



YOUNGME MOON

Autobytel.com

In some ways it's true—online buying services will put some dealers out of business. But the dealers who go out of business will be the ones who don't understand online customers and who continue to do business the old way. Businesses who don't think the Internet is going to change them will be dead businesses. Dealers that are able to deliver a new consumer experience will flourish. Essentially, Autobytel.com is creating New Age car dealers. We believe dealers who are committed to the future will be the survivors.

—Mark Lorimer, President and CEO¹

The key thing to understand here is that we are processing thousands of transactions that yield big-ticket sales in a highly efficient way. We have no cost of goods sold, no procurement, no carrying or shipping costs, no inventory risks. Our gross margins are 100%. But what we've done is change the way cars are bought and sold. We've revolutionized the car-buying and ownership process by serving as an infomediary, bringing value to the process for both dealer and consumer.

—Anne Benvenuto, SVP Marketing

It was mid-1999, and Anne Benvenuto, Autobytel's senior vice president of marketing, was going over Autobytel.com's second-quarter results. As she glanced over the figures, she noted that company revenues had not only increased 70% over the same quarter last year but the company was now averaging over 5,600 purchase requests to its dealers per *day*. In addition, the company had recently added 426 dealers to its network, bringing its total to 2,993 in North America.

That was the good news. The bad news was the company was still bleeding cash. It had lost \$19.4 million in 1998, and \$12.1 million in the first two quarters of 1999. While negative earnings were not uncommon among Internet companies, Benvenuto was keenly aware of the fact that top-line growth was essential for maintaining investor confidence. The biggest issue thus facing the company was, how to accelerate revenue growth?

One alternative was to add new dealers to the Autobytel network. After all, 89% of the company's revenue derived from dealer subscription fees; clearly, this was still the company's bread and butter. On the other hand, Benvenuto knew that in order to succeed, the company also had to continue to offer new products and services. In this regard, Benvenuto believed the company was doing quite well. Autobytel had recently launched Service.Autobytel.com, which offered customers the

¹ *Business Wire*, "Autobytel.com Dispels Top-Five Myths of Online Car-Buying Sites," May 6, 1999.

Professor YoungmeMoon prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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opportunity to obtain service and maintenance for their vehicles using an online referral system. The company had also recently announced that it was entering the wholesale car market, marking its first foray into the business-to-business side of the automotive industry.

As she pored over the data, however, two key questions weighed heavily on Benvenuto's mind. First, given the new products and services Autobytel was now offering, how should the company be positioning itself in the market? Clearly, the old positioning—which had emphasized price, convenience, and a negotiation-free car purchase—had become outdated for the simple reason that the market had become highly competitive, with new players springing up daily. For example, CarsDirect.com, a high-profile venture backed by Michael Dell, had recently made a big splash by announcing that it intended to adopt a more “direct” way of selling cars, eliminating the need for consumers to ever even “see” a dealer. AutoNation, the nation's largest automotive retailer, had also announced that it was “going online.” In this context, Benvenuto knew that it would be increasingly difficult to differentiate Autobytel from the competition:

The key thing is that we can no longer compete just on price. We can no longer just say we're low-cost, no-haggle, no-hassle, because every service can say that. What we have to do is communicate to people that we can put them in control of this entire process of purchasing and ownership. People are afraid of car salespeople; they're afraid of mechanics who might rip them off. All the things associated with automobiles—we need to help consumers feel in control of the whole process, start to finish.

In this context, Benvenuto knew she had to come up with a new positioning statement that not only captured the “new” Autobytel but could be relatively enduring in an extremely dynamic market.

In addition, Benvenuto wondered whether it was time to reconsider Autobytel's marketing mix. To date, Autobytel had prided itself on being a “maverick” marketer, combining innovative Internet marketing deals with more traditional advertising. However, given the fact that Autobytel was repositioning itself in this rapidly changing market, perhaps it was time to reevaluate the marketing plan. Should the company be spending more on advertising? If so, was a combination of traditional and new media the right way to go? Making Benvenuto's decision-making all the more difficult was the fact that Autobytel had to appeal to two sets of customers—car dealers and car-buying consumers—each of which had disparate needs and concerns.

Moreover, Benvenuto knew she had little time to come to a decision. The disadvantage of being an Internet company was that there was little time to reflect—the market moved too quickly to tolerate indecision. She recalled: “I remember when we were doing our brand positioning, we asked our own people: If Autobytel were a car, what kind of car would it be? And one person said, Autobytel is like a souped-up Ferrari with a fast engine and no rear view mirror. And he's exactly right. That's what it feels like to work here. Instead of ready, aim, shoot—it's shoot, aim, ready.”

Company Background

Autobytel's founder, Pete Ellis, had grown up around cars. His father had been a car dealer, and Ellis himself had sold his first car at the young age of 16. By the age of 24, he had taken ownership of his first dealership, eventually owning 16 dealerships in California and Arizona, including the largest Jeep, Eagle, Chrysler dealership in the United States.

During the 1980s, business had been good. Then came the recession of 1990, which hit California—where most of his dealerships were located—particularly hard. When car sales plummeted, Ellis had been forced to begin closing or selling off his stores to cover his debts. Soon, even his flagship store near Los Angeles was going under. Ellis recalled: “I went from selling 500 cars a month to 200. I owed \$5.6 million on a piece of property that was worth \$3.6 million. I decided to kill myself.”²

Ellis was, of course, speaking metaphorically. P. R. Ellis Corporation officially bit the dust in 1994. He filed for bankruptcy the same year, in the process losing over \$15 million and two homes.

Undaunted, his next idea came to him while using his wife’s computer. Although the Internet was relatively nascent at the time, he began to envision ways the technology could transform the car-buying process. He knew that there was a tremendous amount of consumer dissatisfaction with new car negotiations. His idea: To empower consumers, by giving them control over the vehicle purchasing process. This meant providing them with information that dealers traditionally concealed (e.g., invoice prices), and making the process “haggle-free.”³

In 1995, Ellis approached the executives at Prodigy Service Inc. with his idea. Prodigy, one of the more popular online Internet services at the time, agreed to give it a try. Ellis hoped his program would generate as many as 500 online purchase requests a week. In fact, by the fourth *day* it had generated 1,348 requests. Auto-By-Tel Corporation was off and running.

Over the next three years, the company grew rapidly. By the time the company changed its name from Auto-By-Tel Corporation to Autobytel.com in 1998, it had launched the Certified Pre-Owned CyberStore, a site where consumers could shop for pre-owned vehicles online; Mobalist Rewards, a loyalty program where customers could earn “points” toward the purchase of their next car by shopping at participating vendors; and an Aftermarket Sales program. Consumers could also apply for financing, leasing, warranties, insurance, and mechanical breakdown protection through the site.

The same year, Autobytel promoted its chief operating officer and general counsel, Mark Lorimer, to be CEO. Formerly an attorney at what some regarded as the stodgy New York law firm of Dewey Ballantine, Lorimer had originally joined the company in 1996. As CEO, one of his first tasks was taking the company public in March 1999, raising over \$100 million in the process. By mid-1999, the company had a market capitalization of over \$250 million. **Exhibit 1** shows the financial performance of Autobytel since 1995.

By 1999, Autobytel.com occupied a building in sunny Irvine, California. The dress code was distinctly casual (Hawaiian shirts and shorts predominate), and the lobbies were occupied by six-foot-long aquariums filled with tropical fish. The building housed nearly 200 employees, and the website got over a million unique visitors a month. The company directed about 3.5 million purchase requests to about 3,000 Accredited Dealer franchises, and had ventures in Canada, the Nordic countries (Denmark, Norway, Sweden, and Finland), the United Kingdom, and Japan.

² “Burning down the house,” *Inc. Magazine*, August 1997.

³ Invoice price is the manufacturer’s initial charge to the dealer. This is usually higher than the dealer’s final cost because dealers receive rebates, allowances, discounts, and incentive awards. Base price is the suggested retail price of the car without options. Monroney Sticker Price (MSRP) includes the base price, the manufacturer’s suggested retail price for manufacturer-installed options, and the transportation charge. Dealer Sticker Price is the MSRP plus the suggested retail price for dealer-installed options.

The Car Buying Process

When people walk in the door of a car dealership, they have their guards up. They're taught from day one to hate salespeople, and car salespeople in particular. And they do. They have their guards up and you've got to break that wall down.

—Eric Page, Car Salesperson⁴

In the United States, new cars and trucks were traditionally sold through face-to-face, negotiated transactions with salespeople. To say that the industry had a poor reputation among consumers was an understatement; in fact, fewer than 50% of customers who purchased a vehicle ever returned to that dealership to either purchase another vehicle or to get service.⁵ In addition, while 59% of new car buyers reported feeling loyal to the vehicle they purchased, only 13% reported feeling loyal to the dealership where they purchased the car.⁶ Meanwhile, the average price of a new car had grown over the years to about \$22,500, making it the second-largest purchase most consumers would ever make (next to the purchase of a home). For this reason, car-buying tended to be both a thoughtful and emotional process.

Typically, when consumers entered a dealership to purchase a new car, they had relatively little information regarding manufacturers' costs, dealer costs, leasing costs, financing costs, and other relevant information. However, because they knew that the MSRP price listed on the vehicle was negotiable, they were faced with the arduous task of bargaining with a salesperson to get a favorable price. This negotiation process—which could often take hours—usually began with a floor salesperson, who tried to establish a “relationship” with the walk-in customer in the course of settling on a price. If the bargaining started to deteriorate (e.g., if the customer began to threaten to walk out), that customer was usually “turned over” to either a senior salesperson or sales manager, who took over the negotiation. If the negotiation continued to go poorly, the customer might be “turned over” once again to someone more senior, such as the general sales manager. After all this, over 20% of traditional car buyers still paid a vehicle's original sticker price.⁷

Even after a price was agreed upon, the customer usually had to encounter several other individuals before driving the car off. If the customer had a trade-in, a used car manager was called upon to inspect the trade-in and negotiate the price for the used vehicle. If the customer sought financing and insurance (F&I), a separate F&I manager handled this part of the transaction. And if the customer sought “add-on” parts and accessories, he or she was directed to an “aftermarket” salesperson. Industry reports estimated that the average new-car customer was “touched” by three to six salespeople per transaction.⁸

These salespeople were typically paid a commission based on sales dollar volume, rather than sales unit volume, resulting in high-pressure sales tactics. Many dealerships claimed that manufacturers had encouraged such behavior by granting too many franchises, leading to over-saturated markets. Ellis's Ford store in San Diego, for example, had competition from 15 other Ford dealers within a 30-mile radius.

Moreover, the inefficiencies in this system had increased over time. While the average productivity of a new-car salesperson had not changed in 18 years (salespeople tended to average

⁴ Eric Page is a car salesperson at Ron Bouchard's Honda Mitsubishi Nissan dealership in Fitchburg, Mass.

⁵ CNW Marketing/Research, Retail Summary, 1998.

⁶ Dohring Company.

⁷ J.D. Power & Associates.

⁸ NADA (National Automobile Dealers Association).

nine sales per month), labor and overhead costs continued to rise. In 1999, gross margins on new cars tended to be around 6.4%, and a dealer's net profit on a single new car sale was as low as \$51. Operating costs ran about 11.1% of sales, the majority of which was payroll (personnel costs averaged over \$900 per new car sold). Increased advertising and marketing costs also reduced dealer profits. Marketing costs for dealers averaged over \$340 per new car sold. Price advertising was rampant and many instances of bait-and-switch were reported.⁹

The Automotive Retailing Industry

The entire auto retailing industry including sales (new and pre-owned), service, and parts exceeded \$1 trillion per year. Over 56 million new and used vehicles changed hands annually, resulting in over \$670 billion in sales.¹⁰

New cars and trucks actually represented a relatively small percentage of this overall market,¹¹ and the distribution network for these vehicles was extremely fragmented. New cars and trucks were sold through approximately 22,000 dealerships in the United States, which represented about 49,000 franchises.¹² These automotive dealerships derived revenue from three primary sources: the sale of new and used vehicles, service and parts (S&P), and finance and insurance (F&I). **Exhibit 2** shows a typical dealership's sales and profits by department.

Despite buoyant sales of cars and trucks, 850 dealerships had closed since 1992, and many experts predicted that hundreds of dealerships would close within the next five years.¹³ (**Exhibit 3** compares the financial profile of a typical dealer in 1991 and 1997. **Exhibit 4** displays typical dealer expenses. **Exhibit 5** compares average dealer economics per car in 1987 and 1997.) One reason for this was that dealers were increasingly getting squeezed by big "superstores" entering the business. These publicly traded companies tended to buy out dozens of dealerships hoping to operate chains with money-saving efficiencies. They aimed for high unit volume and were often willing to take a smaller profit per vehicle sold. They advertised extensively and often clustered different franchises on one large property, which not only let customers shop several name-plates at one time but also increased the likelihood that the dealer could secure the sale.

The world's largest automotive retailer was AutoNation, which had about 400 new car franchises and more than 40 used car superstores in about 20 states. The brainchild of mega-entrepreneur Wayne Huizenga (who, among other things, built Blockbuster Entertainment), AutoNation was trying to vertically integrate the car industry by selling, renting, leasing, and servicing cars at every level imaginable. AutoNation was also a top player in the car rental market, operating Alamo Rent-A-Car, National Car Rental, and CarTemps USA.

Retailers like AutoNation were creating a nightmare for smaller dealers across the country. In fact, speaking to dealers at an industry convention in 1997, Ellis had this to say to dealers who were reluctant to sign on with Autobytel.com: "If you're not coming with us, then I suggest you call 1-800-WAYNE."

⁹ NADA.

¹⁰ CNW Marketing/Research, Retail Summary, 1998.

¹¹ In 1998, for example, 14.6 million new cars and trucks (approximately 54% cars and 46% trucks) were sold, for total sales of \$297 billion. (Source: NADA.)

¹² A single dealership selling Ford, Honda, and BMW vehicles would have three franchises.

¹³ "A new era of wheeling and dealing," *The New York Times*, January 29, 1998.

The Autobytel.com System

The Autobytel system represented a marked change from the traditional automotive retail process. Lorimer explained:

We want our customers to be totally informed. We want them to be vigilantes. That's the customer we appeal to. Our customers can come to our website and we'll give them the dealer invoice price. They can then get a purchase price right over the phone. Many of our dealers will even deliver the car right to your door. You can be done with the whole thing in an hour. It's going to be hard to turn the clock back on that.¹⁴

More specifically, a customer visiting the Autobytel.com website could shop for vehicles in a number of ways:

Shoppers who were just beginning their car search could browse through hundreds of vehicle photos for every make and model. They could also access specification and pricing information. Shoppers who had certain needs or considerations (e.g., an SUV that cost between \$30,000 and \$40,000) could use car selector tools to pinpoint vehicles that matched their requirements.

Once shoppers began to narrow down their choices, they could access a variety of automotive information about their preferred vehicles. This included weekly automotive reports, professional vehicle reviews, consumer reviews, and manufacturer brochures. They could obtain information about manufacturer incentives/rebates and dealer invoice prices. Various automotive information service providers, such as Edmund's, Kelley Blue Book, Pace Publication's CarPrice.com, and Intellichoice were also aggregated on Autobytel's website to assist consumers with specific vehicle-related decisions, including financing and insurance.

When customers had finally decided upon a make and model, Autobytel would let them "build" their car from the bottom up. They could begin by selecting the make, model, and exact series. Autobytel would then automatically fill in the vehicle's standard features. Customers could add option packages and watch the dealer and MSRP prices change.

Once the vehicle had been "built," consumers could submit a free, no-obligation, purchase request for their vehicle of choice. They could also submit an optional finance or lease application. Purchase requests were routed to a local Autobytel.com Accredited Dealer (who had been given exclusive rights to a certain geographic territory), while the finance or lease application would be forwarded to financial institutions for same-day processing. The Autobytel dealer would be obligated to call the consumer back with a low, competitive, no-haggle, no-hassle price within 24 hours. If the quote led to a purchase, the buyer and the dealer would arrange for delivery of the car.

In many cases, dealers would arrange to FedEx the paperwork to the customer, who could then send it back to the dealer. The car would then be delivered to the customer, so that the customer never had to step foot in the dealership. In other cases, the dealer and the customer would arrange convenient, one-hour delivery of the vehicle. In either case, there was no requirement that the transaction be completed; that is, customers were under no obligation to purchase a vehicle through Autobytel.com, even if they had submitted a purchase request.

The consumer paid nothing for the service. Instead, Autobytel received a monthly fee (\$500–\$7,500) from participating dealers for sending customers to the dealership door. Subscription fees were based on a number of factors, including the location of the dealership, the type of franchise (e.g.,

¹⁴ *The Orange County Register*, "Looking to Move into the Fast Lane of Automobiles," May 6, 1999.

BMW vs. Ford), and Internet penetration in the area. By mid-1999, this monthly subscription fee averaged \$1,008 per dealer. The company was also paid a sign-up fee (\$4,500 to \$6,500 per car brand) by dealers when they joined Autobytel.com.

For customers, the most obvious benefit was price. Autobytel customers not only knew the dealer invoice price, they also knew about manufacturer incentives, hold-backs, etc. More important, because the *dealers* knew the customers had this information, salespeople considered it a waste of time to try to extract a high price from this particular customer segment. As one salesperson put it:

In our dealership, the Autobytel price is our “last resort” price. That is, if a walk-in customer haggles and haggles, the Autobytel price is the absolute lowest price we’ll ever go down to. Maybe, just maybe, if you’re willing to put up with three to four hours of aggravation, you may end up at the same price as the Autobytel.com price—but it’s never lower. If you use the Autobytel service, however, we’ll give you that same low price on the first phone call. There’s no haggling; it’s cut and dry. Plus, it saves you time and it saves us time.

Another benefit was service. Most state franchise laws made it impossible to cut the dealer out of the process altogether, so car-buying customers were *required* to purchase a new car through an authorized dealer. But Benvenuto believed its system made contact with the dealer much more pleasant: “We’ve not only been instrumental in driving the price closer to invoice, but we’ve also taken the fat out of the system across the board. Normally a consumer is touched by five different people in the dealership. In our process they’re touched by one or, at the most, two people.”

In 1997, Autobytel was named the 4th Fastest Growing New Small Business in America by Dun & Bradstreet and *Entrepreneur* magazine. By March of 1999, Autobytel.com was generating over \$1 million in car sales per *hour*. By June, it was sending almost 200,000 purchase requests to dealers per month.

In addition, Autobytel had added a number of other products and services to its website. **Exhibit 6** provides a listing of most of Autobytel’s products and services.

CyberStore

Launched in 1997, the Certified Pre-Owned CyberStore gave consumers the ability to use Autobytel.com to purchase pre-owned vehicles. While 40% of pre-owned vehicles in the United States were sold through dealerships, several factors made used car purchasing a particularly frustrating experience for consumers. For one thing, because gross margins on used cars tended to be considerably higher than gross margins on new cars, salespeople were generally under great pressure to close these sales. This often resulted in high-pressure (and sometimes deceptive) sales tactics. For another thing, customers purchasing used cars were often confronted with a vehicle that had a unique price, set of accessories, mileage, history of use, and maintenance record. This made it difficult for customers to evaluate the value of the car.

On the Autobytel.com service, consumers could search for a pre-owned vehicle according to specific search parameters such as the price, make, model, mileage, year, and location of the vehicle. The CyberStore would then display the description, price, location and digital photographs of all vehicles that satisfied the search parameters. Autobytel visitors were also given easy access to Kelley Blue Book reports to help them ascertain a used vehicle’s trade-in value. The consumer could then complete a purchase request for a specific vehicle, at which point they would be contacted by the dealer to complete the sale.

To be included in the CyberStore database, dealers had to agree to submit each car to a 135-point Dealer Certification program. The dealers also had to agree to a 72-hour, 100% money-back return policy, as well as a three-month, 3,000-mile warranty. Dealers could update their used-car inventory using Autobytel.com's computerized DRT system (described below).

By mid-1999, Autobytel.com had about 600 Certified Pre-Owned CyberStore dealers, each of whom had paid an additional \$750 to \$1,000 per month (depending on the size of their inventory) to include their used car inventory in the database. The site was generating over 2 million searches per month. Approximately 10% of Autobytel.com's purchase requests were for used vehicles, and CyberStore subscription fees were accounting for slightly more than 10% of total program fees.

Autobytel soon added an additional feature to the site, which gave customers the ability to list and sell their own used vehicles directly from the site. Powered by Classifieds 2000—the Web's largest classifieds listings—the new For-Sale-By-Owner section represented Autobytel's first entry into the consumer-to-consumer car sales market.

Financing and Insurance

In 1999, about 75% of automotive transactions involved financing of some sort, and gross profit from F&I sales equaled between 13% and 15% of gross profit from vehicle sales.¹⁵

Autobytel.com offered financing through the Auto-By-Tel Acceptance Corporation (ABTAC), which had strategic alliances with Chase Manhattan Bank, GE Capital Auto Financial Services, Inc., and other lenders. The site also offered auto insurance in partnership with InsurQuote, which gave buyers the ability to compare rates from insurers in real-time. For channeling business to its strategic partners in the form of car buyers looking to lease, finance, and/or insure the purchase, Autobytel.com received an origination fee ranging from \$50 to \$125 on each deal. So far, only a small percentage (less than 5%) of consumers who requested car quotes were also asking for loans. Nonetheless, the company was optimistic that these transaction fees represented a growing part of the company's revenue stream. In fact, by mid-1999, transaction fees from Autobytel's value-added services represented 11% of its total revenues.¹⁶ This was up from just 2% in mid-1998.

Loyalty Program

In 1998, Autobytel launched a loyalty program—the Mobalist Rewards Program (www.mobalist.com). Under this program, customers could earn unlimited rewards to be used as a rebate toward the purchase of their next car through Autobytel. Rewards could be earned two ways. First, by spending with Mobalist Rewards Partners (which included barnesandnoble.com, [Virtual Vineyards](http://VirtualVineyards.com), and 1-800-Flowers.com), consumers could earn up to 20% of the value of their purchases in Mobalist Rewards. Second, by signing up for the Mobalist Rewards Visa card (issued by First USA), customers could earn a 1% Rewards rebate on every purchase made with the card.

By mid-1999, however, just 0.5% of all customers who submitted purchase requests were signing up for the Mobalist program.

¹⁵ This represented a significant increase from 1980, when F&I gross profit was equivalent to just 5.1% of vehicle gross profits. (Source: NADA.)

¹⁶ This includes revenues generated from international ventures.

The Competition

Autobytel faced fierce competition from a number of sources, including other online buying services, manufacturer websites, and local dealer websites. In 1998, the combined referrals from all of these websites resulted in 800,000 actual car sales, or about \$18 billion in revenue.¹⁷ Of all purchase requests made during that same year, 94% came from car buying services, 4% came from manufacturer sites, and 2% came from dealer sites. In addition, more than 28% of all dealerships were using online buying services by 1999—nearly triple the percentage in 1998.¹⁸

AutoVantage

AutoVantage was part of the software division of Cendant, one of the largest membership, travel, and real estate service companies in the world. Cendant provided access to auto, travel, shopping, insurance, and other services, primarily through direct marketing to customers of its affinity partners. It had a membership base of more than 2 million, which it leveraged to negotiate deep discounts from dealerships, travel, and other service companies.

Unlike Autobytel.com, AutoVantage worked with many dealers in a given area, so it claimed to offer a more competitive price. In addition, it was one of the few online services that e-mailed customers the dealer price before they spoke to the dealer, so customers knew what to expect. The AutoVantage website offered new-car purchasing, 24-hour Emergency Roadside Assistance, Car Care Services, Care Rentals, and Hotel Reservations. However, some of these services were available only to registered members, who paid \$40–\$80 annually for additional discounts on a variety of offerings.

By 1999, AutoVantage had a dealership base of 1,600 dealers, which it had acquired using a telesales operation. This same telesales organization was used to ensure dealer quality. AutoVantage sent over 35,000 referrals to its dealers a month.¹⁹

Microsoft's CarPoint

Originally, Microsoft's CarPoint had simply been an information service with a link to Autobytel.com. In 1997, however, CarPoint had dropped its partnership with Autobytel in favor of a deal with Reynolds and Reynolds (R&R). R&R was an information management company that provided behind-the-scenes support (e.g., information management, marketing programs, etc.) to automotive dealerships. Some 90% of automotive retailers in North America used R&R's wide range of automotive division services to cut costs and keep track of customers.

CarPoint was primarily a content and transaction site with R&R controlling most of the interaction with the dealers, including selling, training, and support. R&R used its 550-person sales force to sign up dealers for CarPoint's network in exchange for 30% of the revenues from dealer subscription fees. While this deal limited CarPoint's direct control over the selling process and dealer network, it also enabled CarPoint to enlist dealers rapidly and directly link up (using R&R's expertise in inventory systems) to dealers' information systems.

¹⁷ Forrester Research.

¹⁸ J.D. Power & Associates, 1999 Dealer Satisfaction with Online Buying Services Study.

¹⁹ AutoVantage website.

By 1999, CarPoint had a dealership base of over 2,400 dealers; it sent about 110,000 referrals to its dealers a month.²⁰

Autoweb

Closely compared with Autobytel (the two companies had their IPOs during the same week in March 1999), the Autoweb system was similar to Autobytel's: Prospective new- or used-car buyers could outline the details of their dream cars, submit a purchase request, and were contacted within 24 hours by nearby car dealers who had registered with the Autoweb service. The site also featured links to related services such as finance and insurance.

By 1999, about 4,900 dealers across the United States and Canada had registered with the service, giving Autoweb the largest dealership base of all the online car-buying services. Like AutoVantage and CarPoint (and unlike Autobytel), the company signed up multiple dealers within a given geographic territory.

Rather than a monthly fee, the company charged dealers \$29 per customer referral plus a \$500 to \$1,000 annual membership charge. Seventy percent of its revenues come from dealer sales, with the remaining coming from nondealer sources, such as financing, insurance, accessories, and consumer-to-consumer ads.

AutoConnect

AutoConnect was owned by Manheim Auctions, a subsidiary of media giant Cox Enterprises, and the Dealer Services Group of Automatic Data Processing (ADP). Manheim and ADP provided a variety of products and services to more than 90% of U.S. automotive dealers.

AutoConnect billed itself as the number-one used car site on the Internet, with more than 900,000 vehicles and 33,000 dealers, updated daily. The company also offered new-car purchasing services through a partnership with Priceline.com. Under the Priceline system, customers could tell the company what car they wanted, how far they'd be willing to travel to pick it up, and how much they'd be willing to pay. Within 24 hours, the company would let the customer know if they had been able to find a dealer willing to agree with the price.

Cars.com

A division of Classified Ventures, Cars.com drew traffic from links with 130 newspapers across the country. Much of the content on the site was provided by newspapers published by various news organizations, including Gannett, Knight-Ridder, McClatchy, The New York Times Co., The Times Mirror Co., Tribune Co., and The Washington Post Co.

To sell a car on Cars.com, a seller first had to buy a classified advertisement from the Cars.com affiliate newspaper in their area. Despite this rather unorthodox business model, Cars.com had risen from obscurity to become one of the top four automotive buying sites on the Web.²¹ This was partly due to an 18-month, \$26 million advertising campaign that accompanied its launch in July of 1998, and its original \$75,000 purchase of the Internet domain name "cars.com" in 1997.

²⁰ CarPoint website.

²¹ Media Metrix.

CarsDirect.com

CarsDirect.com was the most recent, high-profile entrant into the online car-buying market. The company was the brainchild of Idealab founder Bill Gross and was launched in a test phase in December 1998. Backed by a \$30 million investment from Dell Computer founder Michael Dell and several large venture capital funds, CarsDirect.com differed from other online car-buying services in that it *guaranteed* consumers a low price. By displaying this price online, customers did not have to wait for a call from a dealer to find out the cost of the car. (The CarsDirect price was based on a national database of average selling prices.)

Once a customer decided to order a car, the customer was required to put down a credit-card deposit of \$250 to start the ordering process. The company then worked through its dealer network to get the car at the guaranteed price. If the company was unable to get the price, its CEO Scott Painter claimed the company would “eat the difference.” By mid-1999, CarsDirect was subsidizing cars by as much as \$200 in many cases.²²

The company also aimed to eliminate the need for customers to travel to the dealer to sign papers and pick up their cars by requiring that all paperwork be delivered via FedEx, and all cars be delivered directly to customers. The site sold \$20 million of cars (about 1,500 cars) through its test site from December to May. In June 1999, the number of cars sold through the site jumped to 600. The company was still in the early stages of setting up a dealer network, however.

Manufacturer and Dealer Sites

All major vehicle manufacturers had their own websites and many had recently launched or announced plans to launch online buying services, such as General Motors Corporation’s BuyPower. State franchise laws prohibited manufacturers from selling cars directly to consumers or from steering consumers to a particular dealer, but many major manufacturers were apparently exploring ways around these laws.

For Benvenuto, these manufacturer initiatives did not pose a great concern:

Customers may go to manufacturer sites to get certain facts and figures, but they also know that manufacturers are going to skew the figures because they’re trying to get them to buy their cars. When those customers are actually ready to buy, we’re confident they’ll come to us because they trust us, and because we offer *any* make or model. It’s an aggregator model. This is our key advantage and it will always be an advantage.

A growing number of local dealers also had their own sites; however, these tended to be poorly visited and poorly maintained.

One exception was AutoNation, the largest auto retailer in the country. In the first half of 1999, the company had sold over 15,000 vehicles through its many dealer websites, generating over \$350 million in revenue. The company had plans to launch a new website—AutoNationDirect.com—in a few months, replacing about 270 local AutoNation dealer websites. It promised to offer no-haggle prices and “Internet sales guides” on the new website, who would made themselves available to shoppers seven days a week in chat rooms, via e-mail, and by telephone. It projected \$750 million in Internet sales in 1999, and \$3 billion in Internet sales by 2001 (about 10% of its projected \$30 billion in

²² *Business 2.0*, “Tire Clickers: CarsDirect.com’s One-stop Buying and Delivery Service Promises to Take the Agony Out of Buying a Car,” September 1999.

revenue). The company could not be underestimated; by 1999 it already sold more than 1% of all cars sold in the United States—a share that had never been achieved by a single retailer before.

Among most local dealers, however, there was still substantial disagreement regarding how popular Internet services were destined to become. By 1999 estimates, customers seemed far more willing to *shop* for a car online than actually *buy* a car online. That is, while about 40% of all new car purchases in the first quarter of 1999 were researched online, some analysts estimated that fewer than 3% of all new cars sold were purchased using an online service.²³ As one dealer put it:

Some people want a price from me, but when push comes to shove, they just won't buy the car. They're afraid to buy the car this way. They're on the phone, they've never seen me, and it's just really hard to get them to commit.

—Mark Stoddard, car salesperson²⁴

And while some industry experts predicted that the number of consumers purchasing a car online would grow to over 50% by 2003,²⁵ many dealers still complained that consumers used the online service quote as a starting point to try to negotiate a better price with a different dealership.

Another problem: Many customers still felt the need to “shop around,” in part to sit behind the wheel, to feel the leather, and take a test drive. According to one survey, just 10% of car buyers were willing to buy a vehicle on the Internet without a test drive.²⁶ For this reason, Autobytel and other online services openly encouraged customers to visit dealerships to test-drive cars and decide upon their preferred vehicle *before* submitting a purchase request.

In addition, there were differences among the online car-buying services with respect to the quality of the purchase requests. High-quality purchase requests were those that resulted in high closing ratios.²⁷ In this category, Autobytel firmly believed it led the competition—a belief backed by salespeople:

You're always going to get bogus purchase requests, people who put in fake e-mail addresses or fake phone numbers. But to say that Autobytel.com compares favorably to the other services is an understatement. We have Autobytel.com and we have AutoVantage, which we just fired last week. I delivered 26 cars last month—17 were from Autobytel.com and three were from AutoVantage.

—Eric Page, car salesperson

Autobytel.com estimated that about 20% to 30% of the purchase requests the company received ended up as sales—a number most industry analysts agreed was higher than that of its competitors.²⁸ **Exhibit 7** compares the performance of Autobytel and AutoVantage at a dealership that subscribes to both services.

²³ J.D. Power & Associates survey, July 1999, based on telephone interviews with 2,500 consumers who bought new cars in January or February 1999.

²⁴ Mark Stoddard was a car salesperson at the Lawless Chrysler Plymouth Jeep dealership in Woburn, Mass.

²⁵ Forrester Research.

²⁶ Dohring Company survey, 1998.

²⁷ The closing ratio is the ratio of the number of vehicles purchased at a dealer generated from purchases requests, compared with the total number of purchase requests sent to the dealer

²⁸ J.D. Power & Associates.

Dealer Relations

One of the problems facing all of the online car-buying services was dealer turnover. For example, about 300 dealers terminated their affiliation with Autobytel in 1998 because they were unhappy with the system. And as many as 48% of all dealers saw Internet sites like Autobytel.com as a threat to their business.²⁹ In their eyes, Internet companies were further shrinking their profit margins by taking advantage of the poor reputation of dealers.

For this reason, Autobytel believed that its relationship with its dealer network was key to its survival. Lorimer explained:

All car-buying services on the Internet are not the same. You can't simply put a ".com" in your name and claim you've started a new kind of company that sells cars in a different way. Autobytel.com understands the car business. We have over 450 years of manufacturer and dealer experience working for us, and we are very aware that to succeed in this business, you can't merely put up a website and pass customers back into the same old system at the dealership level.³⁰

Chick Ramsey, VP of Dealer Development and Manufacturer Relations, agreed: "We've really got two customers. We've got the retail customer and we also have the dealers. Now obviously, you're not going to please every single dealer, but we pride ourselves on dealer relations and I think we are identified as having the best dealer support out there."

By the summer of 1999, Autobytel.com had almost 3,000 Accredited Dealers in its North American network, representing every major domestic and imported make of vehicle and light truck. It had dealers in all of the major metropolitan areas, and a major part of its marketing and sales expenses were devoted to signing up new dealers and providing ongoing training and support.

To increase each dealer's incentive to participate in the Autobytel.com system, the company allocated each dealer an exclusive geographic territory based upon specific vehicle make. The territory allocated by Autobytel.com to the dealer was generally larger than the territory assigned to the dealer by the manufacturer. By granting dealers this exclusivity within a geographic area, the company tried to assure dealers of a large enough volume of quality purchase requests to lower their operating costs.

To become an Accredited Autobytel.com dealer, a dealership had to sign an agreement that obligated the dealer to provide prompt responses to customers, no-haggle pricing, and full disclosure regarding vehicle availability, add-ons, and related matters. The dealer also had to meet a variety of criteria that included customer satisfaction metrics and sufficient inventory.

After passing this pre-qualification round, dealers had to go through extensive training. Part of this training included a mandatory, two-day, face-to-face session at Autobytel University (ABTU), during which they were instructed on what to expect from their customers, how to manage the business process, and how to close with the Autobytel.com customer. ABTU also conducted 14 regional sessions per month to train all new Autobytel Managers and to update current managers on cutting-edge technical developments. Benvenuto explained:

No one has the training and the university that we do that essentially teaches the dealer how to interact properly with the customer, how to close the deal. The old way was the high-

²⁹ NADA, 1997.

³⁰ *Business Wire*, "Autobytel.com Dispels Top-Five Myths of Online Car-Buying Sites," May 6, 1999.

pressure sale, but we teach them how to talk to a more informed customer. Because Autobytel.com puts consumers in control of the process, they're armed with all the key information. So when a dealer is approached, he needs to know, how do I talk to that consumer? That consumer knows my price for the car. How do I nurture that and respect that informed consumer?

From the dealer's perspective:

It's definitely a different type of sell. You don't get to meet your customer and try to establish a rapport face-to-face. Instead, you're on the phone, everything's very quick. These customers don't have time to go dealer to dealer. They want to get it done just like that. We're still learning how to talk to these customers, and that's why our closing ratios aren't as high as I'd like them to be.

— Eric Page, car salesperson

Interestingly, Autobytel dealers were not precluded from signing up for other online car-buying services. In fact, many of them not only had multiple affiliations with a number of Autobytel competitors, but they used the techniques learned from Autobytel.com training to close sales from competitors' referrals.

During the visit to ABTU, dealers were also trained in Autobytel.com's DRT (Dealer Real-Time) system, a proprietary, web-based technology that the company introduced in 1997 to connect its dealers directly into its database and customer management systems. Before the introduction of the DRT, most communication with dealers had been carried out via fax, telephone, and email.

The DRT system provided an extensive contact management system that allowed the dealer to maintain a history of interaction with the consumer. Dealers could instantaneously access a consumer's vehicle purchase request as soon as the consumer submitted it online, track all interaction with the consumer, send e-mail to consumers using a variety of predetermined templates, and schedule follow-up calls. And with its enhanced reporting capabilities, DRT allowed the dealer to see not only how his/her department was performing within the dealership, but also how that department compared with other dealerships. Autobytel's customer service and dealer support departments also had the capacity to independently monitor each Purchase Request that entered the system to ensure optimal response efficiency. Finally, the DRT enabled easy inventory upgrades for dealers participating in the CyberStore.

Perhaps most important, Autobytel dealers were *required* to establish an Autobytel Department where an Autobytel manager, not a traditional salesperson, worked with Autobytel customers. These salespeople earned a flat salary plus a bonus (generally \$50-\$100) for every car sold. The average Autobytel.com-trained salesperson sold 15-30 vehicles per month. **Exhibit 8** compares the performance of the Autobytel Department with the traditional new cars department in two typical dealerships.

In late 1998, Autobytel.com announced the roll-out of localized field representation in the form of 25 District Managers (DMs) who acted as liaisons between dealers and Autobytel.com. These DMs not only gave Autobytel.com first-hand insight into the challenges facing car dealers in their local markets, but also assisted dealers in effectively using the Autobytel program. As Chick Ramsey, VP of Dealer Development and Manufacturer Relations, described:

In the early days, we had problems that I believe stemmed from lack of field support. Communication wasn't always the strongest. Now that we have the field support and our people can be visually face-to-face to a dealer, that has helped us tremendously. For example,

we've been rolling out an all-new contract with dealers, realigning territories and establishing new fee structures. If we hadn't had field reps out there, believe me, we would have seen a lot of complaints coming back to us. Instead, our folks have done a great job of explaining things to dealers, and the dealers have come back to us and told us how much they appreciate this.

Among their other tasks, the district managers were assigned the job of monitoring the performance of subscribing dealers through ongoing customer surveys and internal research. Generally, within 10 days after a consumer submitted a purchase request through the website, Autobytel would contact the consumer by e-mail, requesting completion of a quality assurance survey that allowed it to evaluate the sales process at participating dealers. Dealerships that failed to abide by Autobytel's program policies or who received repeated consumer complaints were reviewed and, if appropriate, terminated. Lorimer notes that in 1998, the company dropped 250 dealers (nearly 10% of its dealer base) because of poor customer service.

As a result of these efforts, most dealers viewed Autobytel.com as the best of the online buying services. For two years running (1998 and 1999), J.D. Power & Associates rated Autobytel.com number one in Dealer Satisfaction among online buying services.³¹ The J.D. Power survey was based on five key measures: sales effectiveness (43%), dealer support (24%), technology of website (21%), cost (6%), and contract terms (6%). Furthermore, according to the survey, Autobytel.com generated nearly as many new-vehicle sales as its two closest competitors combined.

The Marketing Mix

Autobytel also led the competition in terms of branding. It not only ranked first in automotive e-commerce brand awareness by mid-1999, but it ranked as the 7th most recognized e-commerce brand in the United States (behind such Internet powerhouses as Amazon.com, eBay, E-Trade, Priceline.com, and CDNow).³²

Much of this was the result of a maverick sales and marketing campaign that was heavily geared toward building brand awareness and driving traffic to the website. For example, at a time when few Internet companies were seeking such contracts, in the mid-1990s Autobytel worked hard to cut deals—many of them exclusive—with portals such as Yahoo!, Excite, Infoseek, Netscape, and Lycos. In addition, the Autobytel.com engine was used by automotive information services such as Edmunds.com, Kelley Blue Book, and IntelliChoice.com. In the second quarter of 1999 alone, the company spent a total of \$3.7 million on Internet marketing and advertising.

The company's single largest referral service was Edmund's, which accounted for 49% of Autobytel's purchase requests in 1997. By the first quarter of 1999, this percentage was down to below 25%, while one-third of Autobytel's traffic was coming directly through the URL, another indication of the growing strength of the Autobytel brand.

Unlike many Internet companies, however, Autobytel also believed strongly in traditional advertising. Initially, the company advertised in computer and hobbyist publications, as well as major automotive magazines. By late 1996, it began to broaden its marketing efforts with cable television ads featured on CNN and CNET and with network television ads featured on NBC and MSNBC.

³¹ J.D. Power & Associates.

³² Opinion Research Corporation, June 1999 survey.

The biggest non-Internet marketing push occurred in the spring of 1997 when Autobytel became the first Internet company to advertise during the Super Bowl. The \$1.3 million advertisement was ridiculously extravagant for a company with 1996 sales of just \$5 million and no operating profit. But according to Benvenuto, the decision to buy the spot was an easy one to make: “The Super Bowl promotion was not about that 30-second spot. The publicity surrounding the event was incredible. It was really a promotion spread out over three months. We got months of play out of it.”

The company repeated the promotion in 1998, this time paying \$1.5 million for the advertisement. Both times, purchase requests skyrocketed in the days following the airing of the advertisement.

In June 1998, Advertising Age announced that Autobytel had made its “Marketing 100 List,” the only Internet company so named. Other names on the list included innovative brands like Southwest Airlines and Gap Khakis.

What Next?

We’re four years old, and for the first two to three years, we were acquiring customers. Now we’re looking to reactivate them. We’re looking to migrate and upsell them. In two years, we need to represent everything—and I mean everything—with regards to automotive.

— Anne Benvenuto

By mid-1999, Autobytel had launched a number of new products and services. Most recently, the company had opened Service.Autobytel.com, its first foray into the \$64 billion Service & Parts (S&P) market. On this new service, customers had access to competitively priced Autobytel.com-Accredited Service Centers and could schedule service and maintenance appointments online. In addition, the service would “garage” a car-owner’s vehicles, provide service reminders, issue recall information, and even provide a Lease Watch that kept track of mileage on a leased vehicle. It also provided links to pertinent automotive sites, a service message board for consumers to interact on service issues, and an “Ask the Expert” section that offered answers to frequently asked service and maintenance questions. Participating service centers had to commit to the same rigorous standards that Autobytel.com required of its dealers, including a 24-hour response, competitive pricing, and a no-haggle experience.

Of course, it was too early to tell whether customers would embrace an online intermediary in this market segment. In addition, the S&P department in most dealerships was completely separate from the sales department, and it was unclear how the people in these departments would respond to the Autobytel intrusion.

Another potentially lucrative market was wholesale auctioning. In 1999, over 30 million used vehicles were sold by dealers, and used-car sales contributed over five times the net profit of new-car sales. Between one-third and one-half of these vehicles came from wholesale auctions, where dealers, manufacturers, and fleet companies would buy and sell cars from each other on an open market. This wholesale auction system was extremely inefficient. For example, the average pre-owned vehicle was redistributed two to three times before reaching retail at an average redistribution cost of over \$2,000.

Using the new Wholesale.Autobytel.com website, dealers could place online bids for pre-owned vehicles directly to the wholesaler. The multi-tiered auction included real-time bidding between dealers, fleet/rental companies, and manufacturers. Six hundred dealers had signed up for the auction system so far, but it remained to be seen whether dealers would welcome this radically new method of buying and selling wholesale cars. Certainly, Autobytel had its local field reps in place to help “sell” both of its new programs, but it was unclear how much of their time these reps should be

spending on the new initiatives, given that their primary imperative was to ensure dealer loyalty and quality.

Despite these uncertainties, one thing was clear: The company was totally committed to expanding its business model beyond the simple car-purchasing referral model. And given these new product and service initiatives, Benvenuto knew that a new positioning statement was absolutely imperative. The old positioning had emphasized price, convenience, and a “no-haggle” car purchase, but given the competition, this old “specialty” position was now in danger of becoming a commodity:

Early on, our positioning emphasized the key rational benefits of our service. But now every car-buying service is saying the same thing: low-cost, no-haggle, no-hassle. So what we did was move to an interim positioning statement, which emphasized the concept of change. The idea here was, “We’re changing the way America buys cars.” That was a good transitional or intermediate type of positioning, but now it’s time to move on. Change is already old news.

Benvenuto also knew she had to figure out what type of marketing mix should surround the new positioning statement. For example, was a combination of traditional advertising and Internet marketing still appropriate? Benvenuto knew that Autobytel had a huge customer database, consisting of demographic, purchase, and preference information culled from millions of customer queries. How could this database be leveraged?

Moreover, given the competitive environment, should the company be spending more money on advertising? If so, to whom should Autobytel be devoting the bulk of its energy? Benvenuto knew that marketing any new service required precious company resources—resources that could be directed at either getting dealers on board the Autobytel network or simply acquiring more consumers.

The importance of these decisions couldn’t be understated. Indeed, Benvenuto believed the company’s moves in the next few years were critical to its long-term success:

We were the first-mover in this market, and it was a huge advantage. In fact, we’ve always tended to invent things, whereas others tend to copy us. We lead while the other players try to catch up. We can’t stop doing that. We’ve always got to stay one step ahead of the competition. We have to keep moving at lightning speed; we have to keep reinventing ourselves to maintain this kind of leadership.

Exhibit 1 Financial Performance of Autobytel.com (\$ in thousands)

	1995	1996	1997	1998	1999-Q1	1999-Q2
Revenues	274	5,025	15,338	23,826	8,032	9,203
Gross Profit	274	5,025	15,338	23,826	8,032	9,203
Operating expenses						
Sales & marketing	930	7,790	21,454	30,033	9,957	11,027
Product & technical development	99	1,753	5,448	8,528	2,366	3,216
General & administrative	275	1,641	5,851	5,908	1,817	2,052
Total operating expenses	1,304	11,184	32,753	44,469	14,140	16,295
Operating income	(1,030)	(6,159)	(17,415)	(20,643)	(6,108)	(7,092)
Net income	(1,030)	(6,035)	(16,810)	(19,398)	(6,141)	(5,984)

Source: Company records.

Exhibit 2 Share of Total Dealership Sales/Profit Dollars, by Department, 1985 and 1998

	1985	1997
Share of sales		
New cars	67%	60%
Used cars	20%	29%
Service & parts	13%	12%
Share of profits		
New cars	78%	13%
Used cars	7%	27%
Service & parts	15%	60%

Source: NADA.

Exhibit 3 Average Dealer Financial Profile, 1991 and 1997
(\$ in thousands)

	1991	1997
Total dealership sales	\$12,631	\$22,407
Total dealership gross	1,780	2,860
Total dealership expense	1,654	2,554
Net pretax profit	125	306

Source: NADA.

Exhibit 4 Typical Dealer Expenses (\$ in thousands)

Category:	Expense	% of Total Expense	% of Sales
Payroll	\$1,649	65%	7.4%
Advertising	224	9%	1%
Rent & equivalent	213	8%	1%
Floor-plan interest	103	4%	0.5%
Other	365	14%	2%
Total Expenses	\$2,554	100%	11.4%

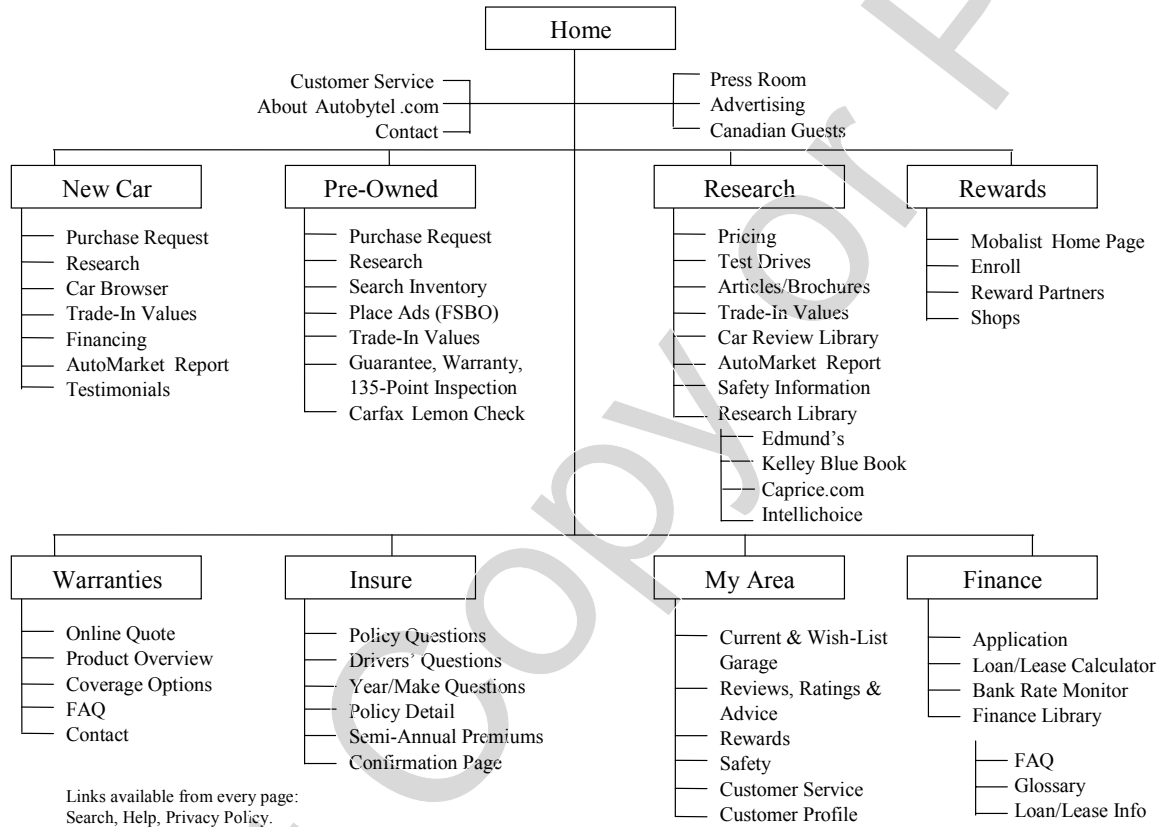
Source: NADA (1997 data).

Exhibit 5 Average Dealer Economics, per Car

	1987	1997
New car		
Average selling price	\$13,464	\$22,650
Gross profit	1,131	1,422
Net profit	231	51
Used car		
Average selling price	\$ 6,462	\$12,100
Gross profit	937	1,323
Net profit	148	274

Source: NADA.

Exhibit 6 Autobytel Products and Services (March 1999)



Source: Company records.

Exhibit 7 Typical Salesperson Performance, Autobytel versus AutoVantage

	Autobytel	AutoVantage
Referrals and follow-ups		
Purchase requests received	120	91
Phone contact achieved	116	88
Showroom visits achieved	18	3
Vehicle deliveries		
New car deliveries	14	3
New car gross margin (total)	\$10,406	\$3,264
Used car deliveries	3	0
Used car gross margin (total)	\$5,207	\$0
Total vehicles sold	17	3
Total gross margin	\$15,613	\$3,264

Source: Eric Page, car salesperson for Ron Bouchard's Honda Mitsubishi Nissan dealership. Ron Bouchard is a Fitchburg, Massachusetts dealership that uses both the Autobytel service and the AutoVantage service. Statistics are from May 1999.

Exhibit 8 Typical Autobytel Dealership Performance, November 1998

	New Car Department	Autobytel Department
A Rural Michigan Dealership		
Sales	26 vehicles	37 vehicles
Expenses	\$14,820	\$13,794
An Urban/Suburban California Mega-Dealer		
Sales	199 vehicles	43 vehicles
Expenses	\$194,622	\$15,530

Source: Autobytel.