

Service Contracts Beef Up Auto Loans

Credit unions likely will see a slowdown in both vehicle sales and credit union automobile lending this year. Auto makers sold a record 17.4 million vehicles in 2000. That came on the heels of 1999's previous record of 16.9 million vehicles.

But in December, major U.S. auto makers saw sales decline 2% and were idling plants and bracing for winter sales far below the level of one year earlier.

That slowdown could put a dent in credit unions' bottom lines, considering auto loans currently comprise 40% of credit union loan portfolios. And it means credit union executives might want to beef up their auto-loan portfolios by offering members auto-loan-related products.

One traditional product is auto insurance. Currently, 25% of credit unions offer auto insurance, serving 45% of all credit union members, according to CUNA & Affiliates' Credit Union Services Profile.

Extended service contracts, auto clubs, and vehicle inspection services also are logical extensions of the auto loan product. Because credit unions have an established—and trusted—place in members' vehicle-buying process, these related products could enhance the member relationship, expand

members' peace of mind, and generate revenue for credit unions.

A lucrative market

Extended service contracts—basically insurance policies for comprehensive mechanical repair programs—are an \$8 billion annual book of business for auto dealers, according to *Used Car News*. Sales of extended service contracts accounted for 37.4% of total dealer finance and insurance (F&I) profit last year and 13.2% of total dealership profit, says CNW Marketing/Research, Bandon, Ore.

Today, 40% of people buying automobiles also purchase mechanical repair coverage. That leaves a large chunk of the market underserved and represents a great revenue opportunity for uniquely positioned credit unions.

Of the 45 million used cars sold in the U.S.

every year, 15 million are sold through private parties, and most of these transactions are financed through credit unions and banks, according to Forrester Research, Cambridge, Mass. In addition, 30% of people who buy cars from dealers finance their purchase outside the dealer at their credit union or bank, says a Buyer's Choice Warranty Corp. re-

Exec Online

Check out these and other related links available from *Credit Union Exec Online* (execonline.cuna.org):

- The Fed's vehicle sales analysis;
- Consumers' Internet car-buying behavior; and
- Dealer markup under fire.

search report. CUNA data show roughly \$120 billion of credit union-issued car loans outstanding (50% used cars, 50% new cars) as of August 2000.

Internet-enhanced delivery

Problem is, the auto extended-service-contract market (particularly for used vehicles) historically has been fragmented, decentralized, and laden with a manual, paper-intensive sales and fulfillment process. But the Internet is changing that process.

The World Wide Web—as both a back-end technology tool and a new sales/distribution channel—has made the introduction of new products, such as extended service contracts, easier and more cost-effective. And that will make it easier for credit unions to offer extended service contracts to members through business partnerships or credit union service organizations.

A recent survey by J.D. Power and Associates, Agoura Hills, Calif., shows that 26% of late-model, used-car buyers use the Internet to search for information or to help them with used-vehicle purchases; 66% will do so by 2003.

Vehicle extended service contracts are among the newest of the traditional F&I products to hit the Web, and there's a good reason for this—120 million of the 200 million cars on the road have no warranty coverage, according to Census Bureau information.

Early entrants into the Internet auto-service-contract arena created Web brochureware versions of their direct marketing programs. Buying up service contract “keywords” on major search engines, these sites (more than 20 in number) were simply an extension of inbound direct marketing programs. This approach created long lag times between the request for an online quote and the close of a transaction.

However, aggressive new players, such as Everymile, owned and operated by DriverSide Inc., Boston, added a new spark to this sleepy part of the Internet auto space. Instant access to comparative information, minimal information requirements, and full e-commerce capabilities are the keys to putting more power into loan officers' and members' hands and closing the sale in a timely fashion.

Everymile's transactional Internet engine (www.everymile.com) elimi-

nates the complex paperwork required to deal with all the permutations of car makes, models, and service contract levels, as well as the legal and regulatory issues surrounding the sale of extended service contracts.

Everymile sets up a co-branded or private label site with each credit union. Credit unions earn a negotiated percent of each service contract sale (a sliding scale from 15% to 20% based on total sales per month) as a marketing fee. It's up to the credit union to determine how much of the marketing fee to retain and how much to pass on to members as a discount on the service contract products.

Members can access the Internet engine:

1. In conjunction with a credit union loan officer, who works through the program with the member and then packages the extended service contract with the vehicle loan; or

2. Via the credit union's Web site. Members simply fill out the year, make, model, and mileage of the car to receive a quote for the various extended-service-contract levels for which the vehicle is eligible (Figure I). Like other e-commerce sites, members fill in their personal information and complete the transaction on their credit card.

Furthermore, credit unions can offer members three payment options: 1) Members can

Figure I
SEARCHING FOR EXTENDED SERVICE CONTRACTS

The screenshot shows the Everymile website interface for purchasing a warranty. The page title is "everymile BUY A WARRANTY". Below the title, there is a list of instructions: "Please complete the following 6 conditions so we can calculate the Warranty Plans and Price Options that are right for you!". The form consists of six numbered steps, each with a dropdown menu:

1. Please select the vehicle make
2. Please select the vehicle model
3. Please select the vehicle year
4. Please select the vehicle mileage
5. Are you 1800 miles left on the vehicle's odometer to contract a maintenance warranty? (Yes/No)
6. Please select the State in which you reside

At the bottom of the form, there is a "Submit and Continue" button. The website header includes the Everymile logo and navigation links like "Get Quote", "Account & My Account", "Log Out", and "My Guarantee".

SERVICE CONTRACTS

roll the cost of the extended service contract into their car loan, adding a few dollars a month to their loan payment; 2) they can initiate a separate loan; or 3) they can use their credit union credit card. The average service contract is \$1,000 to \$1,500.

The credit union benefits of extended-service-contract programs are both financial and strategic and include:

- Increasing the primary financial institution relationship with members by providing more products directly related to core business;
- Protecting credit union spreads as interest rates fluctuate;
- Enhancing member loyalty;
- Increasing the dollar amount of auto loans by incorporating extended service contracts into members' auto loans;
- Protecting the collateral of credit unions' vehicle loan portfolio;
- Generating incremental loans and credit card use; and
- Providing a source of additional income through revenue-sharing opportunities without internal development costs.

Credit unions also receive a marketing program to inform members about the products and services offered through the extended-service-contract partnership, including:

- Statement mailings, newsletter articles, on-hold messages, and branch merchandising;
- Tools, such as e-mail marketing technology, that leverage customer information files or customer relationship management centers to inform members about the services;
- Marketing material templates into which credit unions can insert their logo and other

Today, 40%
of people buying
automobiles also
purchase mechanical
repair coverage.

specific information; and

- Consultation services for marketing and promotional efforts.

How members benefit

"Credit unions occupy a unique place in the minds of their members when it comes to critical decisions, such as buying a car, insurance, and other such life-event purchases," says

Sean Black, Everymile CEO.

"Through the trusted intermediary relationship with members, credit unions can assist members by prequalifying any number of financial and insurance products and services—saving them time, money, and confusion," he says. "Moreover, credit unions can ease members' transition to the Web by offering advice and assistance in Web-based transactions."

To that end, members reap these benefits from service contract programs:

- A dealer alternative to peace-of-mind products;
- The ability to access these products from a source they know and trust;
- Substantial discounts (compared with auto dealer prices) predetermined by the credit union; and
- Competitive pricing information.

Partnerships such as those available through Everymile are key to credit unions' future business development efforts (see *Credit Union Executive Journal*, May/June 2000). It's not necessary to reinvent the wheel when developing products and services. But it is critical to be innovative by combining the experience and reputation of credit unions with the focused efforts of early-stage companies.

Through partnerships and joint marketing efforts, credit unions can add products such as extended service contracts to their portfolios in weeks vs. the normal extended new-product development life cycle.

These early-stage companies are eager to blend the best of the click and mortar worlds by investing their marketing dollars in the partnership—rather than attempting to independently vie for the attention of consumers who already have formed their purchasing allegiances. □

Jacqueline Ganim-DeFalco is chief marketing officer at Everymile in Boston. She can be reached at 617-464-1092, ext. 26; or by e-mail at jackieg@everymile.com.

ADVERTISERS' INDEX

<i>Credit Union Exec Online</i>	8
CUNA & Affiliates' publications	13,34,38
Everymile	25
<i>Googolplex: The CU Guide for Student Money-makers</i>	21
<i>Home & Family Finance Online</i>	31
NewGround	40