

CEO revs up his car firm for national push

John Iannone has big plans for Victor-based Auction Direct USA, including an IPO

By VELVET SPICER

John Iannone has ambitious goals for Auction Direct USA L.P.: to be the area's first nationwide used-car franchise, and to conduct an initial public offering in the next three to four years.

But first, Iannone plans to open a second location in an A-market—a city with a population of 2 million or more—in early 2007.

"Atlanta, Houston, Phoenix and Dallas are the four cities that we're really keyed in on," the CEO of the Victor-based used-car auction house says.

Long-term goals include the opening of 17 stores across the nation, he notes.

"Or, if we're having fun, keep it private and just keep growing," he says.

Iannone and other investors chose the Rochester area for the startup because he is from the area and the concept of a national eBay Inc.-like car dealer—or any franchise—"is very tough to prove in small markets," Iannone says. He wanted to see if it could be done here before venturing into other regions.

"We're from Rochester. It was kind of our incubator, our test model, our prototype here to iron out any issues that we may have before we did our national rollout," he explains. "I can't think of any automom-

tive chain that's started in Rochester. We'd be the first ones to do a national expansion."

He and his business partners—including John Gabriele of Marina Dodge Inc.—are proud of Rochester, he says, but the area has had its share of black eyes with past layoffs at Eastman Kodak Co. and other local firms, and its general economic decline.

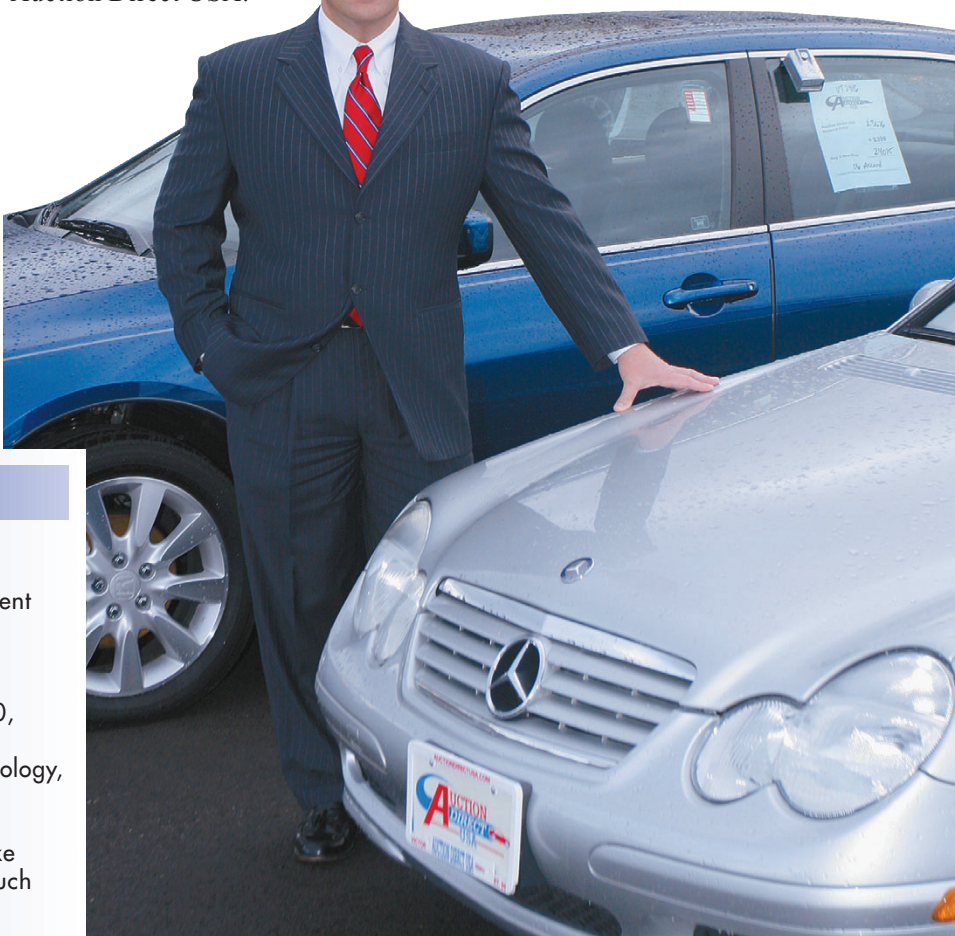
"We do have some glimmers of hope with Paychex and University of Rochester and what they're doing, and Wegmans," Iannone says. "But I really would love to say 'headquartered in Rochester, N.Y.,' (about Auction Direct USA.)"

A new concept

Iannone grew up around cars, he says. His father was a mechanic and he always had vehicles around to tinker with.

Though he had an interest in cars, Iannone went to Rochester Institute of Technology and received an associate's degree in applied machine tool technology. But in 1985, one semester shy of a bachelor's degree in engineering at RIT, he got his first job selling cars at the former Koerner Ford. He opted not to finish the four-year degree, he says.

"I started really enjoying working with people and did pretty well my first year



CLOSE-UP

John Iannone

Title: CEO, Auction Direct USA L.P.; president and CEO, Auto Depot USA LLC

Age: 43

Home: Penfield

Family: Wife, Cheryl; daughters Olivia, 10, and Gianna, 6

Education: AAS, applied machine tool technology, Rochester Institute of Technology

Hobbies: Golf, outdoor sports, family

Quote: "In the used-car business it's just like produce: It's never going to be worth as much as the day you put it out there."

and, as they say in the business, 'got the bug,'" the 43-year-old husband and father of two says. He ended up staying at the dealership roughly 15 years.

The commission-only job taught Iannone a valuable lesson, he says. "You're going to get out what you put in to something."

In late 1998, a subsidiary of Ford Motor Co. bought several local Ford dealerships and they collectively became known as the Rochester Ford Auto Collection. Shortly thereafter Iannone met Todd Hoagey, who was brought in as RFAC's chief financial officer.

The two became friends and stayed in touch after RFAC folded in 2001, Iannone says. Hoagey went to work at Holtz House of Vehicles, while Iannone started Auto Depot USA LLC, a used-car dealership on West Ridge Road.

Meanwhile, Iannone also was at work developing the concept for Auction Direct. The company works somewhat like eBay in that used vehicles are offered for a "buy-it-now" price and if they do not sell within a certain timeframe—typically 30 to 40 days—the cars are put on seven-day auctions on the company's Web site.

A few years ago Iannone pitched his idea to Hoagey, who liked the concept enough to leave Holtz and begin working with Iannone on a business plan.

"One thing kind of flowed into the other and I haven't taken a breath since," Hoagey says of his move from Holtz to become CFO of Auction Direct.

Developing a business plan was a lengthy process. Some 18 months after Iannone approached Hoagey with the idea, the business plan was in place. The company opened in October 2005.

"We documented everything," Hoagey says. "You always prepare. You can prepare until you're blue in the face and then you open the doors and say, 'Oh no, I forgot this.' So the more preparation, the less chance you have of having one of those 'oopses.'"

That preparation caught the attention of investors at Trillium Group LLC and the New York State Common Retirement Fund, who earlier this year gave Auction Direct a multimillion-dollar package that will enable the company to expand nationwide, Iannone says. The Trillium portion is funded through its Lakefront Partners III Fund and typically ranges from \$2 million to \$5 million. Trillium was attracted to Auction Direct because it employs both the traditional bricks-and-mortar atmosphere and an online selling option.

Iannone wanted Auction Direct to be less about profit per car and more about inventory turnover. He likens the concept to a grocery store, where it is about shelf space and "how fast you can turn the product on the shelf."

"In the used-car business it's just like produce: It's never going to be worth as much as the day you put it out there," he says.

Iannone also wanted the business to be customer-driven, one in which clients felt no pressure when visiting the dealership.

The company's showroom features a research center equipped with computers to allow customers the opportunity to research vehicles before buying them. More computers are available on the dealership's horseshoe-shaped bar, behind which sit salespeople and managers. The monitors face outward for customer privacy, Iannone says.

"The reason we did that is so they can get on cars.com or autotrader.com and just have the assurance that if they're shopping that Corvette in the showroom the price is outstanding," he explains.

Iannone opted not to include hidden offices in his dealership's floor plan, and there are no long hallways with closed doors. Additionally, the offices that do exist off the showroom have windows, but no glass, for a more open feel, he says.

Another low-pressure tactic Iannone employed was to strip the commission from his salespeople.

"They don't care if you buy the \$5,000 car or the \$50,000 car," he says. "They're truly here to try to find exactly what your needs are, what your budget can afford and to advise you the best that they can about buying a car."

Auction Direct tends to hire more people from service industries, Iannone says, rather than the automotive industry.

"I think the biggest challenge that any company has is surrounding yourself with great people," he says. "Rather than finding car people we hire mostly people that have been in some kind of a client service industry."

He has hired banquet managers, customer relations staffers from Kodak and a waitress.

"Because of the way we sell cars here, you don't need that car-haggling experience that most dealers are looking for," Iannone says.

Auction Direct wants car buying to be stress-free and fun, Hoagey says.

"There are certain things about the car business that have always bugged me," he says. "And when we started to develop the concept of what we wanted it to look like, we took a look at the things that we liked and disliked about it and kept the good stuff and threw out the bad stuff."

Buying a car is stressful and it should not be, Hoagey notes.

"I think that stressful experience basically starts when you walk in the front door," he says. "From the moment you walk in the front door of a traditional car dealership you have immediate confrontation because you're there to buy a

car for the lowest price and they're there to sell you a car for the highest price."

While he declines to disclose revenues, Iannone notes in its first year of business Auction Direct sold more than 1,500 used vehicles—and he expects to grow the business by 10 percent to 15 percent annually. If the average used-car sale was \$10,000, the company's first-year sales would have hit \$15 million.

The company keeps some 250 cars—purchased through dealer auctions or the general public—on the lot at any given time and its lineup ranges from \$5,000 vehicles to a \$200,000 Ford GT the company sold. The company also takes requests and in most cases can locate a vehicle for a customer within hours or days.

Auction Direct employs some 47 people, while Auto Depot, the used-car dealership in Greece, has 12 staffers. Though customers range from the 18-year-old out looking for his first car to the seasoned driver shopping for vehicle No. 30, Iannone says Auction Direct's typical customer is the family of four in their mid-30s.

The company circumvents the high cost of traditional advertising through customer referrals. Auction Direct started off with roughly 30 to 35 new referrals a month and that has grown to more than 70.

"Our customer referral equals what we spend in advertising on TV as far as traffic," Iannone says. "We feel that's viral; it's starting to take hold."

The company sees a slight majority of its business come from Internet traffic versus foot traffic, Iannone says, and he refers to the business as more of a "click and mortar" company as opposed to the traditional car dealership.

The company's lack of conventional television, radio or print advertising has not hurt the business, Auction Direct manager Stephen Satterwhite says.

"You can throw thousands of dollars at advertising in the newspaper, in radio and TV," he says. "The best form of advertising in the world is your neighbor coming over and saying 'I'd like to show you this beautiful car I just bought and the wonderful experience I just had.' Nothing is as strong as word-of-mouth."

Atmosphere

Because the company does not rely on commissions to compensate its salespeople, teamwork is more evident in the showroom, Iannone says.

"It is total teamwork," he says. "We haven't seen any signs of any big egos here. And if we did they probably wouldn't last long. They probably wouldn't fit."

Hoagey notes the teamwork he sees is a culmination of excitement over the company's upcoming expansion and the uniqueness of the business. Additionally, he says,

Auction Direct salespeople are not afraid to run into customers off the job.

"If you're in a traditional car dealership you don't want to run into people you sold cars to, historically," he explains. "Our salespeople, they don't mind if they go to church and they see somebody they sold a car to. They're not afraid to run into their customers on the street because the customers have received a good experience."

Satterwhite describes the dealership atmosphere as fun, for both employees and customers.

"Unfortunately, I think in the last 80 years since the first car was made, the industry has not been exactly straightforward on how to deal with their customers," he says. "And we have decided to revolutionize and legitimize this business. We've taken the B.S. out of the business."

Satterwhite equates the price negotiation that goes on at some dealerships with going to the dentist. It is painful, he says.

"The negotiation process to go back and forth to the manager 120 times is not something that anyone likes to do, so we decided we're going to offer the lowest price and there's no negotiation," he explains. "And if we can't sell the car for that much money, we'll take it back to auction. It just removes all of that nonsense that usually goes on at the traditional dealership."

Employees are the company's most valuable asset, Hoagey says, and Iannone believes that work is not necessarily

everything.

"A lot of people in the car business attribute their success to their franchise or their location," Hoagey explains. "But in the car business the single most important success factor is the people."

Satterwhite adds: "As an employee, if I ever have a problem, a concern or anything, (Iannone) has an open door. It's delightful coming to work here. I wish that everyone could say that about their job."

Iannone says his greatest strength is he always is looking for a better way to sell cars or improve his work, and getting a vote of confidence from a satisfied customer or employee is the best part of his job.

Auction Direct recently held a jamboree for all of its previous customers, employees and their families.

"That gave us an opportunity to bond even further than most companies," he says. "When you tear down all the job titles and break bread at a table and all have a good time, they get to realize that the CEO is exactly what they are: family people that just come to work every day and try to do the best they can."

At home

His biggest accomplishments, Iannone says, are the birth of his two daughters, Olivia, 10, and Gianna, 6, and his wife, Cheryl, who stood by him through the planning and opening of Auction Direct.

Friends describe Iannone as a straight

shooter, down to earth and levelheaded. Iannone is a sports fan and avid golfer, says longtime friend Michael Cerretto, and much of what he does is with charity in mind.

"I think he's a special kind of guy. He's really good with charity," Cerretto says. "A lot of things that I'll golf with him in are stuff for fundraisers, charity. He does a lot of that. He's really community (centered)."

Brother-in-law John Myers agrees and describes Iannone as honest, generous and friendly.

"He's always in a good mood. I've never seen him (without) a smile on his face and in a good mood," he says.

Myers also notes that while Iannone is busy with expanding his business, "you can tell he has a strong love for family."

His immersion in Auction Direct does not leave much time for family though and that is his one regret.

"I don't spend much time with (my family), as much as I should," he says. "That's probably, from my heart, the thing that bothers me the most."

Iannone recalls a recent Sunday—the day in which he does not go into the office, rather he spends time with his wife and daughters—when his youngest daughter had a bowling party to go to. She decided she did not want to go, he says.

"She told her mom, 'It's my day to spend with daddy. I'm not going to this bowling party,'" he says. "That just crushed me."

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