

## **Transforming F&I for Automotive eCommerce**

### ***Prepare for the evolution of automotive retailing***

“No one will ever buy those online.” That used to be the conventional wisdom about clothes and home furnishings, yet eCommerce sales of both apparel and furniture increased by more than 20% in 2021.<sup>1</sup> Consumers who used to feel strongly about seeing, touching, and trying out these items before purchase chose convenience (backed by reasonable return policies) and made the leap to online shopping.

For those who think financed vehicles are too big and complicated of an investment for eCommerce purchase, look at the residential real estate industry. Today, consumers are increasingly purchasing homes online, cross-state or even in-state, without seeing them in-person—and arranging their mortgage financing online as well.<sup>2</sup>

The reality is that consumer preferences are driving a major shift in automotive retail as well, toward eCommerce vehicle transactions. Research shows that 76% of today’s car buyers are open to buying completely online,<sup>3</sup> although consumers still need some time to get used to purchasing vehicles that way. With 28.9 million auto loan originations projected for 2022 alone,<sup>4</sup> both retailers and lenders must evolve their processes to give consumers the ability to purchase vehicles anytime, anywhere—just like the other items they buy online.

In 2021, U.S. eCommerce sales totaled \$933.3 billion and are projected to grow 23.6% by 2025.<sup>5</sup> Automotive retailers that miss out on eCommerce can find cautionary tales in booksellers that dismissed eReaders as gimmicky and camera manufacturers that couldn’t bring themselves to shift from film to digital.

New form retailers are realizing greater than 100% annual revenue growth<sup>6</sup> as the move toward online retailing models hits its stride, with Tesla alone delivering more than 300,000 vehicles to U.S. buyers in 2021<sup>7</sup> and other startups working to follow their lead. Consumers are eager for an entirely autonomous shopping experience—free of price haggling, hidden taxes and fees that throw off their affordability calculations, and long wait times.

### **Give consumers what they want**

As we all know, the pandemic accelerated the shift to digital adoption due to increased demand for online purchase steps. Retailers that started with dynamic websites, online credit applications, and digital contracting, quickly adopted additional digital retailing solutions to help facilitate vehicle purchases, including online F&I aftermarket products and remote contract review and signing. While these digital solutions improved the car buying journey, the overall sales experience was not fully automated. The financing process is one of the remaining digital capabilities that can create a fully automated eCommerce experience.

Retailers have begun addressing the digital financing process. It’s paying off with a 10% boost in satisfaction among car buyers who applied for credit online. These “heavy digital” car buyers saved 29 minutes versus those who handled the financing process manually—and spent 31 minutes less reviewing and signing contracts online versus in-store.<sup>8</sup> In the end, consumers save time structuring and transacting fully online which translates to increased satisfaction and higher CSI scores.

A fully automated eCommerce sales channel allows for transactions to take place 24/7/365, with pricing transparency to ensure that payment calculations reflect aftermarket selections. For example, aftermarket products and services are prescribed to each respective shopper, earning the retailer an average of \$2,000 for each vehicle service contract (VSC) or additional F&I product sold.<sup>9</sup> Additionally, eCommerce helps maintain legal compliance, and gives car buyers confidence in the affordability of their selections.

### **Auto financing through lenders remains as important as ever**

As underwriters of the \$1.46 trillion in auto loan debt held in the U.S.,<sup>10</sup> lenders play an integral role in supporting the auto retailing ecosystem. Nearly half of all consumers that have an auto loan or lease researched financing options before sealing the deal on a vehicle. Lenders can work with retailers to influence and deliver a superior consumer experience to both existing and new customers.

In 2021, automotive loan fraud increased to \$7.7 billion<sup>11</sup> as stimulus funds dried up and employment fraud, income misrepresentation and use of synthetic identities grew. Automation capabilities mitigate human error and risk to protect against fraudulent activity. Lenders and retailers should look at an eCommerce solution that safeguards against identity theft and fraud and offers multiple points of ID verification with facial recognition and other elements relative to government-issued IDs.

According to Andy Mayers, Lender Solutions Strategist, Cox Automotive, *“Lenders need to invest in the technologies that are going to drive efficiencies: things like alternative deal structure, stipulation management and lights-out funding. They should make sure their systems understand it's not just the retailer participating in the financing transaction. Frictionless processes are critical for both lenders and retailers delivering the experience behind it.”*

At one time, it was enough for lenders to move credit applications from the fax machine to computers. Then digital contracting came along, and now with remote signing—the technology is available to support this eCommerce evolution. With automation, consumers can adjust their deal structures before they click to buy. Lenders can achieve lights-out funding and obtain the [additional] required documents needed to fund the deal.

A fully automated eCommerce solution is not just for retailers. It can help lenders efficiently fund deals during the F&I stage of the car buying journey by matching the right consumer, car, and lender, while improving look to book, and enhancing risk and fraud prevention. Using automation capabilities, lenders gain a new origination channel, deepen retailer partnerships, and acquire new consumers.

### **Transforming the dealership F&I office for next-level eCommerce**

While lenders are digitizing and transforming themselves, retailers need to revisit both strategy and operations. This may include updating corporate values, business model, operating model, value proposition, and operations. The F&I office is not exempt from reassessment. Areas to evaluate include technology, talent, and compensation.

- **Technology:** Shift to digital contracting and remote signing with robust functionality that mirrors the consumer journey - such as review copy, an audit log and multifactor authentication for the most secure solution.
- **Talent:** Diversify your talent to include those that are consumer-focused and technologically savvy/digitally fluent to fulfill eCommerce transactions and those that can oversee and manage the non-stand complex deals that may still require some human interaction.
- **Compensation:** Revisit compensation plans to encourage profitable online transactions – especially if the eCommerce inventory is located at a brick-and-mortar retail location. A fair compensation structure ensures that in-store team members don't discourage online sales.

All these areas need to be addressed cohesively. For example, AI and machine learning (technology) will revolutionize eCommerce aftermarket sales. F&I managers (talent) might be concerned that this capability might hurt their commissions (compensation) by reducing volumes of face-to-face interactions. They will experience, however, more profitable and a larger volume of deals due to overall efficiency gains. Retailer leadership needs to evaluate these areas of transformation in tandem.

### **The future of F&I for automotive retail**

*“To perfect the funding package – all consumer, retailer, and lender processes and paths need to be frictionless.” – Andy Mayers, Lender Solutions Strategist, Cox Automotive.*

With increased acceptance of digital contracting and remote signing, the seeds are already being sown for fully online eCommerce transactions. Transforming to a fully online eCommerce channel takes time and requires a strong vision. The changes required can be difficult, especially when a team has been selling cars the same way for decades.

Completing the necessary groundwork today will help make fully automated eCommerce successful and profitable going forward.

Sources:

<sup>1</sup>eMarketer Insider Intelligence, “US Ecommerce Forecast 2021,” July 8, 2021

<sup>2</sup>New York Times, “In the Pandemic, Online Home-Buying Picks Up Speed,” February 19, 2021

<sup>3</sup>Cox Automotive Digitization of End-to-End Retailing Study (2020)

<sup>4</sup>TransUnion Financial Services 2022 Consumer Credit Forecast

<sup>5</sup>2020 McKinsey Automotive Retail Consumer Survey (US, China, Germany)

<sup>6</sup>Morgan Stanley/Quarterly Investor Reports

<sup>7</sup>Tesla Vehicle Production & Deliveries and Date for Financial Results & Webcast for First Quarter 2022

<sup>8</sup>Cox Automotive Car Buyer Journey Study (2021)

<sup>9</sup>Colonade Advisors, F&I Products Quarterly Update: 2021 Fourth Quarter

<sup>10</sup>Federal Reserve Bank of New York Household Debt and Credit Report, February 8, 2022

<sup>11</sup>Point Predictive 2022 Auto Fraud Trends Report