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Internet Donnybrook

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Third-party lead firms and website companies slug it out as dealers look to reap the rewards of having more powerful tools at their disposal.

It is all Google's fault. And you probably should include Yahoo! when pointing the finger.

That is "point the finger," not "give the finger." And it is not the finger of blame. Because if you are an Internet manager, you may want to thank them.

A donnybrook is coming, and dealerships stand to be the indirect winners.

The contenders are third-party companies that generate and sell Internet leads to dealers and companies that build dealership websites. The slugfest is going to be for prominence in the lead-generation market.

For dealers, the rewards are promising – more powerful tools at their disposal and the opportunity to negotiate cheaper prices for Internet leads.

In their short 10-year existence, third-party companies, such as Autobytel Inc., AutoUSA and the Cobalt Group's Dealix Div., have dominated the marketplace.

According to data compiled in the *Ward's* e-Dealer 100 the last four years, dealerships get at least 50% of their leads from third-party providers, with leads from their own sites and auto maker sites making up the difference.

Lead generation has become a booming business the last several years. On average, dealers pay $18-$25 for such sales leads. And with millions of customers sending purchase requests online annually, there is money to be made.

But in the last couple of years, technology, spawned by the exploding popularity of Internet-search engines, such as Google and Yahoo!, has enabled dealership websites to become powerful lead generators in their own right. Prior to that, dealers lacked the tools to have their websites cut through all of the cyberspace clutter.

The technology is called search-engine marketing and is comprised of two aspects.

First is search-engine optimization. Simply put, it makes a website search-engine friendly.

The major search engines, such as Google and Yahoo, use "spiders" – also called "robots" – to crawl through the world of cyberspace, reading websites.

Making a website easier for the spiders to read (using such things as targeted meta tags and html code among numerous other methods) means the site will garner better search results. The more click throughs a site gets, the higher its ranking will be on the search engine.

For example, type in Dallas Honda on Google or Yahoo!, and Lute Riley Honda appears near the top of the first page results. That is because the company that built Lute Riley's website, the Reynolds and Reynolds Co.'s Web Solutions Div., did the necessary things to optimize the site to get it ranked high on the search listings.

The second aspect of search-engine marketing is pay-per-click advertising, in which the search engines let businesses pay to have ads appear next to the search results. Each search engine uses its own super-secret proprietary algorithm to determine the placement of each company's ad in the listings.

Although programs vary, listings primarily are based on how much money a company bids for certain key words or phrases it believe searchers will use when looking for a product or service they sell.

Pay-per-click significantly can extend a company's reach. The two top search engines reach more than 90% of Internet users. For example, buying an ad on Google means it will be seen on the AOL, EarthLink and Ask Jeeves search engines in addition to Google's primary site. Put an ad on Yahoo! Sponsored Search (formerly Overture) and users of Yahoo!, MSN, AltaVista and CNN will see it.

Trouble is, search-engine marketing is threatening to cut into the lead-generation business. As a result, some experts are questioning the long-term viability of the third-party business model of selling leads to dealers. The thinking is that if dealers can use their own websites to create sales leads, why buy leads from third parties?

At least, that is the argument several website companies are using. They may not say so on the record, but these companies already are advising their clients that relying on search-engine marketing can drive more and better-quality leads than the third-party providers can.

"I doubt you'll hear it from them, but we certainly do," says an e-commerce manager for a Midwestern dealership on the 2005 *Ward's* e-Dealer 100 ranking. "Dropping third-party leads is one of their sales pitches."

Dean Evans, vice president-sales and marketing for Dealix, says small boutique website companies have started selling dealers on the idea they can grab 100% of their local market using search-engine marketing only.

"It does have a certain appeal to dealers with that "I-can-do-it-myself" mentality that is a hallmark of today's independent new-car dealer," he admits.

Some dealers already are abandoning the practice of buying leads from third-party sites and instead are relying on their websites for leads.

Several e-Commerce directors for larger dealer groups say they are giving search-engine marketing a long and hard look.

"We're seeing that getting rid of lead providers is an ultimate goal for many large dealer groups," says Shaun Raines, business development manager-Reynolds Web Solutions.

For example Brenda Ritzman, the e-commerce manager for Bob Baker Ford in San Diego, CA, says she stopped purchasing leads from third-party vendors in April and started employing a pay-per-click strategy. She says the results are 60% more leads and $2,500 a month less spending.

But Ritzman can expect her costs to increase, as more dealers become aware of search-engine marketing and drive up the costs of those key words.

Costs vary, but currently dealers typically pay an average of 30 cents for each time a key word they buy is entered into the search engine. It is not an apples-to-apples comparison, but the perceived attraction is 30 cents vs. $18-$25 per lead.

In the competitive Dallas market, some automotive-related key words already are running as high as $5. In some industries, key phrases are into the $10-$20 range.

Although website companies tend to present search-engine strategies as a silver bullet for lead generation, the process takes a lot of time and effort.

The Hendrick Automotive Group just spent six months optimizing the websites for nine of its dealerships in one of its metro markets, even though it partnered with an online marketing company to assist in the process.

“And it’s a never-ending process,” Matt Belk, the group’s e-commerce director says. The company built separate Web pages for each used-vehicle in inventory, taking 40 pictures of each and downloading them to the Web.

Third-party companies are fighting back with a message of their own.

Although the alternative strategies may work for some dealers, Evans says many of Dealix’s customers that stopped buying leads are now back.

“In some cases the dealership Internet sales dropped over 50% when relying only on search-engine marketing,” he says.

All of the major lead providers have aggressive search-engine marketing strategies, and it is part of their value they sell to dealers.

Autobytel, for example, developed proprietary software that monitors up to 200,000 popular automotive search terms (like “used cars” and “Honda”) every day to measure not only how much search engine traffic they generate, but also how much revenue they create. The software then automatically makes “intelligent” bids on keywords based on their value to the business.

“It all adds up to a steady stream of high-quality car buyers for our member dealers,” says Michael Rosenberg, an Autobytel vice president. “That’s why Autobytel has made search-engine optimization a top priority.”

According to Evans, large third-party vendors have the advantage of bigger budgets and the technology to capture leads and pass them on to the dealer.

“It becomes difficult to efficiently market your one or two dealer websites in this competitive arena,” he says.

Considering the sheer volume of leads is in the millions, dealership websites, no matter the level of optimization, likely will be unable to capture all of them. So third-party sites probably will continue to have a prominent, yet diminished role in the future.

On the other hand, dealers have to “understand their websites are competing with the very firms they are buying from,” says Layton Judd, vice president with Izmo Cars, an online marketing firm that builds dealership websites.

Before Internet managers get carried away by the hype and call their third-party vendors to cancel contracts, keep in mind, it is not the first the time so-called experts have forecasted the demise of third-party companies.

A few years ago, some industry experts were predicting auto makers’ websites would give dealers more leads than do the third-party sites. That has not happened.

In fact, dealer satisfaction with OEM websites is down slightly, while satisfaction with third-party companies has increased, says the most recent J.D. Power and Associates study of dealer satisfaction with online buying services.

The three third-party lead companies finishing at the top of the study, Dealix, Autobytel and AutoUSA, all finished with higher scores than did last year’s first place winner.

Getting rid of third-party vendors may be a goal, but if it is realistic, it is a scenario that will be a long time coming. “Third-party leads will always be there,” Judd says. “But now dealers have the ability to make their websites earn a living and not depend just on those third-party leads.”

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