COLORADO INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

FRONT LINE

Q4 2021

2021 CHARITY FUND GALA HIGHLIGHTS INSIDE

CIADA Announces Quality Dealer of the Year and new Hall of Fame Inductee

COLORADO INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION
CIADA
EST 1941

FRONT LINE MAGAZINE

The official digital magazine of the
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Front Line magazine is published quarterly by the CIADA, representing quality independent automobile dealers since 1941. CIADA assists members in becoming more successful within the used motor vehicle industry by consistently bringing you industry education, valuable information, services and benefits designed to prepare members for an ever-changing marketplace.

DealerNotes

BRIEF UPDATES FOR **COLORADO AUTO DEALERS**

ALERT: THEFTS CONTINUE

We are currently experiencing an unusual amount of break-ins resulting in multiple thefts of vehicles.

DO NOT LEAVE KEYS AT YOUR PLACE OF BUSINESS UNLESS YOU HAVE A SAFE SECURED TO THE FLOOR THAT CANNOT BE REMOVED AND INVEST IN AN ALARM SYSTEM TO PROTECT YOUR PROPERTY!

With that being said finish the year strong and be ready for 2022.

We wish you a safe, happy, and prosperous holiday and look forward to serving you in the new year!

-CIADA STAFF

Charity Fund Gala
HIGHLIGHTS

CONGRATULATIONS

CIADA is pleased to announce our

2021 QUALITY DEALER OF THE YEAR GAYLORD SALES & LEASING

Congratulations, Tim and Betty Gaylord, your commitment to our industry is second to none. The example you have set for quality, excellence, outstanding customer service, and making our community a better place is one we all strive to follow.

2021 HALL OF FAME INDUCTEE JOE MCCLOSKEY

We also welcome two-time CIADA Quality Dealer and 2013 NIADA Quality Dealer into our Hall of Fame. Serving since 1994 on our Board of Directors and as the current NIADA President you have guided our members with one goal in mind, perform to the best of your ability every day.

Charity Fund Gala
HIGHLIGHTS

CLICK HERE TO VIEW ALL CIADA CHARITY FUND GALA PHOTOS

TOP 7 WAYS DEALERS CAN TURBOCHARGE THEIR USED CAR INVENTORY

By Christina Wofford

High used car prices are not expected to dip for a while. Cox Automotive predicts it could be 2025 or later before used vehicle supply and demand return to normal. Because of the high demand for vehicles, there is an ample opportunity for dealers to take advantage of the market.

> Dealers who build a used inventory strategy can now use it as a backbone of their success moving forward.

Here are the seven winning strategies top dealers are using to get more trade-ins:

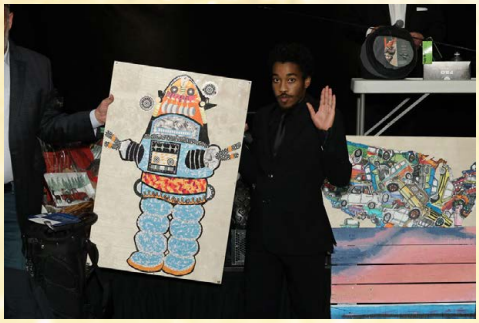
1. **Use new channels for advertising buyback incentives.** More than 80% of U.S. households have at least one streaming subscription, and the pandemic has only increased that number, according to Deloitte's Digital Media Trends Survey. With Amazon streaming ads, dealers can target that growing audience and leverage Amazon's insights, including consumer shopping trends and geography, to target their ideal audience. This results in a much more targeted ad buy over cable TV or radio. Bettenhausen CDJR, in the Chicago area, uses streaming ads to promote its auto valuations and instant cash offers for vehicles. "We see strong results from the streaming ads since only people interested see the ads," said John Doolin, Bettenhausen's marketing director. "It's super quantifiable."
2. **Target with data and conquest the competition.** By leveraging their CRM, dealers are targeting consumers with older vehicles, those in need of major service repairs, and people who have indicated online they're interested in selling their cars. Dealers are using targeted ads to geofence their competitors and promote their trade-in offers. Geofenced advertising campaigns are a great way to target customers on their mobile devices in a specific radius around a particular event, shopping area, and competitors. Muller Honda of Highland Park, near Chicago, earned 150% ROI, 450,000-plus impressions, and more than 30 trade-in requests after launching a geofencing advertising campaign. The dealership wanted to increase brand awareness, reach more consumers, and get more trade-ins during a two-day "Appraisal Palooza" campaign.
3. **Focus on the service drive.** More consumers are returning to dealerships for service and warranty work as the average age of a car on U.S. roads rose to 12.1 years in 2021, according to IHS Markit. Dealers can leverage these customers as a source of inventory acquisition. Some dealers are drafting trade-in offers while the car is in their shop. They are then approaching the customer with the request or leaving the proposal in their vehicle for consideration.
4. **Promote offers by text message.** Only one in five emails is ever opened, but 95% of text messages are read within three minutes. Dealers are taking advantage of this by using text messaging to effectively promote trade-in offers to thousands of previous customers, especially those with the most sought-after vehicles. Sweeten the deal on new vehicle purchases with additional incentives for bringing a trade-in. Consumer text messaging is a highly effective way to reach customers. McClinton Chevrolet in Parkersburg, West Virginia, sent out a bulk text message with an eye-catching graphic to thousands of customers offering trade-in and trade-up incentives. The text messages garnered 30+ trade-in requests and over ten appointments scheduled in the first week. "I knew a text would be the most effective way to get in front of people," said Ginny Bowden, McClinton's dealer principal.
5. **Use social media to show the value of trading up.** Seventy-three percent of car buyers say Facebook is the social site they use most, while 75% of car buyers say online video, such as on YouTube, influences their shopping habits. Dealers engage with their social media followers by featuring their inventory in short videos and on their Facebook business page. Dealers are also communicating they are a local leader in partnering with customers to trade up to their next great vehicle. Successful dealers make sure their social media pages are up-to-date and actively post and respond to customers on their social sites.
6. **Launch an online buying center.** To streamline the process and attract more consumers to trade-in or sell their cars, dealers are launching specific buying websites and buying centers. Dealers are giving car buyers the option to do more online than just search inventory. Let followers book a virtual vehicle appraisal without having to come into the showroom. Consumers appreciate getting pre-qualified for credit and instantly getting matched to cars they can afford, all online. Customers love the streamlined buying process — the Amazon Effect — making it easy and convenient online.
7. **Seek customers on eBay, Craigslist, and Facebook Marketplace.** Every day, consumers post thousands of vehicles to sell on eBay, Craigslist, and Facebook Marketplace. Dealers are activating alerts on these platforms to inform them when consumers post vehicles they want to sell. Dealers are also enticing their employees with extra money and encouraging them to find cars for sale as possible new vehicles for the dealership's lot. Every avenue needs to be explored.

Dealers who build a used inventory strategy can now use it as a backbone of their success moving forward. Inventory challenges amid the worldwide semiconductor shortage are likely not going away this year. But luckily, there are plenty of consumers who want to trade in their vehicles or sell unneeded extra cars. ■

Christina Wofford brings more than two decades of experience in journalism, marketing, communications, and public relations to Digital Air Strike. As the senior vice president of marketing and communications, she is responsible for all marketing and lead generation efforts, including earned media and event planning.

















Fraud Against Car Dealers Has Never Been More Prevalent

By Frank McKenna, Co-founder and Chief Fraud Strategist for Point Predictive

Auto loan fraud in the U.S. is already a big problem, and it continues growing. Point Predictive estimates that approximately $7.8 billion in car sales will be completed and financed with loans containing misrepresentation on the application.

That is a really big number. It's the highest estimated loss exposure that the industry has faced since Point Predictive began tracking auto loan fraud. And it's more than double the loss that the industry was exposed to only 10 years ago. (See chart below)

Unfortunately, many car dealers across the U.S. are bearing the brunt of that fraud since some lenders force buybacks after discovering that the loan application contained fraud.

That's why fraud experts are advising dealerships to detect and prevent fraud schemes involving misrepresentation on the loan application. A dealership's business could depend on it.

Recovering From Fraud Is Painful and Costly for Dealerships

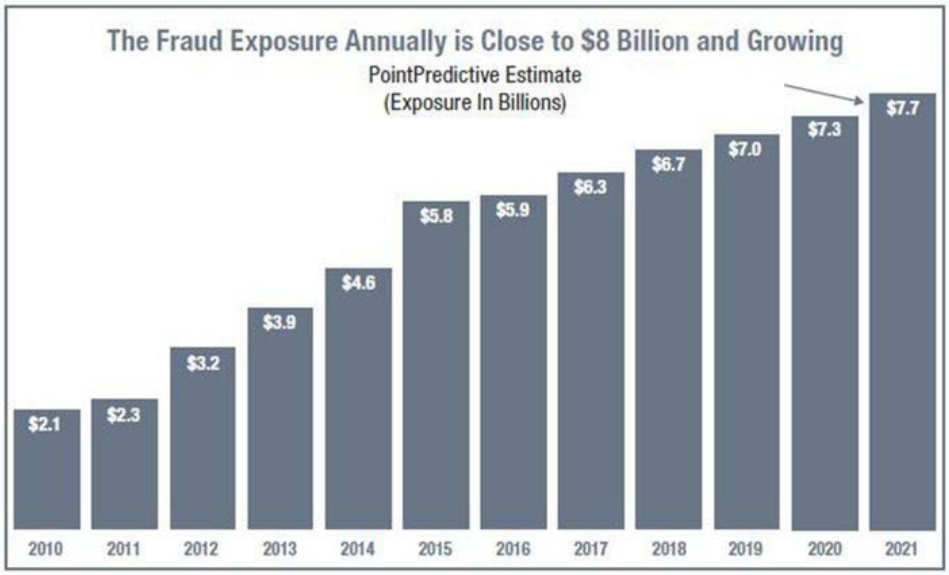
Recovering from an instance of fraud can be painful for dealerships. Statistically, most U.S. car dealers will source at least one fraudulent loan per year. On average, dealerships can expect one fraudulent loan out of every 200 loan applications that they submit to lenders. Some dealers know this already, but those who don't should do the math and acknowledge the risk.

One fraudulent loan application out of every 200 might sound like a small number. But consider the extraordinary cost of that fraudulent loan application for the lender. The average funded loan containing fraudulent information, if pushed back to the dealer, represents a loss of at least $21,000. Because the dealer's portion of the profit on a car is often only a couple thousand dollars, it takes a dealership 10 additional sales to make up for the cost of that fraudulent loan.

Dealers don't want fraud. The bottom line is that it hurts your business.

Many Ways You Can Be Targeted by Unscrupulous Borrowers and Fraudsters

Point Predictive tracked fraud loss exposure across more than 100 million car loans, and we found that dealers are targeted by a plethora of crafty fraud schemes. Interestingly enough, most dealerships only focus on preventing a single type of fraud: identity theft. This narrow focus leaves them exposed to potentially thousands of dollars in risk exposure.



There are five types of fraud that dealerships can be liable for:

- **Identity fraud.** Borrowers provide stolen identities or "create" new synthetic identities to fraudulently finance the vehicle.
- **Income fraud.** Borrowers lie about their income.
- **Employment fraud.** Borrowers lie about where they work, how long they have worked, or even their job title.
- **Straw borrower fraud.** Borrowers act as a front for the real purchaser of the car and then deliver the car to someone else.
- **Collateral fraud.** Finance managers or salespeople report a range of additional options, services, or trim levels on the vehicle that aren't actually on the vehicle. This is typically done to secure more financing for the applicant than she or he would actually qualify for if the financed amount was lower.

These 5 Rising Fraud Schemes are Causing More and More Losses

The pandemic changed a lot of things in the auto industry. That is particularly true when it comes to fraud. As the behaviors of car shoppers changed, fraudsters adjusted their own behaviors to take advantage. These days, the car buying experience has become a predominantly online, digital transaction, while the time spent in a dealership has been more limited.

Here are fraud schemes that dealers need to be aware of:

- **Fake Employment.** The use of fake employers on credit applications has risen 400% since the pandemic began in March of 2020. "Fake" employment is often a service sold to borrowers on the margins of credit eligibility by services offering "credit repair." These services arm the borrower with forged

paystubs and a phone number used for the purposes of fraudulently verifying employment to the lender. Often this phone number actually works, and naturally the individual answering the phone convincingly "confirms" employment as expected.

Over 100 new fake employers are being discovered by Point Predictive's fraud analysts each week, amounting to millions of dollars in attempted fraud against dealers and lenders.

- **Stolen, fabricated, and difficult to verify identities are used in fraudulent ways.** Identity fraud and creation of synthetic identities is soaring in auto lending. By all accounts more than $1.2 billion in loss exposure will cross lenders' desks this year. But this year there's a twist — the fraudsters are using face masks to hide their identities during an in-store interaction, leaving quickly and having cars delivered to them at dead-end locations where they can never be traced.

- **Straw borrowers are buying cars to covertly sublease them.** The pandemic forced many dealerships to temporarily shut down or significantly limit their activity and inventories. At the same time, many rental agencies sold off portions of their fleets. This allowed peer-to-peer platforms such as Turo to thrive. Services like Turo continued to offer renters a diverse selection of vehicles for short-term rental with an elegant customer experience and lower rental rates compared to traditional rental agencies.

  But that has also resulted in a sharp spike in straw borrower fraud. Borrowers looking to cash-in are using straw borrowers to help them fraudulently finance vehicles, which are then listed and rented on Turo for profit to the fraudster.

- **Did we mention paystubs?** Some lenders are reporting that up to 40% of the paystubs they receive from some dealerships are forged or altered. But it certainly isn't a problem limited to shady dealers. On average, even the astute dealership will still receive one fraudulent paystub out of every 12 paystubs submitted by an applicant. Suspicious documentation is becoming far more prevalent, and every dealership needs to protect against it.

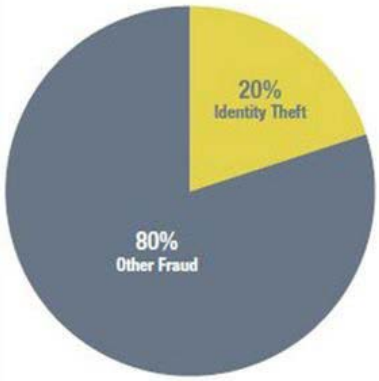
5 Ways to Protect Your Dealership from Fraud

Just because fraud has risen dramatically, it doesn't mean your dealership will be specifically targeted. Even dealerships that protect themselves will need to fight fraud, since the nature of these attacks change quickly. One of the most common ways to be victimized by a new type of fraud is to be effective at preventing older schemes. Here are some ways you can protect your dealership.

1. **Don't just focus on identity fraud.** Identity fraud prevention is important, but it shouldn't be the sole focus — 80% of buybacks might not be related to identity-related fraud scams.
2. **Always check to see that the income makes sense for what you know about the applicant.** Look for red flags for potential income fraud. An applicant who claims to be employed in a low-wage position should prove income that aligns with that position. Younger applicants should rarely claim income that is typical of a mid- or late-career employee. Finally, an applicant who is making a dramatic leap in the cost of their cars, such as trading in a junker for a newer model luxury or high-end vehicle should be verified to assuage the suspicion of fraud.
3. **Check employment discrepancies.** Oftentimes a bogus paystub will have mathematical inconsistencies that become apparent upon detailed inspection. Values on the stub might not add up correctly. Bonuses, commissions, and withholdings may look distorted relative to the wages claimed. Pro tip: you can always ask an applicant to sign an IRS Form 4506T, which gives you permission to verify income that the applicant reported to the IRS.
4. **Beware of straw borrowers.** Look for potential straw borrower red flags. Straw borrowers are often coached by a co-conspirator, and certain questions, requests, and actions might not make sense.
5. **Monitor new finance managers.** If a new finance manager's performance is too good to be true, it might not be true. F&I managers who seem able to work miracles to get even the most down and out borrower funded might be doing something extra to get those loans approved. It is crucial to monitor the process, enforce intentional risk controls, and make sure that new finance managers are keeping the dealership's business and reputation in top shape with its lender network.

Like many challenges facing the car buying market, the problem of fraud will never go away. We expect it to continue to grow and become even more challenging to prevent. Dealers must leverage every practical tool and technology to keep fraud at bay. ■

Fraud Reports Demonstrate Fraud Exposure Extends Beyond Identity Fraud



Fraud Type	% of Fraud Loss
Income	30%
Employment	30%
Synthetic and Identity	20%
Straw Borrower	10%
Collateral	10%

NextGear Capital Shares Advice for Independent Dealers in 2022

NextGear President Scott Maybee outlines three key areas for future opportunities and growth.

By ADT Staff

Despite predictions by industry experts that independent auto dealers would not fare well during the pandemic, they have largely survived and, in some cases, even thrived. And, while there will be room for more growth in the year ahead, they must continue to evolve to take advantage.

"I've been in the automotive industry for more than 15 years and, hands down, this is one of the most unusual markets I have ever seen," remarked Scott Maybee, president of NextGear Capital. He sees some distinct challenges for independent dealers in 2022, but also some unique opportunities.

Studies by Cox Automotive reveal that dealer sentiment remains optimistic. The market outlook index was down slightly from Q2 to Q3, but still high and, more importantly, above levels recorded in Q3 of 2020 and 2019. The profits index also saw a slight improvement compared to the prior quarter, although independent dealer profit reporting was flat from Q2 to Q3; likely due to increased expenses versus Q2.

Key drivers for anticipated growth in the used car sector are fewer peer-to-peer transactions, resulting in greater volume for dealers, and a growing supply of used inventory in the 5-12 year-old range, which has aged out of a lot of franchise models but still has plenty of service life left. For these reasons and more, NextGear Capital expects the industry will continue to thrive all the way through 2023.

"Despite macroeconomic factors that are beyond anyone's control, independents can still take command over how they navigate the road ahead," Maybee explained. Here are a few areas where independent dealers have opportunities:

1. **Relentless sourcing** – New car production is low, there are fewer lease returns making it into the wholesale market, and fleets are competing for used car supply instead of adding to it; all contributing to an inventory deficit in the used car sector. As a result, used car dealers will want to have a firm grasp on what their customers are looking for and be relentless about finding it. That means expanding their sourcing horizons, whether it's live or online auctions, other digital sources, the general public, other dealers, or any other source.
2. **Take advantage of technology options** – Dealers will want to embrace technology to tap into the rich data that's available to guide their decision making. By using platforms to determine the right inventory, where to find it, how much to pay for it, and how to price it, it will lead to smart acquisition strategies and pricing decisions.
3. **Finding the right funding balance** – Whether it's operational working cash or floor plan financing, having cash on hand allows dealers to act quickly when they find the right inventory or opportunity to enhance their dealerships. Successful dealers minimize operational risks by balancing cash and credit to maintain and grow their businesses. An inventory strategy based solely on available cash will both limit purchasing power and the ability to make needed business moves, especially in an unpredictable environment with higher prices. With the right floor plan, dealers can use the extra cash flow to improve infrastructure, hire a needed employee, invest in technology or otherwise put it to work to ensure they're running efficient and profitable businesses.

"Our data projects retail volume for independent dealers will grow in the coming year, and dealers will need to be ready to adapt in order to capitalize on this growth. Taking advantage of every source of available inventory, digital channels and ensuring they have the capital needed to do it all will be key," said Maybee. "As today's consumers look for more value-conscious buys, the independent dealer stands to gain." ■