

> THIS WEEK'S CASE STUDY

# A vision to put an end to car-price haggling

CarCostCanada seeks to change buyer habits with its vehicle price report

**TOM HENHEFFER**  
SPECIAL TO THE STAR

Ben Spatafora has a vision. He wants to forever change the way Canadians buy cars with CarCostCanada. The 13-year-old company offers a vehicle price report that Spatafora says informs consumers, increases discounts from dealers, and drastically reduces time spent negotiating prices.

But, with sales stagnant at an average of about 1,500 per month for the past five years, changing buying habits to get more Canadians using his service has been a struggle.

"We want to see 20 and 30 per cent growth per year, which should be very achievable," says Spatafora, who's been selling cars for 25 years and recently took over as CarCost's national director. "100,000 cars are sold a month. How do I get to (those buyers)?"

The idea is simple. CarCost provides its clients with reports that list vehicle manufacturers' suggested retail prices (MSRPs), dealer invoice prices (i.e. what dealers pay for their vehicles), plus any incentives and special financing and lease rates.

Spatafora says this minimizes the haggling process by letting customers know exactly how much vehicles have been marked up and where the



AARON HARRIS FOR THE TORONTO STAR

CarCostCanada National Director Ben Spatafora says the price report brings consumers and dealers closer.

best discounts are, giving them an informed position from which to negotiate.

The numbers come from third-party information gatherers — such as U.S.-based Chrome Data Solutions — which sells large digests of wholesale price and incentive information to CarCost and other companies. It's a similar system to the one used by CARFAX, which buys insurance claim information and sells it to consumers looking to know the collision history of a used car.

"We're bringing consumers and dealers closer together," says Spatafora. Customers pay a one-time flat fee of \$39.95, which makes them a CarCost member and gives them access to 10 reports. These reports also refer customers to one of the company's 320 preferred dealers across the country, a network Spatafora was in charge of growing from little more than nothing before he took over as national director.

"A non-CarCost member might haggle for several hours and get \$1,000 off. My guys can walk in and get \$1,500 off right off the bat," says Spatafora. He adds that low-margin economy vehicles tend to have

smaller discounts available, but CarCost members buying more expensive cars can save \$3,500 or more.

CarCost promotes these benefits with a \$20,000 monthly marketing budget, which includes a mix of radio, print, TV and digital ads, as well as a Google AdWords campaign.

But despite the advertising, the business has been stuck at the same number of monthly sales for the better part of a decade.

The problem, says Spatafora, is that while he spent years focusing on adding value for members by growing CarCost's preferred dealer network, the company failed to dedicate enough resources to increasing sales.

"I was and am very frustrated. The growth of the dealer network was a result of having a dedicated vision and someone to carry out that vision," he says. "The same should have been in place for growing the membership"

That vision is necessary, he says, because it's so challenging to change buying habits, especially when most consumers know very little about how pricing in the car industry works.

"I've bought \$20,000 Jettas for a

\$500 profit. Some people can't believe the margins are so low," says Spatafora, adding that this occasionally leads consumers to mistrust his company's reports because wholesale prices are so close to what dealers charge — which often leaves little room for discounts, especially on economy vehicles.

Making the situation even worse, new competitors are entering the market and giving wholesale price reports away free. These rival companies don't include price incentives in their reports and they don't have networks of preferred dealers, but Spatafora is still worried they could handicap his growth.

Jim Davidson, president and founder of CarSmart, a Toronto-based national car buying service, says CarCostCanada has two main problems. The first is that there's little incentive for customers to be members over the long term, as they'll usually have no further need for CarCost's services once they purchase a vehicle. The second is that the company isn't reaching a large enough audience because the marketing budget is so small.

"\$20,000 a month is nothing," he

>VITAL STATS

**Name:** CarCostCanada  
**National director:** Ben Spatafora  
**Address:** 5710 Timberlea Blvd., Suite 201, Mississauga  
**Contact:** 1-866-453-6995, benny.s@carcostcanada.com  
**Field:** New car purchasing information  
**Employees:** 5  
**Years active:** 13  
**Sales:** Approximately \$1.2 million  
**Offering:** Wholesale price reports, including MSRP and dealer cost pricing information, advertised and non-advertised cash incentives, and special finance and lease rates for new cars in Canada

says. "It's an interesting service that's helpful to people, but no one knows about it. They have to spend, spend, spend."

Spatafora says that isn't an option. "I know the simple answer — spend \$10 million on ads and infiltrate every medium out there," he says. But with only \$1.2 million in annual revenue, he adds, "we don't have the cash or the resources."

But Spatafora isn't worried. The company is currently expanding into Quebec, and he recently created an internal team dedicated to increasing sales — they're now concentrating on low-cost cross-marketing opportunities to break CarCost's plateau.

These include a 25 per cent discount to CAA members, and Spatafora is also planning to markdown the company's offerings for staff at select major employers across the country. He's also working to partner with banks and credit card and insurance companies to give their customers deals. Finally, Spatafora wants to build out perks for members by joining with complementary businesses, such as petrol companies and car rental services, to offer specials for anyone with a CarCost membership.

These plans are still in the early stages, but Spatafora is hopeful that his company is finally on the right path to sustained growth.

"I felt helpless; however, we now have a team in place, and I feel great."

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INTERVIEWS BY TOM HENHEFFER

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## I'd advocate the company look at the whole lifecycle of car purchasing, ownership and disposal—not just the buying phase.



**DR. BRYNN WINEGARD**  
ASSISTANT PROFESSOR AND DIRECTOR OF MBA RECRUITMENT  
Ted Rogers School of Management, Ryerson University

Car Cost is a much-needed service for anyone looking to buy a new car. That said, Car Cost is dealing with stagnant enrolments and plateaued growth. First, I'd advocate the company look at the whole lifecycle of car purchasing, ownership and disposal — not just the buying phase. As an example, they could build into their membership some more perpetual value offerings through the vehicle acquisition and ownership lifecycle that effectively establishes an actual online car club, which in turn would allow greater continuity of membership fees. Second, potential members

are more likely to subscribe to an ongoing online car club if there were advantages throughout the ownership process.

Car Cost could add services to their current offerings, garnered through group buying power and existing strategic partnerships with dealers. These might include discounted maintenance offerings, tire comparisons and discounts, coupons for accessories or customization, roadside assistance comparisons or help, trade-in calculators and disposal options, etc.

The best way for this company to really grow will be by catering to the whole vehicle ownership cycle, which will help encourage dedicated members to spread the word to their networks.



**KNUD JENSEN**  
PROFESSOR  
Entrepreneurship and Strategy,  
Ted Rogers School of Management, Ryerson University

Car Cost Canada's performance, although stagnant, is quite admirable given the dive in automobile sales in the last several years. But the company may wish to reduce its sales objectives to something more manageable than 20-30 per cent, despite an expected uptick in car sales.

It's really in two very separate market spaces — providing information to potential car buyers, and providing a preferred dealer network. Each of these markets has different consumer dynamics and customers may not necessarily want to take advantage of both services. In other words, they may not have all that much of a real value differentiator from similar, free services.

An automobile is acquired every 3-4 years, so the consumer must be reminded constantly about Car Cost's service. It's difficult to say whether \$20,000 per month is a sufficient communication budget. It could be stretched with social media, which the company is under-using currently. Joint ventures may also help, but will reduce profit margins significantly.

That said, growth is still a possibility, but they'd be wise to look for something slow and sustainable, instead of trying to hit \$2 million in sales overnight.



**DEIRDRE FITZPATRICK**  
PROFESSOR  
George Brown School of Business

I love the idea of changing the way Canadians buy cars. Everyone hates the haggling process, so Car Cost is really offering value by educating the public and bringing buyers and sellers closer together.

Spatafora is already doing a lot right. Changing gears to concentrate on increasing sales to customers instead of boosting their dealer network is a step in the right direction, and building solid partnerships and cross-marketing opportunities will allow the company to stretch its \$20,000 marketing budget much farther.

I'd also recommend Spatafora start targeting the buyers of corporate fleets — his pricing model would have to change, but this could lead to a lot of repeat business. And it may be worth looking for cross-promotional opportunities with car rental agencies, trusted service centres like Canadian Tire, and businesses like autoTrader and CARFAX.

Finally, Spatafora should work on his social media presence to get more people talking about his company, maybe by incentivizing customers somehow for referring friends or simply asking them to tweet about Car Cost if it winds up saving them money. It's an effective way to expand those marketing dollars even further.

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