

Auto/Mate[®]
Dealership Systems

The Auto Dealer's 10-Step Guide

to Changing Your DMS



Dear Dealer:

I'd like to offer you an apology.

I've come to realize that I'm one of the people responsible for turning a part of your world upside down.

It started about a decade ago, when Auto/Mate was one of a handful of promising dealership management system (DMS) providers in the market.

We purposefully introduced a new vision for providing dealership software and tools—no long-term contracts, no bundled equipment purchases/leases, and better approaches to responsive customer service.

Today, the presence of Auto/Mate and other providers in the DMS market means a greater degree of choice—and uncertainty—about the DMS provider who will be the best partner for your store.

I offer an apology because this uncertainty now comes amid the most uncertain times our industry has faced, at least in the 20 years I've been in the business. There's little, if any, margin of error when it comes to management decisions that affect your store.

And guess what? Choosing a DMS partner has become a top priority for many dealerships. So, amid these challenging times, you're facing, or likely thinking about, one of the most important decisions you'll make—and I'm at least part of the reason why this decision may seem more difficult.

That's why Auto/Mate is publishing this eBook, *The Dealer's 10-Step Guide To Changing Your Dealership Management System*. Our intent is (mostly) altruistic: When dealers and managers better understand the best practices that should guide their DMS decision-making, everyone in our industry will benefit.

This eBook is not an attempt to steer you into an Auto/Mate system. It is, however, an attempt to showcase the insights and lessons learned from our experience working with dealers.

I'm confident you'll find more than one put-it-to-use nugget in this eBook that makes it worth the read.

I welcome your feedback at mesposito@automate.com.

Sincerely,

Mike Esposito

Mike Esposito, CEO, Auto/Mate
February 2010



STEP 1: KNOW WHERE YOU STAND

Many dealers often overlook this important, foundation-building step. “Dealers often want to trash their current system without assessing what they’ve got and what actually might work,” says Paul MacDonald, a dealer and president of TriMac Automotive Advisory Group.

The know-where-you-stand assessment should cover two important fronts:

1. Do an audit/inventory of all items on the current DMS provider’s bill. At many stores, this exercise may be the first time anyone’s reviewed the DMS billing since the initial contract’s signing, which could occur as much as five years previously. As you conduct the audit, you should note what each line item represents.
2. Identify the items on the bill that you use/don’t use and their associated costs. The exercise helps pinpoint the type of “must-have” services you’ll want from a new provider. In addition, the assessment often yields opportunities to shave costs from your current DMS bill—sometimes by as much as 20 percent, MacDonald says.

For example, a dealer may find a \$1,500 monthly charge for a CRM module that salespeople don’t use. Similarly, a dealer may learn the DMS provider currently maintains in-store hardware, such as computers and router—costs that often need to be shifted rather than eliminated with a new provider.

CAUTION: This exercise can be jarring. “I”ve had to pull more than one dealer off the ceiling” after a DMS cost and utilization review, says Jim Skeans, CEO of Jim Skeans Consulting Group.

At a minimum, dealers who discover these potential cost reductions should use them to negotiate with their current providers for a reduced price on a new contract. At the same time, dealers should be wary of large discounts offered to renew DMS contracts once you’ve trimmed them of excess cost. These sign-up incentives hold appeal but they can be short-lived under the life of an agreement as price increases and the addition of supplemental charges effectively erase the discount.

DMS FAST FACT

Most dealers regularly review their DMS bills. True or false?

Answer: False.

Only a small percentage of dealers regularly review DMS changes.

STEP 2: ASSESS THE MARKET

Dealers are like most people when it comes to technology: They want it to work, and they don't want to think about it too much. This mindset is generally OK, but it can lead to a failure to keep pace with changes in technology and services DMS providers provide from the time a dealer signs a contract—particularly when it comes to multi-year agreements.

In the past five years, there have been three important, broad shifts in the manner that DMS vendors provide their systems and services:

1. The Application Service Provider (ASP) model. In this scenario, the DMS providers maintain a network that houses all the software and data a dealer uses. Dealers no longer lease and/or purchase and maintain servers, back-up tapes and other hardware in their stores (aside from PCs, related peripherals). Advances in server technology, as well as Internet-based software, have made the ASP model a popular choice for small and large businesses in many industries.
2. “Software as a Service” pricing. The basic concept: Your DMS software is like a subscription, in some cases on a month-to-month term. In this scenario, the dealer licenses the use of DMS software, rather than purchase it outright. This approach, which many of the non-legacy DMS providers follow in some form, offers two benefits for dealers:

First, it eliminates long-term contracts and allows dealers flexibility to switch to a different vendor when they choose. Second, it can reduce ongoing costs to purchase new versions of DMS software as some vendors include software updates/enhancements as part of their subscription prices.

This pricing approach is gaining ground across many industries in response to rapid changes in technology and the changing needs of today's businesses. Some believe the advent of this pricing model marks the beginning of the end of long-term DMS contracts.

3. Smoother DMS conversions. Changing a DMS provider is never an "easy" process but "it has gotten better," says MacDonald at TriMac. He attributes the improvements to a greater degree of experience among non-legacy DMS providers installing their systems at stores. The chief reason new DMS installations fail is resistance from dealership employees, MacDonald adds.

Skeans agrees: "It becomes eliminating the fear of the unknown." (*More on this in a minute.*)

DMS FAST FACT

Long-term contracts with DMS providers are the "norm" for the industry. True or false?

Answer: True and false.

It's true that long-term contracts have been a standard, but month-to-month subscriptions are gaining in popularity as dealers seek lower-cost and shorter terms of obligation from vendor partners, a trend that experts expect will continue.

STEP 3: CREATE YOUR “NEEDS” LIST

With the initial assessment of your current DMS bill and contract and utilization review in hand (Step 1), dealers should meet with key managers to assess what they like and don't like about the current DMS system, and determine the features and functionality they'd like to get from a new DMS.

The involvement of managers is critical because “they'll recognize the DMS that fits better for a store,” says DMS consultant Adam Gillrie of the Gillrie Institute.

Discussion-starter questions include:

- What DMS modules and features do your managers and employees rely on every day? In service, for example, does the DMS need to link to your factory for pricing guides? Does your office manager need a system that handles multi-rooftop accounting? What features would require more effective in-store process to ensure they're fully used if purchased?
- What do your managers and employees not like about the current system? What would they change if they could? When dealer Brian McBride of McBride Chevrolet/Subaru, Plattsburgh, N.Y., switched to a new DMS six years ago, he wanted at-the-fingertips reporting tools to replace the paper reports he'd used for years. “The reporting tools were an after-thought on the previous system,” he says.

- Which department at my store is the most profitable—is it sales, service, parts or F&I? What are the features and functions of the current DMS system that work well for this department? Which ones don't? (This series of questions is critical to ensure a new DMS fits well with the people and processes in your store that make the most money.)
- What third-party systems do we currently use (CRM, F&I, etc.)? Should we keep them? Will they integrate with a new DMS? Does the new DMS offer a better solution to eliminate a third-party system?
- What features and functionality of a new system are critical to meet our strategic objectives for growth, customer retention, etc.?

The outcome of this process should be a “needs” list that you use to review prospective DMS partners and keep you focused on the features and functionality that will matter most for your store. In shopping for a new DMS provider, it's easy to get “wowed” by new technology. This list helps you navigate your options and pick/choose the provider package that matches your store's strengths and addresses its weaknesses.

A RELATED POINT: Dealers need to be effective leaders in this stage, balancing their desire for lowercost services with “what their staffs will accept,” Skeans says.

STEP 4: CREATE YOUR VENDOR PROSPECT LIST

Quick test: Where do most dealers get an idea of the DMS vendor they might want to replace their current provider?

Answer: They get it from other dealers, typically through conversations at 20 Groups, NADA gatherings and other dealer meetings.

This informal information exchange is helpful, but it should not be a be-all guide for selecting a DMS provider, MacDonald cautions. The reason: “Every store is different and what works for one dealer might not work for another,” he says.

DMS FAST FACT

Referrals from other dealers are the most trustworthy sources for sizing up a potential DMS partner.

Answer: Maybe.

While 53 percent of dealers and GMs are “very likely” to recommend their current vendor, there’s a growing number that are “somewhat likely” (35 percent) to do so. Upshot: Consider your source—is he/she IT-savvy? Do their DMS needs fit your own?

What’s more, with nearly 20 DMS providers in today’s market, the recommendations from other dealers may not encompass vendors who might be a good fit for a store.

Dealer Matt Bell of Greg Bell Chevrolet, Cadillac, Adrian, Mich., took tips he’d received from other dealers and crafted his own prospect list—a group of four DMS vendors (including his current provider) that he and his managers would vet to see who best met his goals of reducing costs, enhancing access to store data and offering a two-way partnership in terms of training and ongoing support.

“I had a vendor in mind, but knew it was best to go through a formal selection,” Bell says. “It takes a few months to do your shopping and do it right.”

Three tips for creating your prospect list:

1. Consult NADA information. The association compiles a bi-annual survey of DMS vendors and dealer satisfaction. The data can help affirm recommendations from other dealers and ensure you consider the top players for your list.
2. Use your “needs” list to assess vendor prospects. DMS providers that do not appear to meet the “needs” you’ve designated will likely not be worth the time and effort to assess their systems.
3. Get input from store managers. You should find out what DMS providers they might prefer, but dealers and top managers should finalize the prospect list to ensure it’s reserved for players who appear most likely to meet your store’s “needs” and long-term goals.

A final point: Remember those conversations with other dealers? Do your best to probe their experience and recommendations. For example, what’s their experience with the DMS provider’s customer service and support? Do their trainers and staff know what they’re talking about? Do they provide different types of training to fit the learning styles of your team? These unvarnished nuggets will be useful for your vendor prospect list and selection.



STEP 5: DEMO YOUR PROSPECTS

There are two important outcomes for this step:

1. You should emerge from vendor demos with a clear idea of the best partner to meet your store's "needs" and goals.
2. All of your key managers* should take part in demos to ensure their "buy-in" for a prospective vendor.

"They're the ones who will be using it," dealer Bell says. "If you get managers to agree to a change, it makes the entire process go better."

MacDonald agrees. "I've had dealers who decided to switch providers without letting their office managers or service managers see the new system. That's wrong," he says. "The No. 1 failure of a new system in a store is not the software. It's the resistance of people who aren't involved in the selection process."

Your managers should go into each demo with their respective "needs" lists to properly evaluate how a new DMS system will fit the processes and tasks that occur daily in their departments.

Managers should also be proactive participants, as vendor demos may "glass over the deep-dive points that are important to a store," says Wayne Youngs, a senior consultant for Dixon-Hughes.

Similarly, dealers and managers should compare notes at the end of each demo. Some discussion-starter questions:

- How well does this vendor meet the "needs" we identified?
- What did you like about the system? Dislike?
- What do we need to learn more about?
- Do we need a follow-up visit?

STEP 6: BE "REAL" ABOUT PRICING, COSTS

This step is where the initial assessment of costs and utilization (Step 1) proves invaluable: You should have a firm handle on the services and support you currently receive to compare against the services and pricing a prospective vendor offers.

It's not uncommon to see some areas where you'll need to replace services with a third-party provider.

For example, non-legacy DMS providers often do not offer networking and hardware support, whereas legacy vendors do. These services, which might cover wireless routing, servers, phone systems and desktop/laptop computers, are often necessary for a store to function.

DMS FAST FACT

What percentage of franchised dealers switches their DMS in a given year?

- A. 1-3 percent
- B. 3-5 percent
- C. 5-10 percent
- D. > 10 percent
- E. None of the above

Answer: E.

Industry experts estimate less than 1 percent of dealers historically switch their DMS provider annually.

The one-stop-shopping nature of the legacy providers can be more convenient for dealers who'd prefer not to take the time and trouble to secure third-party vendors to handle the services. But the convenience of these "bundled" services comes at a premium. Dealers can often find third-party providers to offer these services at lower rates, which can result in a cost savings from the "bundled" package.

MacDonald notes a Detroit dealer group had a "wake-up" moment as it was about to sign a new DMS contract.

The dealer hadn't realized his current DMS provider owned and maintained the store's phone system. "I had to point out that they'd need a third-party provider to keep their phones up and running," MacDonald says.

So, in evaluating pricing from a new provider, the "bottom line" question should be: How much will we really save if/when we make the switch? The answer is likely to be different for each DMS provider you evaluate.

Other key pricing considerations:

- Include your managers. It's essential to ensure your new DMS pricing addresses the features and functionality they want the system to deliver. Similarly, their participation underscores the shared effort at your store to reduce costs and boost profitability and efficiency.
- Understand customer service and support fees. Are these bundled into the monthly cost or pay-as-you-go? What are the usage limits, if any?
- Anticipate price increases. How often does your prospective vendor raise its prices? Do they offer price "freezes"?
- Ask about sign-up incentives. Some vendors offer price discounts or sign-up bonuses to new customers. The inquiry's at least worth the effort.

STEP 7: SELECT YOUR VENDOR

Beyond the pricing and features/functionality a prospective DMS vendor offers, dealers should assess other parts of a vendor's value proposition as they select a new provider:

- What do other dealers say about the vendor—from the product to their customer service and support? You should have some answers to these questions from your earlier conversations and drill-down questions with other dealers. Similarly, NADA publishes a biannual ranking of DMS satisfaction among dealers that can provide useful insights about each vendor's customer service and support.
- Which vendor earned the highest marks from external sources and you and your team? The vendor that appears best suited to meet your store's "needs" (both in terms of features/functionality, integration with existing software and support), and provide the best value for your investment should get the nod.

It's not uncommon that the selection of a DMS provider comes without the "thrill" you might get from other purchases. It's an important decision and one that is inextricably linked to the future of your operation—meaning, there's a certain degree of gravity that comes with it.

The good news: All of the current DMS providers' systems work, so the "risks" that come with the decision relate to how well you and your team have assessed your needs and selected a potential partner that fits your people and processes.

Consultants say dealers always ask, “which DMS is better?” Their unified answer: “It depends on the store.”

To illustrate the point, MacDonald notes that he owns two dealerships, one with a non-legacy system, the other with a legacy system. The latter costs more, he says, but it’s a better fit for the store’s wholesale parts business—the top profit-generator for the store.

“The system can handle how we manage that business,” he says. “I couldn’t put a new system in because it would be too disruptive for my No. 1 profit center. There are always trade-offs when it comes to selecting the DMS vendor that’s right for a store.”

DMS FAST FACT

Dealer satisfaction with their DMS providers is on the rise.

True or false?

Answer: False.

NADA’s DMS Satisfaction Survey (October 2009) shows a 7 percent decline in the number of dealers who are “very or somewhat” satisfied with their provider (72 percent overall), an increase in the number of dealers who are “unsatisfied” (8 percent), and an increase in the number of dealers who are neither satisfied or dissatisfied (19 percent).

STEP 8: MAP YOUR INSTALLATION

In today's DMS environment, an installation can occur over the course of a single weekend: The vendor begins converting data late Friday and, by Monday, the new system is up and running.

The "flip of the switch" on Monday, however, will be successful only with careful planning by your management team and your new DMS provider before the installation target date.

DMS FAST FACT

A greater number of franchised dealers and GMs plan to switch their DMS when their current contracts expire.
True or false?

Answer: True.

NADA's 2009 survey shows 19 percent of dealers and GMs plan to switch providers when their current contracts expire.

"Our installation was flawless," says Mark Lamoureux, vice president at Lamoureux Ford, East Brookfield, Mass. A key reason for the store's transition success: All the managers had spent time prior to the installation preparing for the conversion of their previous codes and processes to the new system.

The accounting office, for example, made sure all the books were balanced and codes were ready before the installation, says Cammy Payne, Lamoureux's office manager. "I stayed late a couple nights past midnight but the conversion went smoothly."

A potential pitfall: At some stores, turnover among managers may mean there's little institutional knowledge about how the current DMS components were initially set up (e.g., the hows and whys behind the coding matrixes for each department).

"I've seen it happen countless times where a manager tells the new vendor to 'set it up like we had it set up,'" MacDonald says. "Then, nothing comes out right and the dealer goes bonkers. That's usually not the vendor's fault. It's a training and process issue at the store."

Other installation considerations:

- Avoid "gaps" in your DMS coverage. You and your vendor should determine the best course for ensuring data conversion occurs with little or no system down time (a factor that may mean running servers and other components of the old DMS concurrently during the installation).
- Audit/review everything. Don't assume your current code set-ups are correct. The change to a new DMS is an excellent opportunity to revisit everything.



STEP 9: PLAN YOUR TRAINING

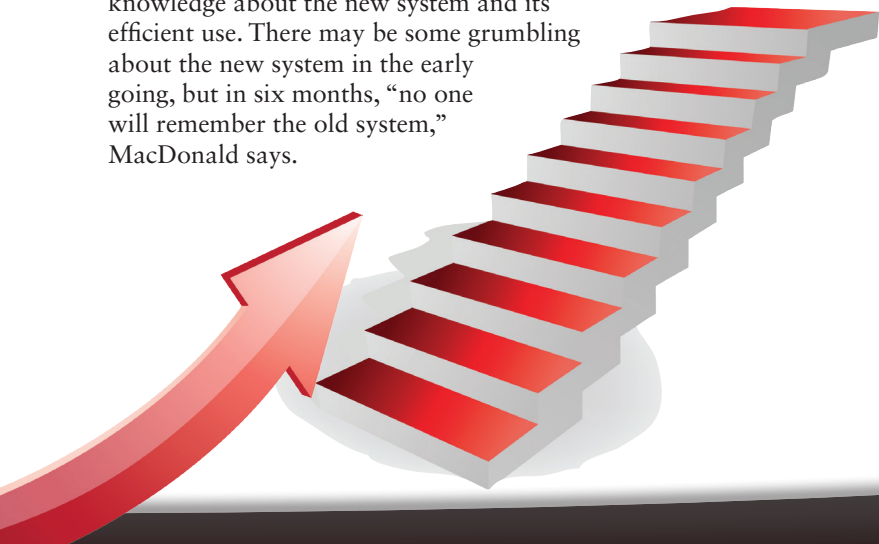
DMS vendors offer a combination of in-person, online and videobased training to help dealership managers and employees get up to speed on the new DMS.

You and your managers should work in conjunction with the DMS provider to plan a schedule of mandatory training for all dealership personnel who will use the new system.

Further, this training should fit the learning styles of your employees, Skeans says. He recommends polling employees to discern those who prefer online, video or in-person tutorials.

Typically, DMS providers will have at least one or two people on site to help a store with a new system installation.

The less a dealership short-changes this initial training, the better. The early days on a new DMS are critical to instill maximum knowledge about the new system and its efficient use. There may be some grumbling about the new system in the early going, but in six months, “no one will remember the old system,” MacDonald says.



STEP 10: EVALUATE, TWEAK YOUR NEW SYSTEM

As part of the installation process, dealers and managers should meet to discuss any installation/use hiccups and fixes. This group should also manage requests for support from the vendor to ensure the most efficient and priority-based use of their support time.

Consultants recommend the group gather at the 90-day or 180-day mark to evaluate and address how the new DMS should be tweaked to maximize the system's capabilities and effectiveness for the store. By this time, DMS users are comfortable on the system and can further customize and tweak the system to accommodate their day-to-day needs.

Two best practices:

1. Keep a running log of the “can the system do this?”-type questions during the installation and after. Your managers should prioritize the list—e.g., which update is the most time-sensitive and/or will deliver the best benefit—and share it with the DMS provider to address.
2. Establish and follow a DMS training program to address new hires and new system updates at your store. This ongoing effort will ensure your managers and employees are up to date on new DMS upgrades and functionality to ensure they can use the dealership's DMS investment to its fullest potential.

These best practices provide the foundation for a dealership's long-term satisfaction with a new DMS provider. In essence, they set the stage for ongoing dialogue between your store's management group and your DMS provider to address functionality concerns and questions that enable all dealership employees to become more efficient users of the new system.

FINAL POINTS

There's an old saying, "there's no 'I' in team, but there is a 'me.'"

This point is worthwhile for dealers to remember as they lead their stores through a DMS change. If you simply decide what's best for your store, without involving key managers and employees, the chances are far greater that you'll have a painful time making the switch to a new vendor.

As Paul MacDonald notes, it's typically not the software or system that causes installation nightmares, it's a failure of leadership to secure storewide "buy-in" and create a process for doing so.

This eBook sees to outline the critical, best practice steps to ensure dealers are better stewards of a DMS selection process. To recap, dealers and key managers should:

- Size up the current DMS vendor relationship.
- Assess the benefits/drawbacks of changing the DMS provider.
- Identify and prioritize the store's DMS "needs" and "wants".
- Shop diligently for a new partner, using "demos" and inputs from NADA, other dealers, and IT consultants to find a system that "fits" the store.
- Create a clear plan for installing a new DMS and closing out any current DMS contracts.
- Plan for initial and ongoing training for all employees, including future system updates to ensure long-term proficiency on the new DMS.

- Look for a win-win partnership with the new DMS provider that ensures the system grows and adapts to the changing needs of the store and its business goals.

As noted earlier, the DMS marketplace is more dynamic than it's ever been. On one hand, this is a good thing. It means dealers have more choices when it comes to their DMS providers. But it also means the potential for pitfalls or missteps is greater—particularly for those dealers who simply decide on a system without addressing the best practice steps outlined in this eBook.

It should be clear that the decision to change a DMS provider is not easy, and should not be taken lightly. It should also be clear that a successful DMS change is directly proportional to the amount of up-front work and planning that dealers undertake as they make the decision to change systems.

As the old proverb goes, “he who fails to plan, plans to fail.”



By Car People, For Car People



Auto/Mate Dealership Management Systems
4 Airline Drive
Albany, New York 12205
Phone: (877) 340-AMPS
Fax: (518) 668-2481
www.automate.com