DEALER.COM

Dealer Innovation Series

VOLUME 2 | DIGITAL RETAILING

DRIVING THE DIGITAL DEAL

How dealers can use digital retailing to meet consumer demand, streamline the sales process and boost the bottom line.

COX AUTOMOTIVE™

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Section 1: Why Digital Retailing?

THE FUTURE OF AUTOMOTIVE RETAIL

While "digital retailing" is quickly becoming one of the automotive industry's most buzzed-about terms, it may also be one of its most misunderstood.

To many dealers, digital retailing represents a mere extension of traditional website lead generation, with tools ranging from car payment calculators to credit approval forms. It can also be perceived as a threat to longstanding operational best practices and a loss of control over the deal. But new research shows that digital retailing is shaping the automotive online car shopping experience to the benefit of both dealers and consumers alike—by helping save consumers time and helping dealers sell faster and more effectively.

From Amazon to Apple, today's consumers have come to expect a seamless online-to-offline shopping and buying experience. Digital retailing addresses this consumer shift and provides a proven solution for the automotive industry. It is a part of a much deeper strategy that fully engages with consumers at critical touchpoints during the online research and shopping process while providing an online to in-store experience that meets today's consumer expectations.

As dealerships evolve to stay relevant in this new age of online shopping, they are now faced with both digital marketing and in-store operational changes as competition continues to rise. The following pages offer insight around why digital retailing serves a need in the future of dealership relevancy and eCommerce. These pages also outline important factors to take into consideration when adopting, or deciding whether to adopt, a complete and holistic digital retailing workflow that fully connects the dealership website with the physical showroom.

> Digital Retailing is now a requirement fueled by consumers' preferred shopping experience.

Section 2: Digital Retailing and the Age of eCommerce

CONSUMERS CRAVE CONVENIENCE AND CONTROL

In 2000, only 22% of Americans indicated that they had ever made a purchase online. But by 2016, that number rose to 79%.[1] Immediate access to digital information has generated a sense of entitlement to fast, simple and efficient shopping experiences—from meals, to mortgages, and now automotive.

This is not the only reason consumers are shopping online; it delivers a sense of control and transparency that can successfully set the foundation for trust between consumer and vendor. According to a 2016 Pew Research Center report, "When buying something for the first time, more than eight-in-ten Americans say it is important to be able to compare prices from different sellers (86%), to be able to ask questions about what they are buying (84%), or to buy from sellers they are familiar with (84%)".[1] Automotive digital retailing addresses these consumer demands and concerns, and offers a platform to perform research and make comparisons across a competitive marketplace for goods.

> "While Millennials are just as inclined to buy and lease as any other demographic—and will account for 40% of all car buyers by 2020—they're the least satisfied with the current in-store experience."

172%
consumers' increase in satisfaction with time spent at the dealership when online shopping was combined with in-store purchase.[4]

78%
of car buyers are either "somewhat" or "very" comfortable with online deal-making activities such as payment calculation and online negotiation[2]

58%
of consumers are comfortable making deals digitally[2]

63%
of consumers initiated their car purchase online[2]

This evolution toward online shopping becomes even more pronounced when it comes to Millennials, who are most comfortable researching online and more likely to shop by payment than any other demographic.[3] While younger car buyers, who will account for 40% of all car buyers by 2020, are just as inclined to buy and lease as any other demographic, they are the least satisfied with the current in-store experience—a trend potentially driven by their high comfort level with eCommerce.[3]

These survey results suggest that digital retailing has become more than just a helpful way for retail to engage with online consumers: Digital retailing is now a requirement fueled by the consumers' preferred shopping experience.

Section 3: Digital Retailing and the Dealer's Bottom Line

ENHANCING THE CONSUMER EXPERIENCE, IMPROVING OPERATIONAL EFFICIENCY AND INCREASING PROFITABILITY

The following research shows that growing consumer preference for online shopping options creates a competitive opportunity for dealers. By implementing digital retailing strategies, dealers can:

- Align with consumer expectations.
- Improve overall operational efficiency.
- Drive product cross-selling opportunities to preserve the bottom line.

Three key, industry-specific digital retailing benefits stand out:

1. Digital retailing leads to happier customers.

According to a 2016 Cox Automotive study, consumers who worked their deals online reported more satisfaction with several aspects of the overall buying experience.[4] Compared to consumers who purchased vehicles through a traditional experience, their satisfaction with overall deal communication increased by 93% and satisfaction with the amount of time they spent at the dealership increased by 172%.[4]

Notably, the 2015 Autotrader Car Buyer of the Future Study reported that out of 4,002 consumers, 54% said they would buy from a dealership that offered their preferred experience over the lowest price.[2] In the same study, only 17 car shoppers and buyers chose the traditional car purchasing process as their ideal experience.[2] This research indicates that consumers who choose to buy from dealers that offer digital retailing as part of their preferred experience don't expect to pay less than a competing dealership offer.

> 54% of consumers said they would buy from a dealership that offers their preferred experience, even if it didn't have the lowest price.

That is not to say consumers don't value the in-store experience: 88% of consumers will not buy without a test-drive and 40% of consumers say that a personal connection is important.[2] For this reason, digital retailing creates an environment that allows the online experience to seamlessly tee-up the dealer for a successful in-store customer relationship.

By giving shoppers the tools to complete car-buying activities either online or offline, whichever they prefer, dealers can:

- Gain customer trust.
- Boost repeat and referral business.
- Increase brand strength and reputation.

In essence, happier shoppers are loyal customers.

Section 3: Digital Retailing and the Dealer's Bottom Line

ENHANCING THE CONSUMER EXPERIENCE, IMPROVING OPERATIONAL EFFICIENCY AND INCREASING PROFITABILITY

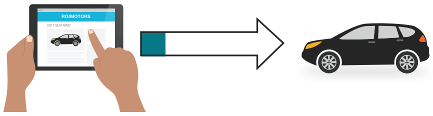
2. Digital retailing leads to deal-making efficiency, speed and control.

In addition to long-term benefits of improved consumer satisfaction and trust, a digital retailing strategy can also accelerate inventory turnover. Results from a 2016 Cox Automotive study based on VinSolutions CRM data reported that when these consumers engaged with Cox Automotive Digital Retailing tools during the purchase process those vehicles were sold—on average—6 days faster.[5]

> When consumers engage with digital retailing tools during the purchase process, those vehicles are sold—on average—6 days faster.

LEADS vs. DEALS

HOW YOU DO IT TODAY



First Name

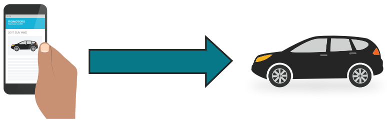
Last Name

Phone

Email

Get ePrice

HOW IT WORKS WITH DIGITAL RETAILING



2017 Mini Van
$48,500

$519 per month
60mos / 6.99% APR / $5,250 down

My name is Ann, Credit score is 680
680 Credit Score / Shopping for $400-$450 payment

$8,427 KBB Trade Value
2012 Truck / 87,326 miles / Fair Condition

Vehicle Protection
3 yr Prepaid Maintenance / Appearance Protection

"I would like $9,000 for my trade, I'm looking at purchasing this weekend"

Pre-Approved $53,000 / Tier 2 / 5.49%

ENHANCING THE CONSUMER EXPERIENCE, IMPROVING OPERATIONAL EFFICIENCY AND INCREASING PROFITABILITY

2. Digital retailing leads to deal-making efficiency, speed and control. (continued)

It comes back to consumer online shopping preferences. Consumers crave control, and by engaging them in an authentic deal-making experience, dealers automatically begin building an increased level of consumer transparency and trust. As this trust is building, dealers are saving time on the floor while consumers complete the research phase from their desktop, tablet or mobile device.

In tandem, this new, more sophisticated digital retailing workflow provides shoppers with a set of tools to submit in-depth information during the research phase prior to stepping foot in the dealership—also leading to inevitable time savings for the dealer. By the time a shopper has opened the door of the dealership, the sales team has saved valuable time and is armed with a level of information that would not have been extracted through a typical lead submission form.

It is important to clarify that although digital retailing improves the quality of online engagement by empowering consumers, it does not compromise dealer control over deal terms and the overall transaction. In the end, a dealer holds the power to choose what tools, information and pricing are initially available to the consumer on the dealership site, allowing the them to:

- Set the starting point for the shopper
- Control rates and pricing
- Choose the trade-in valuation provider
- Avoid non-compliance penalties

ENHANCING THE CONSUMER EXPERIENCE, IMPROVING OPERATIONAL EFFICIENCY AND INCREASING PROFITABILITY

3. Digital retailing addresses margin compression and profitability.

The next topic addresses the effect of digital retailing on margin compression and the bottom line; a scenario that continues to threaten the health of many dealerships. Compared to previous years dealers now invest more in the vehicles they sell, spend more to operate their stores, and make less profit per unit.[6] In fact, used retail gross margin has declined, reaching its peak at 11.5% in 2009 and dropping steadily to approximately 9% in 2015.[7]

These numbers signal a need for change in how dealerships approach marketing and sales strategy. The right digital retailing strategy leverages a multitude of online sales opportunities to engage with the consumer during the research phase. One of these opportunities is the improvement of online merchandising and sales of value-added products, such as Finance and Insurance (F&I) packages.

A recent MakeMyDeal Digital F&I Experience Study reported that out of 500 car buyers who had purchased a vehicle in the past six months:

"74% of those buyers who engaged with F&I online research at some point in the shopping process were satisfied with their purchase experience compared to only 56% of those buyers who only engaged in a traditional, in-store F&I experience." [8]

It seems that knowledge is perceived as power by car buyers. The 2017 Car Buyer Journey Study reported that the purchase of F&I products was higher among buyers who were previously aware of the products prior to purchasing at the dealership.[9] Among Millennials, 79% want to learn about F&I on their own before they visit the dealership.[10]

> The right digital retailing strategy leverages a multitude of online sales opportunities to engage with the consumer during the research phase... [including] F&I.

Section 3: Digital Retailing and the Dealer's Bottom Line

ENHANCING THE CONSUMER EXPERIENCE, IMPROVING OPERATIONAL EFFICIENCY AND INCREASING PROFITABILITY

3. Digital retailing addresses margin compression and profitability. (continued)

F&I educational resources within a digital retailing workflow provide an opportunity to increase the likelihood of value-added product sales.[9] It was recently found in a 2017 Dealer.com business study that consumers who used digital retailing to compare vehicles and prices, calculate monthly payments, generate trade-in valuations, review add-ons, complete F&I paperwork, and negotiate a final purchase price reported a better overall dealership experience thanks to improved communication, smoother negotiation and a more efficient in-store process.[11]

Ultimately, the success of digital retailing is reliant upon a committed dealership. When employed within a holistic digital marketing strategy, these workflow tools have the capacity to combat margin compression and preserve profitability by helping to:

- Boost sales volume through improved online shopper engagement and trust-building.
- Accelerate the sales process, freeing up time to close more deals per day and increase inventory turnover.
- Encourage value-add sales opportunities during the research phase, including F&I.

Changing the perception of F&I

F&I is key to a successful sales strategy and, unfortunately, does not have a consumer-friendly reputation.

According to the 2016 Cox Automotive Emotional Connections Study, these negative emotions were associated with F&I Negotiations and Paperwork:

Fearful
Anxious
Bored
Confused
Frustrated
Disappointed

Section 4: Digital Retailing Integration and Daily Operations

SMOOTHING THE TRANSITION TO A DIGITALLY EMPOWERED SALES PROCESS

Successfully implementing a digital retailing solution requires more than just software adoption. Digital retailing can be part of a holistic recalibration of a dealership's overall operations. However, this transition can be accomplished with minimal disruption by working with the right partner to focus on four key components:

1. Integration

Choose a digital retailing partner that can help your data remain consistent—from your website through to your in-store tools. Properly integrating digital retailing solutions across platforms can enhance the shopping experience, speed transactions and improve the dealer's ability to follow-up with qualified leads and existing customers. Consistent data transfer from digital retailing applications can help eliminate duplicate data entry and provide valuable access to robust shopping- and deal-related information both for the dealer and the consumer. For example, digital retailing applications can allow consumers to transition smoothly between third-party sites, such as Autotrader.com or KBB.com, and the dealership website without having to re-enter information. Digital retailing tools can also allow consumers to easily recall shopping searches and deals in progress. When integrated with dealership tools, digital retailing applications can help speed desking by automatically populating forms and can provide an additional level of detail that can improve the dealer's ability to pursue qualified leads, follow up with existing customers and manage overall operations.

2. Flexibility

There's no one-size-fits-all approach to digital retailing. A flexible digital retailing solution will allow consumers to transact the way they want to transact—in a "non-linear" and intuitive manner—but will allow the dealer to easily control the deal-structuring process so that it aligns with their specific sales strategy. A digital retailing partner should engage deeply with the dealership in tailoring technologies and tools to align with the dealership's specific operational model.

3. Partnership and Support

Digital retailing requires more than just implementation of a software solution. A robust support relationship is essential, including training and in-store support. Personnel should be trained to: take full advantage of the increase in qualified leads that digital retailing will attract; effectively interact with shoppers online (including negotiation); and use CRM, DMS and F&I tools in tandem with digital retailing solutions.

4. Marketing

Efficiency and alignment with consumer expectations create opportunities for dealerships to differentiate. Dealers can promote the digital retailing experience they offer to help build trust and stand out from the competition. A good digital retailing partner will help dealerships promote and market their solution.

EMBRACING AUTOMOTIVE'S DIGITAL EVOLUTION

Today's connected consumers expect a connected dealership. Research shows that consumers who used digital retailing to compare vehicles and prices, calculate monthly payments, generate trade-in valuations, review add-ons, complete F&I paperwork, and negotiate a final purchase price reported a better experience thanks to improved communication, better negotiation and a more efficient in-store process. In addition to improving the customer experience, digital retailing can increase efficiency and profitability by helping dealerships to sell vehicles faster; close more deals per day; and sell more F&I and other add-on products. Digital retailing is the future—and dealerships will benefit greatly from embracing it today.

Thank you for your interest in Dealer.com's research on digital retailing. To learn more, connect with us at research@dealer.com.

Research Attribution:

1. Pew Research Center, Online Shopping and Purchasing Preferences, 2016.

2. Autotrader, Car Buyer of the Future Study, 2015.

3. Automotive News, "The Millennials are Coming", 27 Feb. 2017; as cited in Cox Automotive's 2017 "We're Millennials…and We're Here".

4. MakeMyDeal, Maintain Control of Your Retail Business Online, 2016.

5. Cox Automotive, 2016; study based on a qualified sample of Cox Automotive Digital Retailing product customers using Vin solutions CRM between December 2015 and December 2016.

6. Manheim, Used Car Market Report, 2017.

7. Manheim, 2015; analysis of Company Filings of Publicly Traded Dealer Groups — Sales weighted average for ABG, AN, GPI, KMX, LAD, PAG and SAH.

8. MakeMyDeal, Digital F&I Experience Study, 2015.

9. Autotrader, Car Buyer Journey Study, 2017; survey of 2,175 car buyers who purchased a vehicle within the 12 months prior to August 6, 2016.

10. Cox Automotive, Lending Survey, 2017.

11. Dealer.com, Internal Business Intelligence, 2017.

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DEALER INNOVATION SERIES

Forward-thinking perspective that prepares your business for the road ahead.

The Dealer Innovation Series is a collection of white papers, informed by leading automotive subject-matter experts who provide a forward-thinking perspective on the industry's most important and influential topics and technology. These concise, research-packed resources deliver intelligence that can be applied instantly, helping dealerships stay equipped for the road ahead.

About Dealer.com Digital Retailing

Dealer.com Digital Retailing allows dealerships to leverage state-of-the-art technology, industry-specific data and consumer insights to start and make real deals online. Through a flexible, integrated set of workflow tools, dealers can now create and control a complete deal-making experience through their Dealer.com Seamless Website that deepens customer relationships, and speeds sales.

About Dealer.com

Dealer.com provides an integrated platform of Advertising, Website and Managed Services products which allow OEMs, dealer groups, retailers and agencies to leverage advanced digital technology and data to better engage and connect with their customers. The company practices a deep commitment to its culture of innovation, with a focus on health and wellness, making it one of the most desirable places to work and a valuable partner for automotive retailers. Based in Burlington, Vermont, Dealer.com is a Cox Automotive brand. For more information, visit www.dealer.com.

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