. Of course, this is all the result of empirical data and, to our knowledge, no comprehensive credible dealership studies that detail the return on investment for social media involvement have been completed to date. We suspect that when these studies are commissioned that dealers will find that strong social media marketing, like reputation management, has its greatest impact on what are considered traditional ups.

Website Search Visibility (4.3). Given that even the best dealership websites fail to convert about 85% of unique visitors into email or phone leads, it follows that dealers with terrific website search visibility – that is, great SEO – would reap this benefit in the form of greater foot traffic ahead of greater lead counts. It is for this reason that a dealership’s relative website search visibility was not a good indicator of that dealership’s Internet sales success. There was some correlation, of course, but not enough to rank website search visibility anywhere but last in our findings.

As counterintuitive as it sounds, website search visibility (like social media marketing and reputation management) is more important to the overall dealership than it is to the Internet sales department. Again, this doesn’t mean dealers should abandon their SEO or SEM activities,

though it does beg the question: should your Internet Manager be in charge of these? Perhaps, though if his/her role is more sales leader than marketing guru, it might be better for dealers to move search responsibilities (along with those for reputation management and social media) to that person or group responsible for the dealership's overall marketing strategy and execution.

For tracking purposes, dealerships should continue to measure the ROI of their SEO and SEM activities as they always have: that is via the increases or decreases in online leads and sales. Though the major benefit for great search visibility is bestowed offline, these online measurements are more precise and less prone to manipulation than traditional offline surveys conducted in-store.

Continuous Process Improvement

Successful Internet dealers did not just reach some measure of success and then keep everything status quo. Not even close. For the successful dealers in our study, there was certainly a dedication to the processes, communication tactics and techniques that made a dealership successful in the first place, but there was an equal dedication to continually exploring ways to improve these.

This continuous process improvement, like senior and middle management buy-in and support, was a culture that ran deep through every successful Internet group we encountered. It seems that the support and buy-in from management (and management's desire for growth and accountability) is what drives much of the process improvement in great stores.

As we revealed earlier, some dealers can make virtually any lead source work. For the successful dealerships in our study this is likely the direct result of their dedication to improvement. For example, when they find a lead source that isn't performing to their satisfaction, Internet teams at successful dealerships take a deep dive into the leads and even dissect both the process prescribed and the process followed (not always the same thing, even in great Internet sales departments). Once they've diagnosed what they believe to be the root cause of failure for a lead source, they are quick to test and measure alternate processes, templates and techniques until they discover the right ingredients that will provide adequate ROI from the subject lead source.

Quality of Lead Response (9.7). Using quality, well-constructed emails, proven phone scripts and having a commitment to make every interaction memorable for the prospect creates a first-class response; and quality of lead response was the most important factor in guaranteeing a store's Internet sales success for the dealers in our case studies.

Successful stores do not "freelance" or stray from the quality responses that have worked in the past. This is not to say that they are so rigid as to not allow any deviations. On the contrary; as we wrote above, these stores also have a commitment to overall continuous process improvement. (Of course, for successful stores, any process improvement is carefully measured and managed. Once proven, these improvements are quickly incorporated into the existing process.)

You may believe you provide a high-quality response to all leads, but do you? The successful dealers in our study understand that it's critical to recognize that when you respond to a lead you are not alone. Your response may be competing with as many as nine other dealers. How can you stand out? How can you be the selected dealer? Your response has to be first class and has to show the prospect that you are different from the others. Asking "What's it going to take to earn your business?" is not going to earn anyone's business. Successful dealers know this.

Not sure if you respond properly to all leads? The dealers in our study overwhelmingly conducted

mystery shops of their own stores and their competitors. The results of these mystery shops provide them with vital feedback necessary to continually improve their efforts and ensure they are always “best in market.”

Adherence to a Written Process (9.6). Yawn, right? It is precisely because following a written process (or even having a written process) is so boring that so many dealers still struggle with substandard closing rates and the inability to work with all lead sources.

It would be great if you and your team could sell hundreds of cars every month without having to deal with pesky processes (especially written processes), but there is a reason that this was the second most important factor to guarantee Internet sales success.

The difference between stores who have and adhere to a written process and those who just wing it is staggering. The former have consistently strong (often record) sales results, while the sales trends of the latter are littered with short spikes and deep valleys. Beyond the obvious higher closing percentages that come with consistently strong performance, stores with written processes tended to have less turnover and greater employee satisfaction. Additionally, these stores had no problem being successful with Independent Internet Leads, while the stores without written processes often cited “bad lead sources” as the main reason they were not consistently successful.

Staff Training (8.3). We found that while often it was suggested that successful Internet salespeople have it in their DNA, most likely their success was the result of continuous training either on their own or by progressive managers. One would like to suggest that finding the right person is the true key to success; it is also the most risky. Most successful Internet operations prove that average people, properly trained, motivated and held accountable can achieve above average results.

Though no term in automotive is probably as amorphous than staff training, the reality is that virtually any training is good training. The issue for many seasoned managers is twofold: 1) You probably feel that because “no one trained me” that no one else needs training to succeed in automotive sales; and 2) Even if you agree to training, you probably do very little to reinforce the lessons learned.

Unfortunately for seasoned managers, there was little real training happening in dealerships twenty years ago. The cream rose to the top and everyone who couldn't hack it left to sell shoes, real estate or insurance. This bias against the need for training is understandable, but completely counterproductive to automotive sales in 2011. Not only are there new concepts and technologies to master, but the pool of available and qualified sales talent is not growing.

For the dealerships in our study, regular and mandatory staff training is not only a reality; it is actually greatly anticipated by the instructors and the attendees. Employees thrive on knowledge, and in a commission-only atmosphere they know that great training means more money in their pockets. That's why well-planned, regular staff training that demonstrates to the trainees just what's in it for them ranks as the fifth most important factor to guarantee Internet sales success.

Leads Per Person (8.2). While it was not surprising to us that leads per person (LPP) was a top factor in determining whether a store was successful with their Internet sales, it was a bit surprising that it did not rank as the most important factor to Steve Stauning. In the past, his research noted that almost every store with low unit sales per person from their Internet teams were also trying to manage too many LPP and that adherence to a strict per person lead count was often the first priority in taking an Internet sales team from good to great. Once the results from this study became clear, however, the need to adhere to a strict lead count was diminished somewhat.

That said, our study still showed there is a strong correlation between lead counts and Internet

sales success: both too few LPP and too many LPP were indicators that an Internet sales effort might be unsuccessful. However, successful stores that had all of the other important factors in place had much greater leeway in what were their optimum levels of LPP. Ultimately, this meant that Stauning's long held belief of holding to a strict 70-80 LPP for end-to-end departments and 120-150 LPP for appointment setters was somewhat less important when a store was truly operating on all cylinders.

Tracking & Measurement (7.3). The successful dealerships in our study welcomed the report cards provided via proper tracking and measurement. Great salespeople in these dealerships anticipate report cards as proof they are great at what they do, while management knows that accountability cannot happen without great reporting. About the only people unhappy with strong tracking and measuring in successful Internet dealerships are vendors who overpromise and underdeliver (because successful dealers know that nothing cuts through the clutter and snake oil like a vendor ROI report).

Of course, merely reporting on the numbers is only half the job. The dynamic that separates successful dealers from everyone else is the attention paid to and the training/changes initiated from daily, weekly and monthly reports. While it's true that there are scores of reports a dealership could produce, there were some reports common to all of the successful dealerships in our study. These included reports detailing sales performance by tracking connection rates, appointment show rates and close rates (among other measurements) by sales rep and by vendor. Additionally, all successful dealerships maintained a monthly vendor ROI report showing (at a minimum) costs per lead, costs per sale and closing percentage of all lead sources.

Tracking can be classified as Performance Metrics (those tracking tactical results) and Financial Metrics (those tracking return on investment). It was discovered that most leading Internet dealerships track both consistently.

Speed of Lead Response (6.1). Consumers expect an almost instant response when they submit their personal information in exchange for a price quote, trade-in value or vehicle financing. (As one would expect in an online environment dominated by Amazon, eBay and others, when a request is made a timely response is expected.) There have been numerous studies that both detail the need for dealers to respond quickly and the fact that so many dealers still do not do so. In our study, all of the successful dealers regularly responded (during working hours) in under one hour, with many targeting their first personal responses within just minutes of receiving a lead. When these same dealers failed to provide their standard quick response, their chances for closing a particular lead decreased.

Given this information, you might assume that speed of lead response should rank higher than it does in our study; but as we found, speed without quality is often worse than no response. In other words, the dealers in our study had to be both fast and good. When they were both fast and good, they stood the greatest chance to succeed. But, when a sales rep took it upon themselves to send an incomplete or non-structured response to a price quote requestor in the name of speed, for example, they often did more harm than good. This desire to be first, then, must be part of an overall strategy that includes great (and proven) email templates designed to compel the prospect to respond positively. Just being first, of course, is not enough.

Study Conclusions

Those dealerships that provide progressive leadership, encourage others' ideas and innovation, and are deeply committed to growing their Internet sales via process improvements have not abandoned any lead source. In fact, as our case studies demonstrated, dealerships with these three traits embraced every opportunity to capture contact information for new prospects. Furthermore, they clearly understood that this attitude gave them a distinct competitive

advantage.

Above all else, our studies and data prove that truly successful dealers can have success with virtually any source of leads. Moreover, to the question of IILs: “To buy or not to buy?” our answer is a resounding “yes” (if you want to run a truly successful Internet sales effort). That being said, there is a great difference in levels of success that can be achieved with Independent Internet Leads. In most cases we have witnessed in our interactions with dealerships purchasing these leads, that they tend to allow the vendor representative full rein to set up the sourcing parameters. This works great if you have an exceptional sales representative that understands the nuances of the dealership’s specific market, and they wish to establish a strategy of solid success. Although, on the other hand, if they are less concerned with your success and wish to sell a large volume of leads to achieve a sales bonus then we don’t recommend this approach.

In fact, our case study dealers and successful KainAutomotive.com clients told us they recognize the need to focus on a few key variables when agreeing to purchase leads from an IIL provider:

- Begin by establishing a tight lead-sourcing radius around the key market areas in which your dealership naturally sells new vehicles. This will allow your dealership to attract leads from prospects that would feel comfortable with the distance from their home. This tighter radius in the beginning will also help you achieve a better than average close ratio and gross average.
- Once you’ve achieved success and wish to expand your market and perhaps conquest competitors, then you will want to gradually expand your reach with the recognition that each five to ten mile expansion or new ZIP code you target could diminish your close rate and gross average. As long as you add adequate staff to manage the leads and your dealership is able to still reach their sales and gross goals you can keep expanding over time. Once you get to a point where you do see a drop, you may benefit from tightening the radius to the sweet spot that best fits your overall goals. The most common error made by dealers and IIL representatives is setting a large radius in the beginning, which lessens the success ratios and causes dealers to get frustrated and potentially drop a source before they reach the sweet spot.
- Establish a firm budget and stick to it for 60 to 90 days. The dealers we spoke to that started with a firm budget suggested this allowed them to keep a close watch on the return on investment and their initial goals. It also provided the timeline for them to become comfortable as to how the particular sourced leads needed to be processed to motivate buyers. Your lead acquisition needs (based on internal goals and staffing) should dictate your budget and not the other way around.
- Manage the leads in a way that is consistent with how they are generated by the IIL providers. This is not very complicated once you understand from the vendor representative where the leads come from and the triggers that motivated the prospects to submit their data. If a dealership salesperson working with an IIL knows most of the prospects generated by the source expect a price, then they will want to acknowledge this in their early communications in their process. Most of the dealers that provided feedback in the study alerted us that they provide price information quickly to IIL prospects because to not do so lessens their ability to meet the prospects expectations. They indicated that most root sourced prospects provided by IIL vendors submitted data on a form that proclaimed “click here for a price.” As such, they have a process developed where they are prepared to provide a price in the first phone call or email. We recommend you ask your representative where the leads originate (for the most part) so you can establish your own processes to achieve great process results.
- Communicate early and often with the IIL representatives and claim credits immediately. The dealers we studied often quoted to us that their satisfaction level with an IIL provider had more to do with the quality of the communications and how they processed credits for bad leads. They indicated that each time they had a bad lead they pursued a credit immediately, which made it easy for the representative to pay attention and communicate any quality issues to their management.

- Focus on Return on Investment goals. We have long held that you can predict the future once you have an idea of how well your process works and the quality of your lead sourcing. Your average close rate and gross profit are the tools. If a dealership has averaged a 10% close rate and a \$1,500 gross average on ILLs, and purchases 100 leads from a new source, then they should expect to sell ten vehicles and generate \$15,000 in gross. As a point of reference, the minimum ROI multiple we recommend to KainAutomotive.com clients is 5x. This means that if you spend \$1,000 for leads you should generate a minimum of five times that in gross, or in this case \$5,000. Many dealerships earn much greater than 5x, which is a sure sign of success.

The successful dealers in our study proved that the idea of complete self sufficiency with respect to lead generation is impractical for those who want to have a chance at contacting the largest share of in-market shoppers. Not only because the majority of in-market shoppers will never visit a dealership website, but also because third-party lead generators will always be one step ahead of most dealers in the lead generation game.

Finally, by realizing that no matter what you do, you cannot drive every in-market prospect to your website or Facebook page, (nor can you compel every one of these consumers to complete a lead form or pick up the phone), the progressive dealers in our study came to the conclusion very early on that by leveraging lead sources abandoned or downplayed by their competitors, they could kick their competitors' collective butts and drive incremental sales and revenue. And, that's just what they're doing...

About the Authors

David Kain –

President
Kain Automotive, Inc.
www.KainAutomotive.com

David Kain was raised in his family's Ford dealership in Versailles, KY and learned the automotive business from the ground up. With his brothers and sisters, he worked weekends and summers in a variety of positions learning the intricacies of the business. After graduating from college he took a "temporary" position as a car salesperson, which lasted 20 years. In that time he gained firsthand experience in every role including General Manager and President of the Kain Automotive Group.

In 2000, David, along with his fellow Ford Dealer Council members, founded FordDirect.com in Dearborn, MI. David was instrumental in the conceptual and business development of this new entity, leaving his full-time role in the family business to become the Chief Operations Officer. FordDirect.com is a unique joint venture between Ford and Ford Dealers, and David, with a cast of talented teammates, was able to grow an interesting idea into an industry leading company that continues to thrive today.

In 2003, David moved home to Lexington, KY and opened KainAutomotive.com. KainAutomotive.com was created with the goal of providing exceptional Internet Sales Training and Digital Marketing guidance to automotive dealers, manufacturers and industry service providers. The KainAutomotive.com Training Team has been selected as a Dealer's Choice Award Winner for Internet Training in 2008, 2009, 2010 and 2011 in Auto Dealer Monthly and provides Internet / BDC Sales Process training and Digital Marketing guidance to dealers across the U.S. and Canada.

David is a well-regarded industry expert and is regularly invited to speak at industry events including the NADA Convention, State Automobile Association Conventions and workshops, Digital Dealer Conferences, Industry events and 20 Groups. He is well published in industry magazines and eNewsletters on a consistent basis sharing proven practices with readers. His focus on success has afforded him the opportunity to work with industry leading dealers and shape their processes and digital marketing strategies that drive exceptional sales and profit results.

Steve Stauning –

Founder
pladoogle, LLC
<http://pladoogle.com>

In 2009, Steve Stauning founded pladoogle, LLC, a digital marketing services solutions company providing clients with products designed to drive traffic to their websites, increase their online conversions and help them get the most from their digital marketing assets.

Prior to his work with pladoogle, Steve served as the Asbury Automotive Group's (NYSE: ABG) director of ecommerce. At Asbury, he was responsible for helping their 120+ franchises maximize the effective use of the Web and related technology to grow sales, drive fixed and variable revenue, increase customer satisfaction and gain operational efficiencies. Under Steve's leadership, Asbury dealers consistently maintained industry-leading Internet sales results.

Steve joined Asbury after serving as the director of the Web Solutions division of the Reynolds & Reynolds Company. At Reynolds & Reynolds, he led the team that successfully sold, designed, built and maintained over 7,000 automotive dealer websites. Prior to his time with Reynolds & Reynolds, he served as general manager for Dealer Web Services at Dealer Specialties, where he oversaw the development and execution of data and Internet-related services for Dealer Specialties' 10,000+ automotive customers.

Steve is a popular speaker for both NCM and NADA Twenty Groups, a regular writer for Digital Dealer Magazine and a featured blogger for the magazine's online version.

With Steve's vast and unique experience on both the retail and vendor sides of the automotive ecommerce space, he brings a distinctive skill set and perspective to the customers he serves. Additionally, Steve is widely considered one of the top automotive industry speakers and experts in search engine optimization, search engine marketing, ecommerce marketing, website design and Internet sales processes.

General Contact Information

Websites – www.KainAutomotive.com & www.pladoogle.com

KainAutomotive.com Office # 1-866-546-3428

info@kainautomotive.com

Quick Facts

Key findings and quick data snippets from the study:

Dealership Make Up

The dealers in our study represented a mix of luxury, import and domestic makes from all regions of the country, representing both large and small operations.

Internet Experience

All Internet managers in our case studies considered themselves “expert” with managing Internet leads. Their average time in their current roles was 3.7 years.

Internet Structure

The study participants included a mix of stores using appointment setters, end-to-end Internet sales teams and floor sales teams managing Internet leads.

Sales

The stores in our study sell an average of 324 vehicles per month, including:

- 204 new (35.2% from the Internet)
- 120 used (56% from the Internet)

Advertising Spend

- Average share for Internet spend: 26.5%

Average Closing Percentage

- According to the data provided by CAR-Research on the disposition of 1.3 million leads in 2010, the average closing percentage for all lead sources was 7.67%. (The dealers in our study closed their leads at more than double the national average.)

Third-Party/ Independent Internet Leads

- 100% of responding stores said they would continue to use third-party leads with their lead mix
- Average lead radius: 25 miles
- Dealers said they aggressively get credits for bad leads
- Dealers said relationships with the vendor influenced their satisfaction with third-party leads. They chose providers based on the usual criteria – reputation, referrals, ROI and features/their ability to control the area from which leads are generated.

Average Response Time

- 22 minutes

Follow-Up

Activities vary widely, ranging from as few as 14 days to 90 days (average of 55 days for the responding dealers)

For unsold Internet shoppers, the average follow-up is 60 days – with a range of 14 to 120 days for reporting dealers.

Nearly all dealers provide a price to Internet prospects, even if it's MSRP minus available incentives.

KainAutomotive.com Key Performance Indicators - Minimum standards of execution for Internet salespeople managing all lead types:

- Connection Rate: 50% - 85% – The "connect" rate (dialogue producing action) from your Internet leads. You should stimulate a dialogue with at least 50% of your leads (phone or email conversation) in the first 15 days. With a well structured follow-up plan and quality lead generation you can expect Connection Rates as high as 85% over 30 days
- Appointment Show Rate: 25% - 35% – The percentage of prospects that should come in to the dealership from electronic Internet leads (eLeads) is 25%. For prospects shopping online that contact the dealership by telephone the show rate should be 35%.
- Appointment Shown Close Rate: 50% - 60% – The percentage of prospects that visit the dealership on a set appointment that purchases a vehicle based on that visit. When a dealership has a successful unsold follow-up plan for showroom visits you can expect this number to climb as these customers re-appoint and then purchase.

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Inquiries:

Office # 1-866-546-3428

info@kainautomotive.com