

Study of Over 200 US Dealerships Reveals Direct Mail Still Packs a Punch

Delivers Dramatic Conversion/ROI when Personalized and Targeted to In-Equity Customers

The Situation

When it comes to dealer marketing, the rallying cry for “digital everything” is heard far and wide around the industry. It started with 3rd party leads, PPC and then SEO. Now there’s a need to invest in reputation management, social media, and mobile and customized apps. All of this digital emphasis costs dealers big bucks, about 33% of their total marketing spend, according to NADA.

With dealers spending so much time and money driving consumers to their websites, they often forget one of the oldest, tried-and-true marketing methods in the book: the humble direct mail piece.

It’s easy to think direct mail has little use in our digitally-enhanced world. But a recent study of over 200 US dealerships using data mining combined with equity marketing direct mail campaigns reveals that this simply is not the case. Not only do personalized and targeted direct mail pieces work, they also consistently deliver conversion and ROI rates that far surpass nearly every other marketing method.

Results of Targeted Equity Marketing Campaigns*

- Cost-per-sale average: \$112 – considerably less than other marketing channels
- Incremental sales per campaign:
 - 40 = top 10%
 - 29 = top 25%
 - 13 = average
- Gross profit: additional \$422 per customer versus first time customer sales – a full 28% more profit!

* Over 200 dealerships nationwide

Dealers spend \$616¹ advertising each car they sell - all this money typically goes towards attracting new customers, while often ignoring the potential profits sitting in their databases.

Yet, it's easier and far less expensive to retain current customers than to acquire new ones. Not to mention the extremely high lifetime value of automotive customers - between car purchases, F&I, service and referrals, the value of a single customer can easily run into the six figures or even higher, depending on the nameplate. Yet many of these customers are left orphaned in a dealer's database with no salesperson reaching out to them and no motivation to come back.

Conventional wisdom says it costs as much as five times more to acquire a new customer versus retaining an old one.

Today's technology gives dealers a wealth of data on each customer that can be turned into actionable marketing information to drive them back into the dealership. And there is low-hanging fruit in that database – customers who are currently 'in-equity' in their vehicle. This means they owe less than their vehicle is worth and are in a position to buy a new vehicle with little or no out of pocket costs. These customers are ripe for a personalized 'win-win' offer.

Targeted direct mail's complex data mining processes allow the creation a completely personalized message about a customer's current vehicle and its equity opportunity. Traditional direct mail featuring blanket offers on financing rates, oil changes, etc. simply can't compare.

<u>Targeted Direct Mail</u>	<u>Traditional Direct Mail</u>
Personalized messages/offers	Universal message to all recipients
Small, inexpensive print runs (between 100-1200 pieces)	Large, expensive print runs (5,000-10,000 pieces, on average)
Aimed at ready-to-buy customers	Spray and pray marketing
Designed for follow up phone calls	Limited follow up opportunities

The Problem

Though the customer data exists, unearthing in-market, often orphaned, customers from the DMS can prove difficult and then there's OEM information and used car valuations to add into the mix. Just as challenging is the creation of effective marketing communication materials.

¹ NADA DATA 2014

Some dealerships turn to their CRM tool while others opt for a dedicated equity marketing software solution. With both, a salesperson or Business Development Manager must do it all, including setting the database search parameters and then communicating with customers by phone, e-mail or while they are in the service drive...tasks that often get relegated to the bottom of the “to-do” list.

In addition, neither solution includes a strategic, targeted direct mail marketing component that provides regular and consistent communications to the customer, nor can they tie offers to current manufacturer incentives. And, crucially, they fail to take into account the dealership’s current inventory needs.

The Solution

Instead of depending on sales staff to reach out to these ready-to-buy prospects, all the dealers in this study employed personalized, targeted direct mail as the first point of contact in their in-equity marketing campaigns.

“Offer letters” – based on current inventory needs and OEM incentives – are sent to in-equity customers. The list is built by pulling actual data from the dealer DMS and other sources. The data is then examined and ideal targets are chosen for their mathematical fit by looking at payments remaining, the exact interest rate being paid and the true wholesale value of their vehicle. Using this data, a “go shopping price” is determined, giving the customer the exact value of a new vehicle they can trade up to while retaining their current payment with no money out of pocket.

This frees salespeople up to do what they do best...sell cars, and ensures customers are being touched on a regular basis.

“Even if my salespeople never pick up the phone, I know my database is being worked and customers are being touched – and I’m going to sell more cars.”

- Yorktown Heights, New York Honda Dealer

Reaching More Customers

The targeted direct mail campaigns are small – usually around 1,000 customers – and, with today’s postal cleansing databases and software, there’s a 95% delivery rate. E-mail campaigns, on the other hand, tend to reach dramatically fewer customers because e-mail addresses are often missing, not valid, or end up in junk mail – and, of course, the clutter in our e-mail inboxes means properly delivered e-mail offers are often ignored while direct mail has become more relevant. And, studies show that 67% of consumers feel direct mail is more personal than e-mail².

² Epsilon study (<http://dm.databases.com/resources/direct-mail-vs-email-marketing>)

More importantly, a report by the Direct Marketing Association, says that out of 1,000 letters mailed, 34 customers will respond. This compares to one customer out of every 1,000 who receives a similar offer by e-mail³.

Another benefit of using equity mining in conjunction with direct mail is that the offers are based on pure math. There are no aggressive claims that will result in poor CSI, but legitimate offers sent to the proper in-market prospects.

“We are intelligently communicating with our customers using mathematically-sound offers based on real numbers – none of it is smoke and mirrors.”

– Colorado Springs Jeep Chrysler Dealer

The Results

This study looked at 200+ dealers over a two-year period, analyzing thousands of separate campaigns. The results were an average cost per sale of \$112 (luxury: \$131; non-luxury: \$110). And, of course, costs were lower for higher performing dealers.

On average, each campaign generated of 13 incremental sales. (Note: results include luxury dealerships that sell just 50 vehicles per month on average.) The top 10% of performing dealers average 40 sales per campaign; while the top 25% performing dealers typically hit 29 sales per campaign.

All dealers in the study used Prospect Vision, equity marketing and database mining specialists who have been providing dealerships with targeted direct mail strategies since 2001. In addition to incremental sales, the gross profit per car sold was \$422 more than that of a first-time customer sale...clearly illustrating that retaining current customers makes fiscal sense. And, while direct mail is the core means of communicating with the prospects, Prospect Vision also lays in e-mail, phone follow-up and a service drive product, creating a highly successful, complete customer communications strategy.

And, because equity marketing nearly always results in a customer trading their one-owner vehicle back to the dealership, trade-ins generated from Prospect Vision are highly profitable and sell through faster than typical pre-owned vehicles: 64% of trades sell within 30 days of being on the lot vs. 37% for non-repeat sale trades.

³ <http://printinthemix.com/Fastfacts/Show/575>

Dealership Profile: Curry Honda

- Cost-per-sale average: \$58
- Incremental sales per campaign: 29
2014 average

CURRY Honda

Curry Honda has been in operation since 1976 and sells, on average, 210 vehicles per month.

Problem

During the economic downturn, business was slow for all dealerships, Curry Honda included. General Sales Manager, Mark Finch, realized that marketing to finance customers who were in-equity could help them through the slowdown, but he also knew his salespeople were unlikely to tap into them: “I would be naïve to assume that my salespeople are calling their finance customers with any regularity,” says Finch.

“Finance customers simply don’t need a car with as much frequency as leasing customers so salespeople are less apt to reach out to them during the normal course of business,” says Finch.

Simply finding the customers in the database was enough of a barrier for the team, so Finch looked outside the dealership for help.

Solution

Finch turned to full-service equity marketing provider Prospect Vision. Working with them, the dealership was able to precision mine their database for in-equity customers and auto-generate personalized, targeted direct mail letters. Not only did this give Curry Honda the opportunity to reach out to this in-market audience, but also to keep the dealership in the front of customer’s minds.

With each campaign, Prospect Vision generates a master list that comes with a sales script and helpful customer tracking. When a campaign goes out, Finch distributes the customer list to the salespeople, passing the orphans (those customers whose original salesperson is no longer at the dealership) on to the new guys. “The master list is important because people often call or walk into the dealership without the letter we sent in hand but the lists includes everything – shopping price, trade value, payment, etc.,” said Finch.

The salespeople also use the list to place calls to the customers encouraging them to come in to the dealership. According to Finch, because the letter spells out exactly what the customer needs to know, the conversations are very straightforward and there’s no push back from the salespeople about reaching out to customers they haven’t spoken to for a long time.

“An offer letter from Prospect Vision reintroduces the customer to our dealership – this makes it much easier for the salesperson to pick up the phone,” says Finch.

Results

Equity marketing and database mining threw Curry Honda a lifeline to their customers during the financial crisis – and continues to be a major benefit to the dealership today.

Finch estimates that his cost of sale through other marketing channels is about \$350-\$400 per car sold, while Prospect Vision costs are less than \$70. “Where else are we going to get ROI like this?” he asks.

In fact, the results are so good that colleagues often think it’s too good to be true.

When asked why he chose Prospect Vision, Finch says: “I originally went with Prospect Vision because it was cheaper. I’ve stuck with it because it works. It’s a product we can’t and won’t live without.”

Dealership Profile: The Faricy Boys

- Cost-per-sale average: \$145
- Incremental sales per campaign: 21
2013 average



The Faricy Boys, a family-run Colorado Springs Jeep Chrysler dealership, has been in operation for over 70 years and sells around 175 cars each month.

Problem

Ben Faricy, President, was looking for a more targeted approach to market to his existing customers. He found that although traditional direct mail kept the name of his dealership in front of his customer, it wasn’t delivering much to his bottom line.

Faricy had used traditional direct mail campaigns to advertise service offers and events but had not had any experience with data mining and marketing targeted offers to his in-equity customers. After doing some research and talking to other dealers, he chose Prospect Vision as his equity marketing service provider in 2011.

Solution

Faricy was surprised by how effective Prospect Vision’s letters were at driving customers back to the showroom and believes the success is a direct result of the extremely targeted nature of the letters. Because the data from the DMS is precisely mined and the trade-in offers are so accurate and perfectly matched to the customer, the campaigns always result in a guaranteed number of sales.

Another reason for the great results is that the whole process is collaborative: Faricy works closely with Prospect Vision on the campaigns to target the inventory, generate the sales, and/or trade-ins that The Faricy Boys need.

Furthermore, because the offers in the letters that Prospect Vision sends out on the dealership's behalf are mathematically accurate, Faricy and his team have the peace of mind of knowing that when a customer wants to accept an offer, the dealership will be able to fulfill the promises outlined.

"Car dealers often put messages out there that are less than believable so customers may rightfully come in with some suspicions, but we can always deliver on the Prospect Vision offer. There's a lot of integrity to that."

Faricy says it's important that all dealership personnel are prepared for any questions from the in-equity customers. So, he makes sure that everyone at the dealership, especially the sales team, is armed with the information generated by Prospect Vision that they need to close the sale. And, because so many Prospect Vision-generated customers come in and successfully close, the team not only has the confidence that the numbers will add up, but also that they will be able to easily convert the customer's equity into a new car purchase.

Results

The equity marketing campaigns work so well that customers often walk into the dealership with the letter in hand, saying: "If you can do this, I'll buy the car today." Every time The Faricy Boys run a targeted campaign with Prospect Vision, they generate an average of 21 incremental sales at a cost-per-sale of just \$145. Faricy says these results are considerably better than any other marketing channel they use and for good reason: "we're targeting people we've already done business with, with offers that make sense."

Dealership Profile: Friendly Honda

- Cost-per-sale average: \$54
- Incremental sales per campaign: 23
2013 average



Friendly Honda in Poughkeepsie, New York started using Prospect Vision's equity marketing services in 2010. The dealership averages about 300 car sales each month.

Problem

Coinciding with the economic downturn in 2008, new car buyers were in short supply and it was difficult for the dealership to know where the next sale would

come from. It was imperative to work every possible channel: Friendly soon realized that one of their biggest opportunities was with customers already sitting in their database, especially the ones who were 'in-equity' with their current vehicle. Friendly knew that because they could switch these customers out of their current vehicles into a new one for the same or lower payment, they were prime targets. But the dealership did not have the bandwidth or expertise to mine their own database, so they turned to an outside vendor.

At first, they turned to AutoAlert, a self-service software solution, in an effort to convert existing customers into buyers. But after working with it for a year or so, general sales manager, Michael Glynn, realized that unless he managed the process every single day, they weren't achieving the desired results. "There was just never enough time work the database, let alone pull together an effective marketing piece myself."

Solution

That's when Glynn discovered Prospect Vision and its turnkey equity marketing services. "Prospect Vision makes the database mining and direct mail component really simple for us – they figure out the value of the deal we can offer the customer and send out professional letters. Essentially they do all the heavy lifting and just give us the information so we can do what we do – set appointments."

Glynn runs campaigns every month but is sure to keep them small and targeted – no more than 1,500 people. This way the sales people are able to call every customer and make sure that they understand the offer letter is real. "Because these aren't cold calls, this is easy, low hanging fruit," said Glynn.

Results

Friendly averages about 23 incremental sales per equity marketing campaign they run at average cost of \$54 per sale.

"What makes Prospect Vision so effective is that they're all about equity mining," said Glynn. "They are able to send a very strong offer that is well drafted and tells customers there's a high need for their current vehicle and great incentives to buy now. Customers think: *'Why wouldn't I do this if I can get a lower payment?'*"

The bonus is that in addition to selling a new vehicle, Friendly also gets great trade-ins. "Since we've been using Prospect Vision, our used car business has grown dramatically because of the types of trade-ins we get."

For more information, visit www.prospectvision.com or email allen.levenson@prospectvision.com