

THE OFFICIAL MAGAZINE OF NATIONAL INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

# USED CAR Dealer

NIADA

JUNE 2019 / VOLUME 48: NO. 6

CONVENTION  
ISSUE



# If Cars Could Talk

With Today's Technology, Vehicles Can Provide Information That Can Tell You How to Improve Your Dealership's Financial Performance

**W**e live in a digital world. So much so a typical day sometimes looks more like a video game than interaction in a living, breathing world.

It makes sense, then, that we put so much stock in tracking and predicting the digital behavior of consumers.

But auto ownership is such a *physical* endeavor - the wind running through your hair, soft leather cupping the lumbar, the new-car smell tinged with spent exhaust fumes - so dealers must amplify the data culled from things like content marketing, SEO and social habits with insights gained from the physical activities of buyers and owners in the real world.

No business deals with that dynamic more than the used car business. The below-prime market, in fact, demands it.

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BY BRIAN DEELEY

Despite some regression, used car loans extended to consumers outside the prime and super prime segments make up more than half the market, according to Experian's *State of the Automotive Finance Market* report for the fourth quarter of 2018.

Below-prime *is* this market. So dealers must find ways to serve more of that segment effectively to survive.

While credit-challenged customers often cannot qualify for traditional auto financing, they still need their vehicles to live. The independent dealer's unique task is to find ways to minimize the downside.

An increasing number of dealerships

and lenders have found safe ways to approve more subprime loans by tapping into insights that can be gleaned from real-world activities but go beyond the information that can be discovered from a credit check.

So how can dealers get more acquainted with physical customer behavior in order to reconcile risk with reward?

Vehicle intelligence.

Smart technology built around location information generated by GPS devices represents a major step toward a more predictable business model for independent dealers.

Third-party vendors fill an intelligence gap for new cars fresh off the assembly line and, in a similar way, they fill a gap for vehicles that are three, five or even 10 years old.

It behooves Buy Here-Pay Here dealers to elevate beyond sound portfolio management based solely on weekly customer check-ins and intuition. As with any business, the spoils go to the most efficient, most optimized dealership on the block.

Of course, dealers should still follow sensible guidelines and trust their instincts, but what will really ease the strain of the ever-diminishing margins that all dealers face is repayment, recovery and new profit from vehicle intelligence.

#### EXTENDING MORE CREDIT WITH VEHICLE INTELLIGENCE

The first step on the path to vehicle intelligence is being able to extend credit to more below-prime customers without taking on greater risk.

The most obvious use of GPS-powered technology is to stick a tracking device on a vehicle so it can be recovered in the event of default. But before you even arrive at that catastrophic event, why not be smarter about the person with whom the asset has been entrusted?

Typically, verifying loan references, or stipulations, requires staff to devote countless hours on multiple phone calls verifying addresses and workplace information – hours that would be better spent serving customers and selling vehicles.

What's more, customers don't always appreciate calls to their employers and landlords asking to verify information they have provided. It's intrusive and can set a tone of distrust early on.

Smart technology allows us to collect and analyze location data automatically. If a customer moves or changes jobs but forgets to notify the dealer, deviations in location patterns would set off an alert cluing the dealer in that it might be a good time to touch base and request current customer information.

The numbers don't lie: Dealers can do more business with greater effect with the support of vehicle intelligence.

According to Spireon data, 78 percent of dealers who use the technology have been able to finance customers with lower credit, and 68 percent have been able to finance customers with smaller down payments when employing telematics technology in their operation.

While that might sound like tenuous ground on which to stand, 84 percent of dealers reported reduced delinquencies and 87 percent reported increased return on capital.

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**PROACTIVE PAYMENT REMINDERS**

The next step in vehicle intelligence is payment upkeep.

Nobody wants to deal with recoveries, so the smarter the tools to keep payments current, the better. Building on technology similar to that of loan reference verifications, connected cars are capable of monitoring historical location data to predict the most probable location of a vehicle/borrower at any given time.

With that sort of predictability, payment reminder outreach can be set for the times most conducive to a positive response.

Further, behaviors that indicate missed payments are likely upcoming can be monitored, analyzed and addressed in real time to help preempt default.

Vehicle intelligence often includes smart alerts indicating potential issues. Those include abandoned vehicle alerts (when a vehicle hasn't moved for approximately seven consecutive days), battery disconnect alerts (for potential device tampering), geofence/geozone alerts (for unauthorized movement) and impound lot alerts.

Spireon data indicates an average of about 76,000 vehicles were impounded each day in 2018.

Considering average daily storage fees, vehicle impounds cost the consumers,

dealers and lenders with a stake in those vehicles \$3.04 million per day – \$1.1 billion per year nationwide. That's not even mentioning a wide range of flat fees that vary wildly from lot to lot.

Impound isn't a static problem. The intelligence dealers need to combat it is dynamic, including up-to-date impound lot geofences and faster impound notifications.

The sooner a vehicle is recovered, the lower the chance of storage damage and associated reconditioning costs.

In 2018, Spireon surveyed used car dealers across the country about their impound experiences.

According to respondents, it takes seven days on average to receive notification about a vehicle that has been impounded. In one instance, the bill for seven days in impound reached \$645 in the Nashville, Tenn., area.

The average number of impound recoveries per dealer per year, conservatively, is about four.

The same Spireon survey found the average total recovery cost for impounded vehicles is significantly lower – \$306.94 in the Midwest than the rest of the country. Southerners, on the other hand, take the worst of the damage at \$437.25.

Average daily storage fees are lowest in

the Southern states (\$29.18) while the West has the highest average fees at \$41.53.

The differences between the average daily storage fees and average total recovery costs could be caused by variances in flat fees and the amount of time spent in impound.

It is abundantly evident that each passing moment in impound is costly. If consumers don't pick up their cars, dealers and lenders are on the hook and must recover the vehicles as soon as possible or face expensive consequences.

It's a billion-dollar problem for the industry at large.

**RECOVERY AT LIGHTSPEED**

Another piece to the vehicle intelligence puzzle is recovery.

Try as you might to prevent that outcome, it's going to happen in this business.

In this case, we come back to the tried and true purpose of GPS tracking on used vehicles – though intelligence in recovery should not be discounted.

Once again, predictive location analytics are invaluable to asset recovery.

The most intelligent GPS services serve up recovery on a platter by providing secure links that can be shared with recovery agents via email or SMS in just a few taps.

Recovery success often is high due to



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location data being made available in real time, as well as the availability of historical location data.

BHPH dealer Jared Halsted of Double H Auto in Queen Creek, Ariz., who opened his doors in 2014, learned quickly the value of vehicle intelligence.

"We didn't have very many repossessions or other needs in the beginning, but as we got bigger – and, of course, we started taking on more risk – there were more and more repossessions," Halsted explained.

"With GPS technology, it's great because I can just send off a link to my repo guy and the car is back the next day. I have never lost a car, and that's because I GPS every single vehicle."

With anywhere from 100 to 120 vehicles in its portfolio at any given time, Double H Auto uses telematics and positive customer relationships to minimize repossessions to only 10-15 percent of its portfolio every year.

In one instance, in fact, a customer took off to Florida, counting on the idea it would be too difficult and costly for Halsted to bother pursuing him. Just 35 minutes later, thanks to a phone call and shared link to a repo company in Florida, the car was repossessed.

"It turns out my arm stretches a little farther," Halsted said.

Halsted, who is now a member of the Arizona IADA board, said he passes the advice he got as a young dealer on in training sessions with new dealers.

"I tell them to GPS every car, and don't, don't, *don't* skimp on asset protection," he said. "It's not worth it. Spend the money and you'll get your car back every time."

#### NEW MONEY

With margin compression a continuing threat to profitable businesses, it helps not only to create a more efficient model through vehicle intelligence, but also to monetize it.

A trend is emerging. Dealers can resell vehicle intelligence from devices they're already installing on their cars for payment collection and asset recovery, to create new profit.

Similar to an F&I add-on at a new car dealership, there is potential for extra money to be tacked on to each sale.

The device is already part of the deal, so why not sweeten the pot by adding in some value for the consumer?

The allure comes in being able to offer smart car features that are usually only available on new, high-end vehicles on any make, model or year.

The smart car features can be centrally accessed via a mobile app, offering perks


such as vehicle/driver location on demand, smart alerts for low battery power or unsafe driving behavior such as speeding, theft recovery assistance and even opportunities for insurance discounts.

#### IF CARS COULD TALK

With less and less room to operate a profitable business on traditional terms, all money-making avenues must be tapped. And while technology provides many answers, not all of them dwell strictly online in the virtual world.

There is great value to be gained by applying smart technology to the real world movements of customers, going beyond the traditional "where's my car?" to use it in innovative ways that redefine best practices for lending, payment, recovery and new profit.

If cars could talk, what might they say?

When dealers use vehicle intelligence to optimize their business, they won't have to ask. 



#### BY BRIAN DEELEY

Brian Deeley is director of product management for Spireon, driving vehicle finance product strategy and leading teams responsible for product definition, customer requirements and solution delivery.

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