



You Can't Cut Your Way to Success

BY KURT A. KARLSON, PRESIDENT, ILLINOIS AUTO GROUP

Cost cutting is often the strategy chosen for a dealership that is trying to weather economic downturns or higher costs required from manufacturers.

While NADA tells car dealers to upgrade their facilities to increase profits and bonuses, common business sense indicates that spending money on the facility means that costs may have to be cut in other areas of the business. Some businesses make cuts to bolster their profit margins or retain market share, while other businesses seek to remain economically viable.

It is always prudent to analyze spending. But too often dealerships cut costs haphazardly or across the board, often damaging a company's long-term foun-

ation. There is no silver bullet to controlling business costs, and paradoxically, sometimes to save money or improve profits you will need to spend money.

The key to determining if a cost can be justified is to ask a simple question. Will this expenditure return more money than I have invested? If you can say yes to this question, then it is a wise investment and should not be part of your cutbacks. When considering the return on your investment don't forget to factor in the

■ **way to success** — *continued on page 10*

added value to your customers, such as warranties, service and overall satisfaction. Those details alone will add to your bottom line down the road.

Contrary to common perception, customers will not go almost anywhere just to save a buck. In a 4-year study conducted by BIGresearch, most customers will put service ahead of price, if you give them a chance. Customers see price as only one component of the bigger picture of “value” that includes the service, information and follow-up they receive.

Increased access to the internet and inventory programs (such as Vauto) have leveled the playing field on automobile pricing. With price out of the picture, the consumer will look to other components that are perceived as value. Wouldn't you close a higher percentage of prospects if you presented a greater value in aesthetics or warranties to the consumer? Would it be wise to invest in your inventory?

Businesses that spend money intelligently make more profits. Considering that used cars produce the highest profitability to a dealership, cutting costs on the appearance and warranties of that segment of your business is not an option. According to Kelley Blue Book, aesthetics is one of the top considerations when a person buys a car. Consumers want and deserve the same con-

sideration on a used car that they receive with a new car. Again, will these expenditures return more money than I have invested? A prospective buyer is going to appreciate and will pay more for a car that looks good, one that's shiny and clean on the outside and one that smells good and looks good on the inside. Psychologically, a used car in good condition is extremely important to the consumers' perception of value and reflective of the overall care your dealership provides. When a warranty is added to an already great appearance, the consumer is going to get the best bang for their buck, even if they paid more initially.

Cutting costs can be beneficial. However, before you “slash and burn,” consider carefully if cutting a cost will decrease the value your customers perceive and the profit margin the dealership receives from that service. Don't compromise on product quality to save money. In the long run this will damage consumer confidence and may actually constrict revenue and growth. ■

Kurt A. Karlson, President, started Illinois Auto Group (IAG) in 2006; it currently consists of two divisions located in the Chicago metropolitan and Central Illinois areas. The company provides a premium interior/exterior reconditioning service called the “Total Lot Management System” (TLM). The service turns used car inventories for new car dealers into a competitive advantage with an award-winning, nationally proven program. This is done by using Proprietary Processes, Certified Warranties, Sales Development Training and an exclusive Service Lane Program, all targeted at delivering the consumer a better car buying experience. IAG promises their dealers that they will sell more cars, sell them faster and for more money besides creating additional revenue centers! For more information, call 1-877-644-4IAG (4424) or visit the web at www.IIAutoGroup.com.