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## Dealer Trade Group: High-Tech Venturing in a Low-Tech Industry

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Carter Crockett

**E**arly one morning in August 2001, Carter Crockett groaned as he pulled his rickety Honda Accord into the parking lot at 6:53 A.M. Todd Greenway's new, oversized bright red truck was already there. Crockett was president of Dealer Trade Group (DTG) and Greenway was vice president of sales. Arriving before anyone else gave Crockett time to get ahead of the daily rush of activity; it used to be the best part of his day. But Greenway had started arriving earlier just so he could say he worked the longest hours. This early bird competition used to be fun but was becoming antagonistic. Greenway had an office next to the main entrance and Crockett had begun to resent the gloating of his unavoidable morning greetings.

Despite a series of "bumps in the road," Crockett, other senior managers, and investors believed that DTG was faring better than many online business-to-business (B2B) ventures. They knew the road would not be smooth. Indeed, it had not been: DTG offered a revolutionary, high-tech way of doing business to dealers who were mostly comfortable with traditional, low-tech automobile wholesaling. Yet sales were growing and DTG was beginning to establish credibility despite its online marketplace business model. Although DTG was still burning more cash than it was making, profitability seemed just a few months away.

Crockett, who once worked at Microsoft, felt a growing sense of unease. Friction was rising between him and Greenway, who was an auto industry veteran. It had begun to undermine his authority with employees and his relationships with DTG's investors and board. Privately, Crockett assumed much of the blame. He wondered if it was possible for him to earn Greenway's respect and the board's trust. He knew both were necessary to run DTG effectively.

Crockett had headed DTG for 2 years. He knew other entrepreneurs who hamstrung their ventures by refusing to "let go of the wheel" when they should have. Was he taking this venture down a similar road? The original plan called for him to run DTG until they hired an industry veteran. When he suggested the idea of resigning to the board, however, they interpreted his concerns as common venture-growing pains and expressed no interest in finding an expensive CEO. Still, Crockett was uneasy. Would an industry veteran lead DTG more effectively? Was it time to get out?

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## Designing a Race Car

DTG was established in 2000 as a B2B venture serving automobile dealers in the northwestern United States. DTG's strategy combined wireless and online technologies with relationship-based sales to offer dealers an efficient vehicle inventory management service. By 2002, DTG employed almost 70 people and served more than 250 dealers throughout the Pacific Northwest and Alaska. The company outgrew its Seattle headquarters for a second time and established facilities in Kent, Washington, with satellite offices in Spokane, Washington; Salt Lake City, Utah; and Juneau, Alaska. Clientele included auto wholesalers, independent and franchised dealers, and large dealer groups (e.g., AutoNation, Lithia Group). In September alone, DTG completed 792 vehicle transactions and generated over \$250,000 in revenue.

### **The Driver: Carter Crockett, Entrepreneur**

Crockett's professional career began in 1992 as a consultant in the financial services industry. He had earned a bachelor's degree in business and economics and had a talent for communicating with people and establishing relationships. Ambitious and hardworking, he soon became marketing manager at the Los Angeles offices of BDO Seidman, a global accounting and consulting firm. During this time, Crockett also married his college sweetheart. By 1994, he resigned from BDO Seidman, hoping to find a more central role in a more dynamic industry. After moving to Seattle, he found such an opportunity in software publishing. For 2 years he worked with various new business ventures (NBVs) that were developing children's educational products. He loved the entrepreneurial sector, where it seemed anything could happen. Finances were tight, however, and Crockett supplemented his income as a valet parking attendant and by performing other odd jobs. By 1995, venture capital investors closed the NBV where Crockett was product marketing manager. With some help from his friends, he landed a job at Microsoft, providing marketing expertise for new product development teams.

The thought of working in a large, stable company was initially a welcome change for Crockett, whose family now had the addition of a new daughter. As a product planner at Microsoft, he was responsible for interpreting industry trends and consumer demands to determine product features and develop market entry strategies, often years before product launch. Crockett supported various Microsoft products (e.g., Picture It!, Works Suite, Publisher, and Windows 2000) for 3 years. Although Microsoft was known as an innovative company, he eventually grew uncomfortable in a large corporate setting and began to miss the excitement of the entrepreneurial sector. The routines and bureaucracy seemed to restrict Crockett from the professional objective he had listed on his résumé: *"To excel in the strategic marketing of inspiring consumer products."* After coordinating the retail marketing plans for the launch of Windows 2000 in February 2000, Crockett felt overdue for a change and began searching for entrepreneurial opportunities.

### **The Sponsor: Bill Hayworth, Angel Investor**

An opportunity for change presented itself unexpectedly to Crockett during an informal meeting with a college friend who was working for Bill Hayworth, a Seattle venture capitalist. Hayworth had invested recently in a used auto dealership in Houston, Texas. Each week, the dealer attended regional auto auctions and competed with other dealers to buy and sell inventory. Crockett's friend explained that Hayworth wondered whether or

not an online B2B market model might be applicable to automobile wholesaling but did not know how to evaluate the opportunity or create a company to take advantage of it. Crockett was familiar with such business models and had a knack for identifying opportunities. Although he was uncertain of the applicability of such a model to an industry he did not know, the prospect of an entrepreneurial venture was compelling and he agreed to meet Hayworth to discuss the idea.

Hayworth had many investment opportunities but worked only with people he felt he could trust. He took comfort because he and Crockett attended the same church and because one of his employees was Crockett's longtime acquaintance. It became clear during their first meeting that they did not have the industry experience to answer a number of simple market research questions. Because Hayworth did not want to pay for a detailed feasibility analysis, Crockett proposed evaluating the idea as a 1-month consulting project in which he would present results by the end of May 2000 with rationale and a recommendation either to pursue the opportunity or to invest elsewhere. When Hayworth accepted, Crockett left his job at Microsoft.

### **Time Trials: Market Research**

Right away, Hayworth sent Crockett to Houston to learn the used car business from J.R. Fontana, owner of the Houston dealership in which Hayworth had invested. Fontana operated his business from two locations: a converted mobile home and a garage/warehouse on a dirt lot. Crockett shadowed him for 1 week (noting extreme dissimilarities from Microsoft's culture) and, with Fontana's help, conducted dealer focus groups to glean information about auto wholesaling.

Dealers explained the difficulties facing their businesses and offered ideas for what it would take to resolve them. Crockett learned that their biggest problem was an urgent need to move inventory because vehicles on the lot used space that could be filled by newer inventory. As shown in Figure 1 (from Crockett's notes), the urgency intensified daily as vehicle value (published in monthly valuation books) and potential profits diminished over time. Crockett immediately saw the need for a more efficient way to move inventory that dealers had been unable to sell at retail. Dealers like Fontana were desperate for an alternative to move inventory faster yet be equally fair to large and small dealers. In their opinion, the physical auctions favored large, institutional sellers such as banks and manufacturers who could provide large volumes of vehicles for wholesale. The need for an alternative was reinforced by the fact that auctions were institutionalized as an industry norm: They were the default destination point for vehicles not purchased by retail customers.

Auctions were so entrenched they could dictate their own terms and dealers had no alternative to consider. Crockett saw that over the years, their monopoly position and inertia had made them inefficient as a solution. Returning to Seattle, he pondered the nature of the inefficiency, the niche it created, and how an entrepreneurial venture might respond to the opportunity. Figure 2 lists additional market facts obtained through his research.

Further results of his research supported the applicability of an online market. For example, wholesale vehicles varied by make and model (e.g., Ford versus Honda), target customers (e.g., luxury versus economy), and regional demographics (e.g., California versus Washington). Buyers and sellers frequently had trouble finding others with complementary needs—and those involved with wholesaling had trouble finding others whom they felt they could trust. Because idiosyncrasy was standard in the industry, regional wholesalers like Fontana liked to call themselves “market makers for incongruent

Figure 1

### Declining Profits from an Average Vehicle over Time

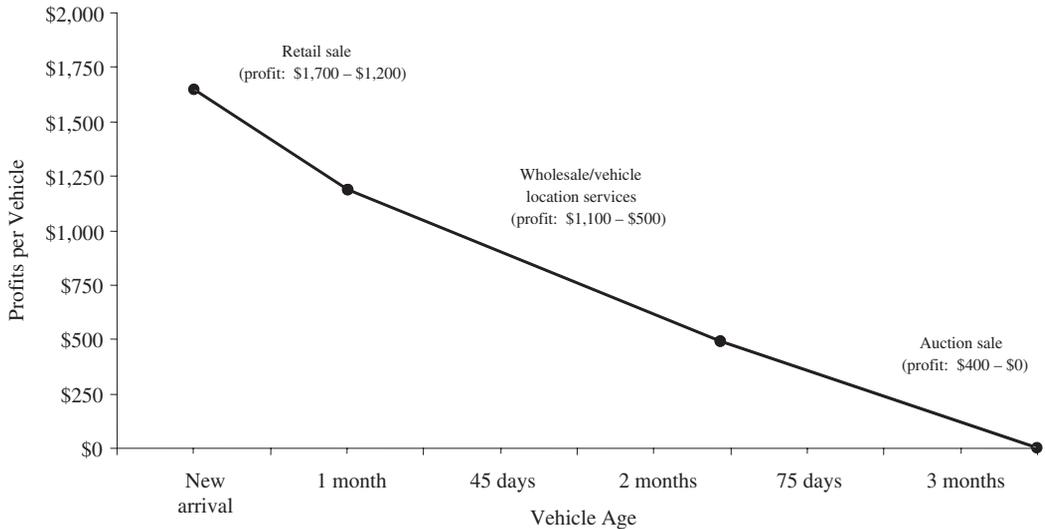


Figure 2

### U.S. Market Information Gathered by Crockett in 2000

1. Used auto retail sales generated \$361 billion in 1999, and were expected to generate \$408 billion by 2004.<sup>1</sup>
2. The used auto industry is enduring: in a thriving economy, consumers buy higher value vehicles and trade frequently. During economic downturns consumers are still likely to buy (although used instead of new).
3. Approximately 85,000 franchised and independent dealers make up the wholesale auto industry.
4. Industry analysts estimate the used vehicle wholesale market to be \$170 billion per year.<sup>2</sup>
  - a. Physical wholesale auctions generate \$93 billion in transactions.<sup>3</sup>
  - b. Many of the more desirable (i.e., newest, nicest) vehicles are traded directly between dealers that know and trust one another.
  - c. The most desirable vehicles account for approximately \$105 billion of the annual wholesale market.
  - d. The used auto industry is one of the most fragmented and vertically segmented industries.

<sup>1</sup> CNW Marketing/Research 1999 Report ([www.cnwmr.com](http://www.cnwmr.com))

<sup>2</sup> Manheim Auctions (acquirer of ADT Automotive Holdings in October 2000) Annual Report ([www.manheimauctions.com](http://www.manheimauctions.com))

<sup>3</sup> ADT 2000 Used Car Market Report

Figure 3

Potential Savings through an Online Market

	Estimated wholesale expenses per vehicle	
	Physical auctions	Online market
Pre-sale reconditioning	\$75	\$0
Transportation to auction	105	0
Sale fee	350	150
Buy fee	100	150
No-sale fee	20	0
Auction certification	50	0
Transportation from auction	125	0
Warranty	75	75
Post-sale reconditioning	25	25
Personnel travel costs	200	0
Total	\$1,125	\$400

inventory.” Similar to eBay’s model, Crockett saw the promise of facilitating timely and trustworthy transactions between buyers and sellers who otherwise would not have found each other.

As part of due diligence, Crockett also assessed the competition, as the opportunity seemed too obvious to have eluded others. Indeed, there were new entrants, many rooted deeply in high-technology backgrounds but none seeming sufficiently on target. Most ignored the wholesale business, choosing instead to target individual buyers. Crockett thought an online market model fit wholesaling much better than retailing. For one, wholesalers were already buying and selling vehicles without seeing or test-driving them. They also returned frequently to buy or sell more vehicles, whereas satisfied retail customers might take years to return. Also, wholesaling performance derives from sales volume and velocity, whereas profit margin is paramount in the retail segment. Crockett imagined how the model could mimic a physical auction with a fixed profit margin and nominal fees to parties on each side of every transaction. He discovered that there were nearly 300 used vehicle auctions in the United States, each employing about 260 people and maintaining over 70 acres of vehicle inventory, facilities, and equipment.<sup>1</sup> The most established auctions (e.g., Manheim, Adesa) publicized their intentions to employ online models but had not yet made substantial efforts in that direction.

Crockett drew on information from the focus groups in Houston and additional online market data to develop the idea. He then refined it with the help of Fontana and of industry veterans. Figure 3 presents Crockett’s breakdown of costs to buyers and sellers, comparing an online market to the physical auctions. An online market would bring dealers possible savings of more than 60%.

1. Manheim Auction 2003 Used Car Market Report (<http://www.manheimauctions.com>)

## Proceed with Caution

When his 1-month contract ended, Crockett presented this recommendation to Hayworth: Proceed with caution. Based on his research, Crockett gave the opportunity a 70% chance of proving viable. He found no reason (other than the usual risks) not to pursue it. Crockett found himself surprisingly energized by the idea and volunteered to lead the NBV until the risks were mitigated and an industry veteran could be hired. Hayworth extended his contract indefinitely.

Crockett completed a business plan in April 2000, just as the “dot-com bubble” burst. Virtually overnight, the investment community regretted the billions of dollars already poured into online ventures like the one Crockett wanted to launch. However, Crockett and Hayworth were skeptics of “get big fast” strategies. They remained optimistic. They believed that increased wariness in the investment community would force them to build a solid business. However, finding major investors would now be much more difficult. Hayworth, the sole investor up to this point, quipped, “If we can survive this, we can survive anything.”

### “Gentlemen, Start Your Engines”

For the next 6 months, Crockett worked in a corner of a conference room in Hayworth’s offices. As Hayworth evaluated other investment opportunities, Crockett saw hundreds of business plans and dozens of entrepreneurs come through the door, each instance an opportunity for him to learn. The groundwork for launching the NBV was laid during this time. Health insurance, legal counsel, banking, and accounting services were established through professional service partners. The company was initially called “Dealers Lane” (after the industry term used to describe the “lane” or line of vehicles at auctions). It was later changed to “Dealer Trade Group” to avoid potential legal hassles with an even newer Canadian venture called “Dealer Lanes.” Besides, “Dealer Trade Group” sounded more established and credible. One of Crockett’s friends, a corporate branding professional, created a logo to evoke the feel of a classic automobile brand (Figure 4). He even did it “off the clock” without charging the exorbitant fees of his employer.

Crockett began to form an advisory board. To offset his low industry experience, he sought to surround himself with experts from various segments of the auto industry. They included owners of dealerships, wholesale industry veterans, and retired senior sales personnel.

Crockett’s vision of transforming the industry was usually sufficient to procure informal offers of guidance or assistance from such experts. He would extend an invitation

Figure 4

Dealer Trade Group (DTG) Logo



to join the advisory board or to contribute in other ways when he sensed interest and felt he could trust that person. By June 2000, the advisory board included Fontana and six other industry veterans with expertise in auto transportation, industry research and analysis, dealer ownership, dealer management, dealer software/sales, auto wholesaling, and vehicle financing. Martin Billings, an automobile industry software entrepreneur, was invited to be chairman of the board and interim vice president of business development. Billings promised to generate investment capital. Even though Billings had impressive industry experience, contacts, and “grey hair,” Crockett and Hayworth knew it would be very difficult to obtain venture capital since financiers had lost their taste for online business ventures.

Strategic partnerships were sought with others connected to the industry (e.g., sellers of auto warranties, publishers of wholesale price guides). Crockett began sending monthly updates on DTG’s progress to investors, board members, top management, and even family and friends. Through all of this activity, the initial DTG vision was tempered by input from industry experts and dealers, guiding its design into a model exploiting the perceived inefficiencies of auto wholesaling (Figure 5).

Despite their dislike for bureaucracy and titles, Hayworth and Crockett were cofounders of DTG for administrative and legal purposes. Sometimes Crockett found it difficult to establish credibility with industry figures and financiers when he was viewed as “someone who used to work at Microsoft.” Thus, both Crockett and Hayworth used the title “CEO” when the occasion warranted.

In early 2000, Crockett learned that DealerSwap, a competitor based in Spokane, was experiencing friction between investors and its founder, Todd Greenway. DealerSwap had

Figure 5

### Dealer Trade Group’s (DTG) Comparative Advantage over Traditional Wholesaling

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- 1. Traditional auto wholesaling takes too much time:  
Considerable depreciation occurs while waiting for physical auction opportunities.

DTG allows dealers to participate in online auctions anytime, using telephone or Internet, resulting in less time spent traveling or balancing inventory.

- 2. Buyer confidence is an issue in traditional wholesaling:  
Sellers are able to disguise damaged inventory and accountability is low.

DTG is an independent and treats dealers equally regardless of size or type. Every vehicle undergoes inspection, includes a detailed condition report, and comes with an extensive third-party warranty.

- 3. Traditional auto wholesaling costs too much:  
Dealers incur exorbitant wholesale auction fees and travel expenses.

DTG saves dealers up to 60% of wholesaling fees. Dealers are less likely to miss retail opportunities and can balance inventory without incurring hefty expenses.

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started a year before DTG and had 23 employees and significant financing. Depending on what issues were causing the conflict, Crockett saw a potential opportunity: Greenway was from the auto industry, and Crockett had been struggling to find people who understood both auto wholesaling *and* the huge promise of online markets. He suspected that Greenway might be such a person. Although wary of making contact, he invited Greenway and DealerSwap's board chairman to Seattle. They accepted. DTG initially contemplated acquiring DealerSwap, but it soon became clear that the venture had more legal problems than DTG cared to assume. Lawyers were already active on both sides of the conflict between Greenway and his investors. But Crockett remained interested in what Greenway's expertise might offer DTG. He arranged to meet privately with Greenway so they could get to know each other, compare business models, and assess strategic compatibility.

### Checking Map and Compass: Formulating Competitive Strategy

The potential for collaboration became evident as the two conversed. There were multiple NBVs and established companies fumbling in the same niche for the right business model, but the mix of Crockett's and Greenway's diverse backgrounds and unified vision seemed to hold the key. They agreed on the strategic aspects of Crockett's vision for DTG (Figure 6) with a few exceptions. Greenway argued, for example, that the reporting of the vehicle condition was too central a component to outsource. Crockett deferred to Greenway's firsthand experience in this area.

Crockett and Greenway discussed DTG's competitive environment. As shown in Figure 7, competitors could be categorized broadly in terms of inventory source (dealer versus institutional) and target market (consumers versus dealers). Within the categorization, venture strategies fell generally into three categories: (1) **Physical auction-biased** competitors (e.g., Manheim Interactive) had an intrinsic tie to conducting business in a traditional physical setting. As dealers had been meeting at these auctions at the same time every week for years, physical auctions embodied social norms that could not be duplicated easily. DTG would likely be seen as a threat to these companies because they had the most to lose. They had already taken a defensive stance toward new entrants like DTG, but

Figure 6

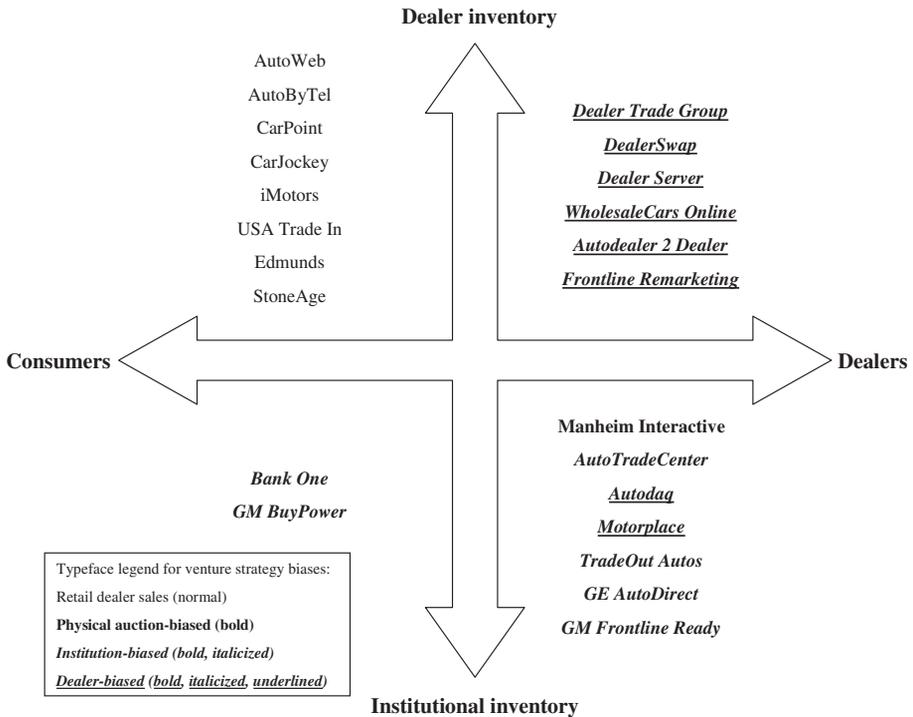
#### The Strategic Aspects of Dealer Trade Group's (DTG) Vision

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1. Target market: Dealers as buyers *and* sellers connected by relationship with DTG
  2. Market bias: Neutral, favor buyers and sellers equally
  3. Primary revenue: Transaction-based service fees
  4. Inventory focus: Quality used vehicles, guaranteed and in dealer possession
  5. Service standard: High quality and personal; both face-to-face and online
  6. Third-party condition reporting: Standardized vehicle inspections provided by qualified vehicle inspectors
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Figure 7

Target Markets and Sources of Vehicles



fear of cannibalizing existing business discouraged direct competition with new entrants; (2) *institution-biased* competitors (e.g., GM, BuyPower, GE Auto Direct) were linked to sellers such as banks or manufacturers. These companies were run independently or by the sellers themselves. Generally, these ventures preferred to work directly with a few physical auctions rather than with thousands of individual dealers, and dealers wanting a variety of makes and types of vehicles could not depend solely on the inventory provided by just one of these sellers; (3) *dealer-biased* competitors (e.g., Autodaq, Motorplace) sought to treat dealers as buyers *and* sellers, which involved transacting business between small, disparate parties. At the time (2000), these kinds of B2B transactions relied especially upon trust and reliability. DTG intended to target this sector without being seen as an unreliable “dot-com”; how Greenway and others described the short-lived ventures in this sector led by people with technology or investment (not auto industry) experience.

Greenway was a third-generation car dealer; Crockett had a high-tech background. Yet they had arrived at similar strategies for resolving the same inefficiencies in the wholesaling industry. As their synergy became more evident and as DealerSwap’s problems intensified, DTG hired Greenway to serve as vice president of sales. Greeting him at the airport in Seattle, Crockett said, “You know, I couldn’t do this without you.” Greenway replied, “I couldn’t do it without you either.” Crockett was pleased because Greenway’s experience was valuable: Although DealerSwap was essentially defunct, it had traversed some hazards that DTG had yet to face.

## **Fueling Up: Procuring Financial Capital**

In November 2000, DTG faced its first crisis. Preparations for venture launch had nearly depleted Hayworth's initial funding of \$750,000. Billings, Crockett, and Greenway had not succeeded in closing the next round of funding despite concerted effort and dozens of pitches to investor groups. Crockett decided to present Hayworth with the following options:

1. Stay the course; hope for large investors—continue to finance DTG operating expenses at current levels until funding is secured.
2. Batten down the hatches—provide \$275,000 to sustain DTG on a shoestring budget for 4 months while continuing to seek funding.
3. Abandon ship—write off losses and dissolve DTG.

Hayworth chose the second option and committed to securing the next round of funding, with his own money if necessary, so management could concentrate on developing the venture. Similar ventures were floundering from funding shortages. In fact, Crockett and Greenway knew of no venture with such short-term funding, so Hayworth's commitment provided a rare feeling of security. Crockett decided that part of the "shoestring budget" called for Billings to resign as he had not secured any venture capital. He asked Hayworth to serve as chairman of the board. Hayworth's age, experience, and commitment to DTG signaled credibility.

Crockett and Greenway worked intensely to prepare DTG for launch. They began to establish strategic partnerships with vehicle warranty, market data, and physical auction companies. Believing he and the board still needed an experienced external advisor they could trust, Crockett sought the services of Donald Jenkins, a manager and investor who had been a catalyst for multiple online B2B ventures. He became DTG's only paid advisor. Regular coaching and discussions with Jenkins were useful as Crockett and Greenway drafted contracts and templates, collected industry intelligence, and began looking for employees.

Thanks to five angel investors whom Hayworth knew, DTG closed a \$1.2 million round of financing in January 2001. It was timely: Crockett and Greenway knew that the venture would not have lasted another month.

## **DTG Gets a Green Light**

The influx of funding brought cascading changes as DTG began to establish itself. Industry figures and competitors started to take notice. Within a month, eight new employees were hired. Each brought a unique network of relationships, usually gained from previous dealership experience. Crockett saw this as a critical time for shaping the new venture's culture. He tried to mold DTG on sound principles and developed three guiding values that were disseminated to all new employees (Figure 8).

By early 2001, it was clear that Hayworth's conference room could no longer contain all of the activity at DTG. Hayworth preferred that DTG share space with his venture capital firm in an upscale office complex, which necessitated an inflexible 3-year lease and high monthly expenses. Crockett agreed that sharing space was convenient but thought that it hindered the development of DTG's own culture. He preferred a location in the Rainier Valley, the somewhat rundown but revitalizing central Seattle neighborhood where he lived. It was convenient and would cost two-thirds less than Hayworth's location, and it could be leased flexibly for 1 year. Crockett wanted to avoid friction,

## Figure 8

### Dealer Trade Group's (DTG) Three Guiding Values

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1. Value **Relationships**

No transaction is worth jeopardizing relationships with employees, dealers, investors, partners, or vendors

2. Maintain a **Positive Attitude**

Be fun and flexible; support a cohesive team; request empowerment where needed to make a difference; be responsible; turn problems into opportunities

3. Don't Just Speak: **Deliver**

Stand by your word; under-promise / over-provide, go above and beyond, keep it simple; exceed personal and DTG \$\$\$ goals; support the local community where possible

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especially during this early and uncertain stage, but the issue became their first significant disagreement. DTG wanted the image of a traditional company (not a “dot-com”) and Crockett saw the location, appearance, and size of DTG headquarters as a way to establish such an image. Hayworth disagreed. He secured a long-term lease at market rates in the suburban office complex shared with his venture capital firm. To Crockett's dismay, although he was doing most of the work and carrying a considerable risk to his livelihood, it seemed that Hayworth could take control whenever he wanted.

### **Building the Racing Team: Human Resource Development**

DTG's first transaction, a 1999 BMW Z3 Coupe, occurred in May 2001. It was basically a traditional wholesale trade, since DTG's technology played a minimal role. Taking the car for a drive prior to the sale, Crockett gained a new appreciation for the excitement and emotion associated with vehicle sales. These transactions were complicated, however, and a number of logistical problems immediately presented themselves. Each DTG transaction involved transferring ownership from one dealer to another via a third party, a process nearly as complex as buying a home.

Crockett and Greenway were not interested or qualified in the details of wholesaling vehicles, so they hired Pat Atkins, the number two executive at a local physical auto auction, to handle financial and administrative matters. She completed the top management team (Figure 9) with complementary skills and proficiency. Atkins immediately played a critical role, using her industry experience to develop operational policies and transaction logistics that were analogous to what dealers found at physical auctions. Crockett hoped that DTG's initial transactions would fine-tune the online marketplace before eventual high sales volumes put DTG's model to the true test. As shown in Figure 10, the plan was to increasingly implement DTG's web-based technology in a way that would mirror traditional auctions without their week-long sales cycle.

DTG's plan also relied on experienced salespeople to close sales until web-based technology could take over. The only questions were how many to hire and how long to

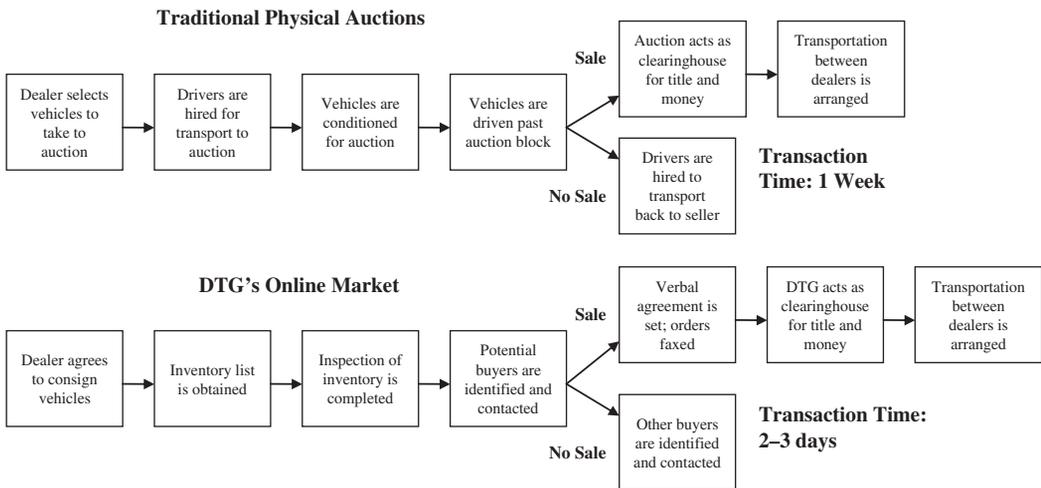
Figure 9

Dealer Trade Group’s Senior Management Team in March 2001

Name	Position	Responsibilities
Carter Crockett	President	Strategy, marketing, technology
Todd Greenway	Vice-president, Sales	Dealer relations, sales management
Pat Atkins	Business Manager	Administration, accounting, finance

Figure 10

Dealer Trade Group’s (DTG) Business Model



rely on them as the venture developed. Crockett and Greenway knew that sales transactions were the engine that would propel the company forward, so Greenway hired several seasoned salespeople. Personal reputation in the industry was more important than education or technological skill. Most salespeople came from dealerships or physical auctions and were attracted to DTG’s vision. Within a few months, DTG had a 15-member sales team representing over 150 years of industry experience. The average salesperson was at least 40 years old (some were over 60) and did not know how to type or use computers; few had any college education. For example, Eddie Barnhard joined DTG with 22 years of industry experience. He was 60 years old and had managed used car departments and wholesale purchasing operations for several dealerships. He knew most dealers in the region personally. They knew him too, vouching for his character when references were checked. Notwithstanding Barnhard’s impressive experience and enthusiasm for DTG, however, the learning curve was steep. He had never even used a computer before

Crockett issued him a laptop, a pager, a wireless personal digital assistant (PDA), and a mobile telephone.

Crockett was also learning a lot at this point. The communication style he had used in the high-tech industry and at Microsoft did not work in the auto industry. The language used in magazines and journals to describe emerging B2B models like DTG's was even less applicable. With frequent consultation from Greenway and other industry veterans, Crockett wrote and designed the first DTG brochure. When he showed it to his wife one night, she noted what seemed to be a lot of industry jargon and its awkward phrasing (e.g., "If the vehicle isn't what we say it is, you don't have to own it!"). "Who wrote this?" she asked. Crockett responded that it was his own attempt to employ auto industry vernacular.

### Tuning Up: Technological Development

One Seattle-based consulting firm and systems integrator offered to develop DTG's website for \$2.1 million, but an Ohio firm with automotive e-commerce experience got the contract by promising better work on the same schedule for just \$120,000. Although elements of the website were functional on April 2001 (Figure 11), the finished product was not delivered until much later.

The same Ohio vendor was contracted to develop DTG's Remote Inventory Acquisition Device (RIAD) software. The RIAD (Figure 12), a handheld PDA-based program,

Figure 11

Dealer Trade Group's (DTG) Website

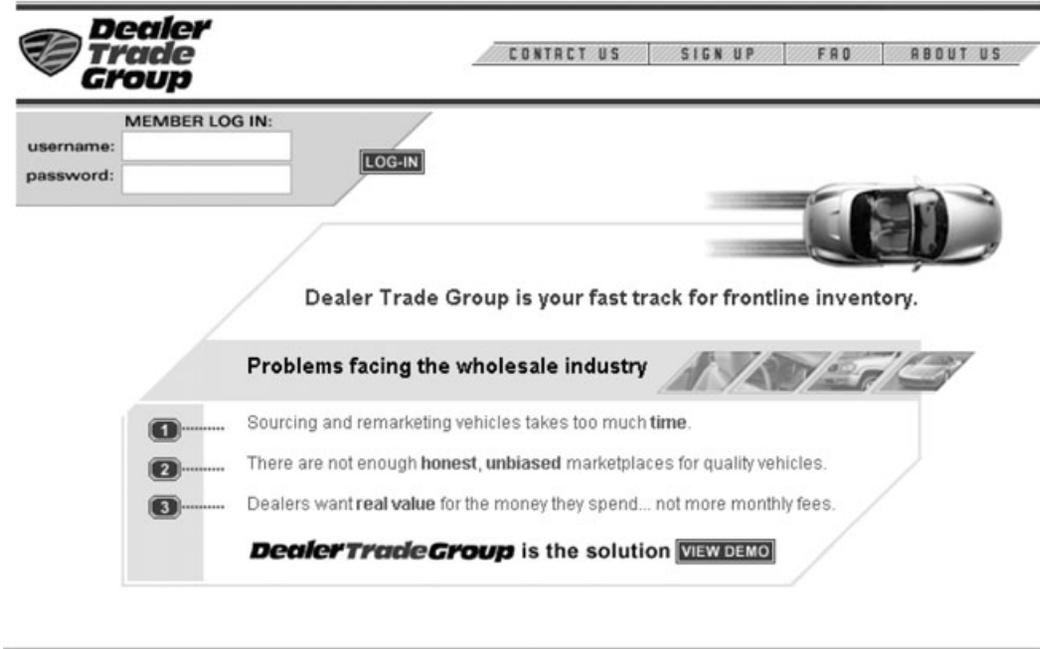


Figure 12

The Remote Inventory Acquisition Device Vehicle Inspection Tool



Damage Type:

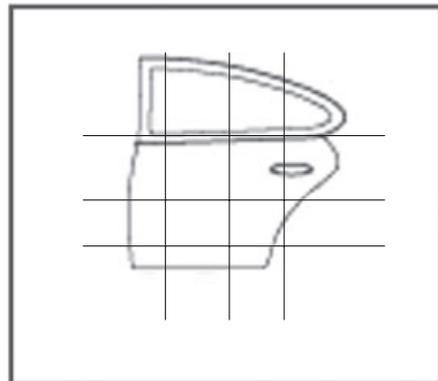
Description:

Description 2:

Description 3:

After the type of damage is selected, then the user will click on the area to specify the location of the damage.

Item	Yes	No
Front left fender (drivers side)	<input type="radio"/>	<input type="radio"/>
Front Bumper	<input type="radio"/>	<input type="radio"/>
Grill	<input type="radio"/>	<input type="radio"/>
Hood	<input type="radio"/>	<input type="radio"/>
Engine compartment	<input type="radio"/>	<input type="radio"/>
Right front fender (passengers side)	<input type="radio"/>	<input type="radio"/>
Passengers door	<input type="radio"/>	<input type="radio"/>
Rear passengers door	<input type="radio"/>	<input type="radio"/>
Passenger Rocker panel	<input type="radio"/>	<input type="radio"/>
Right rear quarter panel / bed side (truck)	<input type="radio"/>	<input type="radio"/>
Trunk / tail gate (truck)	<input type="radio"/>	<input type="radio"/>
Bed (truck) or inside trunk	<input type="radio"/>	<input type="radio"/>
Rear Bumper	<input type="radio"/>	<input type="radio"/>
Left rear quarter panel / bed side (truck)	<input type="radio"/>	<input type="radio"/>
Driver rocker panel	<input type="radio"/>	<input type="radio"/>
Rear driver door	<input checked="" type="radio"/>	<input type="radio"/>
Driver door	<input type="radio"/>	<input type="radio"/>
Glass	<input type="radio"/>	<input type="radio"/>
Roof	<input type="radio"/>	<input type="radio"/>
Tires Passenger	<input type="radio"/>	<input type="radio"/>
Wheels Passenger	<input type="radio"/>	<input type="radio"/>
Tires Driver	<input type="radio"/>	<input type="radio"/>
Wheels Driver	<input type="radio"/>	<input type="radio"/>



recorded detailed vehicle information on-site and transmitted inspection reports wirelessly into the online inventory catalog. Although designed to facilitate transactions, it sometimes made life difficult for employees like Barnhard. Yet it eventually proved effective for capturing and utilizing vehicle data. The industry standard paper-based inspection reports required transcription of identical data (e.g., Vehicle Inspection Numbers) as many as 12 times when processing a vehicle transaction. The RIAD reduced transcription and other user errors by recording these data only once for subsequent use in a variety of standardized procedures and forms.

## Rules of the Road: Implementing Strategy

Amidst the hectic day-to-day operations, Crockett's mantra could be heard frequently throughout the DTG offices: "Without trust, we're toast!" The message underscored a unifying purpose for all employees: build loyal relationships with customers. Virtually everything DTG did was related to building trust and presenting itself as industry savvy: meeting potential customers in person, providing detailed inspections and guarantees for every vehicle, hiring and training expert vehicle inspectors, minimizing technical difficulties, and offering an honest service that exceeded expectations and industry standards. For Crockett, it was the only way DTG could hope to fulfill its mission statement: *to be the dealer's most efficient wholesale inventory solution*. Some dealers were so pleased with DTG that they immediately became loyal to the new venture. These devoted customers were attracted by DTG's experienced, reputable salespeople at least as much as its novel business model. Greenway explained, "It's still about shaking hands and looking someone in the eye." Without DTG's salespeople, dealers might have ignored DTG as an alternative solution. As one dealer explained to Crockett regarding a DTG salesperson, "I've known Roger for 20 years. You may be a new company, but I know I can trust Roger to do what he says. You've got a real gem right there."

To support DTG's image as accommodating industry norms rather than as a brash dot-com, Crockett expunged "revolutionary" from all DTG business plans, marketing literature, website content, and other materials. Dealers and industry partners shunned such language, Crockett reasoned, and were more likely to trust companies that respected existing ways without offering "revolutionary" solutions. He would let them decide for themselves if DTG was revolutionary. Crockett had developed 10 strategic principles for DTG (Figure 13) to complement the original guiding values (Figure 8)

Figure 13

### Dealer Trade Group's 10 Strategic Principles

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1. Don't kick the gorilla: Physical auctions dominate the industry; partner rather than compete
  2. Behavior changes slowly: Let dealers participate as they are accustomed (i.e., offline at first)
  3. Handshakes build more loyalty than features: People matter more than processes
  4. Relationships outrun transactions: Lose a deal—save a relationship
  5. Business is intimate: In-person visits are customary and essential
  6. Avoid imports: Develop native solutions that adapt to existing behavior
  7. Saving time + money + hassle = maximum success: Create win-win-win solutions
  8. Slow and steady wins: Quality companies cannot grow overnight
  9. Don't push for maximum margin: Transaction volume makes the model fly
  10. Knowledge is power: We benefit when dealers have good data to make good decisions
-

and mission statement. They were reinforced through communication to DTG's employees.

While Greenway persistently reminded his sales force that "The day we REQUIRE dealers to use our website is the day this company will die," Crockett relentlessly pushed technical development to make transactions more efficient. In this way, they acknowledged that "behavior changes slowly" and, by their reasoning, engaged the seemingly paradoxical strategic objective of introducing a revolutionary business model that accommodated traditional wholesaling practices. Role modeling was also used to instill the principles. For example, DTG top management frequently visited dealers. Greenway reported that the sales force appreciated Crockett and Atkins being out there shaking hands with potential customers, too.

### **Cruising at the Speed of Entrepreneurship**

Frantic negotiation, hard-driving salesmanship, and the exuberant celebration of closed deals were standard at DTG—especially in the "bullpen." Originally a conference room, the bullpen had become a negotiation "war room" packed with loud salespeople working deals between buyers and sellers. The salespeople were able to communicate effectively with DTG's customers because they were similar to them. It was not atypical to see a salesperson eating lunch and negotiating with a buyer over a telephone on one ear while conversing with the seller over a mobile phone on the other ear. A whiteboard showed the status of each deal, which salesperson closed it, and a tally proclaiming the best performer of the day. Sometimes the whiteboard displayed the results of sales competitions so that everyone would know who performed well (or poorly). In a nearby room, the administrative staff handled finances and logistics with silent precision while trying to ignore the loud salespeople. Just next door, the technology developers' room was a dimly lit domain full of pagers, PDAs, laptops, and other technological devices. Posters featuring alternative music bands covered the walls. The reclusive developers arrived late each morning, closed their door, and worked late into the night to the trendy sounds of techno music.

By June 2001, DTG was serving 180 dealers in Washington and surrounding states. Despite complications, sales climbed to 89 vehicles that month, generating over \$1 million in vehicle transactions and \$28,000 in revenues. An income statement summarizing DTG's actual revenues and expenses for 2000 and financial projections for 2001–2003 appears in Figure 14.

### **Speed Bumps**

The technology meant to streamline processes often just slowed things down, and by mid-2001, some technological aspects of the business model came into question. For example, the website facilitated transactions by making employees more efficient; it was still not ready for customers to access. When a deal was made, it was DTG's salesperson—not the dealer—who filled in the appropriate fields on the website. Nonetheless, sales growth continued. Greenway and Crockett began to wonder if dealers would *ever* need to access the website. DTG's efficiency behind the scenes was encouraging though, and the approach still permitted dealers to conduct business through their preferred methods: face-to-face or by telephone.

Every employee was working long hours under stressful and uncertain conditions. Every day seemed to bring news of a new competitor or another failed start-up. To raise

Figure 14

Dealer Trade Group’s (DTG) Income Statement for Fiscal Year 2000 and Projections for 2001–2003

Year ending September 30	2000	2001	2002	2003
<i>Income</i>				
Sales-based revenues	\$0	\$1,321,988	\$9,297,662	\$13,191,787
Selling expenses	0	201,659	1,549,610	2,378,847
Gross margin	0	1,120,329	7,748,052	10,812,940
<i>Expenses</i>				
Operating	205,749	1,301,833	3,834,752	4,810,164
Advertising and marketing	52,000	130,183	348,614	400,847
Research and development (wireless, website)	312,500	1,171,650	2,788,910	2,805,929
Operating expenses	570,249	2,603,666	6,972,276	8,016,940
Net earnings	(570,249)	(1,483,337)	775,776	2,796,000

spirits, Crockett decided to organize a holiday event for employees and their families. Hayworth and DTG’s board poured cold water on the idea. They thought it would send the wrong message and distract employees from making DTG profitable. Crockett thought the party would help establish a culture, nurture commitment, and strengthen relationships, which might speed DTG toward profitability. He was even prepared to pay for the event himself. As he explained his plan to one board member over the telephone, the investor interrupted him: “There’ll be plenty of time for parties *after the company makes a profit.*” Crockett tabled his plan, feeling that he had more important battles to fight.

Hayworth was still sharing office space with DTG. Although removed from day-to-day issues and operations, his presence was difficult to ignore. For example, he would frequently bellow to everyone in the whole office, “How many cars have we sold today?”

When DTG moved to its suburban location, Greenway grabbed the office next to Hayworth’s and left Crockett an office at the opposite end of the hall. Crockett thought little of it until Greenway began slipping into Hayworth’s office at regular intervals. Shortly thereafter, Greenway began to disagree openly with Crockett in meetings; he would complain about Crockett’s decisions with a nod toward Hayworth. He would sometimes be heard instructing employees: “No, you see, this is what Hayworth really wants . . .” Eventually, Greenway began to schedule and preside over “company-wide meetings” to which everyone except Crockett was invited. Challenged by Crockett on the oversight, Greenway replied, “You can come to any of these, but I don’t know why you would want to.”

Friction with Greenway was beginning to compromise Crockett’s otherwise healthy relationship with Hayworth, and Crockett felt powerless to change the situation. Greenway seemed to exacerbate any minor disagreements between Crockett and Hayworth over how to lead DTG. From Crockett’s perspective, he did not think he had the industry experience to gain Greenway’s respect or enough support from the board to address

Greenway's behavior directly. He knew it would be difficult to take disciplinary action because DTG's current sales success was largely attributable to Greenway and his team. In fact, it seemed that Greenway had become more essential to DTG's future growth than he was. Crockett waited a bit longer before meeting with Hayworth about the issue.

Once Hayworth and Crockett compared notes, it was clear that Greenway had been playing them against one another for his own advantage. They agreed that even if Greenway felt capable of leading DTG, he was not the right person for the job. It seemed that the more they worked with Greenway, the less they trusted him. Furthermore, he did not have the polish required to present DTG to potential investors.

The Ohio technology developer continued to miss important deadlines. Crockett wondered out loud if they would ever deliver: "Perhaps THIS is why they were so much more affordable than the others!" Demands for results escalated until the vendor actually threatened to terminate DTG's website. Feeling a sudden need to protect the investment, Crockett launched an internal development effort. Two new developers were hired and given responsibility of smoothing relations with the vendor, transferring development in-house, and providing DTG's technical support.

Just 8 months after closing its initial round of investment, DTG's employee ranks had expanded to 32. Most of these employees were salespeople, but the number also included eight administrative staff and five vehicle inspectors. The leased office space had been filled and small satellite offices were established in Spokane, Salt Lake City, and Juneau, Alaska.

Some aspects of DTG did not accommodate the technology developers very well. Unlike the experienced salespeople and administrative staff, the developers were young, tech-savvy, and formally educated. Their only experience with auto dealers was as retail customers, yet they were responsible for translating the traditional auto wholesaling process into meaningful web-based features that could expedite transactions. They did not speak the same language as the industry veterans. For example, Greenway would tell the developers, "A dealer's pager needs to go off whenever over-aged inventory in our catalog matches the standing order placed in our vehicle locator service." Typical first responses from the developers included, "What's an 'over-aged' inventory? What's a 'standing order' and who placed it? Does that guy think we're miracle workers?" Greenway would deliver such messages in a tone that the developers thought implied that any child should understand him. It could take hours to clear up the confusion, and the developers' initial attempts to deliver such features were inevitably and significantly flawed.

DTG made about 200 vehicle transactions in August 2001. Management projected a breakeven transaction volume of 600 vehicles per month, which seemed attainable by the end of the year, but no one was sure whether or not the approaching winter season would affect the current sales growth. They all knew that the online market was important to generating the sales volume required to reach profitability, but there was debate about the nature of its role. Crockett and Greenway agreed that it was not possible for DTG to fulfill its mission and prove the new business model until the online market reached dealers directly. Any company could increase sales by hiring more salespeople, but the DTG model required online technology to drive growth.

Achieving technology-based growth became Crockett's chief objective by June 2001. DTG's website was being reworked constantly. Trial versions were launched and relaunched, but dealers were not yet invited to participate directly. Few dealers expressed an interest in accessing the website anyway. As the sales force continued closing deals, DTG continued to grow by adding salespeople. Before Crockett knew it, his orientation had shifted away from the entrepreneurial activity he loved and toward the operations side of the venture; away from the vision and into the details.

Figure 15

Recreation of an Excerpt from Crockett’s Journal in August 2001

Who?	What's missing?
Hayworth / Investors	Trust
Greenway	Respect

**Warning Signs**

Crockett began to feel forced by his DTG experience to be someone he was not. In August 2001, he tried to put in writing what was troubling him. His personal journal showed divergences between what he desired and what existed. Personal and relational matters seemed to be at the heart of his predicament (Figure 15). It was not lost on Crockett that “trust” and “respect” must be “earned.”

If he were not capable of earning trust and respect, Crockett felt that it was perhaps the right time to find a leader who could. Crockett felt like a misfit in the auto industry anyway, where you were either “one of the guys” or not. Most DTG employees were industry veterans, “car guys” who were older than Crockett and drove much nicer cars. With sales commissions, Greenway and others made more money than Crockett. They understood industry nuances with which he still struggled. Communication continued to be a source of frustration. Crockett found the original contract he had signed with Hayworth and was reminded in black and white that the original intent was to pass leadership to an industry veteran once the high risk of the start-up phase had been mitigated.

That month, the National Outdoor Leadership School approached Crockett. The local nonprofit venture was trying to raise money by leading a 3-day expedition nearly 11,000 feet to the summit of Mt. Baker. Participants were each asked to contribute \$2,000. Crockett saw an opportunity to ponder career options, or even a nice parting gesture and exit mechanism if DTG would sponsor him. He discussed resigning with Hayworth, but it was clear that the board was not interested in hiring an expensive industry veteran to lead DTG. Hayworth said, “We don’t want you to leave, and we’ll sponsor the mountain climb.” The response did little to change Crockett’s perception of things. If he felt it was time to resign, he was going to have to force the issue.

A couple of weeks later, Crockett was on the side of a mountain with 12 other climbers in tandem. The team plodded carefully around dizzying glacial chasms. He was told that his ice axe was the best hope if he began to fall or slide. As the final ascent began and as his helmet lamp shone through the 3:00 A.M. darkness, Crockett felt like he was in another world. He saw parallels between this adventure and DTG: Hayworth funded both while he worked hard. Both entailed risk to life or livelihood with the exhilaration of reaching new heights. After 3 freezing days, as the expedition neared Mt. Baker’s summit, he had gained a new perspective on many issues. He asked himself again: Would DTG be led more effectively by an industry veteran? Was it time to get out?

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This case study is intended to facilitate pedagogy and discussion about entrepreneurship and management. It is not intended to prescribe effective handling of any particular issues. Some identifying information has been disguised for confidentiality.