

When Life Gives You Lemons...

By Bill Detken



The climate of today's automotive market presents dealers with many challenges, probably too many to mention. At or near the top of the list is credit. The credit issue is not new or much different than it has been in recent years. It is just more prevalent. Due to the state of the economy, dealerships that have traditionally focused on

"Tier 1" and "Tier 2" customers find themselves dealing heavily in the sub-prime market. Without a solid process in place, this can be a very time consuming, frustrating, and unrewarding proposition. As a result, it is imperative that dealerships set up a successful special finance process. To do so, a dealership must focus on these key components:

People

It is important to have people in place that understand and can operate professionally and methodically within the special finance process; attention to detail is a must.

Inventory

Inventory is essential. A dealership must have the correct inventory to match both the customer base and the lender's requirements. An inventory management system (IMS) is helpful in this area. A good IMS is one that can track sales in the dealership's immediate market area and search for replacement units, utilizing all inventories on the internet. The ability to stock, sell, and replenish is invaluable.

Lenders

Know your lenders! All lenders have a niche or specific appetite for a certain "type" of customer. A dealership

must know what their preferred niche is. Dealership's should not sign-up every lender in the area and send them any deal that comes up. A dealership should have a lender to address each niche in the market and develop relationships with those lenders. This approach costs these lenders valuable time and money to process each application and may lead to ending what could have been a profitable relationship.

Knowing what each specific lender is looking for is the key to the deal. Do not let the (credit-challenged) customer buy too much car. This is one of the most common mistakes dealerships make. Trying to find a lender to approve a loan that is too much for the customer to handle is a tough road to follow and most likely will not have a successful outcome. There are many different sub-prime lenders in any given market. It is always good to have one or two that do not sell their loans. They will have more latitude in trying to make a deal.

It is important that the sales staff does not fall into the trap of just filling out applications and sifting through them for the "easy ones." A customer should be interviewed in order to determine which vehicle or vehicles will work for him/her. An in-depth interview must be done 100% of the time. All aspects of the customer's current situation must be explored. Hearing a story in the customer's words is helpful in presenting the deal to the lender. We must not only must know what happened in the past and why, but what is happening now and what positively coming up in the customer's immediate future.

Most sub-prime customers will sign for almost anything. However, it is important that we do not let them do so. Again, knowing your lenders will help in this process. For example, a Florida finance company states that they look at four key areas when making a decision on a deal.



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1. Cash down: This shows customer commitment and lessens future loss.

2. Ability to pay: A customer must pay no more than 15% of monthly income. Most lenders prefer 12% to strengthen the deal. Another thing to consider is given the current unemployment rate, “Can an unemployment check cover the payment?”

3. Stability: Know the overall time the customer has lived and worked in the area. Relatives and friends can be used to prove credibility for customer.

4. GPS installation: Self explanatory

Funding deals on a timely basis is critical. This is simply a training issue. All dealership personnel must know what is and what is not acceptable for proof of income, residence, etc. They must also know upfront what these will be in order to place the loan with the correct lender. Trying to find a home for a non-conforming sub-prime deal after it is delivered slows down the process and leads to the unwinding of too many deals. A sub-prime deal held up in funding rarely has a good outcome.

It is important to realize that when developing a special finance process from scratch, a dealership should start small with a few lenders. The lender base can grow as large as the dealership warrants, but it will grow only if it is managed correctly with a solid process in place. A dealership must know this process inside and out. It should run seamlessly both in the sales department and the business office.

As many struggling dealerships are “waiting for the market to come back” or for those “Tier 1” and “Tier 2” customers to come through the front door, by installing a solid special finance process and managing it correctly, your dealership will be successful in today’s market. As the saying goes, “When life gives you lemons, make lemonade.”

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