

Automotive News

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A lunch date, then a breakup



Amy Wilson
awilson@crain.com

On Friday, May 8, over salads and sandwiches at TrueCar Inc.'s seaside Santa Monica, Calif., headquarters, CEO Scott Painter made the future clear to visiting AutoNation Inc. executives: He would no longer do business with the dealership giant if it didn't begin sharing a wide swath of customer data.

Jackson: AutoNation would give its data to TrueCar "over my dead body."

Inside the AutoNation-TrueCar divorce

After years of seeking that data — which other dealership clients were already providing to TrueCar, but AutoNation was not — Painter told the AutoNation execs the new rules were “nonnegotiable” and an “integral part” of TrueCar’s business model. In other words, AutoNation’s hall pass was over. “Over my dead body,” AutoNation CEO Mike Jackson later told his team. With that meeting, the two parties were at an impasse, one that couldn't

be overcome last week when AutoNation severed ties with the third-party lead generator.

“That’s the breaking point,” Jackson told *Automotive News* last week. “TrueCar says there will be no exception for AutoNation. Therefore, we’re saying goodbye.”

The nation’s largest new-car retailer will stop using the Internet vehicle shopping service on July 15. Of AutoNation’s 240 dealerships, 226 had

■ Painter explains why TrueCar dropped AutoNation | **PAGE 70**
■ Letter to AutoNation | **PAGE 71**

been using TrueCar. Painter, last week, disputed who had fired whom. “This isn’t AutoNation dropping TrueCar,” he said. “This is a very deliberate step on our part. We went to them and said, ‘You must comply with the rules of the marketplace.’”

see **BREAKUP**, Page 70

Automotive News

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UNDER RETAIL

What drives the industry? New cars, new ads, new blood. Inside, you’ll meet the men and women on *Automotive News*’ fourth annual listing of 40 high-achieving auto retailers under age 40. Read about these up-and-comers who are taking auto retailing into the future. | **PAGES 21-57** |

➤ Learn how four of our 40 Under 40 honorees quickly navigated through various departments in their rise to leadership positions. autonews.com/40under40

INSIDE TODAY

Stink happens
Who you gonna call when a car smells? Odor Doctors is one of the outfits that clear the air so used cars won't repel buyers. Get a whiff of what they deal with, and how. | **PAGE 4** |

MARKETING
GMC pitches pickup with pretty pictures
Can you sell a rugged pickup with beautiful pictures on Instagram? GMC says yes. | **PAGE 59** |

Kristina Wisner and her daughter, Olivia, listen as salesman Gabe Heil, of Brown Honda in Toledo, Ohio, explains the features of the 2016 Honda HR-V. Wisner wants to replace the family's Honda Civic with a crossover or SUV.



PARKING THE SEDAN

What's driving the shift to crossovers, SUVs

Larry P. Vellequette
lvellequette@crain.com

A few weeks from now in Toledo, Ohio, Kristina Wisner will trade in her dinged-up 2006 Honda Civic for a 2016 Honda HR-V, so she can “sit higher” and “be able to haul stuff when I need to.”

When she gets her new subcom-

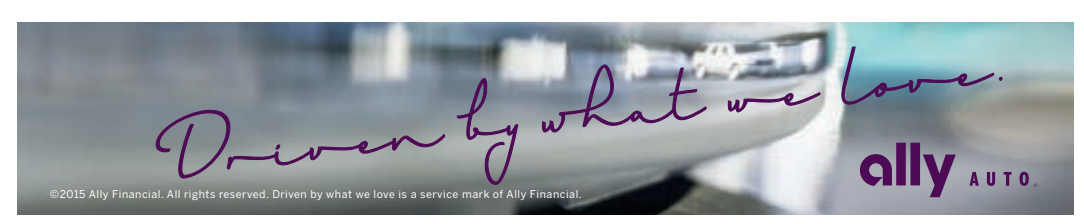
pact crossover, Wisner will be yet another consumer abandoning a sedan for a crossover or SUV.

The evidence of what's going on is striking: Through the first half of the year, in a U.S. market up 4.4 percent, the historically biggest segment — midsize cars — is down 3.4 percent. It begs a question: Why now?

The answer, according to experts, is that consumers no longer must choose between the fuel economy and comfortable ride of a sedan and the versatility and increased visibility of a crossover or SUV.

“If you go back in time and [bought] an SUV, you would be compromised to some extent of the way

see **SHIFT**, Page 69



Painter: 'A very deliberate step on our part'

Neal E. Boudette
nboudette@crain.com

For TrueCar Inc. founder and CEO Scott Painter, the split with dealership giant AutoNation Inc. is not about money and car-sale deals.

"We feel passionately," he told *Automotive News*, that in today's marketplace, consumers require "truth, transparency, an up-front price." And TrueCar, in Painter's view, needs data to provide that transparency.

When AutoNation wouldn't supply that data, the relationship had to end.

Painter said TrueCar gave AutoNation "a clear line in the sand" and demanded the retailer comply with its data-sharing terms, which he called "marketplace requirements we need to enforce."

"This isn't AutoNation dropping TrueCar," Painter said. "This is a very deliberate step on our part. We went to them and said, 'You must comply with the rules of the marketplace.'"

He added: "The notion that anyone gets a hall pass on those requirements is untenable."

In fact, Painter said, TrueCar has "fired" more than 350 dealers in the past 12 months for refusing to comply with its terms. That is more than the 226 of AutoNation's 240 dealerships that use TrueCar's services.

TrueCar works with dealers across the country holding more than 11,000 franchises. "The partnership with AutoNation just



Painter:
Effect may be positive.

turned into, in a sense, a choice for the consumer," Painter said. "It really makes them our competition."

Although TrueCar doesn't sell cars as AutoNation does, Painter said his company is in the "customer-acquisition business" — a field in which AutoNation is expanding its own branding and operations.

In a separate interview with *Automotive News*, AutoNation CEO Mike Jackson said his company was severing ties with TrueCar as of July 15. Jackson said TrueCar had been trying to impose "onerous" demands, including requiring that AutoNation provide extensive customer information for all of its transactions, not just TrueCar-related deals.

Painter said that consumers searching for vehicles on TrueCar will end up going to non-AutoNation stores to follow through with purchases initiated on the website.

"Ironically, this could have a positive financial effect for us," Painter said. "The customers that otherwise would have been introduced to AutoNation stores will immediately begin getting introduced to other TrueCar certified dealers."

AutoNation represented 3.1 percent of TrueCar's total revenue in the first quarter of 2015, down from 3.2 percent a year earlier.

Users of the TrueCar platform who purchased from an AutoNation dealer represented 4.2 percent of TrueCar's total units in the first quarter, down from 4.6 percent. **AN**

BREAKUP

Why AutoNation and TrueCar severed ties

continued from Page 1

"We have an unwavering and long-term focus on a transparent car-buying experience," Painter said. "There's absolutely no benefit to consumers, dealers or the industry in reversing the trend to transparency."

"We may not be popular," he added, but the dealers who work with TrueCar "are profitable because they're selling."

Demanding data

TrueCar long had asked AutoNation to share data on all its retail transactions, not just the TrueCar-generated deals.

That would mean sharing a list of 41 data points on the approximately 550,000 vehicles sold by AutoNation annually. Of those sales, AutoNation attributes just 3 percent, or about 16,500, to TrueCar.

TrueCar disagrees with that tally. It estimates the TrueCar platform was responsible for at least 7 percent of AutoNation's new-vehicle sales in the first quarter and, had AutoNation gone along with TrueCar's proposed contract, that could have grown to 10 percent by the end of the year. "We know exactly the degree to which AutoNation underreported" sales, Painter said. "It's massive."

The data demand has caused friction with other retailers, too. Dealers argue that turning over such an extensive pool of customer

Data dispute

AutoNation and TrueCar split over the question of access to data. Here are some of the issues.

Sticking point:

TrueCar wanted data on all of AutoNation's vehicle sales, not just TrueCar-generated deals.

TrueCar's view:

The data are needed to audit AutoNation's sales to see which result from consumers going through TrueCar.

Other dealership groups provide such data; AutoNation was an outlier.

The data support a marketplace move toward transparency.

AutoNation's view:

TrueCar uses the data to claim sales in which it played only a tiny role.

TrueCar could use the data to market to, or poach, customers as it moves into financing, service and other areas beyond sales.

and transaction data raises issues about security, customer privacy and the potential that their customers will eventually be marketed to or poached.

TrueCar executives told AutoNation they want all the retailer's transaction data for an audit function, Jackson said. TrueCar would then compare its database with AutoNation's and look for a match, so it could bill AutoNation for that sale. That alone is prob-

lematic, Jackson said. AutoNation argues that TrueCar is trying to lay claim to some sales generated by its competitors and AutoNation's own marketing efforts.

"Customers go many places before and after a TrueCar visit, and just because they were momentarily on the TrueCar site doesn't mean I should have to pay them \$300," Jackson said. "So there's a big disagreement there."

Painter said consumers who want a transparent car-buying experience will do business with TrueCar while those who want to buy cars in a traditional manner will go to AutoNation.

AutoNation says its cost for a TrueCar sale already is in the \$550 range. That's higher than the \$299 and \$399 fees TrueCar charges for new- and used-vehicle sales, AutoNation says, because of the sales for which TrueCar unjustifiably takes credit.

AutoNation currently pays TrueCar about \$7.5 million a year. AutoNation estimates that would jump to more than \$10 million if the data were shared and TrueCar were able to lay claim to more deals.

The letter

The parties began negotiating last fall, as AutoNation's contract with TrueCar was originally set to expire March 1. Handling the talks for AutoNation were now-COO Bill Berman and Chief Marketing Officer Marc Cannon. For TrueCar, it was Painter, President John Krafcik and Mike Timmons, senior vice president of dealer development. Those five were in the May 8 meeting.

The impasse reached that day was reinforced May 23 when TrueCar sent AutoNation a letter. TrueCar and AutoNation had further discussions after the letter. But by mid-June, negotiations had gone cold. Weeks of silence led up to AutoNation's July 9 notification.

Over the years, as AutoNation tried to figure out how to tackle the divide between the

see **BREAKUP**, next page

What does TrueCar want?

The data that TrueCar wanted from AutoNation for every AutoNation vehicle sale, including those unrelated to TrueCar

Customer details

Buyer Name (incl. Co-Buyer)
Buyer Address (incl. Co-Buyer)
Buyer Phone Number (incl. Co-Buyer)
Buyer Email Address (incl. Co-Buyer)
Cust ZIP code

Vehicle details

VIN
Make
Model Name
Body Type
Model
Year
Color
Veh. Options
Stock Number
Style ID
Engine
Fuel Type
Trade Make Name
Trade Model Name
Trade Model
Trade Year
Trade Color
Sale Type (New/Used)
Vehicle Mileage

Deal details

Deal Number
Deal Status
Salesperson Name
Dealership ID
Store Name
Contract Date
Inventory Date
Days To Turn
Dealer ZIP
Front Revenue
Front Cost
Deal Type
Sticker Price (MSRP)
Invoice Price
Rebate Amount
Trade Actual Cash Value
Over/Under Allowance

Source: AutoNation

AUTOMOTIVE NEWS READERS WEIGH IN

The AutoNation/TrueCar story, published first on autonews.com July 9, generated more than 60 comments within the first 24 hours on our website. Here is a sampling of reader comments.

"Obviously TrueCar wants all sales data so they can force the dealer to pay the \$399 even though that customer is an existing customer of the dealer and may have checked prices via TrueCar. Auto Nation's right to bail out and more than likely other large groups will follow."

— Carsafrica

"TrueCar only gets paid if the deal closes, ensuring the dealer makes money. Obviously 11,000 dealers agree, and are happily making money on TrueCar's site."

— Georges K

"Jackson's absolutely correct. Customer data is intellectual property. If TrueCar wants access to more data than it's directly involved in producing, it had better expect to pay accordingly."

— Madlock

"I look forward to AutoNation's results without this service. TrueCar's fees are high. They take your data. Worse yet, they

don't increase sales. There are unintended consequences of using TrueCar. People will take your TrueCar certificate and shop with it. If they beat your price, they often won't give you another shot because they assume the certificate price is sacrosanct. If the customer does come back, you are at a \$300 disadvantage compared to the non TrueCar dealer. I've been on it twice and had the same results both times. This could be a real emperor's got no clothes moment. I hope so."

— Arjay

"Good for you Mike Jackson! True Car is a service that has exploded onto the scene preying on the weak in their advertising. Why would any business turn over decades of customer data so a service can market to them and pit another dealer against you?"

— Patrick_Womack

"My real world experience is that most TrueCar users only do so to keep their

local dealer honest. I dropped TrueCar 3 years ago, I still sell a lot of TrueCar users every month ... The only difference is I can offer a lower price because I do not have to pay TrueCar \$299-\$399 for the transaction. People are not loyal to TrueCar, they are loyal to a dealer with a good reputation who will be there throughout their ownership experience. People use the site to gather pricing info, the same pricing info that is available at many other sites."

— Cars101

"AutoNation's real complaint is that they don't want TrueCar to be able to audit their data to find out the truth about how many sales really came from TrueCar. ... Now TrueCar is big enough it doesn't need AutoNation's business and can insist on fair and transparent business practices between TrueCar and its dealer partners."

— Ethan

BREAKUP

continued from previous page

experiences customers have shopping in dealerships and online, it even had former COO Michael Maroone take a position on the TrueCar board of directors from 2011 to 2012. Maroone was to explore whether companies such as TrueCar could help the retailer seamlessly connect its online and brick-and-mortar operations. The conclusion: No.

In April 2014, AutoNation said it would reduce its reliance on third-party lead providers. It is investing \$100 million in 2014 and 2015 to launch its own online buying service called AutoNation Express.

AutoNation executives say the retailer's branding initiative and broader marketing efforts attract vehicle sales more efficiently than going through TrueCar. Marketing expenses for AutoNation-generated sales average \$255 per vehicle, the retailer said.

But those efforts don't explain the breakdown of the AutoNation-TrueCar relationship, Jackson said. He laid the blame at TrueCar's feet.

"TrueCar has made some onerous demands in its new contract negotiations with us that are unprecedented in my 45 years in business and are unconscionable and unacceptable," Jackson said. "We cannot agree to them."

By contrast, Jackson said he has no intention to drop other third-party providers at this time.

Ultimately, in Jackson's eyes, it makes no sense for AutoNation, as it works to build its own brand and digital footprint, to hand over a wealth of proprietary information.

"Let's face it: TrueCar is a competitor," Jackson said. "TrueCar has made it quite clear they're not stopping at new-car sales transactions. They're going to inject themselves into the arrangement of financing, they're going to have a service product, they're going to have a trade-in product. So they're going for the entire spectrum."

For TrueCar's part, without AutoNation, "we lose a great anchor relation, but we could raise revenue" as a result, Painter said. "Their decision not to comply is perfectly fine with us." **AN**

Neal E. Boudette and Jamie LaReau contributed to this report.

TITLES

Texas caught 15,000 errors in the past year

continued from Page 3

wrecks will be back on the road. Those bogus cars compromise vehicle safety, hurt prices and put consumers, dealers and auctions at risk.

"Anytime you have a number of states not fully participating, you create some weakness in the system," said Jim Moors, director of franchising and state law at the National Automobile Dealers Association.

The database of vehicle titles allows states to submit and share with one another information about damaged vehicles that have been issued title brands such as "junk," "scrapped," "salvage" and "water damage."

Moors said that though he does not have data to back it up, title washing is still an industry concern for dealers. The concern becomes even more acute when there is a big storm such as Hurricane Katrina, which devastated New Orleans in 2005, or Superstorm Sandy, which soaked the East Coast in 2012.

The Justice Department has worked hard to encourage states to participate fully and has seen significant, albeit slow, progress over the past five years, Moors said. "But I think we'll get there," he added.

A common reason for delays is antiquated computer systems that are costly and time-consuming to replace, according to some states responding to queries from *Automotive News*.

Outdated technology

For example, the Oregon Department of Transportation is not participating in the national title information system because its outdated mainframe computer system operates on the COBOL computer programming language, which won't support the database, a spokesman said. COBOL stands for Common Business Oriented Language, which was popular in the 1960s.

Tight budgets and the recession coupled with staff reductions prevented the state from updating the system, he added.

But Oregon lawmakers in June passed a budget that includes funding to modernize the transportation department's computer and business systems.

"The first thing we're going to do is the title and registration system," the spokesman said.

"We have to select a vendor, select a solution and get it implemented. It's not just [the national title information system] — it's going to make a whole lot of what we do so much easier and smoother. We won't see results for two or three years," he said.

The National Motor Vehicle Title Information System was established under the Anti-Car Theft Act of 1992, according to the system's website.

The Justice Department is responsible for its implementation and operation in partnership with the American Association of Motor Vehicle Administrators.

The system's aim is to protect the public from illegal activities such as title fraud, odometer tampering, stolen vehicles and cloning — stealing the vehicle identification number of a legitimately-owned vehicle and putting it on a stolen vehicle.

The system contains vehicle title in-

formation from state motor vehicle titling agencies, insurance companies, auto recyclers, junkyards, and salvage yards.

The information is available to consumers, dealers or anyone else for a fee. More than a dozen "approved data providers" are listed on the system's website and charge from about \$3 to \$13 per vehicle identification number checked.

A spokeswoman for the Kansas Department of Transportation said the state is in the process of making technology improvements to its motor vehicle system and adding the national title information system is part of it.

"But we don't have a set timeline for it yet," she said.

State police Lt. Tim Charland, assigned to the enforcement and safety division of the Vermont Department of Motor Vehicles, said implementing the system is on his state's radar, but he did not know when it might happen. "It would be a benefit," he said.

A spokesperson for the District of Columbia said its department of motor vehicles is implementing the national title database with a startup expected in December.

Texas is all in

One of the most recent states to expand its use of the federal title database is Texas.

The state started contributing data to the system about six years ago, said Clint Thompson, chief of title services with the Texas Department of Motor Vehicles.

Then in June 2014, after years of planning, two years of implementation and review and a \$1.1 million investment, the state began checking the title of every used vehicle titled in the state against the federal database.

Thompson said over the past year his department caught more than 15,000 errors related to title brands. Of that number, about 10,000 errors were related to data entry errors — a clerk who processed the title failed to record the brand properly — and about 4,300 titles were surrendered to the state without brands, although brand information should have been included.

The state also found 229 titles for nonrepairable vehicles that should not have been on the road but were.

"That was the reality before" the national title information system, Thompson said. "Now, we catch every one of those."

There were multiple reasons it took Texas awhile to get onboard — including budget constraints, Thompson said. But even after money was appropriated, it took time.

In addition to creating the information technology programming, the effort included creating a unit of six employees solely to check vehicle titles.

Thompson said the state's 245 counties had to be educated about the system and how to handle transactions and title errors.

If those counties cannot resolve a title error, they turn it over to Thompson's unit, which handled 96,000 titles over the past year.

Texas' implementation also included a public service marketing campaign — "Don't buy a wreck, do a title check" — to urge residents to check titles of used vehicles before purchase to avoid surprises when they approach the state for a title.

"It was a huge undertaking," Thompson said. "It's not something that you just say, 'Hey, we're going to do this tomorrow.'" **AN**

'WE NEED TO REACH A DECISION ABOUT THESE OPEN ITEMS PROMPTLY'

With the following letter, dated May 23, TrueCar drew its "line in the sand" for what was required to continue the partnership with AutoNation

May 23, 2015

Mr. Bill Berman, Executive Vice President and Chief Operating Officer

Mr. Marc Cannon, Chief Marketing Officer, Senior Vice President of Communications & Public Policy AutoNation, Inc.

Via Email and Certified Mail

Dear Bill and Marc,

To summarize our recent conversations, we appreciate and deeply value TrueCar's partnership with AutoNation, but to continue that partnership we must require that AutoNation comply with the same TrueCar marketplace requirements with which our other Dealer partners comply. These marketplace requirements and their materiality to our business relationship are discussed below:

Sales Data: In order to (i) receive Pay Per Sale billing in which Dealers shift 100% of marketing risk to TrueCar and (ii) have access to millions of deep-in-funnel customers using 600+ TrueCar-powered auto buying sites (TrueCar.com, TrueCar mobile, USAA, Consumer Reports, AARP, GEICO, Employee Buying Sites, AAA, American Express, U.S. News and hundreds more), it is a mandatory marketplace requirement that all participating Dealers provide TrueCar with continuous access to limited sales data covering all finalized sales records. This data is necessary to power our sales matching system, which is the basis for identifying sales in Pay Per Sale billing.

Specific Fields Required: Customer Details (names, addresses, phone numbers and email addresses for buyer and co-buyer); Vehicle Details (VIN, year, make, model, trim, new/used flag, MSRP, stock number) and Deal Details (sale date, deal number, deal status, salesperson name, dealership ID). If Dealers want advanced analytics (at no additional cost) on how their transaction prices stack up in their local market, they also provide transaction details to TrueCar.

Collection: TrueCar does not directly access Dealers' DMS systems and never has. In order to collect the limited sales data we need to power TrueCar's fully accountable billing method, AutoNation can either "poll" or "push". Under "polling," a trusted third-party like DMI (owned by CDK Global, Inc.) will securely collect the limited sales data defined above from AutoNation's DMS system. Under "pushing," AutoNation will directly deliver a daily file with the limited sales data above to TrueCar via a secure FTP site. To safeguard consumer Personally Identifiable Information, TrueCar requires PGP/GPG encryption of the file and SSH key authentication to access TrueCar's secure FTP site.

Financial Terms: AutoNation has been a valued long-standing partner and we want to continue doing business with AutoNation in a mutually

beneficial manner. TrueCar is the auto retail industry's only large-scale, fully accountable customer acquisition partner. TrueCar does not charge Dealers for impressions, listings, leads or clicks; rather, TrueCar only charges Dealers for sales (in applicable states). Additionally, TrueCar's current published Pay Per Sale service fees — \$299 for new vehicles and \$399 for used vehicles — are well below industry average.

As good partners and recognizing that AutoNation is the largest auto retailer in the U.S., TrueCar will provide AutoNation an additional 10% discount off the TrueCar published Pay Per Sale service fees if greater than 90% of AutoNation stores use the TrueCar platform and abide by all marketplace requirements. We also realize that attribution — especially around same-day walk-ins and customers who also access AutoNation.com — can be an issue and TrueCar will provide limited partial credits under clearly defined rules.

Bottom-Line: The above billing structure and financial terms will provide AutoNation with a fully accountable solution that delivers a large and growing amount of sales with very attractive economics. By our estimates, the TrueCar platform was responsible for at least 7% of AutoNation's new vehicle sales in Q1 2015. As with all of our Dealer partners, TrueCar's investments are creating growth opportunities for AutoNation and we believe the TrueCar platform could represent more than 10% of AutoNation's new vehicle sales by the end of 2015.

TrueCar bears substantial development, marketing and other expenses in order to build, manage and support a marketplace with over 6 million deep-in-funnel customers per month, a 25% over-index level of Millennial car-shoppers, and an over-50% mobile engagement rate. As a result, TrueCar must maintain and enforce consistent marketplace requirements to preserve our brand, and to ensure an equitable playing field for our 10,000-plus Dealer partners and the car buyers that they serve.

We are committed to moving forward under these terms but we need to reach a decision about these open items promptly. In the trailing 12 months, TrueCar suspended over 300 Dealers who did not meet marketplace or customer requirements. We are prepared to take similar action here should AutoNation elect not to follow our marketplace requirements. We are approaching this matter in a good faith manner and are hopeful we can continue being partners.

We look forward to hearing from you as soon as possible.

Sincerely,
John Krafcik, President, TrueCar

Mike Timmons, Senior Vice President, Dealer Development, TrueCar