

CDK GLOBAL[®]

The Trendsetter's Guide to Automotive Retail

HOW PANDEMIC-ERA CHALLENGES LED DEALERS
TO PERMANENTLY EMBRACE NEW WAYS OF WORKING

CONNECTIONS THAT MOVE YOU

Digital Sales / CRM / F&I / Fixed Operations / DMS / IT Solutions / Intelligence

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Introduction from Joe Tautges

It's more than an understatement to say the last two years were unprecedented in our industry. But at CDK Global, we want to understand not only how dealers — whether our customers or otherwise — dealt with unprecedented times, but how those times may have changed them for good.

So, we formulated a survey and uncovered what the new roadmap for dealers looks like. What won't surprise anyone is that the top two issues capturing share of mind are inventory and staffing. But while those two trends dominated headlines over the past two years and will likely continue for the next two, we found trendsetting dealers also addressing several other key areas that might alter the DNA of how we all do business.

The pandemic began and forced the world, including the automotive industry, to pivot how they serve customers. That pivot turned into new ways of doing business and then it just became part of our daily fabric. And our study gives light into what is woven into that fabric and what is still to be added.

The results of this study reinforce my belief that this is an extremely exciting time to be part of the automotive industry. These next few years will see more seismic shifts to make car buying better for the customer, more efficient for the dealer and more integrated with the OEM.

This white paper sheds light on all of it and can serve as a roadmap for what's next.



Joe Tautges
COO, CDK Global

Key Findings

Over the last two years, not having enough vehicles to sell or sufficient employees with the right skills have been the biggest challenges for dealers. This rang true true no matter the size of store, the type of dealership or the region of the country. This is likely a surprise to few in the industry.

An overwhelming 82% of dealers surveyed reported that inventory disruption was “very or extremely challenging” over the past two years. 97% of respondents cited inventory as a challenge on some level, followed by 46% who were challenged by not having enough staff.

Moving forward, 74% of these same dealers say that inventory and supply chain disruption will continue to be “very or extremely impactful” to their business over the next two years. This feedback and other industry trends lead us to believe slim inventory will remain a reality through 2023. A variety of world events may also lead to more starts and stops as well. “In some ways the supply issues have gotten worse in recent months, which is surprising. We thought they would get better by now. We just work with it on a day-to-day basis the best we can. But it certainly is not going to be like this forever,” said Grant Loftin, dealer principal, Hyundai of New Bern in North Carolina.

“2022 is going to be a long year for dealing with supply issues.”

Dan Ngo, General Manager, North Corpus Christi Honda

As stores across the country looked to address these two fundamental issues during this crucial time, many also experimented with new ways of selling, different takes on service and looked at training in a new light as well.

In our study we uncovered that smaller groups of dealers — the trendsetters — attempted an array of these tactics to not only meet the moment but also to enhance the buying experience and customer service overall. Their work paid off in many regards and an outsize percentage of them plan to keep these practices in place in the next two years.

There were three key areas trendsetters seemed to gravitate toward according to the reams of data collected in this survey:

- **Remote solutions** born of necessity due to COVID were not only successful, but many also seem likely to stay in place post-pandemic.
- **New technology** in Service and Sales, whether to unlock new sources of inventory or increase Service transparency and efficiency, likewise proved their worth.
- And while many dealers didn't keenly focus on their **OEM relationship** these past two years, some are seriously contemplating that tie in the next two.



What Concerns are Taking a Backseat?

As pressing as supply chains and staffing may be, there are other buzzed-about topics that didn't seem to bother our respondents. The measured-to-slow rollout of alternative powertrains like electric vehicles (EVs), new retail entrants like Carvana and Vroom and direct sales from OEMs simply aren't seen as "very or extremely impactful" according to the dealers surveyed. In fact, dealer confidence is well placed as research done by a leading global consulting firm shows franchise dealers will remain the dominant distribution channel for vehicles well into the future.

11% Expansion of alternative powertrains

22% New vehicle sellers

26% OEMs selling directly to customers

"A customer can always come in and find me. If they're dealing with a 1-800 number for customer service for their second biggest purchase, I don't think they're going to be happy. I'm even a younger dealer and I don't see the model going away for quite some time."

Grant Loftin, Dealer Principal, Hyundai of New Bern

Remote Solutions Proved Their Worth ... Well, Most of Them

Early in the pandemic, human interaction was a barrier to staying safe — which meant the traditional test drive with a salesperson was a non-starter. Allowing potential buyers to take a test drive solo became a necessity; it was also one of the more widely implemented changes of the past two years, with nearly half (48%) of all dealers switching to the practice.

But that test drive is when the sale is often made or not, which likely explains why only 57% of the dealers currently offering solo test drives will continue to do so in the next 24 months.

Yet other remote solutions are being seen as part of the future for many dealers. Having your car picked up and dropped off for service is a great convenience for customers and has led the way in dealer adoption for the past two years among 57% of stores. Unlike the solo test drive, 73% of these dealers will continue to offer it.

Some services that weren't as widely implemented saw just as strong a retention rate. A fifth of dealers (21%) offered at least some service and repair options to be done remotely at the customer's home like oil changes and brake service. Although 22% didn't report a high overall impact, a higher percentage (38%) said it did have a high operational impact for their store — and two thirds of them (64%) will continue to offer at-home service and repairs moving forward.

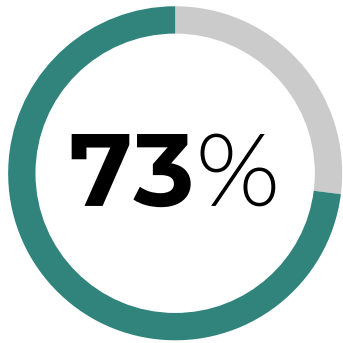
On the Sales side, contactless home delivery — adopted by only a fifth of dealers — was another option that saw enough gains to become a fixture. Indeed,



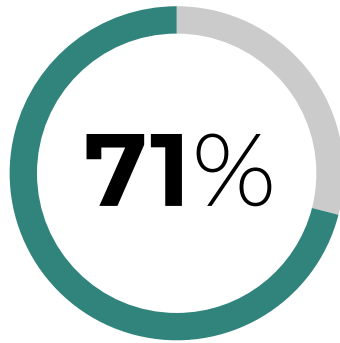
72% of those initial dealers will continue to offer it. While the total number of stores keeping the practice may seem low, when dealers ranked which changes had a very positive overall impact on their store, contactless home delivery was in the top five at 58%.

Looking at contactless delivery's financial impact might lead one to question why it's so popular among dealers who added it to their store, since only 19% said it had a high financial impact. So why is it sticking around for these same dealers?

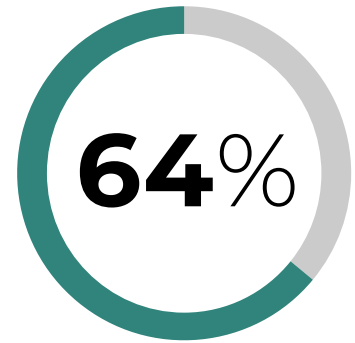
The numbers lead us to look at another key finding from the study across the dealer body: More than four out of five dealers are looking to improve the buying experience in the next two years by moving away from traditional sales tactics. Contactless delivery fits into that category perfectly and this smaller group of trendsetters seems to be sold.



Service department pickup and drop-off



Contactless home delivery



Remote service

While respondents to our survey report that these services have successfully improved the buying experience, one manager of a luxury store in Georgia cautions that going back to prior tactics is not an option. “Some of the services [that are more expensive for us to execute] are now the status quo for the customer. Taking them away will be very difficult to do.”

The implementation of these new retail tools was successful with 58% of dealers, who say it had a “very high overall impact” on their store.

Technology Will Remain a Vital Lynchpin Across the Store

If the last two years taught our industry anything, it is that the dealer body can adapt swiftly to change and even generate higher profits while doing so. And while changes in the ways of doing business like contactless delivery were popular, advancements and investments in digital technology were more widespread. Like other changes, this larger group of dealers are also overwhelmingly looking at technology for both sales and service moving forward.

“COVID made us notice what we didn’t know was lacking. We were able to revamp something like scheduling Service appointments online to make it much easier [for our customers],” noted Kristin Goff, president of Wendle Motors in Spokane, Washington.

“We didn’t replace a few salesmen that retired because of the lack of inventory. But we’ve added more technology across departments.”

General Manager, Franchise Dealership, rural Michigan

Nearly half of dealers (47%) introduced new digital retail technology at some point over the past two years, whether it was an upgraded DMS, CRM or other tools. The implementation of these new retail tools was successful with 58% of dealers, who say it had a “very high overall impact” on their store. That explains why 84% of these dealerships will continue to infuse new retail tech in the next two years.

Fewer dealers introduced new technology to the Service department. But the numbers for specific technologies like Service photo and video (38%) and repair orders that could be viewed and paid via mobile devices (24%) still had a significant level of penetration during the past two years. And these tools are here to stay: 84% of dealerships will be retaining service photos and videos, and 80% will be retaining mobile-ready service orders.

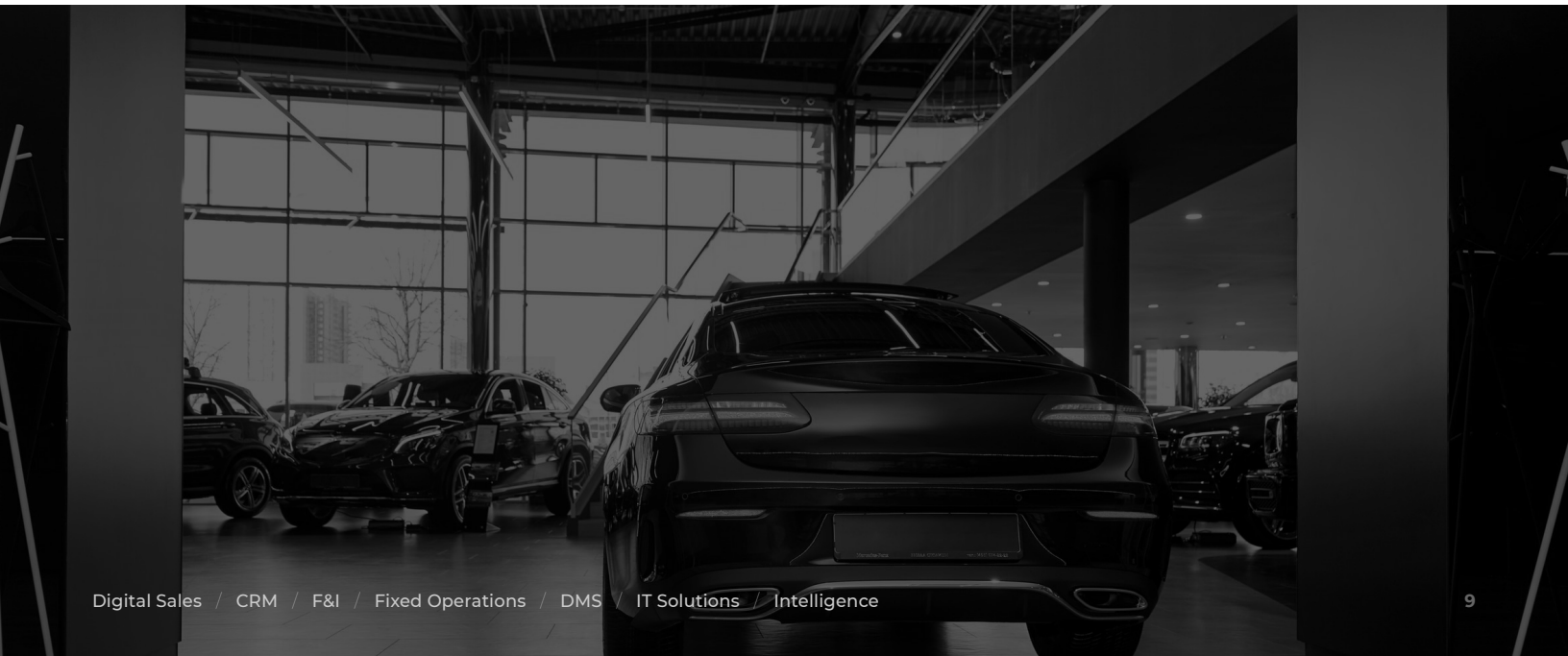
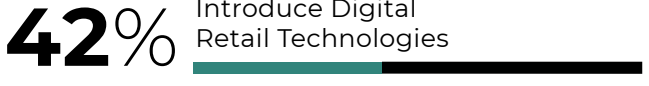
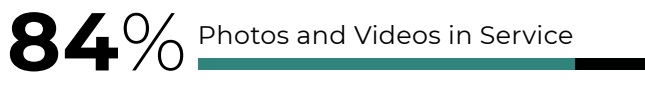
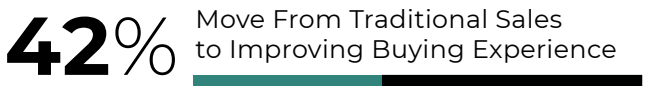
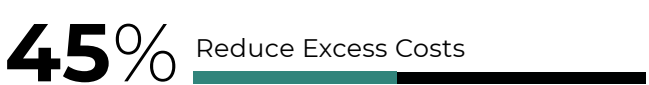
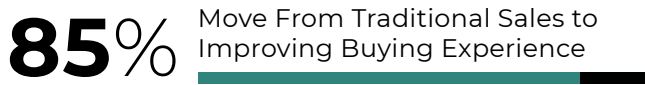
Smartphone services aren’t a product of the pandemic but the willingness to try new approaches did stem from dealers’ becoming more agile over the past two years. “We’ve made improvements to how we communicate with service customers and are texting updates from service more than we did before. Customers tell us they prefer text and they are actually more responsive to texts than phone calls,” explained Goff.

And with all this new technology comes training. Despite staffing issues pressing on all areas of the dealership, training the staff on hand in these new technologies will be of utmost importance.

Staffing challenges are likely why only a third of dealers invested in training on new technologies over the past two years. But training is the top priority for all dealers moving forward, with 50% of all those surveyed planning new investments in technology training. They should be pleased to hear that 87% of the trendsetters who already implemented training will continue to make it a priority. Training was indeed the number one focus area for both groups.

CHANGES TRENDSETTERS ARE CONTINUING

CHANGES ALL DEALERS ARE PLANNING



The Dealer and OEM Bond Will Be Explored in New Ways

During the past two years, dealers were first looking to survive before they learned to thrive in the COVID economy. That meant shoring up the foundational elements that drive profits — from service to sales to making their technology more efficient. Add to that implementing new ways of working day to day and it's not a surprise that in our survey, only 19% of dealers made it a priority to forge stronger partnerships with their store's manufacturer.

However, as dealers look to the future, they're prioritizing their relationships with OEMs differently. **Our current research shows that 76% of this smaller group of dealers that did engage more with OEMs say they will continue to forge stronger partnerships with their manufacturer partners in the next two years.**

Could the constant industry speculation around OEMs selling directly to customers as consumer expectations shift and more EVs enter the market be the reason for this engagement?

Not likely. As noted earlier, 74% of dealers don't believe this scenario will either unfold or if it does won't have an extreme impact on them in the next two years. But 47% of dealers admit they are not prepared if OEMs do begin a direct sales model, even compared to their preparation levels for supply chain issues (33%) and staffing shortages (37%).

Additional research conducted by a leading consulting firm for CDK should alleviate any anxiety around the growth in direct-to-consumer sales.

That research forecasted direct sales are slated to increase from 1% in 2019 to just 5% in 2026. And much of that number can be attributed to new start-ups like Rivian and Lucid.

We talked to several dealers as a follow-up to the survey and there were a few clear areas they focused on in terms of needing stronger OEM bonds. One area in particular stood out that will require both better dealer and OEM integration and new technology.

It's very likely that inventory levels will never be as robust as they were before COVID, and the lower number of cars on lots has turned consumer attention to the pipeline. Customers are lining up to reserve a car that is in transit, and more are ordering their cars from the factory than ever before.

This trend demands more transparency in the system that brings the car from the factory to the store and is a key area of opportunity for both the manufacturer and the dealer as they look to improve the customer experience.

Boosting the Bottom Line

Implementing any change to a storefront is going to have an impact on the bottom line. A wide majority of the Trendsetters that implemented new techniques from Sales to Service saw a positive gain across these three areas on the balance sheet: remote services, technology and partnerships with OEMs.


PERCENTAGE OF RESPONDENTS THAT SAID THESE CHANGES HAD AT LEAST SOME LEVEL OF POSITIVE FINANCIAL IMPACT

Remote Solutions

88% Remote Service Calls



83% Service Department Pickup and Drop-off



77% Contactless Home Delivery



The most staff-intensive area, remote services, did not return the highest financial impact. This was still incredibly impressive.

Technology

91% Introduce Digital Retail Technologies




91% Investment in Training to Support New Technologies



89% Mobile Device Repair Orders



88% Photos and Videos in Service



Technology upgrades had far and away the highest financial returns, with new digital retail technology and training leading the way.

OEM Partnership

And while forging stronger relationships with OEMs was not as widespread, those that did proactively engage with their manufacturer had solid gains. **Nearly nine in ten** (89%) dealers saw some impact from their added outreach. Most of the gains came from the ability to choose digital retailing solutions and additional marketing support.

How to Take Action

Looking at these numbers tells one story, but when we asked our respondents to describe the impact on their business of the changes they made, it was eye-opening. Dealers from all regions mentioned higher profits, of course, but many also pointed to higher employee morale and improved customer satisfaction.

How can we translate these findings into actions for any dealers to reap similar payoff?

1. Train, Train, Train

The final numbers reflecting the volume of respondents focused on training in new technology are some of the strongest across the study. In follow-up interviews, respondents shed additional light: Training was first seen as a prudent use of time in the early days of the pandemic; but as time went on, additional investments in training led to higher staff morale as well as a positive impact on the store's operations.

As staffing remains such a key challenge across nearly every industry, training can be a tool to not only upskill your teams, but to help them avoid burnout and keep them invested in their future at your store.

2. It's All About the Experience

Whether it was picking up a car for repairs or utilizing video in consumer communication, dealers saw how initiating new techniques in both Service and Sales made an impact on their customers' overall experience. Dealers will need to continue focusing on unique solutions as they keep a watchful eye on satisfaction scores.

When we asked what issues, after supply chains and staffing, will have the most significant impact on their stores in the next two years, many of their responses focused on meeting customer challenges. 72% of dealers see "moderate to extreme impact" in the shift towards more convenience in Sales and Service.

That means dealers should evaluate any new endeavor — from introducing new technology to boosting transparency around service — with the customer experience lens at the forefront.

3. Try New Things

The pandemic and the supply chain shortage that followed made some changes a necessity. But if a cadre of dealers could unlock gains from a few of these adjustments, why can't more stores experiment even as the world gets back to normal?

Perhaps a dealer tried to implement some of the options covered in this study and didn't see the same success due to geography or other variables. That doesn't mean they shouldn't try something new that is more aligned to their specific needs. They may be familiar with AB testing in their digital ad spend and can take that same concept to other areas of the Sales and Service teams. And perhaps seeing such high success rates throughout this study might help reduce risk aversion and generate buy-in as they do.

The next two years could produce similar profits as the industry has witnessed recently, but trendsetters have shown that trying new things can benefit stores operations. Those improvements could generate gains beyond the current. There are clearly new opportunities available for all dealers to enhance their customers' experience and with profits seeing a surge, now is the best time to act.

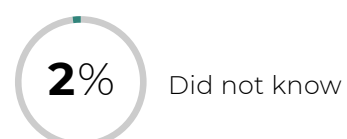
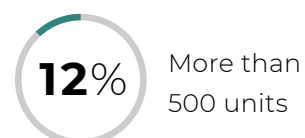
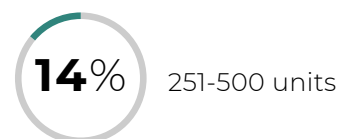
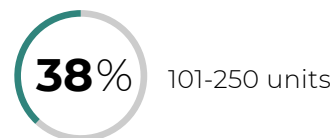
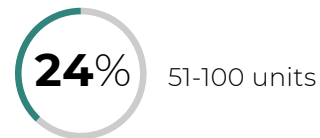
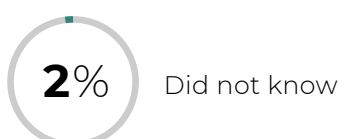
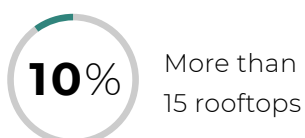
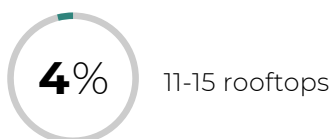
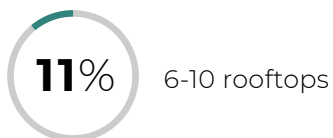
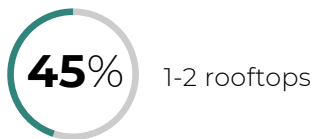
Methodology

- Survey was conducted through email invitations both to CDK and non-CDK department heads (Service, Sales, Parts, IT, F&I, etc.) and store leadership. Over 50,000 invitations were mailed.
- Field data collection ran from the second week to the end of January 2022



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