



PEPE CADILLAC

15 WATER STREET WHITE PLAINS NY 10601 US

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N333-08

Week 04

My goal is to make my Pre Owned department profitable. We are a stand-alone Cadillac dealership in Westchester NY where the leasing of new vehicles is predominant.

We have a set CPO objective each quarter set by the manufacturer. If the objective is achieved we earn a payout from the manufacturer. This payout is not specifically factored into CPO gross profit. In order to achieve this objective we are pricing out vehicles directly in line with vAuto market based pricing on the lower side right from the start, margins have shrunk.

My goal is to start selling more trade in's rather than wholesale them in an effort to generate more profit for the Pre Owned, Finance, Parts, and Service departments. The ultimate goal here is to become profitable!

I went into immediate action upon returning from the Variable Operations Pre Owned Vehicles class.

My first order of business was to have a conversation with the owner and CFO of the group. I knew that I would need to properly explain the details. I knew that their concern would be that selling these vehicles wouldn't be representative of a luxury dealership.



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Reputation is the foremost concern of the group's owner. It has always been that the customer comes first and profit will follow. Below is the presentation that I prepared and shared with them - Value Priced Vehicles.

Value Priced Vehicles

This is an area of opportunity for the dealership to expand its customer base and increase its sell through rate on pre-owned vehicles.

Vehicles that we would typically wholesale that may be older or have higher miles than we would typically retail would be the target here.

My goal here would be to hold ourselves to a higher standard and present a Value Priced Vehicle to the customer with a warranty that would allow us to take advantage of the potential profit usually captured by our Wholesalers. These vehicles would be staged in a different area than the rest of our Pre Owned vehicles.

Expectation

The expectation would need to be set with the customer from wording in advertising and presentation by the sales consultant to the business manager delivering the vehicle that these vehicles are Value Priced Vehicles presented with a warranty and what that warranty does and does not cover. Additional coverage would be presented and offered to each customer.

Reconditioning

The level of reconditioning to these vehicles would be significantly less than we would recondition a CPO vehicle. Vehicle would need to be able to pass NY State inspection and meet our own interior parameters established. All features of the vehicle would need to be in working order i.e.: all safety

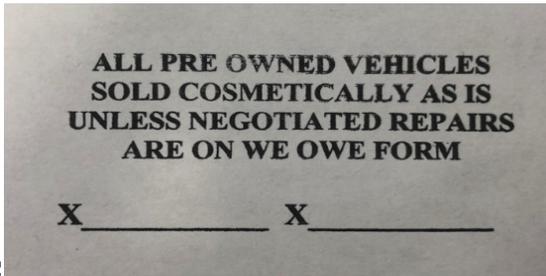


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components, heating/air conditioning systems, radio, etc. Cosmetic reconditioning would be on a case by case basis. Any repairs to these vehicles would have to be able to be completed by Colors on Parade. Minor scrapes, dings, dents, and scratches on both the vehicle and wheels would be left as is. Brakes would need to be 3mm and Tires 3/32nd.

The expectation that these vehicles are sold cosmetically as is would be explained and a disclosure would be stamped onto each buyer's order where the customer and manager would sign off



acknowledging review. See below:

Protection - Warranty

These vehicles would all be offered with a Power Train warranty that would cover the dealership against NY Lemon Law. Price chart below. A 90 day fully covers us but the 180 day - 6 month warranty may be advantageous as the cost is reasonable. This warranty would be advertised and promoted as a 'why buy here' point.

Vehicle	Stock #	VIN	Odometer	Color	Adj Cost To Market	Cost	Market Days Supply	90 Day PT	180 Day PT	NY Lemon Law Eligible
2013 MINI Cooper S	U3818T	WMWSV3C55DT391876	53,995	Br	75%	\$9,000	45	\$171	\$260	YES
2011 Cadillac Escalade Plat	U3830T	1GYS4DEF9BR151266	65,001	White	82%	\$25,000	72	\$171	\$462	YES
2006 Hyundai Elantra GLS	U3832T	KMHDN56D06U182614	140,936	Grey	39%	\$1,056	51	\$111	\$206	NO
2011 BMW 535i	U3835T	WBAFU7C53BDU55948	72,177	White	77%	\$13,000	68	\$171	\$785	YES



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2009 Cadillac CTS	U3837T	1G6DT57V090160578	127,728	Silver	63%	\$5,000	59	\$171	\$498	NO
2013 Cadillac Escalade Prem	U3844T	1GYS4CEF4DR308294	91,140	Silver	82%	\$23,800	115	\$171	\$400	YES
2011 Jeep Liberty Sport	U3845T	1J4PN2GK2BW564312	77,078	Black	72%	\$8,100	54	\$171	\$400	YES
2009 Cadillac CTS	U3846T	1G6DG577790156968	118,495	Black	32%	\$2,000	60	\$111	\$566	NO
DEDUCTIBLE \$100										

Back End

Financing can be obtained through most banks for 10 models years back. Capital One does offer financing up to 12 model years old and up to 150k miles if you are a Diamond Premier dealer. Fifth Third Bank goes back to 2006. So we have the ability to offer financing options on these vehicles in most cases. Program parameters for a few banks are below:

Bank of America

New / Used	Amount Financed	Eligible Terms*
≤ 2 Years	\$5,000 +	Up to 75 Months*
≤ 7 Years		Up to 72 Months*
8 -10 Years		Up to 60 Months*

TD Bank

Program Parameters			
	Tier 9	Tier 7 & 8	Tier 1-6
Minimum Amount Financed Frontend*	24-75 mos 76-84 mos	\$7,500 N/A	\$15,000
*Contracts financed in New Jersey with an unpaid cash balance of \$10,000 or less cannot exceed terms of 48 months			
	Tier 9	Tier 7 & 8	Tier 1 - 6
Maximum Age/Term (Yr)	2018-2016 2015-2013	75	84 75
	Tier 9	Tier 7 & 8	Tier 1 - 6
	2012	72 (if amount financed ≥\$50,000, terms not to exceed > 66 mos.)	72 (if amount financed is ≥\$75,000, terms not to exceed > 66)
	2011-2010		60
	2009		48



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Capital One

Tiers 5 - 6 (12 model years or newer)	75**	72	60	48
Tiers 7 - 8+ (12 model years or newer)	72	72	60	48

Fifth Third

<u>Model Year Term Parameters</u>	
2018-2019	24 - 84 months
2014-2017	24 - 75 months
2011-2013	24 - 72 months
2009-2010	24 - 63 months
2006-2008	24 - 60 months

Parts & Service

Parts and Service would see an obvious benefit here as they would be completing the reconditioning on these vehicles. This would also help to get our Service Department into the mentality that 'We Service ALL Makes & Models'. This is something that my Service Manager has been resisting since we returned back from Week 03 Service which he attended with me. He has been using the exceptions rather than the rules in certain cases to try to justify why he doesn't want to work on these vehicles.

Turn

These vehicles would have to be held to a hard turn policy. 30 days from when first posted online with photographs.



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NY STATE Lemon Law:

<https://ag.ny.gov/consumer-frauds/used-car-lemon-law-fact-sheet>

Used Car Lemon Law Fact Sheet

The Used Car Lemon law provides a legal remedy for consumers who are buyers or lessees of used cars that turn out to be lemons. The law requires dealers to give consumers a written warranty. Under this warranty, dealers must repair, free of charge, any defect in covered parts. If the dealer is unable to repair the car after a reasonable number of attempts, the consumer is entitled to a full refund.

Cars Covered by the Used Car Lemon Law Include any car that:

- was purchased, leased or transferred after the earlier of 18,000 miles or two years from original delivery; AND
- was purchased or leased from a New York dealer; AND
- had a purchase price or lease value of at least \$1,500; AND
- has been driven less than 100,000 miles at the time of purchase/lease; AND
- is used primarily for personal purposes.

Statutory Warranty Length:



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<u>Miles of Operation</u>	<u>Duration of Warranty (the earlier of)</u>
18,001-36,000 miles	90 days or 4,000 miles
36,001-79,999 miles	60 days or 3,000 miles
80,000-100,000 miles	30 days or 1,000 miles

Warranty Requirements:

Auto dealers are required by law to provide you a written warranty to covers the following parts:

Engine: lubricated parts, water pump, fuel pump, manifolds, engine block, cylinder head, rotary engine housings and flywheel.

Transmission: the transmission case, internal parts, and the torque converter.

Drive Axle: the front and rear axle housings and internal parts, axle shafts, propeller shafts and universal joints.

Brakes: master cylinder, vacuum assist booster wheel cylinders, hydraulic lines and fittings and disc brake calipers.

Steering: the steering gear housing and all internal parts, power steering pump, valve body, piston and rack

Other Parts: Radiator, Alternator, Generator, Starter, and Ignition System (excluding battery)

A Dealer's Duty to Repair: A reasonable chance for an auto dealer to repair a problem for a used car is considered to be:

- three or more repair attempts and the problem continues to exist; OR
- the car is out of service by reason of repair for a cumulative total of 15 days or more (although unavailability of parts may extend this time).

Exceptions When an Auto Dealer May Not Be Required to Provide a Refund:

- the problem does not substantially impair the value of the car to the consumer; OR
- the problem is a result of abuse, neglect or unauthorized alteration of the car.

What consumers should do if they become aware of a problem with the car:

- immediately report any malfunction or defect of a covered part to the dealer and request the necessary repairs. If the consumer has notified the dealer of a problem within the warranty period, the dealer must make the repair even if the warranty has subsequently expired.
- keep careful records of all complaints and copies of all work orders, repair bills and correspondence.

Individuals with questions about their rights under the Used Car Lemon Law are encouraged to contact the Attorney General's consumer help line at (800) 771-7755 or go to usedcarlemon.pdf.



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The Meeting

The owner and CFO were receptive to my idea. I explained that we already have many of these potential buyer's as customers now so why not take advantage of this market potential. Their only statement was 'we are not selling \$3000 vehicles' to which I agreed. I was given the greenlight to start moving forward with this and track the results. Prices would start at \$5995 and all vehicles would come with a warranty.

Time Line

I set a personal time line of 6 months to track and monitor the results to see if this made sense business wise. This wouldn't be an easy metric to track as there were many tie in's to the profit. First would be wholesale profit average prior to doing this compared to profit generated from Sales, Finance, Parts, and Service. It all sounded good but would we truly be profitable. We were profitable with wholesale prior to this.

Stakeholders

I brought my Service Manager in and told him the direction we were going and what my vision was. He was hesitant. I explained that from a business stand point this made sense. I explained that there was only upside for his department. Ultimately, he agreed that he would support me in whatever direction I wanted to go in. We then went into the shop and had a quick meeting with the Technicians and Advisors. They were very receptive and welcoming of the change.

The Sales team. I had a meeting with the Sales team the next day and explained what the plan was - to my surprise there were some moans and groans. The concern was that they wouldn't know how to explain that the vehicles were cosmetically as is etc. They just weren't used to selling real used cars! I



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explained that the customer's level of expectation would be set by how they handled the customer's questions and concerns. True buy in from the Sales team happened after the first few deals. We were seeing profits that we rarely saw previously. Word spread throughout the Sales staff - buy in.

Implementation

We had three buckets our wholesale vehicles fell into:

- **Late model off brand vehicles.**
- **Older vehicles with variable miles 0 to 150K miles.**
- **Older vehicles that were not condition, mileage, or age wise considered to be retail units.**

We needed to find a lender that could offer financing on older vehicles and vehicles with higher mileage.

I posted in the Facebook discussion group for our class. The answer that kept coming up was Capital One. However we had a very low standing with them as we rarely gave them business. We didn't even know who our representative was - I've been here three and a half years and never met the person. I sent a message through Dealer Track to our Relationship Manager requesting a meeting with our Representative. The meeting took place one week later. I discovered the various tiers that Capital One has based on the business you send them. We were at the bottom and from what the Representative was saying it would take a minimum of 6 to 8 months to climb our way up. I explained that we needed access to their top tier programs now. We had the cars now and couldn't wait 6 to 8 months to sell them or give up the potential profit by wholesaling them. I leveraged the Pepe Auto Group at this point explaining that we were the pilot store of sorts for this avenue of business. I explained that if we were successful then the rest of the stores would potentially get into this business model as well. I asked them to be our partner and explained that I would see them as that and try to funnel as much business as possible as



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long as it made financial sense to them. A few hours later the Representative called back and we were granted access to Capitals One's highest tier program - Capital One Diamond Preferred. This allowed us to finance vehicles up to 12 model years and up to 150K miles.

We were now in a position to successfully implement the plan:

- o Departmental buy in was established**
- o Vehicles were selected and parameters were set**
- o Warranties were available and provided on all vehicles**
- o Financing for these vehicles was secured**

As of writing this Action Plan we are approximately 6 full weeks into the plan. We are two weeks into being a Capital One Diamond Preferred dealer. We have 14 deals funded with them in two weeks. I believe we are positioned to be successful with this Action Plan and have the proper tools to do so.