

The Automotive Retail Industry Continues to Evolve

2017 Year in Review

Examining 2017 closely, we see many clear examples of how the automotive retail industry has continued to evolve. Many forces, including increased adoption of the internet retail model, changing consumer expectations, the economy, regulation and oversight, and the OEMs themselves, are driving change. These forces create both risk and opportunity, and staying on top of the developments is paramount. In this paper, we reflect back on specific developments that occurred in 2017 and their impacts on the dealership and industry in general.

1. Dealership Consolidations Remain Strong

In 2017, we continued to see a reduction in the number of dealerships in the U.S. marketplace. At the low end of the market, OEMs are attempting to weed out “weaker” dealerships, especially in the larger metro markets. Industry forces have created a situation where many small dealerships simply cannot generate the amount of sales and service revenue needed to survive.

In addition, buy/sells remain very strong across the industry. Kerrigan Advisors report¹ that they predict there will be more than 200 transactions for the fourth year in a row. Toyota, Honda, and Subaru enjoy the highest buyer interest. They also report that one-fourth of the transactions in 2017 were multi-dealership transactions.

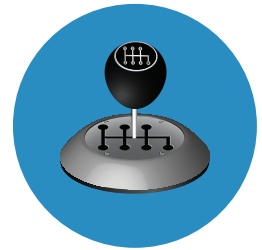


2. Consumer Vehicle Preferences Shifted

Both dealerships and OEMs felt the impact of changing vehicle preferences in 2017. Consumers became far less interested in sedans and more interested in SUVs and light trucks. This change led to a mismatch between the type of inventory on the lot and the type of inventory in demand. OEMs responded with additional incentives to try to lower inventory, creating an even more challenging environment for dealerships.

In addition, there was a flood of off-lease vehicles coming back into the market, which gathered significant interest from consumers for these 2-to-3-year-old vehicles.

Inventory management has never been more important for a dealership. We are seeing an increased use of near- and real-time marketplace data to help dealers make the best decisions for their inventory.



3. The Consumer Buying Process Fragmented Further

One of the biggest challenges a dealership faces is matching the way today's consumer wants to purchase a vehicle. Where, traditionally, a dealership may have adjusted its buying process simply based on the age of the consumer, now dealerships need to be prepared to satisfy a wider variety of shopping preferences within age groups, ranging from those who still want to rely heavily on an experience with a salesperson to those who prefer to conduct the entire shopping process online.

The challenge is that there are also many variations of buying preferences in between these a salesperson vs. online interaction, which may, or may not, include the use of online research, performance review sites, references from within a consumer's social network, use of market pricing tools, and so on. A notable example is the general female consumer, who tends to hold far greater distrust for the industry and desires a selling process specific to her needs. Identifying the buying preferences of individual consumers is critical going forward.

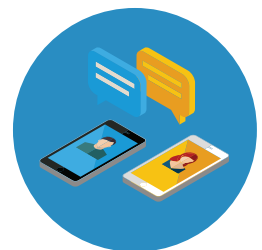


4. Customer Reviews Became Critical to the Buying Process

Today's consumers (especially millennials) are placing increasingly more weight on friend, network, and customer reviews. They are not just looking to learn about the vehicle, but also how the dealership's customer base feels about both the sales and service departments.

Given the amount of distrust consumers still bear today toward the automotive industry, it is no surprise they seek out insights regarding "fair treatment," "being helpful," and "was understanding." Every dealership needs to know how the most popular review sites rate them. They also need to data mine the information provided (sort through it to identify patterns and establish relationships²) to determine what areas of improvement can be identified.

From a sales perspective, dealerships should proactively work with their customers to capture social media connections within the DMS and/or CRM. If you have a very satisfied customer, you can leverage that information to generate additional leads.



5. Mobile Technology Improved the Customer Experience

One very positive development throughout the industry is how mobile technology is improving the customer experience. Today, dealers can begin the sales process right from the lot, as soon as their team meets the consumer. Driver's licenses can be scanned, and the information can be immediately uploaded into the DMS.

Similarly, a scan of the VIN can trigger the trade appraisal process. Different sales scenarios can be presented during the test drive, in the lot, or even at a restaurant. Staff can also use text and chat features to communicate with the different departments to speed things along, be more prepared, and smooth out bumps in the road. All of this mobile functionality not only speeds transaction times, but eliminates data entry mistakes as well.

Most importantly, customers are seeing the benefits of more mobile use in dealerships. A J.D. Power study³ reported that the use of mobile technology during the payment presentation process improved customer satisfaction significantly. Similar gains are being made in the service department, driven by online scheduling, multi-point inspections, service notifications, etc., all using a tablet or mobile phone.



6. Dealership Economics Grew More Difficult

For most dealerships, it was tougher to hold or improve profit levels in 2017. Unfortunately, 2018 doesn't look much better. U.S. auto sales dipped in 2017 and much of the same is expected this year. Of course, given that 2016 was a record year, this dip can be viewed as a predictable "regression to the mean" period. The question is, "How far will sales fall and what financial pressures will that put on the dealership?"

Another alarming trend is that new vehicle gross profit metrics continue to decline. Unfortunately, dealerships shouldn't expect to receive any help from OEMs. In fact, several OEM demands may continue to drive up costs. On the fixed operations side, dealers are concerned about two things: 1) the loss of business to independent repair facilities and 2) a reduction in service maintenance among today's newer vehicles. Additional obstacles for dealerships this year include rising interest rates (look for three such increases in 2018), higher loan defaults, and increasing issues with fraud.



7. Consumer Distrust of the Service Department Deepened

Regardless of whether it's part of a franchised dealership or an independent repair facility, consumers simply don't trust automotive service facilities. In the latest 2016 AAA Auto Repair Shop Survey, the results showed that consumers have significant concerns about (a) being pitched unnecessary services (76%), (b) being overcharged for services (73%), and (c) worrying whether work is done correctly (49%).

Most alarmingly, younger consumers (millennials and Gen Xers) show even greater concern. This distrust paints a poor picture for the future. Given that franchised dealerships have the first opportunity to service new car buyers, they need to develop tactics to get customers in the door—consider free or deeply discounted maintenance programs—and service them well. Convenience (online scheduling, drop-off kiosks, etc.) needs to be an area of focus. The key issue that needs to be addressed, though, is providing transparency and increasing trust.



8. The Shift to Hosted, SaaS-based Technology Reached Full Swing

Across all industries, the shift from on-premise technology to hosted, cloud-based solutions and "Software as a Service" is gaining momentum. The automotive retail industry is no different. Cloud options provide a new (and, yes, better!) way to manage the IT aspects of your business.

With hosted technology, expensive hardware can be eliminated, security updates and data backups occur automatically, and you can access your information anytime, anywhere, via the cloud. Disaster Recovery programs allow you to get up and running again quickly if the need arises. And while you may notice an increase in monthly fees, most hosted solutions have proven that they will truly save you money in the long run.



9. DMS Litigation Began That Could Shape the Industry for Years to Come

The multiple anti-trust lawsuits filed in 2017 have the potential to reshape the industry for years to come. These include the separate data integration lawsuits filed by Authenticom and Motor Vehicle Software Corp. Dealers keenly await the outcome of these battles to see how it might impact the expenses that are passed along to the dealership, as well as their access to the data and alternative providers.

Another lawsuit of interest is the Teterboro Chrysler-Jeep-Dodge-Ram suit against both Reynolds and Reynolds and CDK Global. Teterboro is seeking damages for the "Big 2" engaging in anti-competitive behavior that is driving up costs for the dealership. We'll have to look to 2018 for the outcome of that lawsuit.



What Now?

Several developments and trends have made a big impact on the automotive retail industry in 2017 and will continue to affect the future of the industry in both big and small ways.

To maximize success going forward, dealerships need a stellar combination of people, processes, and technology. Getting the right people into the right jobs is paramount, and modernized sales and service skills are vital.

Best-in-class processes need to be utilized and installed across the dealership. Processes should be consistent and repeatable, with indicators if things are falling out of line.

Technology must continue to evolve in a way that enhances the customer experience, improves efficiencies in every department, and saves the dealership money. Technology must enhance both the people and process aspects of the business, as well as enable dealerships to work with the third-party partners they believe will help them generate the most success.

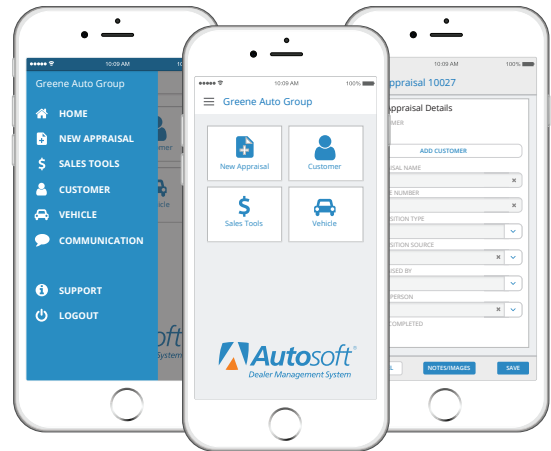


What Is Autosoft Doing?

Autosoft is committed to building the next generation dealer management solution that will create significant advancement in the industry—both for small and large dealerships. We are building a single platform system that's even more efficient and easy to use.

Dealership benefits of such a platform include getting:

- Faster transaction times that lead to staff efficiency and a higher level of customer satisfaction
- Enhanced communication tools that enable staff to engage other departments without having to leave the customer's side
- Stronger permissions and control over what individual employees can see or do
- Easier and faster employee onboarding
- Easier-to-monitor work statuses (including task handoff, etc.) of all your workflows



Delivered properly, such a solution will help dealerships improve operating performance, employee satisfaction, and the customer experience.

In 2017, Autosoft released the first two modules on their new platform: Sales and F&I and Inventory Management. Customers now have access to customer information, vehicle information, market information, employee performance data, and real-time analytics in a single platform. Look to the future with Autosoft as they continue to build the next generation Dealer Management System platform.

We look forward to a 2018 full of even greater technological developments, better customer engagement, and positive legal decisions for dealerships.

1 Staff, "11 overall trends around dealer buy/sell activity," Auto Remarketing, Aug. 28, 2017.
<http://www.autoremarketing.com/trends/11-overall-trends-around-dealer-buysell-activity>

2 Definition from TechTarget:
<http://searchsqlserver.techtarget.com/definition/data-mining>

3 Nathan Usher, "If You Think You Know Your Customers, You May Be Wrong," AutoSuccess Online, Nov. 15, 2016.
<http://www.autosuccessonline.com/if-you-think-you-know-your-customers-you-may-be-wrong/>



Autosoft provides a complete dealer management system (DMS) that has received the Highest Rated DMS award from DrivingSales three years in a row. With affordable month-to-month contracts, Autosoft's DMS improves processes and reduces operating costs in over 2,000 franchised automotive dealerships. Easy-to-use and innovative software helps dealers focus on their customers' needs.