

THE BASICS OF NEGOTIATION FREE SELLING

Overview

Customer expectations are changing at a rapid pace in every industry. Buyers are becoming more demanding in their desire to find true sales professionals who can help them make informed purchase decisions. Today's consumer is "time starved" and wants a **fast and Customer-friendly buying process**. Modern consumers are **also seeking simplified buying methods** that include transparent pricing on both products and services.

According to a recent study conducted by Alix Partners, "**Consumers no longer have the patience to sort through rebates and other incentive offers to discern the actual price they're going to pay** at the dealership versus the factory's suggested retail price. We surmise that the biggest reason for this change is the continuing influence of the Internet as an auto-shopping tool."

John Hoffecker, the study's lead author, explains that, "**The Web has officially become a full-fledged retail channel for automotive**. According to our survey, no fewer than 41 percent of auto buyers consider the Internet to be a credible source of product information, just behind 'word-of-mouth' at 49 percent. Though rebates and other incentives were once a powerful marketing tool in the auto industry, this new research shows that **auto buyers are no longer willing to settle for anything less than totally honest and consistent pricing**. In fact, 'honest' prices had the highest mean score, 4.32, among all survey questions in that category, versus a mean score of just 2.86 for 'lowest' prices."

These changes in Customer expectations put a significant strain on traditional negotiation-based selling processes. A number of dealers are now **adopting a Negotiation Free Selling (NFS) process in order to both meet Customer needs and simplify internal operations**.

A NFS sales process eliminates negotiations from every aspect of the new vehicle purchase process:

- New vehicle sales
- Pre-owned sales
- Trade-ins
- Financial Services products and services
- Accessory product sales

For a NFS store to be successful, **new and pre-owned vehicle pricing must be a core competency**. Pricing in the auto world, as in the retail world, must reflect market conditions, especially supply and demand. The **number one goal of NFS pricing is to optimize both gross profit and vehicle inventory turns through competitive, market based pricing policies**.

The thinking at an NFS store is: **Commodity + Customer Experience = Price/Value**

This formula shows that a new vehicle with the same equipment has the exact list price of a similarly equipped vehicle at another dealership. **If most Customers don't encounter a "differentiating experience" at a dealership, a low or commodity price will be paid for the vehicle.** However, if a dealership can create a highly-differentiating experience, it can attempt to earn a higher gross profit. That is why most NFS stores tend to sell their vehicles for slightly more than market gross profit averages. This is a particularly interesting phenomenon, as prospects are free to take the posted price from an NFS dealer and use it as a shopping tool at a competitor. While this does happen, it is more rare than most dealers expect. As one outstanding NFS practitioner remarked, **"When the Customer gets comfortable, the shopping stops."** Adding value to every transaction based on giving Customers more of what they want is the easiest way to slow down or eliminate same-brand shopping while at the same time raising gross profit averages.

In a traditional negotiating store, much less attention is paid to the initial price quoted to Customers. In most cases, the initial price quote is MSRP, regardless of the demand for that vehicle. The initial price quote is primarily a mechanism to solicit a counter offer from the Customer. Therefore, the pricing focus in a negotiating store rests on the lowest price the desk will take for a vehicle after several rounds of negotiations.

In an NFS store a wide **variety of factors must be taken into consideration during the vehicle pricing process.** First, all new and pre-owned vehicles available for sale have a "bottom-line" purchase price clearly shown on the vehicle. Most NFS dealerships create a "second sticker" that clearly discloses:

- MSRP
- Any incentives or rebates
- The dealership's discount
- A clearly noted "bottom-line" price net of any discounts

Another study, "The Perceived Fairness of Pricing Policies," by the David Eccles School of Business at the University of Utah, found that **it is not the price itself that determines consumer satisfaction but rather the process of arriving at that price.** In terms of Customer satisfaction, the study showed, there are two disadvantages to negotiated pricing:

1. The first disadvantage relates to **consumers' expectations of an unpleasant experience** before the purchase—even before they enter the showroom. As the authors put it, "The automobile industry may be forcing many of its Customers to do something that they would prefer to avoid."
2. The second disadvantage to negotiated pricing arises after the sale, when it is not uncommon for a buyer to conclude that, "He might have gotten a better deal. **Many new-car owners suspect that some other buyer paid less.** In a fixed-pricing system, that is not possible."

A Negotiation-Free Selling process removes these issues as problems for Customers. But the benefits of a NFS system are not only for consumers. Adopting **Negotiation-Free Selling provides dealerships a number of important advantages as well**, including:

- The ability to recruit and retain higher caliber sales consultants
- Fewer sales managers at lower cost
- Managers having more time for training the sales team
- Lower costs (less advertising expense, supervision, floor plan, etc.)
- Selling is easier on the sales staff

In essence, the focus shifts from convincing Customers they are “getting a good deal” to showing Customers “a great experience.” There is little or no pressure to “buy today.” In fact, more than half the sales in most NFS stores are to return guests (be-backs). In most consumer product sales, and especially big ticket items like automobiles, Customers want to buy from people they like and trust. That is why the NFS sales process is designed to be as Customer friendly as possible.

Because prices are posted at an NFS store, sales consultants must focus on creating a Customer experience that is so “value laden” that **most Customers will limit shopping the competition just to get the best price**. An NFS sales process must be delivered with enthusiasm and conviction; if not, Customers will leave and shop for the lowest price. That is why an NFS store must train its sales consultants to be product knowledge experts and exceptional Customer service representatives.

Most Customers of NFS dealerships also appreciate that their sales consultant is empowered to quote pricing and payments without having to “go to the desk.” Consequently, sales consultants have become in some dealerships **a single point of contact for the entire transaction, including Financial Services**. Also, sales consultants are paid flat (escalating) fees per unit sold, so a vehicle’s gross profit has no effect on the quality of the sales presentation.

It is important to note that despite the many benefits of an NFS system, getting there is a real challenge. Changing a dealership’s culture and long-embedded sales processes is tough for everybody: owners, managers, and Customer contact personnel. Dealerships considering moving to a NFS system should take their time, do their homework, and consider getting outside assistance before making such a significant organizational transition.

Vehicle Pricing

NFS dealerships take a variety of factors into account when developing their pricing:

- Days in inventory/ageing
- Color
- Equipment packages
- The amount of inventory available within the market
- Competitors pricing practices

NOTE: In a well-run NFS store **prices vary significantly, even amongst the same model line. NFS dealerships will have a few very-low-end vehicles available for sale so they can compete with other dealers who conduct deep discount advertising. However, the stores want to make sure to build in enough gross on their more popular vehicles in order to achieve overall gross profit objectives.**

Typically one person, most often the GSM, is responsible for vehicle pricing in the store. In nearly all cases, the GSM will get significant input from key managers and top sales consultants. **It is important that one person owns the responsibility for pricing because there needs to be one—and only one—person with whom the store leader can meet to address gross profit and inventory turn issues.** Most dealerships have a set schedule for changing their vehicle's prices, often having short meetings every day. In most stores, the person in charge of pricing will gather a small group together and review the prices on the entire inventory of one model line (i.e. Camry). **This process typically allows dealerships to review and change their prices on each model line twice each month.** Obviously, when market conditions change (incentive programs, ad campaigns from major competitors, arrival of new inventory) NFS dealers must immediately take these conditions into account and determine whether/how much to change prices.

Marketing and Advertising

NFS retailers tend to strategically market and advertise their dealership, **targeting their best buying groups** with very clear messages. In general, the buying groups most responsive to the NFS philosophy are:

- 1. Women:** Women tend to be better prepared and have completed a significant amount of homework before entering an automobile dealership. They want to be rewarded for the homework they have done, and clear, competitive easy-to-get prices do validate their research while creating a pressure-free sales environment.
- 2. Gen Y:** Scion research has shown that this group really appreciates the Pure Price process. Gen Y'ers are no-nonsense buyers who use the Internet to buy many of their goods and services. So they are accustomed to seeing "final pricing" on the products they buy. Plus, lengthy negotiations don't work well with short attention spans.
- 3. Non-Researchers:** People who don't spend much time researching vehicle pricing – or don't have access to or use the internet – appreciate posted, non-negotiable pricing. This group, often made up of the working poor or recent immigrants who don't speak English well, is often where negotiating dealers make their biggest gross profits, so it stands to reason they would seek recommendations from friends and family for dealerships where they will be treated more hospitably.

Most NFS dealers spend significantly less on advertising than their typical competitors. On-going NFS advertising is designed to **reinforce the purchase decision for Customers**, with the goal of stimulating more referrals. It is also used to inform Customers who are new to the market, or in the market to buy a vehicle, how the dealership transacts business. **The most common ad messages used by NFS dealers are Customer testimonials.**

Rarely do NFS dealers advertise major "sale" events. When they do, it is most often for a specific and legitimate reason. Some of those reasons are:

- An inventory overstock situation
- An annual event
- An anniversary sale
- A product advantage – more selection than the competition

Other than display or agate ads for pre-owned vehicles, **most NFS dealers never use newspapers as their primary advertising medium** because:

- It takes long copy to explain the NFS process and benefits, and most consumers won't read long newspaper copy when shopping for a vehicle
- If the ads don't explain the NFS concept well, there is no differentiation between an NFS store and a traditional dealership

The most effective promotional method for any retailer is "word of mouth." NFS Customers tend to be highly delighted with the "haggle-free" process and can't wait to tell their friends and neighbors about how they purchased their new, CPO, or pre-owned vehicle.

There are two basic marketing and advertising phases to NFS:

- Launching the concept to the public
- Maintaining the concept with the public and owner base

In most cases marketing messages will be somewhat aggressive; **it is important to draw comparisons to the traditional method of auto selling versus the new way. Most successful NFS stores create a brand name for their NFS process** and build their brand around a number of core attributes:

- Non-commissioned sales consultants
- No hassle, no haggle sales process
- Ease of doing business
- Speed of doing business
- All prices deeply discounted and clearly marked

Financial Services

The Financial Services process in a NFS store is also negotiation free. The overall Financial Services process is designed to be time-efficient and fair to all Customers.

When you eliminate the opportunity for price variability (negotiation), sales consultants **must make a stronger, more value-oriented sales presentation.** The same requirement applies in the Financial Services office. A **successful NFS Finance Manager must have highly developed and effective selling skills.** This type of Customer-focused selling ensures that buyers clearly understand the benefits they are receiving in their financial products and services.

As in NFS vehicle sales, the NFS financial services process delivers:

- No undue sales pressure
- Full disclosure
- A relatively fast purchase and document processing experience
- The elimination of negotiations which leave Customers wondering “if they really received a fair deal”
- Significantly above-average Customer satisfaction ratings

There are three basic selling models in Negotiation-Free Financial Services:

- 1. Dedicated Financial Services Managers.** In this model, similar to a negotiating dealership, Financial Services is a separate department/ profit center manned by dedicated sales professionals. This is by far the most prevalent sales model.
- 2. Team Leaders.** In this model, the NFS stores have sales Team Leaders, who will typically manage 4-6 sales consultants. The Team Leaders act as both sales managers and as Financial Services Managers. This model is highly efficient in its use of manpower as it eliminates an entire layer of management (dedicated Financial Services department).
- 3. Single Point of Contact.** The third model is a “single point of contact” where the NFS sales consultant takes control of the entire transaction, including the Financial Services sale. Dealerships using the single point of contact model either use the entire sales force in the role of Financial Services Manager or a select group of sales consultants. In this model, there is typically a specialist involved who gets “deals bought” through the lending agencies.

Customer Rating Process in Negotiation-Free Financial Services

Consistency in rate administration is critical to the integrity of the NFS philosophy. **NFS retailers eliminate negotiations from the finance process by employing a pre-determined rate spread for each tier**, for example:

- “A” = .5% over buy rate
- “B” = 1% over buy rate
- “C” = 1.5% over buy rate
- “D” = 2% over buy rate

Charge-backs in Negotiation-Free Financial Services

NFS dealers rarely experience charge-backs beyond repossessions and early payoffs. NFS processes typically generate improved Finance Department income statement dollar retention (88% - 92%) because **Customers are less inclined to shop the finance deal after leaving the store**, which in turn means:

- Fewer charge-backs
- Less of a need for the dealerships to participate in “split rate” programs (75% dealer – 25% lender)

Menus are used for Customer after-sale presentations in all three models.

Because all forms of negotiation are eliminated in the NFS approach to Financial Services, Customers typically experience a faster, more transparent process, resulting in higher sales satisfaction scores.

Sales Management

Sales management in an NFS store is quite different from a traditional negotiating dealership. **In a traditional store, sales managers tend to focus on deal management.** First, they **focus on trying to close customers on their first visit to the dealership.** And second, they focus on structuring deals to optimize total gross profit while still creating an affordable purchase for the Customer.

In an NFS store, sales managers focus on two things: developing their sales teams and managing the selling process. There is no formal deskling of deals. Therefore, the managers have the time to be “activists” on the showroom floor. They are trained to do “fly bys” – **roaming the showroom floor to greet guests and answer questions** for Customers and sales consultants. NFS sales managers also have time to **conduct daily one-on-one meetings with their sales consultants.** During these one-on-ones sales managers help their consultants plan their day and provide targeted training on pending and potential deals.

In addition to developing associates and managing the selling process, NFS managers:

- Have recruiting responsibility
- Analyze prospect and buyer behavior in order to “kaizen” the sales process
- Provide input to pricing and inventory management decisions
- Participate in the interactive trade-evaluation process (determining trade values with the Customer)
- Reinforce the NFS process for Customers who question the philosophy’s integrity
- Deal management when necessary: explaining factory programs, lease quotes, etc.
- Ensure that effective sales process measurement systems are in-place and working

Management Structure

It is also interesting to note that the management structure of a negotiating store is quite different from that of an NFS store. In most traditional stores there is one manager for every 2.3 sales consultants (counting everyone with the title of manager, including Financial Services). So, in a negotiating store, if there are 20 sales consultants, there will typically be 9 managers. Naturally these stores become “management-centric:” their primary HR goal becomes retaining management – as opposed to focusing on developing and retaining sales consultants.

In most cases this “management-centric” sales structure causes an abnormally high level of sales consultant turnover, as there isn’t enough money left – after paying all those managers – to adequately compensate sales consultants. In an NFS store the “desk” layer of management

is eliminated and Team Leaders are cross-functional, providing both sales management and Financial Services support:

Sales Consultant Recruiting

One of the biggest advantages of being an NFS dealer is **the ability to recruit higher-quality sales consultants**. In negotiating dealerships, by definition, the store is seeking sales consultants with good negotiating skills. The challenge: our society doesn't "breed" or put a high value on negotiations, so there are fewer qualified candidates available to satisfy the demands of traditional dealerships. NFS stores, on the other hand, look for potential sales consultants offering good selling and interpersonal skills, which our society produces in abundance. So **the NFS retailer will typically have the advantage of drawing from a larger talent pool**.

Another advantage NFS dealers have is they **can compensate their employees at a lower rate than negotiating dealers**. This is a function of supply and demand. In the world of the negotiating dealership there is high demand for employees with outstanding negotiating skills in both sales and management, but there is a limited supply of good negotiators. Therefore, **demand pushes up the income necessary to attract and retain outstanding negotiators**. Conversely, NFS dealers can choose from the larger pool of people of individuals offering good sales, service, and management skills and as a consequence establish lower and more stable levels of compensation.

The **typical NFS sales department experiences less than 20% sales consultant turnover during the course of a year**, versus traditional negotiating dealerships that most often have in excess of 100% turnover. This high level of sales consultant retention is primarily **based on the environment, rather than the compensation package**. There is much less stress in an NFS environment than in a negotiating store; there are also much higher levels of employee empowerment. Empowerment, reduced stress, and improved job satisfaction all have a positive impact on sales consultant retention.

There is also a **significant level of stability in the management staff of an NFS store**. It is not uncommon to see stores with virtually no management turnover. Core competencies of NFS sales management include the ability to develop personnel. Therefore, a premium is placed on management's ability to communicate, coach, and train the sales force.

Sales Compensation

Issues to take into consideration when developing a sales consultant compensation plan include:

- Ensuring the pay plan is aligned with the store's desired behaviors. Most NFS stores primarily reward *sales volume* and possibly service contracts and/or accessory sales.
- Keeping the pay plan relatively simple.
- Providing some form of base salary.

Management Compensation

Many NFS dealers use a target pay plan for management. Target pay is determined by an estimate of what the manager's job position is worth. A target pay plan then rewards specific tasks or behaviors based on the value they add to the dealership.

Management Target Pay Plan

Determine the target compensation for a job well done by:

1. Identifying and ranking the four or five most important critical tasks for a successful sales manager.
2. Deciding what percentage of overall targeted pay should be attributed to each critical task, with the total being 100%.
3. Conducting either an annual or quarterly forecast of the production goals for each critical task.
4. Paying out compensation monthly as a percent of forecast attainment.

The Rikess Group's NFS Transition Process

Stage One: Pre-launch Consultations

Negotiation Free Selling works only when senior management buys into the concept. During the pre-launch consultations the dealership's executive team we lay on the line what it will take to make the transition successfully. We'll review all the changes needed for a successful transition to Negotiation Free Selling — from attitudes to:

- Pricing
- Compensation
- Advertising
- Inventory management
- Metrics (You can't manage what you can't measure.)

Stage Two: Transition

We'll spend two intensive days with your managers to get their buy-in, align their expectations with the reality we have seen so many times, and train them in detail on their new roles. Most importantly, we'll train them to manage a successful sales process, instead of just the results. Training includes how to establish processes to:

- Price inventory
- Evaluate trades
- Manage and evaluate sales personnel
- Identify problems and improve continuously based on Customer feedback

Stage Three: Sales Training

We conduct on-site sales training only after we have built a solid foundation with executives and managers. You have established systems to support the sales behavior you desire. You have adapted your compensation plan to the new realities. Now it's time to train your sales people who will be the face of your new policy to your Customers.

Stage Four: Coaching and Follow-up

Following launch, The Rikess Group will remain at your side to provide the support you will need. Challenges will arise that will be new to you — but not to us. We'll help you settle into your new processes and your new culture until it becomes second nature. In addition to receiving continuing coaching and support, you will be eligible to participate in our renowned seminars, forums and Twenty Groups. Twenty Groups bring together retailers of similar size to share ideas and establish benchmarks within the group. It's an avenue for continuous learning for retailers and for The Rikess Group — and keeps all of us ahead of the marketplace.