

JULY 2007 WHITE PAPER

Boating INDUSTRY

[Pre-Owned] HOW TO SUCCEED IN THE BOAT MARKET

Sizing up the
\$9 billion opportunity

Your route to a pre-owned
certification program

4 Dealer Case Studies

11 Best Practices

HOW-TO TIPS FOR:

- Boat valuations •
- Quicker inventory turns •
- Internet marketing •
- Succeeding with auctions •



imagination at work



GE
Capital Solutions
Commercial Distribution Finance
Marine Division
5595 Trillium Boulevard
Hoffman Estates, IL 60192

Dear Marine Colleague,

At GE Capital Solutions, Commercial Distribution Finance (CDF), we believe that the pre-owned market is vital to the growth of the marine industry. In an effort to bring more information to our customers regarding this market, we are proud to partner with Boating Industry and sponsor this pre-owned white paper.

Your success is very important to us. We strive to provide helpful tools that can assist you in growing your dealership. We hope that this white paper will prove to be useful for you and your business, and for the entire marine industry.

If you are interested in more information regarding the pre-owned market, please visit www.ge.com/marine/preowned to find out more. If you have any questions, please contact your CDF representative at 800-255-8232 for more information.

Regards,

A handwritten signature in black ink, appearing to read 'Bruce Van Wagoner'.

Bruce Van Wagoner
President – Marine Group
GE Capital Solutions
Commercial Distribution Finance



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The pre-owned boat market, according to the 2006 NMMA Recreational Boating Abstract, represents a 1-million unit, \$9-billion segment of the marine industry. In 2006, 72 percent of all boats and nearly 74 percent of all traditional powerboats sold were pre-owned, up from 62 percent of all boats in 1999.

But it doesn't have to be this way.

Through the ideas presented in this *Boating Industry* magazine white paper, you can minimize your risk and maximize your profitability in the pre-owned market by taking advantage of the expert advice, case studies and best practices identified throughout the marine industry.

By establishing proven processes, using the proper tools and refining your approach to the core competencies needed for success, you can win back the business that is rightfully yours.

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PREVIOUS WHITE PAPERS:

>>>>>>>> SURVEY RESULTS

For the latest news and data regarding industry trends, including the pre-owned boat market, subscribe to the **Boating Industry** e-Newsletter and visit boating-industry.com.

The reality of the pre-owned boat segment

Most new boaters become owners via the pre-owned market. Few of these consumers that are “discovering boating” come in contact with a manufacturer or dealer in the process. Perhaps this needs to change.

BY
PETER HOUSEWORTH,
INFO-LINK TECHNOLOGIES



It comes as no surprise that the pre-owned boat market is becoming a focus for the marine industry. In fact, the only surprise, really, is that it has taken us this long to figure out the incredible opportunity right before our eyes.

Take a look at Exhibit 1, which depicts the total number of new and pre-owned transactions, over the last three years, for

power and sailboats 16 feet and longer in the U.S. recreational marine industry.

While the actual totals of the unit sales does fluctuate from any given year to the next, pre-owned sales tend to be less volatile than new boat sales. On a national scale, there are about 900,000 transactions that take place each year, and of that total, more than two-thirds of those sales are of pre-owned units. In all, about 70 percent are pre-owned transactions and 30 percent are new boat sales. And those pre-owned boat sales account for \$8.8 billion of the entire \$20 billion volume of the recreational market (refer to Exhibit 2).

With nearly 650,000 sales transactions per year, the pre-owned boat market is a vital component of the recreational marine industry in the United States. While sales vary based on boat type and size, there are nearly 2.5 pre-owned boats sold for every new boat sold in the United States.

While some may assert that the ready supply of alternatives to new boats does not make for a positive situation for an industry fighting for new unit sales, our research in this area suggests that the pre-owned boat market is a significant conduit into boating and is vital to the continued health of the industry. Consider: More than 75 percent of all first-time boat buyers will purchase a pre-owned boat.

In essence, the pre-owned boat segment represents a lower barrier for people to enter the market; it facilitates people sticking their big toe in the water before diving in head-first. Fortunately, many of these pre-owned buyers ultimately decide to make a commit-

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EXHIBIT 1

Of the total boat sales transactions over the last three years, more than two-thirds are pre-owned boat sales.

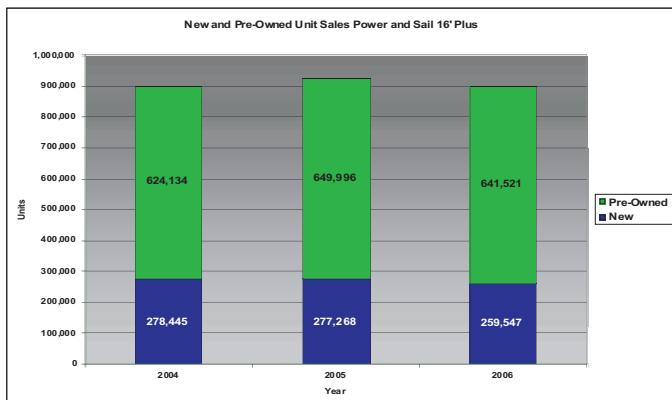
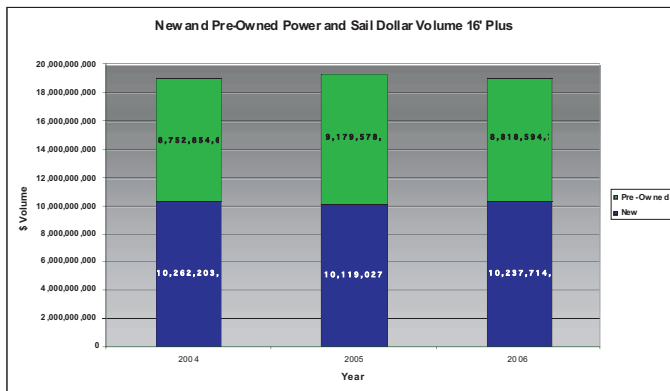


EXHIBIT 2

Pre-owned boat sales accounted for \$8.8 billion in 2006, down slightly from nearly \$9.2 billion in 2005.



CS Wanted: Pre-owned boats to sell on eBay

At the start of 2007, Duchow's Boat Center decided to take a more proactive approach to soliciting pre-owned boats to take in and sell.

The dealership scoured newspapers and online sites and made cold calls to private boat sellers and offered the dealership's brokerage services to them.

"We've had some success in getting people to come over and convert their listing," says owner Mark Duchow.

He says they might have had more success, but the demand for pre-owned boats has been high. Private sellers have been hesitant to list their boats with dealers because some of them have been able to sell the boats on their own. Still, Duchow says the dealership has been able to bring in pre-owned boats.

Because of the high demand for those boats, the Pewaukee, Wis.-based dealership began to proactively seek them out. With the hot pre-owned boat market, popular family style runabout boats usually were sold in three or four days. In a typical market, Duchow says those boats sell in about two weeks.

"The used boat market has really done well and it has done well in all sectors," Duchow says. "We can't keep any used boats in inventory and we haven't been able to for six months. Everything we get in stock is virtually gone. It doesn't matter if it's a \$2,500 boat or a \$25,000 boat."

Duchow's also tried new ways to sell pre-owned boats on the Internet. While boats are listed on the dealership's Web site, Duchow decided to setup a store on eBay. On the popular site, Duchow's Boat Center listed parts, accessories and pre-owned and non-current new boats.

"It's proved to be another excellent conduit for us to move product through the pipe," Duchow says. "We've been very pleased with the eBay results that we've had on pre-owned boats, too, this year."

Originally, Duchow's just set up an eBay store but quickly found out a better way to list parts, accessories and boats. Duchow says that people understand how to use eBay but aren't as versed in accessing an eBay store. He says most people on eBay search the site by keywords, so they included the keywords "Duchow" and "Duchows" in their listings. They then conducted two eBay sales and advertised the sale in newspapers and on the radio. The advertisements instructed people to go to eBay and enter the keywords. Each listing included information and pictures of the boats and products.

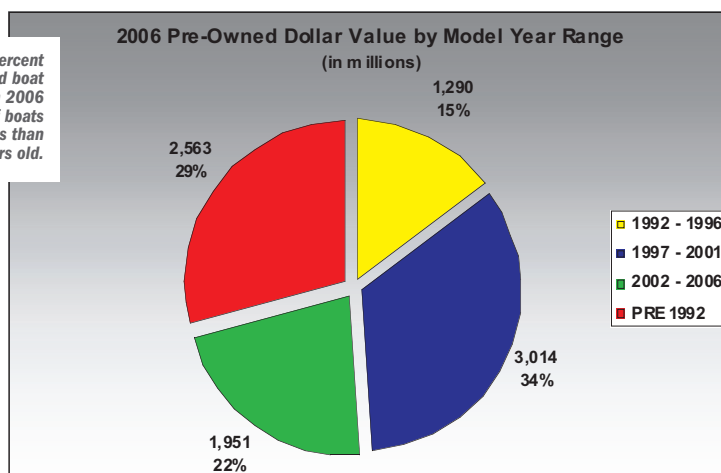
"It actually worked better to do it that way than it did to have them go to the Duchow's Boat Center store because that just involves an extra step," Duchow says.

After listing products on eBay and advertising the sales, the dealership received several calls about the boats. After viewing the boats on eBay, some people visited the dealership to inspect the boats in person. Others called and got further information about the boats over the phone and then purchased the boats online without ever looking at them.

"People spotted the boat they really liked and then they contacted us and asked all the ques-

EXHIBIT 3

More than 55 percent of the pre-owned boat market value in 2006 was made up of boats that were less than 10 years old.



The reality of the pre-owned boat segment continued from page 4

ment to boating by purchasing their next boat new.

This is supported by our research that shows that about one-half of all new boat buyers who previously owned a boat purchased their prior boat pre-owned. As stated earlier, the pre-owned market appears to be less volatile than new boat sales. As we often say, it is a highly efficient market given that nearly every boat out there is for sale, for a price.

The opportunity

The majority of pre-owned transactions are the so-called "drive-way sales" with ownership passing directly between buyer and seller with no intermediary. Many marine dealers participate in the pre-owned market to a degree, but primarily to facilitate a new boat transaction.

The question is: How beneficial would it be to the industry and to consumers if a larger portion of these sales were captured by marine businesses? Clearly there would be an advantage to first-time boaters who may not know what to look for in a pre-owned boat. From the industry's perspective, it might be an opportunity to gain life-long customers who are otherwise treading unknown waters.

The auto industry, structurally speaking, is similar to the recreational marine industry in terms of manufacturer/independent dealer relationships with the primary delivery of customer service occurring at the dealer level. Over the last 10 to 15 years the auto industry has come to identify three distinct markets: new, used and certified pre-owned. Certified pre-owned programs are now relatively common in the auto industry after being pioneered by the higher-end manufacturers such as Lexus, Mercedes and BMW. To some extent, the creation of the certified pre-owned market was driven by a supply side imbalance; namely the volume of vehicles coming off of leases.

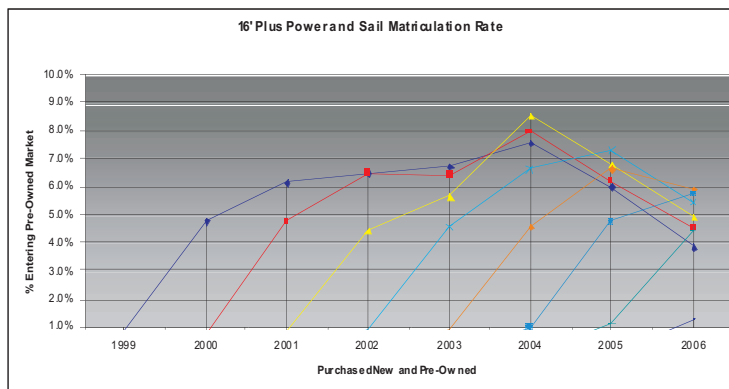
In this respect, the automotive industry successfully created an outlet for this supply by addressing consumer desire to pur-



tions and figured out where we were and how they had to pick it up and all those different things," Duchow says.

Despite selling boats to customers who never saw the boats in person, the new venture proved to be problem free. "We did not run into a single situation where a person bought a boat [on eBay] and then changed their mind and didn't buy it," Duchow says. "It never happened. I think that's really because people who use eBay respect what it is and they want to continue to use eBay."

In the end, using eBay to list boats and other accessories proved to be a successful venture for Duchow's Boat Center. It's something the dealership continues to use and will in the future. "The return on investment was very high," Duchow says. "We've geared a lot of our marketing now toward selling something online — offering special incentives to online purchasers and different things. Going to eBay with all of the boats was just an evolution that we've gone through. We wanted to test it to see how it worked, and it turned out it worked great." **X — By Eric Skogman**

EXHIBIT 4

The matriculation rate, or rate at which first-owner boats enter the pre-owned market, shows that 42 percent of all new boats will be sold (for the first time) within seven years.

The reality of the pre-owned boat segment continued from page 5

chase a "like new" car, with a new car peace of mind — at a lower price. It also allowed the brands offering such programs to extend their exposure to consumers who might not have considered purchasing their products based on the perception that they were too expensive.

While the traditional used car market still exists, a new car dealership is unlikely to seek a 1972 Buick Skylark to display on its lot. Likewise, it is unlikely that every pre-owned boat offers potential business to a boat dealership. In order to look more in-depth at the portion of the pre-owned market that may be of interest in the marine industry, we looked at the age distribution of pre-owned boat sales during 2006 and a longer trend of the rate at which new boats find their way into the pre-owned market.

Exhibit 3 illustrates the age of the vessels that traded in the pre-owned market during 2006.

Clearly, boat age plays a role in the value and desirability to consumers and therefore profit potential in the market place. Of the total \$8.8 billion in pre-owned sales that occurred in 2006, more than 55 percent of the market value consisted of boats that were less than 10 years old.

Looking at this from a different perspective, of the boats purchased new in a given year, about 1 percent enter the pre-owned market within one year. That figure rises steadily and predictably to a maximum of nearly 8 percent five years after the new purchase. It is reasonable to assume that the dealer that originally sold the vessel has, in fact, serviced the majority of these new boats.

Based on the historic trends, the future supply to the pre-owned market of these relatively "young" vessels can be predicted with a high degree of reliability. For new boats sold today, more than 42 percent of them will enter the pre-owned market (for the first time) within seven years. This offers a dual opportunity for marine businesses: to make money on helping those pre-owned boats sell and to upgrade those sellers into new boats. **X**

CS A grading scale

When it comes to trade-in boats, Marine Center of Indiana welcomes them and then some.

The Indianapolis dealer typically sells about 100 pre-owned boats each year. And there's a reason for that, says owner Mike Hoffman. "I expect to make more money on used boats than on new boats," he says.

Although he doesn't accept all pre-owned boats, when a boat comes in, it is subjected to the same rigorous tests as new boats. It also is gone through from stern to bow to determine if it's mechanically sound and whether it might need additional work to get it ready for the showroom floor. The boat also gets new fluids and any other routine maintenance is completed.

"Everything that needs to be done, we do to the boat," Hoffman says.

Once that is completed, the boat is sent to the detail shop where it's cleaned. When the detail department is finished, the detail shop manager signs off on the completed work. The paperwork is sent to the CSI department, which oversees the detail area. The CSI director verifies that everything was completed and if everything is OK the boat is given a grade.

The dealership uses a grading scale of platinum, gold and silver for each pre-owned boat. The grade is displayed for customers to see and reference. A platinum grade indicates a late-model boat that comes with a two-year extended warranty that the dealership purchases from a warranty company. For a boat with a gold grade, the dealership will offer an in-house 30-day, 100-percent warranty or a 30-day 50-50 warranty. Boats with a silver grade are sold as is. Hoffman says those boats typically are more than 10 years old.

By using the grading system, it helps the dealership in several areas. For starters, because the boat was analyzed thoroughly, it gives the sales staff and others working at the dealership first-hand knowledge of the boat. It ensures that everything has been repaired and is working properly. It's also used as a promotional tool to show the benefits of buying a pre-owned boat from the dealership instead of a private party.

"When it leaves here, we're guaranteeing everything works," Hoffman says. "You just don't get that from an individual. It works well for us." **X — By Eric Skogman**



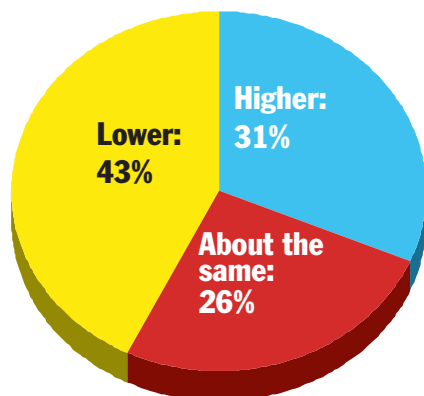
Capitalize on opportunities

Understand the need for higher pre-owned margins and develop better systems and processes in managing inventories.

**CONTENT FOR THIS ARTICLE
WAS DERIVED FROM A
CONVERSATION WITH
JOHN SPADER
OF SPADER BUSINESS
MANAGEMENT.**



**IS THE TYPICAL GROSS MARGIN YOU
MAKE ON PRE-OWNED BOAT SALES:**



It's no secret that when it comes to the pre-owned market, there's one thing that boat dealers aren't doing – capitalizing on the many opportunities that are available. Now that doesn't stand for every dealer. Some dealers out there today are taking advantage of the pre-owned market and are making money. For those who aren't, though, there are many reasons why.

For starters, the pre-owned boat market is like a spider web. There are many different aspects to the market that can affect each other. The pre-owned segment is often tied to the turnover of new boats and the high debt-to-equity ratio of dealers, which means less cash flow and can stretch dealers financially. Most dealers lack processes and systems to deal with pre-owned product – from the trade-in valuation through the sale – and they lack a support system in the wholesaling market.

Also, many dealers carry a great fear of venturing into the pre-owned boat arena. Some of them suffered through a bad pre-owned experience and have clamped down, deciding to avoid the market altogether.

Despite all of those things, however, there are plenty of incredible opportunities for dealers to capitalize on the pre-owned boat market. The first key to turning pre-owned boats into a profitable venture is having sound systems in place to create a consistently successful process. Toss in some diligent homework and a sound appraisal system on the front of the pre-owned process, and dealers can quickly capitalize on additional sales and stronger margins.

One of the first steps to take in creating a process is to figure out what margins you need to make in the pre-owned sector. You must determine this after you understand how new and pre-owned boat margins differ. On the average, margins for pre-owned boats should run a minimum of 3 to 5 percent higher than the margins for similar new

models. And don't forget that those margins must take into account any additional expenses you'll generate in the service department through extraordinary rigging or reconditioning.

There are a number of reasons that dealers can use to justify the need for increased margins. First, there is not another product exactly like the pre-owned boat on your lot anywhere else in the country. You have the only one. Second, you don't have the manufacturer's warranty backing the product, so you will be the one putting the money into repairing it. Finally, successful pre-owned dealers require better management and more management of the pre-owned process in order to succeed. Part of being successful means making the proper margins.

So, if you're not getting more for the pre-owned product you're selling, then you're not doing the proper job in trading for it. In other words, you're "buying" it for too much. And that's a skill level deficiency that causes many dealers to shy away from this market. They know how to negotiate with a manufacturer for a price, but they don't know how to negotiate with a customer to buy it right.

Begin the trade-in process with the understanding that two transactions take place with trade-ins. When you process a trade-in transaction, you're not only selling a unit, you're buying a unit. Often, dealers focus on only the selling aspect of the trade-in process. Dealers need to separate the two parts and make sure to analyze each transaction. Sell emotionally and buy rationally.

The worst thing you can do is trade for too many used boats and pay too much money for them. This could have significant financial repercussions if you're not careful. You have to make a good management commitment to develop the processes to manage all aspects of the sale from the buying to the selling to the policy work, or it can put you out of business really quick.

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Capitalise on opportunities continued from page 7

CS Improving customer relations

When somebody buys a pre-owned boat from H&S Yacht Sales in San Diego, they aren't forgotten about as soon as they drive off.

Like many dealers, H&S Yacht Sales utilizes customer relationship management tools to not only keep their customers informed about upcoming events, news about the dealership, boat shows and other noteworthy items, but to make sure the sales and service departments are making regular contact as well.

Utilizing Act! software, the dealership enters a customer's name into the database along with the date the boat was purchased. From that point forward, contact is scheduled and done at specific intervals.

"Once they're in our database they start getting marketed to," says Doug Ament, co-owner of H&S Yacht Sales.

Reminders are scheduled in the database to notify the sales staff, sales managers and the service department who needs to be contacted and why. The first contact is made seven days after a boat is sold. After that, contact is made at intervals of 30, 60, 90 and 180 days and then 11 months after the initial sale. Then it repeats the following year.

In addition to offering service reminders for maintenance and following up on the sale, H&S Yacht Sales also has a trade-in program that it markets to its clients, says Ament.

"We try to hit people with a guaranteed trade-in amount prior to their first, second and third years," he says. "We'll always contact them at the appropriate times to let them know that a trade up is coming up and they might want to consider coming in and looking at something else." X — By Eric Skogman

With this mindset in place and your target margins in mind, the most valuable tool you can use to analyze a trade is an appraisal form. These forms can be created by and customized for your dealership. When you create yours, build in room for grading the overall condition of the boat, engine, accessories and trailer. Consult with an appraisal guide, determine a starting price and keep a score sheet as you find positives and negatives of the product. In addition to this list of the pros and cons, take into account such things as your target market and how the trade-in fits with your product offerings. You should also be able to estimate a resale value, keeping your target margins in mind. This should help you best determine the price you can offer for the purchase of the trade.

Once in your possession, you should also have a sound system in place to follow pre-owned boats thru to resale. Many dealers keep a waiting list of customers who are looking for specific types of boats and are able to turn newly acquired boats quickly. You should also establish a systematic procedure to move each newly acquired boat through your dealership, from the time it arrives on the lot until it is sold. Too often, pre-owned boats aren't inspected properly on the front end of the transaction, and one of two things can happen: the boat is already in good resale condition and the service department puts too much time and money into it; or the initial inspection fails to recognize that it's not in good shape, and more resources than expected are necessary to get it ready to sell. Either way, you lose because your margins shrink, so it's important to have a process in place to ensure your time and money are allocated most efficiently.

One final reason dealers don't get into the pre-owned market is because they believe you can't get floor plan on the used product. Indeed, the No. 1 reason some dealers can't get it is because the banker sees that they don't have the proper management systems to manage it, so they don't want to loan them the money. If you manage your pre-owned business properly, you commit to the banker that your inventory turns will be higher and your gross margins will be higher, and the banker feels better about giving you pre-owned floor plan. On a new unit, they have other reference sources to help them determine the value. On pre-owned floor plan, it's all about trusting the dealer and the value he assigns to the boat. So the banker says, "no" when they see management deficiencies; and they say, "yes" when they see management superiority.

Pre-owned sales have become a significant source of revenue for many big-ticket industries. There is no reason why this shouldn't be the case for marine dealers, too. In order to best capitalize on this market, marine dealers need to focus on increasing new unit turn ratios to increase cash or pre-owned flooring availability. Clearly understand the need for higher margins on pre-owned boats and develop better systems and processes in managing your pre-owned inventories.

X — By Eric Skogman and Matt Gruhn

CS Safety inspection

Randy Kelly has a rule about trade-in boats. It's a simple rule that many other dealers follow as well.

"I will not trade for a boat unless it's a pretty decent boat," the owner of Kelly's Port Marine in Osage Beach, Mo., says.

It's simple, logical and something that has saved him from plenty of headaches over the years. Of course, all dealers prefer good pre-owned boats that they can turn into a quick sale. Like many dealers, Kelly takes trade-ins and broker boats. With trade-ins, he'll make sure to do a full mechanical inspection before accepting it. Prior to getting the boat for the inspection, they'll ask the owner to give the boat a letter grade ("A" is mint or near mint condition and "D" is poor). When Kelly's Port Marine receives the boat, Kelly and his staff will offer their own opinion and give it a grade.

"Then we trade for a boat assuming it's a B-plus or better boat," Kelly says. "If it's a C boat, [we ask] what's it going to take to get it up to a B-plus or better?"

After taking a trade-in boat and once it passes the full mechanical inspection, it gives Kelly the

> > > > > > > > > > > > Safety inspection continued on page 10



Pre-owned boat turnaround strategies

Ideas to provide a quick and profitable pre-owned boat turnaround

BY
DAVID PARKER,
PARKER BUSINESS
PLANNING



I have come to find that most dealers are not making as much money as they could on pre-owned boats. Do you make 25 to 30 percent gross margin on pre-owned boat sales? Is your pre-owned boat sales volume 25 to 50 percent of the new boat sales volume? If you answer “no” to either of these questions, there are several things you can do to realize these goals.

Actual Cash Value or wholesale value

There is an old saying that the profit on a pre-owned boat is made when you buy the boat. In other words, to make the most money on a pre-owned boat it must be bought (or traded) at the right price. Determining the right market price or retail price is the first step to finding the Actual Cash Value (ACV) of the boat.

There are a couple of ways to assess the market price of a boat. One informal method relies on gut feel. The sales people in the dealership estimate the boat’s retail value based on what they think it could sell for in the next 90 days. All the salespeople disclose their estimated value at the same time and come to an agreement. Surprisingly, a consensus is determined rather quickly using this method.

After determining the probable retail or market price, the ACV must be determined. Multiply the market price by the anticipated gross margin. After subtracting the gross margin dollars from the market price, deduct for repairs and cosmetic work at normal shop rates. The remaining amount is the ACV or wholesale value of the used boat.

Trade-in Appraisal Worksheets are a more formal way to determine the ACV of a boat. Two main components make up the worksheet: Condition and Value.

The Condition section consists of a list of questions about the age and physical con-

dition of the boat. Some categories include Engine, Accessories, Canvas, Gel Coat and Trailer. Each listing has a grade scale ranging from 1 to 10. It is especially helpful when the boat is not present while its value is being determined. If the customer says the boat is a 10, for example, but it comes in with significant dock rash, there is a legitimate point to negotiate a reduced value. Make sure you have a place for the customer to sign the worksheet.

The Value section of the Trade-in Appraisal Worksheet should include suggested prices from two or three trade-in guides and the average Internet asking price for the boat you are assessing. Keep in mind these are Internet asking prices. The actual selling price usually will be lower. An adjustment factor should be applied for above average and below average condition, and how popular the style of boat is (or is not) in your market area. Once the market price of the boat is determined, the ACV can be calculated.

Evaluate the trade early

It is good to require trades to be delivered to the dealership at least one or two weeks prior to the new boat delivery. This allows time for the service department to check the boat for any major flaws not disclosed by the customer. This practice has saved dealers thousands of dollars by discovering problems prior to closing the deal.

One pricing philosophy that makes it easier to take a trade is to start at a higher asking price on the new boat sale. The customer almost always wants more for a trade than it is really worth. If a dealer starts negotiating by deeply discounting the new boat, it is harder to get the ACV needed on a trade. One solution is to start the first price quote closer to retail, and then apply the extra discount to the trade over allowance. It is much

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confidence to offer a warranty.

"I give the customer the choice of a 30-day, 100-percent major mechanical warranty or a 60-day, 50-50," he says. "In light of that, it moves a boat to the head of the list. It makes the boat more marketable. Therefore, knock on wood, we don't get stuck with a lot of aged trade-ins."

Three years ago, Kelly decided to implement a new system for boats he brokers. To eliminate problems at the time the boat is sold or soon after, he instituted a safety inspection of each boat. The inspection takes place before he will list the boat. The \$120 cost for a single engine small runabout is charged to the seller.

"We have found over the years that the majority of deals that we lost came down to the [lack of a] mechanical inspection," Kelly says.

The inspection includes checking several areas of the boat. First, they'll put the boat in the water and take it for a test drive. They'll check that the bilge pump, blower, lights and other items are working properly. Then they'll pull the boat out of the water and inspect other components including the stern drive. The out drive will be removed and checked, as will other stern drive parts. If a problem is found, they'll notify the seller that it needs repairs and asks if they want them completed. If the seller declines, Kelly says that they tell the seller that they'll have to disclose to potential buyers the problems they found.

On the other hand, if no problems are found, they move ahead and broker the boat. The sales staff also uses the safety inspection. If a customer inquires about a brokered boat, the sales staff can use the inspection as a sales tool, especially if it's a boat that the dealer hasn't serviced.

"If [we're] not familiar with the boat, we can say, 'No, we're not really familiar with it. We haven't done all the service on it. However, we have done a safety inspection,'" Kelly says. "You can show them a copy of the safety inspection and how it checked out. It's a disclosure thing that helps us be more credible when selling."

By implementing these systems, it's given Kelly's Port Marine an advantage when selling the boats. "That's helped us a lot," Kelly says. "It keeps more deals alive and keeps them a little bit cleaner." **X — By Eric Skogman**

Pre-owned boat turnaround strategies continued from page 9

easier to make the sale to most customers with trades because they typically want to see a higher trade value on their boat, and now that is possible with a higher starting price.

When you book the trade, put it into inventory at the ACV and reduce the selling price (on your copy of the sales invoice) by the amount of the trade over allowance. This will allow your balance sheet to properly reflect your pre-owned boat inventory. This step only works in the states that charge sales tax on the trade difference.

Often, dealerships with a dedicated used boat manager make more money from pre-owned boat sales. Usually, a seasoned pre-owned boat manager is responsible for determining the ACV on all trades and for buying all pre-owned boats. They make sure the boats are in tiptop condition before presenting them to the public. They also are charged with keeping the pre-owned boat page of the dealership's Web site up to date and for listing all pre-owned boats on various Internet sales Web sites. A quick response to all Internet inquiries is critical. A reply within minutes is optimal; otherwise, try to respond within one hour during normal business hours if at all possible.

Take trade-ins, sell more boats

This may sound like a no-brainer, but many dealers today do not accept trades. These dealerships require customers to sell their boats on their own, or the dealership will offer to sell it for them on a consignment or brokerage basis. The problem with this no-trade philosophy is the dealership is vulnerable to losing the sale of a new boat to a competing dealer who does take trades. Customers find it is easier to do business with a dealership that allows trade-ins.

In addition, having a pre-owned boat floor plan ensures that funds are available to take trades and to buy pre-owned boats. The pre-owned floor plan amount should be at least 20 to 25 percent of the dealership's new boat floor plan limit. A dealer with a pre-owned boat floor plan can take trade-ins during the off-season when cash flow is tight. They also are now in a position to buy pre-owned boats when the deals become available.

The quickest and most profitable turnaround on pre-owned boats will come from cleaning and reconditioning the boats before putting them back on the market. When setting the ACV, be sure to allow enough money for the make ready so the dealership can afford to have it properly reconditioned before showing it to the public. **X**

BE eValuation

Determining at what price to take a boat in on trade can be a tricky job, the end goal being to make the trade worth a customer's while and simultaneously maintaining a decent profit margin at resale. There are probably as many formulas to determine trade-in value as there are boats, but many of the Top 100 Dealers turn to a handful of basic tools for this task.

Industry pricing guides such as NADA Guides and the ABOS Marine Blue Book are great resources. Many Top 100 Dealers,

including MacCallum's Boathouse (Ranked 94 in the 2006 Top 100), use the books as a jumping off point, typically using the boat's low wholesale price and subtracting for necessary repairs.

Looking to your market can also guide setting a trade-in price. Apopka Marine (Ranked 82) notes a potential trade's retailability before valuing it. And as a Canadian dealer, Rayburn's Marine World (Ranked 55) tries to keep ahead of what U.S./Canadian dollar trends are going to do to the pre-owned boat market.

The Internet can also lend a hand in gauging trade-in value. Although salespeople at Taylor's Boats, Inc. (Ranked 11) don't

use Web sites before assessing a boat, they do visit sites such as boattraderonline.com to verify the price they calculated is in line with other similar boats being sold.

Some dealers opt to use these resources to create a trade-in pricing form. Gordy's Lakefront Marine (Ranked 15) includes notes from Web sites, NADA, ABOS and the results of sales team polls on its form. All values are subject to shop inspection.

Including a shop evaluation as part of a trade valuation is always a good idea. Wear and tear is inherent in previous use. Subtracting for necessary repairs and maintenance helps bring a trade closer to its actual cash value. **X — By Lisa Young**



7 ways to maximize pre-owned profitability

Stop ignoring huge profit potential and capitalize on the pre-owned market.

BY
NOEL OSBORNE,
CONSULTANT



Of the total quantity of pre-owned boat sales happening today, dealers are missing out on an enormous opportunity. Industry sources estimate that boat dealers miss out on 70 percent of all pre-owned boats. To make this clearer, that means that boat dealers do not gain any profits from the sale of 70 percent – which accounts for nearly 450,000 units and more than \$6 billion, using Info-Link's research – of all pre-owned boats.

But it doesn't have to be that way.

As a comparison, in the auto industry, new car dealers sell more than 50 percent of all pre-owned cars, and pre-owned car dealers garner a significant percentage of the remaining pre-owned auto sales. The facts substantiate that marine dealers are ignoring a huge profit potential by not properly addressing and capitalizing on pre-owned boat sales.

We have worked with several dealer clients who specialize in pre-owned boats. Their gross profits in the pre-owned segment average more than 30 percent – compared to 18 to 20 percent for new boat sales. While that 30 percent gross profit margin is impressive, it does not happen without some serious work on the part of dealers. To maximize profitability on pre-owned boats, there are some important items that dealers need to address that can help them capture those sales.

1 Perform tests. When you take a trade-in, you are buying a boat. It is no different than buying a new boat from a manufacturer. You must protect yourself by assuring that it is mechanically and electrically in good condition. With that in mind, your service department should test the boats extensively. Conduct electrical and mechanical tests in accordance with a standardized checklist formulated by a competent individual at your store.

2 Know the value. Use trade-in guides only as a guide. The true value of a boat will vary significantly between geographic regions in the country. Also, you will find that you can demand higher prices and, therefore, potentially offer more if the trade was manufactured by one of your current new boat suppliers. The consumer will feel more comfortable that you can service it properly.

3 Know your costs. Your pre-owned boat sales department needs to be managed to provide a high level of profitability. This means that you should have designated charts of accounts to provide you with this financial information. You must know what your true costs are including all the service work required to bring the boat to a condition that will attract buyers. Remember, you cannot manage what you do not measure.

4 Commitment. You must appear to the public as a dealership that is committed to pre-owned boat sales. The boats cannot be located behind the dealership out of view. You must have a designated pre-owned boat display area in the front. Importantly, all boats must be ready to sell when they are placed there.

5 Marketing. You must have a well-planned marketing program designed for pre-owned boats. We suggest that you consider implementing a 50- or 100-checkpoint program similar to those employed by the auto industry. It is a great selling tool if you tie it into a legitimate guarantee. The guarantee can be backed up through the use of a protection plan offered by one of our industry providers. This will allow you to increase your profitability on every sale.

6 Customer service. Perhaps most important is the fact that your pre-owned buyers expect the same level of service that you offer your new boat buyers. It's your job to make sure that they receive it. Remember, if you do it right, the reward is in the repeat – read: upgraded – purchase.

7 Provide. Give private sellers a reason to broker their boats through your dealership and give pre-owned buyers a reason to buy from you, and your profits will soar. Chances are you will sell more new boats, too. X





Know when to hold 'em

One of the keys to dealing in pre-owned boats is knowing which product customers will want to buy and which product doesn't fit with your customer base.

Some dealerships aggressively seek out product to resell, combing newspaper classifieds, local marine publications and neighborhood driveways for potential new inventory. Park Boat Company Powersports' (Ranked 38) salespeople actively review these sources to find specific boats for sale that may fit a customer's needs. If the dealership finds one that it thinks will work, it works through its brokerage department to try to put together a deal for the two parties.

For a more targeted approach, some dealers keep a list of prospective pre-owned boat customers and alert them when a pre-owned boat fitting their specifications arrives. White's Marine Center (Ranked 89) created a pre-owned boat prospect book to capture customer interests. If a customer is looking for a pre-owned boat the dealership doesn't have, salespeople note the customer's contact information and a detailed description of the boat he or she would like.

"When we trade for a boat, we usually have four to eight prospects to call from the pre-owned boat book," says Craig White, general manager.

Most dealerships will take trades to grow customers into new boat buyers. Those with an open trade policy can end up with product they know won't fit their market. To combat this, Marine USA Inc. (Ranked 56) auctions or sells boats that don't meet its pre-determined boat criteria to local handyman shops. Similarly, Boat Town, Inc. (Ranked 49) has a policy to wholesale any boat worth less than \$10,000. And if Slalom Shop Boats and Yachts (Ranked 6) doesn't feel good about reselling a boat, it will seek out wholesale bids for it. Marine Connection Inc. (Ranked 43) uses its export resources to take trades not marketable in its area, but that are valuable in another part of the world. **X — By Lisa Young**



Get customers involved

When gathering specs for a potential trade, have the customer fill out an evaluation form for their boat. Not only will you get their perspective of the worth of their boat, but they might also alert you to the boat's possible problem areas before a service inspection.

Woodard Marine (Ranked 32) uses its customer trade evaluation form two ways: to help customers understand and validate their trade value and so the dealership can judge the trade's actual cash value more accurately. The dealership asks its customers to rate their boat's engine, upholstery and cosmetic finish, among other things, on a scale from 1 to 10.

Hall Marine Group (Ranked 4) also has a trade-in evaluation sheet, which covers the condition of the gel coat, interior, engine hours and more. Although the dealer's salespeople fill out the form, it is always completed with customer input. Doing so gives customers a realistic view of their boat's value, and thus the amount of trade allowance they might receive when purchasing their new boat.

Buckeye Marine (Ranked 28) adds a stipulation at the end of its customer-completed trade evaluation. Just like with tax forms and other formal documents, it asks if the information the customer provided is truthful and that they completed the form to their best ability. This note often prompts customers to go back and change part of their assessment before signing it. **X — By Lisa Young**

Let's see what you've got under the hull...

Taking a trade without a service inspection can lead to increased dealership cost and reduced margins.

Pre-trade service inspections can help ensure getting a quality product for its next owner. That's the mindset at Marine Center of Indiana (Ranked 50). It checks boats before trade because "we won't take a boat into stock we believe constitutes a poor investment for the next buyer," says Michael Hoffman, president.

Performing service inspections can help dealerships better value a potential trade. Going over a boat will alert parties to any repairs and maintenance that will be necessary for the boat to put it in sellable condition. Lynnhaven Marine (Ranked 24) inspects all boats, motors and trailers mechanically and cosmetically before arriving at a final cash value. An inspection before trade means the cost of repairs can be built into the deal.

Using a professional marine surveyor can be a sound way to assess what repairs

and maintenance a boat will need. Staten Island Yacht Sales (Ranked 33) uses a professional surveyor. The dealership uses the report the surveyor creates to give its Shape Team an outline of what to look for when they go over the boat from top to bottom.

Sea Ray of Cincinnati, Louisville and Lexington (Ranked 59) goes beyond its service bays to make sure a trade is worthy. It takes potential trade-ins out on the water in the summer to check how they run ahead of time. The dealership uses a hose test in winter.

Having a set service inspection checklist can help inspections go faster and can be used as a record to show potential buyers, particularly when the sheet acts as a work order for repairs to be made following the inspection. Six Top 100 dealers who provided information about their lists averaged 37 questions. The lists cover everything from engine compression to gel coat to smoothness in shifting. **X — By Lisa Young**



Establish sales and service department procedures

Treat all pre-owned trade-ins as an investment.

BY
VALERIE ZIEBRON,
VRZ CONSULTING



Does taking in pre-owned boats affect your service department? You bet.

More boats are on the lot taking up space, and those boats need to be in good running order. The question is: who's going to pay for that? You are. Kind of...

So are pre-owned boats an asset or a liability to your dealership? They can be either, depending on how you handle them. If you treat them with a well-thought-out and carefully executed plan that your employees fully understand, it can be one of the best bottom-line builders for your business. But beware: If this is something you decide to throw at your staff and try for a while to see how it goes, you would likely have better odds winning the lottery.

Making money on pre-owned boats is a test of the relationship between your sales and service department. And to keep the peace in that relationship, you need to ensure a few things.

1 First things first: Know that time is of the essence. Customers expect this transaction to be much like trading in a car. They drive in with their boat, you appraise it and they drive off with a new one. Have an efficient system in place before they arrive to create a wonderful way to establish your dealership as the one-stop boat shop and capitalize on the beauty of impulse buying.

2 Complete an accurate value assessment of the boat, identifying all service issues. Smaller items like the depth finder, gauges, aerator and bilge pump can add up quickly and before long you are throwing good money after bad.

3 That means that you need to ensure that a skilled individual – preferably someone thinking of the resale and not the current sale – completes a written evaluation of the boat.

4 Allow for enough time and money to complete the needed repairs. And figure those costs into your margins.

5 Create proper internal work orders so the bill is picked up by the sales department as opposed to asking the service department to absorb it.

6 Determine a fair way to pay technicians to upgrade the boat so they will be willing to do a good job. Technicians will help to ensure that this investment is a great idea for you and your future customer.

You'd be amazed to find how many opportunities you can find in the pre-owned market if you just sat down and brainstormed. For example, you should approach every *service* customer as a walk-in looking for a new boat. Include a trade-in value for their boat along with the thank-you card you leave after their service is done. Even if a small percentage of your service customers are trading in with you on a regular basis, the rewards can be tremendous in growing your business.

Additionally, some stores are now beginning to use their pre-owned inventory to offer service customers loaner boats during their boats' downtime. This has a number of major benefits, including making the customer extremely happy with your service, keeping your pre-owned boats running, and encouraging sales. Typically, the customer's insurance covers the loaner.

Another way you can generate qualified leads for your trade-in business is to use your Web site as a means for offering trade-in values or even case for pre-owned boats. Customers fill out an online form with information about the boat, including a place for the customer to rate the condition of the boat. It's a great lead generator, but just be sure to follow the money rule: "Look at it for real to determine the deal." **X**



5 tips for better boat valuation

Industry guides and tools help take out the guesswork.

BY
LENNY SIMS,
NADA



Boat dealers know there are two essential ingredients to running a successful business – a commitment to the customers they serve and a commitment to their bottom line in the process. Some people believe these commitments are polar opposites where one can't be achieved without negatively impacting the other. But both can be accomplished when the right set of professional tools are in place.

When it comes to the pre-owned boat market, the most vital component for financial success is the little bit of research you need to conduct to get a final retail price, and ultimately, the trade-in and resale. Here are five tips to help you establish the best price possible for a pre-owned boat.

1 Use condition as a benchmark: Understanding the fundamentals of pre-owned boat pricing is essential for dealers who make buying and selling used boats a part of their business operations. For starters, the foundation of evaluating a boat's fair market value is to understand its condition and how that condition affects its overall price.

NADA, for example, provides values in three categories – Used Trade-In, Average Retail and High Retail. Those categories should be used as guides, based on the condition of the boat. You should use an evaluation form to help you verify the condition of the entire boat, engine and trailer package. Using a valuation guide that also includes condition descriptions can help you determine which valuations to use, including wear and tear and engine and mechanical guidelines.

2 Assess optional equipment: As with any vehicle – whether it's a boat, motorcycle, RV or automobile – optional equipment can impact value. Items such as steering components, entertainment equipment, battery chargers, depth finders, navigation and radar systems, light and generator packages, air conditioning systems and even propeller types can impact value, so it's important to have a working knowledge of a boat's equipment and then input that equipment into the guidelines to adjust for price.

3 Pay attention to expenses: One of the most important aspects that many dealers overlook is to pay attention to your potential expenses – the amount of anticipated investment a dealer would have to make to get a boat to a sales-worthy condition. It really doesn't matter whether a boat is in great condition or poor condition. Chances are, you'll need to make some sort of an investment to get the boat ready for sale, even if it's just a good detailing. It's important to remember that no matter what the expense, whether it's a general wash or a complete engine replacement, it needs to be factored into those anticipated

costs, and the price should be adjusted accordingly.

Only you know your business and how much it costs to get a boat ready for market – even granular details such as whether a boat was used in fresh or salt water and how that impacts overall value. So be sure to assess each detail carefully when it comes to determining a final sales price. It's also important to keep in mind that these rules apply for selling a boat or taking a boat on trade, as both processes are similar when considering a vessel's overall value.

4 Do the math: Once you have a solid benchmark value in place and have factored in additional expenses to get a boat ready for resale, it's time to do the rest of the boat sale math. Use your benchmark valuation information as the basement, and then build the house from there. Factor in what the buyer brings to the sales table, including any down payments or trade-ins, which will offset the overall sales price, and don't forget to adjust for trailers and other related equipment as part of that sale or the trade-in.

5 The price is right: Every day we hear of more and more buyers who appear on showroom floors with more information than the sales reps they're dealing with. Even with pre-owned boats, buyers have typically done their homework. They'll arrive at your business with various pieces of information, including prices of similar boats on the market via print and online classified ads, as well as boat pricing information they obtained from other various sources. It should come as no surprise that you should be well-equipped with all the data you'll need to justify your price. If it's marked higher than comparable units on the market, be ready to explain that it's in good condition, or that it was well-maintained, or it includes a warranty, or new trailer tires, and so on. New units come with a suggested retail price; pre-owned units rely on you doing your homework and setting a fair price. **X**



BP Gotta have faith

Offering a warranty on a pre-owned boat can be tricky business, but 22 Top 100 dealers found a way to make it work. Including a warranty shows your customers you care about their boating experience above and beyond the product you're reselling.

Whether a warranty is a month long or a year long, it's still a vote of confidence. MacCallum's Boathouse, Inc. (Ranked 94) markets the full-season long warranties it offers with its pre-owned boats. At the end of the season, the dealership has a trade (up or out) offer so customers don't have to worry about any warranty expiration issues if they don't want to.

Warranties can be tailored to dealership and customer needs. If you feel comfortable covering routine maintenance, go for it. If you would like to offer more extensive coverage, map it out. Offering a strictly mechanical warranty worked for Water Sports Marine (Ranked 81), which merged with Action Watersports (Ranked 14). The dealership attached a 30-to-90-day major mechanical warranty to its pre-owned boats.

If offering a full warranty isn't in the realm of possibility, find out if there are existing extended warranties individual boats may be eligible for. When Crowe Marine (Ranked 77) finds an extended warranty that can be purchased at a reasonable cost, the dealer considers factoring the cost in the trade-in's base cost. Hoffmaster's Marina (Ranked 54) offers its customers in-house warranties that can be augmented by third-party warranties for a charge.

Limiting which boats get a warranty can work to a dealership's advantage as well. Harborside Yacht Sales (Ranked 29) only attaches warranties to pre-owned boats less than six model years old. Buckeye Marine (Ranked 28) included a warranty for most of its used products, but the amount varies depending on the boat's size and year.

With one of the most extensive warranty programs we saw, Colorado Boat Center (Ranked 53) developed a tiered warranty system. The results of a 32-point evaluation, the boat's condition and year determine the level of warranty it gets backed up with. Warranties are ranked on a star scale, with four being the highest ranking. A four-star warranted boat is three model years old or newer, was originally purchased from Colorado Boat Center, all its mechanical services were performed in the CBC service department and is in excellent physical condition. One-star boats are sold as is, generally on a consignment basis. **X — By Lisa Young**

Set apart

Giving pre-owned boats extra attention helps to sell them, whether it's sold by a single dedicated pre-owned boat salesperson or from a separate pre-owned boat location. Having a person or team dedicated to this area gives you experts on your assortment of used offerings your customers can turn to.

Give boat specialists specific tasks for increasing or improving pre-owned boat sales and processes. Colony Marine (Ranked 25) has a dedicated pre-owned boat manager who is charged with determining a boat's actual cash value, updating inventory daily and working with the company's business development director to market used product on the Internet. Strong's Marine (Ranked 20)'s pre-owned boat manager takes in boats, goes on-site to see boat condition and arranges pricing with customers.

Create ads and marketing materials specifically for pre-owned boats. Not only do Texas Marine's (Ranked 84) pre-owned boats have their own sales manager and sales staff, the department also gets its own advertising budget with separate displays.

Having a separate used team or facility can lend greater focus on aspects special to used product. While Erickson Marine (Ranked 57) only has one location, for example, it has set aside a separate showroom to showcase its pre-owned boats.

Dealers can specialize and segment within their own pre-owned boat team. While many dealers have separate sales people for their pre-owned boats, Seattle Boat Co. (Ranked 16) may be the only one we have found with a dedicated pre-owned boat rigging team. The company has a separate facility where teams complete make-ready jobs for all locations, and they've incorporated a separate pre-owned boat team there, as well. Seattle Boat Co. also has a separate pre-owned boat sales facility.

Creating a separate pre-owned boat location with the amenities of any other boat sales facility can attract customers who may not shop at a new boat location. At Russell Marine's (Ranked 10) Pre-Owned Boat Center, there is a fully stocked ship store, accessories and a service department that offers pick up and delivery. **X — By Lisa Young**

Certifiable

Establishing a certified pre-owned boats program can build customer confidence in the pre-owned product you're selling. Here, certified isn't just a word for psychological effect, it's a process.

Many automobile manufacturers have established certification programs for used vehicles and some boatbuilders are following suit. These programs can be a good starting point for customizing a strategy for your dealership.

A key component for many dealers attaching "certified" to pre-owned boats is making sure the boats are in top form. Hoffmaster's Marina (Ranked 54) allows the cleaner boats it takes in trade to be eligible for its "Hoffmaster's Certified" program. To ensure the boats are at their best, they are put through a 47-point inspection and run for a couple weekends to find latent defects. Those that make the grade get a certification stamp and may

Certifiable continued on page 17

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Launch a certified pre-owned boat program

Steps to a perfect certification process.

BY
BOB WILLIAMS,
PRESIDENT/CEO,
FIVE STAR SOLUTIONS



There has been a lot of talk around the marine industry in recent years about certified pre-owned boat programs. And no wonder: Having certified pre-owned boats creates a third segment between new and pre-owned boats for dealers to offer, giving them another marketing and sales opportunity to add money to the bottom line, build customer loyalty and differentiate from others. Additionally, certified pre-owned programs add service business and improve trade-in profit opportunities for those dealers who get it right.

We need to look no further than the automotive industry to see an example of the potential of incorporating such a program in our marine businesses. Every major automotive company has a pre-owned vehicle program, and they have been advertising them for many years. This means that consumers have already been conditioned to understand the concept.

That concept caught on quickly, too: In five years, the growth of automotive certified-pre-owned-program volume grew from less than 500,000 to more than 2.5 million units. And it's not just the volume that is growing. It has also been proven in all cases that the profit per unit is much higher than non-certified pre-owned vehicles. Similarly, the inventory turnover ratios on certified pre-owned models are much faster than on non-certified vehicles.

Even the more subjective numbers would tell you that these programs are working. For example, 100 percent of active dealers and even 92 percent of non-active dealers see value in pre-owned auto programs. An impressive 99 percent of dealers agree that their certified pre-owned program has proven to be "a profitable endeavor"; and 97 percent agree that a certified pre-owned program gives them a competitive advantage.

In fact, there are many advantages inherent in such a program. The results of the programs that we have witnessed prove that dealers can sell more new and pre-owned boats just by having a certified program. It also helps create more business in the parts and service departments and can help enhance auction values for pre-owned boats.

The key to success in this endeavor, however, is that you must have a solid process in place. In constructing the proper process, you must consider the criteria you'll establish for placing pre-owned boats into the program; how you'll maintain a sufficient inventory; how the service department will play a role in the reconditioning and upkeep of the pre-owned product; what your certification will validate; marketing the product; and how you'll manage the entire system. All of this should be mapped out, and your employees should be trained in the system before it is launched. Many of the other articles in this package touch on other components within this list, so I will focus on the criteria, the certificate and managing the certification process.

One of the first steps in establishing a certified pre-owned boat program is to decide what qualifies such a boat at your store. The age, the boat's history, its value and its condition parameters must be decided up front. Then, as you consider taking a pre-owned boat into inventory or moving one into your certified pre-owned program, you must conduct a boat inspection. Make sure that you include a written analysis of the boat's condition, including all defects.

Once the problem areas are repaired, there must be a final inspection to see if the boat still meets the original criteria. Sometimes the repair process uncovers new elements that would disqualify it for certified pre-owned boat status.

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Launch a certified pre-owned boat program continued from page 16

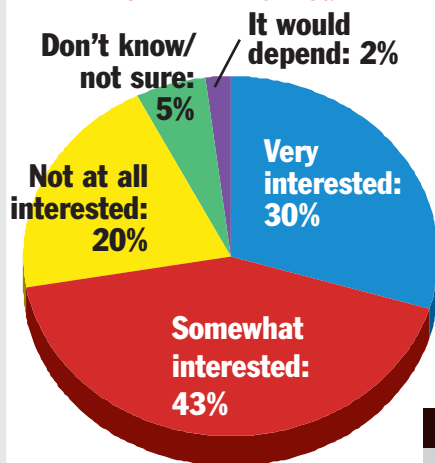
Research - - Auto Dealer Perceptions

- 100% of active dealers see **value** in program
- 99% agree CPO has proven to be "a **profitable endeavor**"
- 97% agree CPO is a **competitive advantage**
- 92% of **non-active** dealers see **value** in program
- 94% of active dealers are willing to "**step-up**" their CPO efforts
- 90% of non-active dealers would reconsider **participating**
- Only 1.4 out of 10 CPO buyers began shopping with a new vehicle in mind, same as for "Regular Used"



The automotive industry, as demonstrated by Five Star Solutions' Powerpoint presentation, found great value in their perceptions of industry certified pre-owned programs.

IF ONE OF THE BOAT MANUFACTURERS YOU DEAL WITH CAME UP WITH A CERTIFIED USED BOAT PROGRAM HOW INTERESTED WOULD YOU BE TO PARTICIPATE IN THIS PROGRAM?



Part of the marketing process for a certified pre-owned boat program is to leverage a large number of inspection steps and to have them listed and available in a consumer brochure. You should consider your selling features and benefits of this program up front. But when all is said and done and the criteria are met, a certified pre-owned boat certificate should be issued for the vessel. It should include some or all of the following areas: exterior/hull condition; interior wear and tear; electronics/lighting; steering and trim system; power train and exhaust system; electronic systems; chassis system; bridge and bilge; and it must pass a water test drive. More stringent programs could go into more detail.

The best-case scenario provides that the certificate would be issued from a third

party, such as a manufacturer or an experienced certifying company. This is the best way to send a message of integrity to customers. These independent third party companies can not only help you develop your program, but they can also assist you in monitoring it. And over time, they can provide you the internal core competence to do it on your own.

Once you're in charge of a certified pre-owned boat program, you must constantly monitor and manage the process. It takes a good deal of dedication, proving in many cases to be worthwhile to employ a manager who oversees the process. Managing it necessitates that you track your inventory level as necessary; that you market the product at an appropriate frequency, through proper avenues and most importantly with the right message; that you ensure that the customer experience mirrors that of new boat buyers; that you provide special finance and warranty packages; and that you keep your employees trained and ready to capitalize on this unique opportunity.

In the end, having a certified pre-owned boat program enhances new boat sales, and these products make it easier for a consumer to step up to a new boat than it is from a non-certified boat. And you can always promote and offer that option at the appropriate opportunity. Done right, a marine certified pre-owned boat program will be customer-focused, will motivate employees to be involved, and it will retain and attract new model customers and positively impact the bottom line. **X**

Certifiable continued from page 15

be eligible for warranties.

Boat Town Inc. (Ranked 49) provides customers with documentation about the boat's certification. The dealership completely services and details pre-owned boats as part of its certification process. Only boats that pass are offered to the public.

Offentimes at Parks Marina (Ranked 9), salespeople are so in tune with what their customers are looking for that pre-owned boats are sold immediately upon arrival. It certainly doesn't hurt, however, that the dealer has established its own stringent 30-point certification guarantee to give those customers a little peace of mind.

Certifying pre-owned boats cannot only boost quality perception, but also help to differentiate pre-owned boats from brokerage boats. That's exactly why H&S Yacht Sales & Southwestern Yacht Sales (Ranked 17) implemented its certified program. **X – By Lisa Young**



Web site traffic is key

A compelling Web presence increases site visitors and generate more quality leads.

BY
CHARLES R. LEWIS,
FOUNDER &
EXECUTIVE VICE PRESIDENT,
CHANNEL BLADE
TECHNOLOGIES



As a provider of Web site and lead management solutions to the marine industry, Channel Blade Technologies has had the opportunity to witness some major shifts. One of these changes has been in the pre-owned boat market.

A few years ago, there was a clear delineation between dealers that focused on new boat sales versus those who concentrated on the pre-owned boat market. Over time, this has changed dramatically. As you've seen elsewhere in this report, 71 percent of boats changing hands in 2004 were pre-owned, compared to 63 percent in 1997. The 2004 Pre-Owned Boat Market Study, published by the National Marine Manufacturers Association, reported that more than 1 million pre-owned boats were sold in 2004 and more than 75 percent of first-time boat buyers bought a pre-owned boat. Powerboats made up 81 percent of pre-owned boats sold in 2004.

The pre-owned boat market is huge, and Channel Blade has tracked some of the best practices we've seen successful dealers implement. We utilize a methodology called TIPS – Traffic, Interactive Web Platform, Process and Sales:

- **Traffic** – In addition to brick-and-mortar operations, Web traffic is critical to generating sales opportunities in the form of leads from walk-in, phone and email inquiries.

- **Interactive Web Platform** – The primary purpose of a dealer's Web site is not only to present clear, valuable information, but also to capture visitor data and convert it into sales leads.

- **Process** – Once leads have been generated, a defined lead management process executed consistently over time is required to convert more of those leads into sales.

- **Sales** – Quantifiable data points and reporting processes allow dealers to measure and track performance while optimizing operations to maximize results.

There are a few measures dealers can implement to increase their pre-owned boat business online. Web site traffic is key. Making sure your Web site provides a compelling presence is vital to increasing the volume of hits it receives. To ensure your site is doing its job, follow these simple guidelines:

- Potential buyers expect a persuasive Web presence that legitimizes your business, so having the proper listings on your own Web site is essential. After locating a unit on a dealer's site or a portal site, prospects will do their research on the dealership by visiting its Web site. Studies show more than 70 percent of prospective buyers start their search online.

- Use as many portals as you can afford to reach as many potential customers as possible. In order to monitor return on investment, measure the results from each portal source and make decisions accordingly. Find easy and effective ways to share data and eliminate multiple data entry points. It is best to create one perfect listing and share it multiple times instead of creating several poor listings for individual sites.

- An interactive Web site with valuable information equals more leads. Contrary to what some dealers might think, more information and pictures for each boat combined with clear, concise information will generate more leads.

- A picture says 1,000 words. In order to make the most of your images, remember that what you see is what the customer sees. Consider the background – avoid dumpsters, fences, litter, debris or general areas that detract from the overall image. Light is your friend – Be sure to take the pictures when the light is at its best. Remember to remove loose lines, gear, canvas and other items from the boat so it looks neat and ready to be shown on the sales floor. Include your logo/sign and contact information in the profile photos.

- Listings without price are often ignored

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Web site traffic is key continued from page 18

and will not generate leads. Ideally, pricing should be presented by comparing the price to a comparable price set by NADA or other valuation company. An example might look like this: NADA Price: \$60,000. Our Selling Price: \$58,000. New, pre-owned boats might be compared to what a new boat would cost.

- Your response time to a potential customer is critical. Ideally, you should respond within a few hours. Research suggests that 60 percent of electronically submitted leads aren't replied to. Of the 40 percent that do respond, 50 percent don't supply the correct information. It is also estimated that 75 percent of all dealers don't have a documented process for managing electronic leads.

The goal of maintaining a compelling Web site is to generate quality leads. Your chances of getting a prospect on the phone will be directly proportional to the online relationship you have built with him or her. **X**

BP Webbing it

The Internet is a key marketing tool for many pre-owned boat retailers. Dealer management systems are making it easier to let the public know about your used inventory by loading the information you enter onto industry Web sites.

Having a separate pre-owned boat section for your dealership's Web site is the first step to reaching a wider audience. Listings can include specs, pictures and pricing, if you decide it's worth your while. If the site is kept current, dealerships can turn inventory more quickly and avoid confusion if someone inquires about a boat that's already been sold. Lake Union Sea Ray (Ranked 58) updates its online inventory daily with prices and other useful information.

Including photos with a Web listing for your pre-owned boats will give customers an idea of what the boat is really like and bring descriptions to life. Erickson Marine (Ranked 57) uploads six pictures per boat to accompany its online pre-owned boat listings.

There are three main outside Web sites for marketing pre-owned boats that Boating Industry's Top 100 Dealers told us they use. They are BoatTraderOnline.com, the Web arm of Boat Trader magazine, Boats.com and YachtWorld.com. Hampton Watercraft & Marine (Ranked 13) uses all three. The sales person that takes in the trade monitors the sites to make sure they have accurate and complete information. The dealership also requires that online listings not just list options, but also tell a story about the boat.

Beyond those companies mentioned, you can also tap into iBoats.com, UsedBoats.com, eBay, Craig's List, Bucnet.com and local newspaper classified sites, among others. **X — By Lisa Young**

Enticing the masses BP

Many of the same marketing tactics dealerships use for new boats can be employed for marketing pre-owned boats, but adding an extra "pre-owned" twist and thinking outside the box can garner used product a bit of recognition from the right customers.

Create something customers can take away with them. Sail & Ski Center (Ranked 12) has a pre-owned boat center display board at each of its five locations that contains one-page documents on each of its pre-owned boats customers can take and use as a quick reference for boats they may be interested in.

Most dealers display a pre-owned boat kiosk at their respective boat shows. Newport Boats (Ranked 26) takes the concept a step further by creating a pre-owned boat book just for shows.

Sometimes good marketing for pre-owned boats means being more aware of inventory and who your target buyer is. At Duchow's Boat Center (Ranked 42), different size, age and condition boats are marketed differently. Lakeside Marine Group (Ranked 44) doesn't offer entry level or less expensive lines, so new customers visit the dealership looking for high quality pre-owned boats. Lakeside keeps that specialization in mind when marketing to bring new customers into higher-quality pre-owned boats.

Clarks Landing Boat Sales (Ranked 41) features pre-owned product in its advertising, as does Hampton Watercraft & Marine (Ranked 13), which integrates its used inventory into its "Find Yourself at Hampton Watercraft & Marine" campaign.

Clarks Landing actually takes its marketing a step beyond by creating a pre-owned boat buyer's guide that is distributed in New Jersey and Maryland. The dealership's name attached to the guide can set it apart as a place to go for pre-owned boats. **X — By Lisa Young**



Focus on effective advertising and marketing plans

Developing clear and concise programs can bring in more leads.

BY
DAVID BINGHAM,
GENERAL MANAGER,
BOATTRADER.COM



“Sales are down,” “Earnings Reports Dire,” “Deliveries are expected to decline,” and on and on. Each of us has been following the news coming from big and small companies, but what is the cause? Some would point to the ever-increasing average cost per boat or engine prices. The added concerns over environmental challenges and the decreased water access in many areas create that perfect storm for a downturn in the recreational boating industry.

However, of all of the reports I have read not one has cited expected sales figures of “zero.” The current thinking is that the projected figures will be off by as much as 10 percent. I would call this a rallying cry for our industry. Now is the time to focus on how best to get our own message out and capture a greater share of the prospects available.

Every dealership I have visited boasts that its store, service and employees are the best. It also claims to have the best deals available anywhere. What are we doing to promote that message? Isn't this how we grow our margins and increase our market share? This is what sets us apart from the competition. Most dealerships can increase their share with well-developed and well-placed targeted advertising in both printed publications and online advertising.

Targeted advertising is the opposite of mass media advertising. Mass media sets out to reach as many people as possible regardless of whether they are in the market to buy a boat. Targeted advertising only reaches those who are looking to buy a boat in the near future.

The most effective targeted ads promote your intangibles, which are those un-quantified qualities that your business possesses that will make it stand out above the rest. These qualities will create enhanced value already present in the product or service

your dealership offers. Whether print or online, the more targeted the outlet the more it will help convert onlookers and generate more leads.

Meanwhile, mass media marketing is best used as an outlet for large promotional events that are advertising to attract much longer-term prospects that may not have started the buying process. Mass media include outlets such as newspapers or radio advertising and has broad reach but low conversion. This type of marketing has its place and should be considered as part of an overall brand awareness strategy. Brand advertising can be more difficult to track and analyze your return on investment.

Research has shown, however, that a targeted branding campaign coupled with more direct unit advertising results in up to 90 percent more hard leads. In some cases that results in direct contact with the dealership, according to an online study by BoatTrader.com. Soft leads, which result in viewers or subscribers, dramatically increased 60 percent for those dealers. These numbers indicate that brand advertising cannot be left out of any campaign. When designing a print or online brand marketing campaign the most important aspect is the call to action. That motivates the prospective buyer to seek you out.

With online marketing, there are many opportunities to choose from, including video, flash-based media and other very attractive, unique products. Online video-based advertising is growing in popularity due to an increase in high-speed Internet connections in the United States. According to Internet monitoring sources, more than 56 million people were connected to the Internet through broadband. This has resulted in the ability to present higher quality advertising reminiscent of television with the tracking ability of the Internet. Many

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Focus on effective advertising and marketing plans continued from page 20

dealerships are utilizing this brand concept with their builder's co-op programs. These dealerships see the value of utilizing those dollars to drive brand awareness. There are many builders who also offer that same opportunity online; however, these programs are still very new and limited in scope. All dealers should look at brand marketing as an important aspect of their marketing programs, and it should follow the actual inventory listing campaigns.

The direct campaigns also continue to be a source of confusion and opportunity for most dealerships. As with the brand marketing approach, it is best to first consider the target audience and then decide the approach to take. Many dealers have utilized local newspapers or they target classified books, such as *Salty Dog*, *Boat Trader* and *Boat Shopper*. More recently, some are utilizing online classified sites such as UsedBoats.com, BoatTrader.com, Craigslist and e-Bay. Even with these more sophisticated types of media and their tools available to track the success of each campaign, we continue to overlook some of the principals that marketing professionals have known and utilized for years.

For instance, pictures sell and stand out from the rest. Recent data reports that merely using bold text can get an ad 134 percent more leads. When advertising, take advantage of enhancements offered by the publication or Web site. The data suggests that an ad with any form of enhancement will receive 67 percent more leads than an ad lacking such an enhancement. This is very strong data, which should remind us to also be creative in our ad copy as we are writing our ads with the intent to stand out from the other offerings. In the case of online ads, it is important to note that less is not more. Most Web sites will search not just for the basics but will look into the ad's content and will find ads down to the detail of equipment on board. That is important when writing the ads so that opportunities aren't missed.

As the market gets more constricted, every opportunity and every lead increases in value. More thought must go into developing, executing and capitalizing on our marketing programs. It is important to utilize every resource offered by our advertising partners to make the best use of every marketing dollar. The future of our industry depends on it. **X**

BP On the move

While some dealers may claim they never have a problem getting pre-owned boats off the lot, there may come a time when product isn't flying out of the dealership as fast as it's trailering in. For times such as those, it's important to have a set turnaround strategy.

The first step in establishing a turnaround policy is determining a time-frame in which you would like to move product. While Harborside Yacht Sales (Ranked 29) likes to turnaround trades within 60 days, Sail & Ski Center (Ranked 12) aims to sell each pre-owned boat within 90 days of receipt.

Multi-location dealers can use their presence in different markets to improve turnaround times. Boats that may not fit in at one location may be

in high demand at another. Sea Ray of Cincinnati, Louisville & Lexington (Ranked 59), for example, shifts trades between its four locations to match inventory to local and regional buyer preferences.

Weekly sales meetings can be used to discuss ways to improve turnaround and discuss particular boats that may not be moving as quickly as a dealership hoped. At its weekly sales meetings, Sail & Ski Center (Ranked 12) assesses each boat's refurbishment, price and marketing. If necessary, the team comes up with actions to ensure a quick and profitable sale. The actions are e-mailed to the service department and marketing manager to be implemented.

Singleton Marine Group (Ranked 3) gave the most concise pre-owned

boat turnaround strategy of all Top 100 applicants. The company markets a new pre-owned boat at one of its seven locations for 60 days, then at another for 60 days. If the unit hasn't been sold by then, it's posted on BoatTrader.com, UsedBoats.com and the Atlanta *Journal-Constitution's* online classifieds site for 30 days. If that endeavor also fails, the boat's price is dropped to cost and it is moved to a wholesaler. Singleton noted in its application no boats have been wholesaled after 150 days because the boat is always sold before the time is up. Though they haven't had to use it yet, the dealership's team took the time to establish a process to ensure its pre-owned boats are on the move. **X — By Lisa Young**



Remarketing through auctions

A diversified approach gives dealers an advantage selling pre-owned boats.

BY
KAREN BRADY,
GENERAL MANAGER OF
SPECIALTY AND HEAVY
TRUCK AND EQUIPMENT
SALES, MANHEIM
SPECIALTY AUCTIONS



Every spring, I can count on one thing – spring fever. I'm not alone. The pleasant temperatures and warm breezes bring a renewed interest in outdoor activities, which increases demand for pre-owned boats. Spring also signifies an increase in auction sales along with more choices for marine dealers looking for better ways to manage their pre-owned boat businesses.

Today, there are a variety of ways dealers can take advantage of the opportunities auctions provide. By buying pre-owned boats online or in the lanes they can add to their inventory during the busy sales months, and continue to meet customer demand at home.

The pre-owned boat market, like the pre-owned car business, is cyclical. When the market is strong, it can be a challenge to have the inventory necessary to meet customer demand; and when the market is soft, it can be a challenge to sell inventory quickly. When managing pre-owned boat inventories, we suggest marine dealers consider diversifying their selling portfolios. Adding auctions is a viable way to broaden customer reach as well as liquidate aged inventory to increase profits.

An opportunity

Over the years, dealers have sold pre-owned boats through classified print advertisements or on various Web sites such as www.boat-trader.com or www.boats.com. Although these remain practical options, many marine dealers are expanding their remarketing reach by adding wholesale auctions to their options.

For more than 60 years, car dealers have remarketed pre-owned vehicles through wholesale auctions. Auctions are one of the oldest forms of commercial exchanges. They create a dynamic marketplace where bidding is fast-paced and true market value is determined with each transaction.

In addition to cars and trucks, consignors of boats and RVs to motorcycles and power-sports products are turning to auctions. The

demand has grown so much that companies such as Manheim have created dedicated divisions to meet their customers' changing business needs.

Auction remarketing services work well for dealers who want to move their inventories quickly and get full market value. When an auction receives a pre-owned boat for its monthly sale, the unit is checked in and a condition report is created along with a basic boat inspection. In addition, the unit is imaged if the customer prefers, cleaned and set for sale so it's available to be marketed to potential customers prior to the auction. The auction markets the sale through a variety of channels, including telemarketing, faxes and email. This increases the dealer's chances of selling the boat the first time. Once the boat is sold, the buyer receives a guaranteed title and funds are transferred to the seller.

Auction tips

The auction process is easier than some might expect. Here are some tips on what you can do to get the most from your auction experience.

- Choose an auction that matches your needs. (Manheim, for example, offers eight auction locations that specialize in monthly boat sales.)
- After deciding on an auction to attend, you will need to register in order to buy and sell.
- Preparation before attending an auction greatly affects a dealer's experience. Preview units for sale and set realistic buying expectations to increase your chances of successfully purchasing the unit you want at a fair price.
- Consult with the auction staff about your specific needs. Employees are there to help dealers maximize their visit to the auction.

In addition, there are many auction benefits to boat dealers, including:

- **Critical mass of buyers and sellers:** Dedicated boat auctions provide an oppor-

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Remarketing through auctions continued from page 22

tunity for multiple sellers to offer their units to a large crowd of potential buyers, as well as preview a large quantity of quality boats to buy.

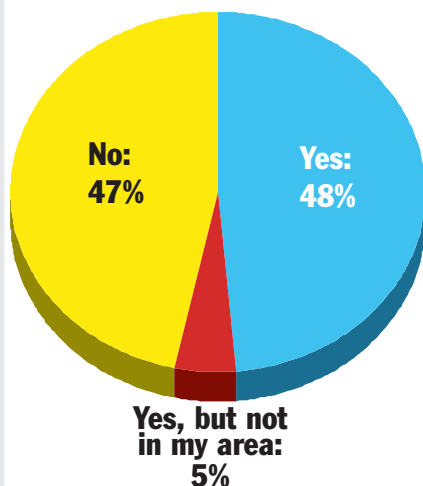
- **Credible pricing:** Auctions create an environment in which the basic laws of supply and demand are at work to establish a fair market price.

- **Market liquidity:** Auctions allow consignors to convert their used boats into cash quickly.

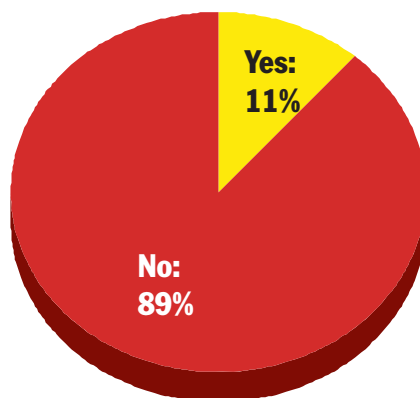
- **Affordable participation:** Auction fees are a small percentage of the boat-selling prices and, in fact, have gone down in the last 10 years.

- **Technology applications:** Auctions have embraced technology to enhance the process for both buyers and sellers. Many auctions are using state-of-the-art technologies to reach new audiences and improve efficiencies for existing customers via the Internet. **X**

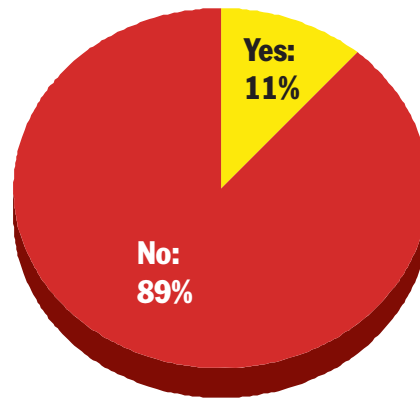
ARE YOU AWARE OF AUCTION LOCATIONS IN YOUR AREA THAT BUY AND SELL USED BOATS?



HAVE YOU BOUGHT ANY USED BOATS FROM AUCTION HOUSES IN THE PAST YEAR?



HAVE YOU SOLD ANY USED BOATS TO AUCTION HOUSES IN THE PAST YEAR?



BP Converting the masses

While used boats play a massive role in the marine industry marketplace, selling more than double that of new boats, they also serve as a gateway to new boat ownership.

Consider instituting a different strategy for first-time buyers than you use for repeat buyers. A 2004 study Info-Link Technologies conducted in cooperation with the National Marine Manufacturers Association found that 70 percent of those who purchased a new boat in 2004 were repeat boat buyers. The study also found that 50 percent of those repeat customers' previous boats were pre-owned. Repeat buyers have been through the routine before and may know what to look for in used boats. First-time buyers can benefit from detailed walk-throughs for each step of the used boat buying process. Rambo Marine (Ranked 73) attracts prospects with its used boats as a way to get them into and familiar with the store.

Selling used boats not only offers an opportunity to bring new people into boating, but can be a stepping stone to getting people

into new boat ownership. By and large among the Top 100 Dealers, pre-owned boat sales are seen as a driver for new boat sales.

The first part of converting a pre-owned buyer into new boat buyer is providing a positive used boat experience. Parker Boat Co. (Ranked 18) sets out to turn each of its used boat customers into new boat customers. Knowing that's what it wants to do ahead of time, dealership personnel do everything they can to make sure used boat customers have a good used boat experience.

The used-to-new connection can be found through trades, whether a boat is traded at the end of one season or after 10 years of use. Dealerships that can craft solid trade-up programs flourish in the conversion. Seattle Boat Co. (Ranked 16) created the Great Exchange program to fill this niche. For each subsequent model year after a new boat has been purchased, boat buyers are provided an allowance – a predetermined percentage of the original invoice price – to trade in their boat for a new boat. **X – By Lisa Young**

