

“Pay No Attention to that Man Behind the Curtain”

By Mike Esposito, President, Auto/Mate

Dealers are under great pressure these days to reduce their operating expenses. Many have attacked their automation overhead in hopes of lowering their IT costs. The good news is that competition within the DMS market is resulting in many new opportunities for dealerships to save money on their computer systems. The bad news is that dealers who are at their end of the current DMS contract and ready to make a switch, often get coaxed into resigning by their existing vendor with promises of price reductions and other benefits that never materialize. In much the same way that the Wizard of Oz pulled the wool over Dorothy and her friend's eyes, when it comes to contracts, legacy system vendors do the same everyday to the dealer body.

Here's a typical scenario. The dealer's DMS contract is about to end. He contacts his current system vendor and says he wants to switch to a lower priced DMS. The supplier suddenly gets "religion" and says, "Oh, Mr. Dealer, you didn't tell me you wanted to save money!" The vendor pulls out a new contract with greatly reduced monthly costs (sometimes as much as 75%) and says, "We can reduce your monthly expenses, just sign here!"

Very few dealers ever consider why, after paying exorbitant monthly IT fees for years, their legacy DMS supplier can now suddenly cut costs by 50% or more. The real question is how, with declining market shares, can they make any money on this type of resign strategy?

"The devil is in the details" as they say, and in this case, the answer is in the contract renewal.

Legacy system DMS providers typically put their dealers on 5-year contracts. The discounts are often offset by hidden costs and stipulations within the contract that don't surface until many months or even years after the agreement is signed.

For example, let's say your existing contract has a monthly support cost of \$5,000 per month. The new contract reduces the monthly cost of the system, but gives the vendor the right to charge for mandatory upgrades. So the "discount" you get when you renew, can be totally wiped out. In many cases, the upgrade costs for both the system and modules are so high that you are, in fact, paying more than before the contract was signed.

You may also find that the new agreement obligates you to purchase and pay for modules that you really do not use anymore. In other words, the support charges are non-cancelable. When you want to add additional products, you may be asked to sign a new contract, giving the vendor the opportunity to again raise fees. Or, a separate, second agreement will be drafted that only covers the new products, with contract expiration dates that overlap and extend the length of the previously signed renewal agreement.

In addition, there can be clauses in these contracts that give the vendor the right to change the contract at any time!

So who benefits by having a contract for a DMS?

Consider this: the dealer can't cancel the contract, is vulnerable to increased pricing, can be made to spend money on upgrades that he doesn't want, can be found in breach if he tries to cancel a portion of the services (and will have a demand on him to pay the full amount) and can be tied to a version of the system that doesn't satisfy his needs. Enough said?

Keep in mind that the legacy DMS system vendors aren't gaining any new customers. They must maintain or increase their revenues and profits by extracting it from their existing dealer base. And the only way to do that is to lock dealers into a contract.

Not every DMS provider requires long-term contracts. Many offer month-to-month agreements that can be cancelled without penalty. It keeps the relationship between the DMS vendor and dealership honest and straight forward. Something to consider the next time you're asked to "renew" your DMS agreement.