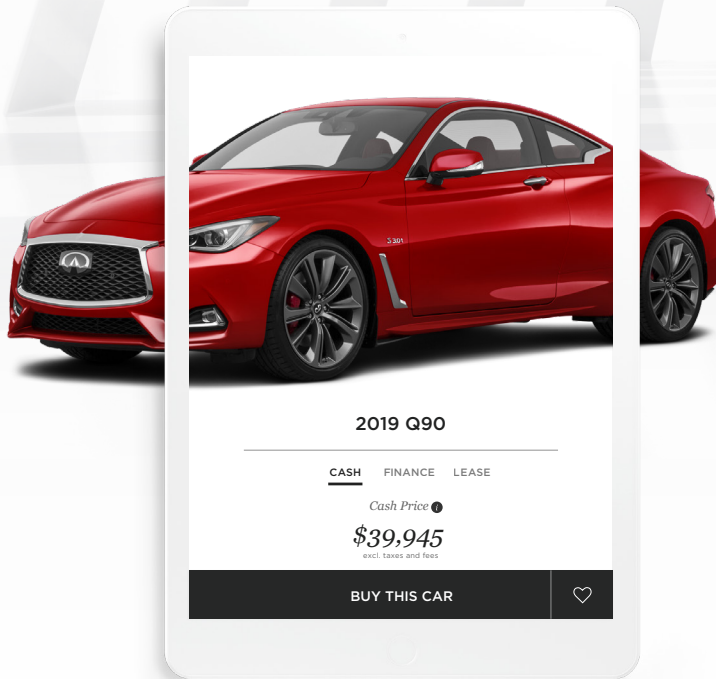


# Digital Retail

The Evolution of Dealership Technology



Digital Retailing has become the most frequently used buzzword in automotive retail today. It is the industry's latest technology innovation, providing dealers and their customers with online car buying capabilities that also translate into streamlined showroom experiences. But why do we call it "digital"? Why do we segment anything as digital anymore? What's analog these days? From the systems we use in our showroom, to the tools we use to generate traffic online, everything we do has been enhanced by digital technologies. The most valuable of these tools will be seamless, working at all times wherever your customers and employees are located, while creating efficiencies and increased satisfaction for everyone involved.

There is a lot of technology utilized in car sales today, but not all of it plays nicely together. It begs the question that we are sure is on everyone's mind: Is there such a thing as too much technology? To determine where we should go forward as an industry, we must first understand the past. Or, in the words of Teddy Roosevelt, "The more you know about the past, the better you are prepared for the future."

**ROADSTER**



# History of Dealership Technology

Showrooms are dominated by software. It is nearly impossible to sell a car without touching a computer. Not too long ago, most sales managers would hand-calculate a lease, sales agents would fill out a credit application with a pen, and nobody could fax better than the F&I manager. Back in the day, let's face it, things took longer. Managers needed copies of the invoice nearby and the wait for F&I was riddled with paperwork, checks, and calls to banks. Despite how many times we curse the technology we use; our lives are better because of it.

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*When I sold cars, one of the most gratifying steps was hearing the credit pulling machine (basically a type writer) take a long time to print. It either meant I had a credit saint or a credit bandit, but it meant I had something we could make a quick decision with. It usually turned out to be a deal we could spot. Yeah, I said “spot,” all you young ins. Because it could take days and vast amounts of faxes with loan officers to get paper hung (lender approval), we were always looking for the deal where we could let the customer take the car that same day knowing we'd be able to get them approved. Technology made spotting and hanging paper something for us old fogeys.” —Alex Snyder*



Dealership technology was developed for the bean counters; the Controllers and CFOs. In the 1980s there was a need to produce multiple financial statements for the dealership's needs and the manufacturer's desires. Financial statements are complicated! Dealership Management Systems (DMS) came to the rescue with giant computer systems that held everything on tapes. With no IT personnel on staff, it was the Controller's job to maintain the system. In time, this became untenable and IT personnel became a necessity. The IT department traditionally reported to the Controller due to the heavy demands of DMS maintenance.

The DMS matured to become an interface for handling dealership transactions, like parts orders, repair orders, and car deals. It was no longer just for the CFO, although accounting still managed that relationship. While capabilities have grown, the interface is still geared to publish numbers on financial statements.

When Customer Relationship Management (CRM) systems hit dealerships in the 1990s, they were not as widely adopted as they are today. In the beginning, they were little more than a digital index of data used to profile current customers. Sales Managers were comfortable using the DMS to structure car deals, and those first CRMs were mostly there to make sure sales agents made phone calls to floor ups. CRM companies quickly figured out that Sales Managers were the key to adoption. They added functionality that allowed managers to “pencil” worksheet passes in the CRM and produced dashboards to help manage sales efforts.

It took a few years for CRMs to become functional for Internet departments. In the late 90s and early 2000s, Internet Managers worked leads in Internet Lead Management (ILM) solutions because CRMs were insufficient at either lead intake or doing anything more than text-based email. Some early email features in CRMs took 14 clicks with eight different popup windows to add an attachment. Leading CRMs were server-based, allowing access only when someone was physically present at the dealership.

In the mid-'90s, websites started as a splash page with basic dealer contact information. The fancy ones had animation! If someone wanted to see where a dealership was, they would copy the dealership's address from their website and paste it into MapQuest.com using a Netscape browser. The dealerships that could show their inventory on the site were very lucky! The first ones were just lists, as photos were frighteningly expensive because Internet service was paid for by the kilobyte. Not to mention the lack of digital cameras at that time. Thankfully, websites have evolved.

By the mid-2000s, the vast majority of dealerships had a website connected to their CRM activity. Third-party sites were springing up everywhere, sending large volumes of internet leads into the CRM for lead handling. This is also around the time that Business Development Centers (BDCs) became more popular as dealerships invested more marketing dollars to attract inbound phone calls and internet leads.

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*Most 3rd party sites started as physical books you could buy off the rack. Back then, KBB was focused on vehicle values, AutoTrader on private party sales, and Edmunds on automotive specs. Many of the other 3rd party sites did not exist until the Internet arrived on the scene. When these publications transitioned to online websites, they became the trusted destination for consumers looking to compare vehicles. Third party sites began publishing inventory and price comparisons to reduce consumer pain points that surfaced through hordes of consumer research. Consumers were clear — they just wanted a way to compare the prices different dealers would sell the same car for. Price transparency became the focus in an effort to attract more audience and 3rd party sites began to flood dealerships with price quote requests pushed right into their CRM systems.*



*Price Transparency has created a catch 22 — consumers seek out a dealership's best price across the internet but have been conditioned over the years to negotiate the price they get. The transparency brought on by 3rd party sites has made it easy for dealerships to discover a competitor's pricing and undercut them to win the business by moving a bunch of levers behind the scenes. Technology today is changing this — taking the focus away from the total purchase price and enabling consumers to move the levers around themselves to make it work for them.” —Michelle Denogean*

CRMs, ILMs, and websites were managed by the kid who could type. Those were Generation Xers who were simply better at technology than their Baby Boomer co-workers.

Because these "kids" worked in the sales department, and the IT Manager worked for the CFO, the lines of who manages what software were drawn in the sand. In time, these kids became eCommerce or Marketing Directors, and they still run most of the sales-focused solutions today.

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*I sold cars through college, so that made me the “smart kid” in the showroom. One day my Honda GM asked me if I knew what an Internet Lead was, and I didn’t. Earlier that day he didn’t either, but he told me Honda was upset because we hadn’t answered one in over a year. He knew I could type and that was the most important thing needed for responding to Internet leads, so I got promoted to be the Internet manager that day.”*

—Alex Snyder



Credit application systems, like RouteOne & DealerTrack, were the next finance-oriented systems to hit the market, automating what traditionally was accomplished via fax. Their original purpose was to streamline the multiple-step credit application process. They left other services like desking and accounting to the experts, focusing instead on system and partner integrations, while staying true to their credit application roots.

Inventory tools, such as HomeNet and vAuto furthered the theme of integration — providing dealerships with centralized inventory systems that syndicated inventory across the web and provided complex algorithms for price adjustments to replace the manual price drops sales managers made after holding inventory for a certain amount of days.

DealerTrack and vAuto are known by most as the standout tools of the decade. While they took a while to catch on, they had the most notable impact over time. Not only did they wax poetic around new operational philosophies, but both companies shared a passion for open integration — partnering from the beginning with whomever they needed to on their path to drive efficiency.



Unfortunately, the virtual nature of the Internet vs. the physical nature of the showroom has created walls. These walls have been hardened by technologies aiming their adoption at specific roles without making room for teamwork. When some customers are referred to as “Internet customers” it is an example of how these walls have hardened. The wall between the Internet and showroom is not as strong as the one between sales and service, but it exists. Technology built that wall, and maybe, someday, technology will knock it down.

With CRM companies adding Internet lead management capabilities to their platforms, store management now has some level of oversight into the handling of leads. Online advertising budgets have increased to the point where GMs must have a conventional understanding of what they are spending their money on. Online vehicle display and pricing importance is a massive part of the Used Car Manager's day. These examples provide an excellent start to breaking down the walls.

With the creation of sophisticated pencil and desking solutions, the need for the DMS has not been as strong among Sales Managers. Now we are beginning to see some desking solutions marry a website-like experience with digital payment presentations, while online commerce capabilities are taking over portions of current dealer websites. One day the Internet Manager and Sales Manager could be the same role!

With all of these new developments over the past 20+ years, one thing has remained the same— sales and profitability are key, and the systems that hold the final accounting of these sales remain the linchpin of the entire ecosystem.



## Technology Solves Problems

There is a modern legend that states Steve Jobs was riding on a subway next to a lady who kept putting different CDs into her Walkman. He asked her why she was doing that, and she said she preferred listening to certain songs instead of the whole album. Steve realized there was a problem to solve and this led to the creation of the iPod, iTunes, and later the iPhone.

## Present

As the Internet grew in popularity, dealers' sales profits experienced the reverse effect. The Internet is not the only cause of decreased profits, but the customer is now more knowledgeable of vehicle costs and trade values and is therefore demanding greater transparency into the deal than ever before.

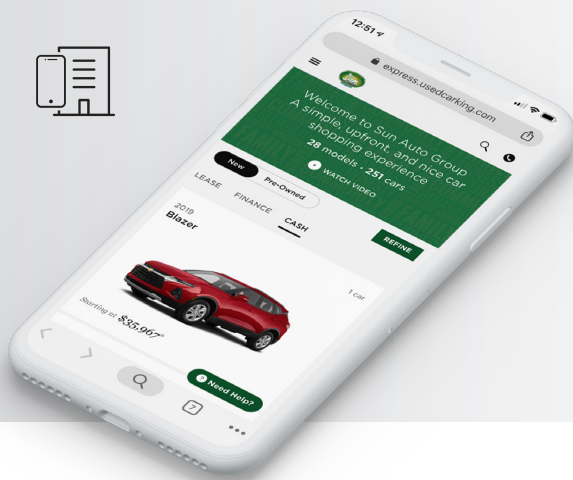
In response, some dealers have moved to one-price sales models that take much of the guesswork out of pricing and focus on high levels of customer service as a differentiator. For most dealerships, however, the focus has moved to F&I, pushing the bulk of profit growth to less transparent backend gross and fixed operations. This focus has elevated the role of the F&I Manager. Higher compensation and additional headcount are ways to bring profit closer to where it used to be. The evolution of menu-based presentation systems has moved the review of additional service and protection products to the computer screen.

Manufacturers exacerbate the slimming of dealers' profit margins through their own competitive battles. As cars become more and more reliable and parts sourcing more global, brand competition is focusing more on consumer pricing. When a car manufacturer asks "how many consumers can afford this vehicle we just made" it can lead to lowering the MSRP. The problem comes from the costs to build the car mixed with that manufacturer's own profit margins, often leading to less room between the invoice and the sticker price.

Technology is now available to create efficiencies that can assist dealerships in recouping lost margin. Some technologies have been in place for a while to assist with this transition, such as pricing used cars to market value and menu-based F&I systems. Newer technologies, like Digital Retailing, have popped up to assist consumers with structuring deals ahead of the in-store visit, ultimately saving time for everyone at the dealership. This is a very important distinction as Digital Retailing is the first technology designed for and used by both the customer and dealer. When done right, it is also the connective tissue between online consumer actions and back-end dealership systems. Dealerships now have the ability to streamline the sales process, rethink roles, and create efficiencies that can fall directly to the bottom line. As a result, an increasing number of dealers, big and small, have committed to a one person selling model to reap these benefits and attract a different, often younger and less expensive employee base.

Digital Retailing has become a broad catch-all term that includes anything from payment calculators to trade-in valuations and full online checkout systems. Those only leveraging the online component are, unfortunately, missing the boat. To deliver the time savings customers demand, this same technology should be used by employees in-store to efficiently guide a customer through the needs assessment, vehicle selection, F&I preview, and penciling processes. Dealerships that have consistent online and in-store payment presentations will establish a higher level of trust with their customers.

## Have you heard of the term “Omnichannel”?



Digital Retailing companies have adopted this term to describe the seamless experience their software can provide both online & in-store. While this term may be new to automotive, it is quite prevalent across many other retail channels. In fact, Omnichannel's origins date back to Best Buy's use of customer centricity to compete with Walmart's electronic department in 2003. The company created an approach that centered around the customer both in-store and online, while providing post-sales support. According to Frost & Sullivan, omnichannel is defined as "seamless and effortless, high-quality customer experiences that occur within and between contact channels".

The ability to connect the dots between the online and in-store experience is unlocking many efficiencies in the showroom, allowing salespeople to stay with their customers without interruption, and be the face to more components of the car deal. With that said, desking complexities often require an expert's touch to maximize profitability. Structuring a car deal can be as much art as it is science. While there are tools geared toward empowering front line salespeople to desk deals, profitability guardrails and manager reviews are necessary to make this work.



Much like history has dictated thus far, today's consumer-facing retail technology legitimizes the numbers by placing them on a computer screen. With levers to adjust deal terms, the customer feels a sense of control over their own destiny. Gone are the days of verbal handshakes and writing car deals on four square print outs. Today's technology provides higher levels of trust between dealerships and customers.

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*Ever heard the saying “buyers are liars?” People try to work their salespeople for better deals. This dynamic changes when the customer is engaging with technology. One can lie to a computer, but the results will not be in their favor.” —Alex Snyder*

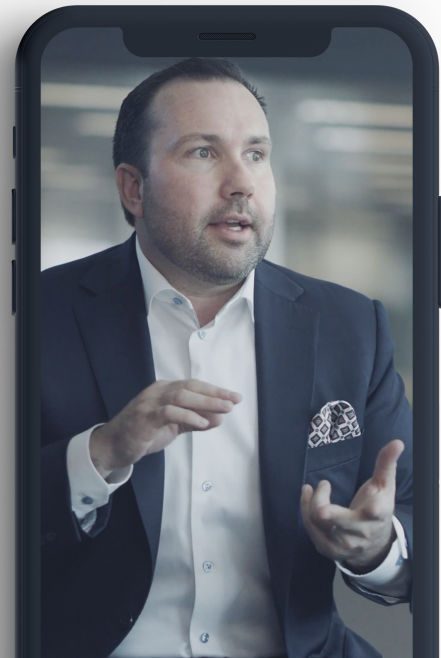


By connecting the online experience with the in-store experience, dealers now can have a true helicopter view of the customer journey and the associated sales process. This enables dealerships to not only engage their customers, but also see where the customer is throughout the sales process and coach their teams on how to improve their conversion rates along the way. Customer satisfaction scores are on the rise with this connected experience.

## Dealerships who implement Digital Retailing are seeing CSI scores climb.

### DEALER SPOTLIGHT: AUDI ROCKLIN

- 1 Salespeople and customers use the same online & in-store solutions to structure car deals side-by-side.
- 2 The platform is used for every first pencil, reducing the frequency of 2nd pencils
- 3 Prospects close 2:1 over traditional leads.
- 4 \$1,000+ increase in front end gross.
- 5 CSI increased by 60 points.



When you look outside of automotive retail, you will find a measurement called Net Promoter Score (NPS), which can vary from -100 to 100. Industry leading companies like Apple, Amazon, Tesla, and USAA are generating NPS scores anywhere from 70-85. Traditional dealerships hover around 47 in comparison, but through the deployment of time-saving technology, scores are surpassing some of the most well-respected brands, often taking dealerships into the 85-90 range!

## Net Promoter Score Range: -100 to 100



Source: NPS Benchmarks

The focus today on customer experience is an indicator of an industry recognizing what it takes to remain relevant in the consumer's eyes. The ability to let the customer drive the process is the primary driver of these satisfaction gains. Technology players bringing consumer-facing capabilities to the showroom are providing experiences that allow the everyday dealership to compete with new entrants, like Carvana, Tesla, and CarMax, who are preying on the dissatisfaction of the current experience.

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*Remember Blockbuster, Kodak and ToysRUs? These companies ignored the trends in front of them and didn't innovate to remain relevant. Don't let this happen to you. If you adopt omnichannel retailing to remove friction from the customer experience, you will be more likely to not just survive, but actually thrive.” —Michelle Denogean*



So, with all of this upside, why hasn't Digital Retailing technology taken off like a rocket ship? For some, it is due to the fear that they will need to change their sales process, while for others it is due to the fear of further transparency, both in price and F&I products, that could damage the bottom line. Of the dealers who are prepared to take on these changes, integration with legacy systems can be challenging. For all the time we are saving the customer, the dealership may not be able to reap these benefits if double entry is involved. As much as these new retail technology tools simplify the customer and sales team experience in-store, they must integrate with all of the existing systems laid out earlier — systems that were not built for the integrations required by these new applications.

CRMs are set to accept leads. DMSs were built for manual input. Inventory tools were initially constructed to work off of Excel CSV files on FTP uploads. Newer technologies are more API-friendly but often require a few steps backward to “integrate.” There is also a lack of standards in data sharing. For all of the progress and opportunity in front of us, what technology hasn't done yet, is get out of its own way.





**CRMs are not built to handle the influx of digital retailing activities happening on the web.** Digital Retailing solutions are capturing deal information throughout the customer's journey, which more likely than not is a multi-step, multi-minute process. Only a few CRMs have APIs capable of receiving customer updates, and even those that do have this capability have not mapped the fields being captured by deal structuring activities. Therefore, this information typically does not end up in the proper section of the CRM. Most deal structure information today is being relegated to the comments field.

## Future

To see the future, one must know the past. If one does not know the past, history is destined to repeat itself.

## Is that a bad thing for automotive technology?

The end of the 2010s was marked by slowed innovation due to significant consolidation. Any time larger companies acquire smaller ones, organizational changes invariably impact the pace of new product development. In contrast, the end of the 1990s was the beginning of massive, start-up led innovation. Today's big CRM, website, and inventory management solutions were scrappy, new players on the scene back then. Is this twenty-year cycle repeating itself once again?

As innovative retail technologies become more prevalent, dealers will, once again, adopt disparate systems to fulfill areas of need and want. Some double entry between systems might not be such a bad thing when counterbalanced with bigger profits and increased loyalty.

Integration is something all dealers and technology providers want! No company can be an expert at every little thing. Most want to please their clients. So, there is a changing trend for technology providers to work together.

Dealers want to cut the amount of time it takes their customers to buy a car and technology providers want to reduce the amount of time their clients have to spend in the technology. Time is aligning goals for everyone.

There will be challenges in breaking through integration walls such as incompatible frameworks and/or bureaucratic individuals who enjoy protecting their turf, but the future looks bright as technology companies come together to solve these integration problems head-on.

## FORTELLIS

In 2017, CDK Global announced the launch of Fortellis a technology engine with the promise of universal connections and protocols, and the enablement of an actual exchange of information and data in an open, secure and accessible, global network. Time will see how this plays out, but it reflects the integration desires within the ecosystem.

This could be coming from years of failed promises that one company will create “the platform” mixed with a realization that technology providers can give a better customer experience when they work on specialized solutions.

The integration reality is just around the corner, and those that openly integrate their systems today are the ones to watch. Retail is retail, and everything is digital with so much technology in the dealership today. Once all of the technology is integrated and working seamlessly across the dealership, significant efficiency savings can be gained, leading to higher profitability by reducing cost. Whether that is reducing headcount, or producing more sales due to a speedier process, this trend will have a significant impact on the bottom line. In an industry forecasting declining sales, considerable consolidation, and new dealer model threats, this could be the silver bullet that puts the dealership back in the driver’s seat.



## Michelle Denogean

**CMO, Roadster**

Michelle Denogean is the Chief Marketing Officer of Roadster, the leading Commerce Platform for the automotive industry, where she oversees Marketing, Insights & Analytics. Previous to Roadster, Michelle held the position of CMO at Edmunds, as well as several leadership roles within technology companies such as eHarmony & Move.com. Michelle is a thought leader & practitioner in the world of business strategy, growth marketing, brand communications, analytics and digital disruption. For more information on Roadster’s Omnichannel Commerce offering, go to [roadster.com](http://roadster.com).



## Alex Snyder

**CEO, FRIKINtech & President at DealerRefresh**

2019 marks Alex’s 30th year in the car business. In that time, he has had a front-row seat for the rise of the Internet and has been working to bring the online and offline dealership experience closer. Whether you knew him from his life at Checkered Flag or his years with Dealer.com/DealerTrack/Cox Alex has remained an opinionated DealerRefresh contributor who enjoys nothing more than to poke at the unsaid truths in our industry. He also founded FRIKINtech to put truly FRIKTIONLESS technology in dealers’ hands that makes the consumer/dealer relationship smoother. To learn more visit [frikintech.com](http://frikintech.com)