



**the consumer revolution and  
the auto retailing future.**

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## introduction.

The digital age has altered consumer buying habits, patterns and demands dramatically over the past decade. But the shift to online shopping for goods and services has accelerated and solidified as a result of the COVID-19 virus that took hold globally in early 2020.

Although younger consumers already were well versed in Internet shopping, digital buying ceased to be a generational phenomenon and increased exponentially in the first few weeks of the pandemic, as people of all ages scoured the web for deals on facemasks and hand sanitizer, opted for curbside delivery of groceries and turned to Internet-ordered take-out as a substitute for in-person dining.

In a global study conducted in July-August 2020 by Salesforce, 63% of consumers said the way they purchase goods and services had been “transformed” by the pandemic and 62% revealed it changed how they were conducting their lives offline as well. Some 58% expected to do more Internet shopping even after the pandemic ended and 80% of business buyers said they would purchase more online once the COVID-19 wave subsides than before the virus arrived.

Automobile dealers have felt the impact of this pandemic-induced transition as well. In the first few weeks of the health crisis, some dealerships – like other businesses located in hotspot states – were forced to close their stores, transforming their sales operations overnight to online-only and quickly transitioning to curbside, contactless delivery of vehicles.

A J.D. Power study found 32% of auto buyers applied for credit online in 2020, up eight percentage points from before the COVID-19 outbreak.



And 40% of borrowers said they wanted at least part of the loan origination process to be digital when they purchase their next vehicle.

General Motors told *The New York Times* 750 of its dealers had signed up for its Shop Click Drive e-commerce tool in the early days of the virus, hiking coverage to 85% of its retail network.

The countrywide vehicle-retail chain AutoNation also reported a sharp jump in online-only sales in March and April. CEO Mike Jackson told the *The New York Times*, “This is an inflection point, a strategic shift, and it’s not going back.”

Although not all buyers will want to avoid the showroom in the near term, the future inevitably will see more and more of the sales and financing process conducted online. Dealers likely will be expected to offer consumers the convenience of extended home test drives, provide concierge pick-up and delivery of vehicles for maintenance and repair and have tech experts on hand to walk buyers through how a car's infotainment and other increasingly complex technology works.

In some cases, showrooms will be transformed with information kiosks and other devices designed to speed the sales and service process for consumers. Technology such as artificial intelligence (AI) will emerge to make buying and owning vehicles more convenient as well. Virtual-reality tools that allow shoppers to better experience a vehicle's interior, sample options or take a "test drive" while sitting in their living rooms already are being tested by German luxury brands Audi, BMW and Porsche and are expected to become more commonplace.

Cultural change will be required as well. A more consultative sales approach will be needed to guide buyers – many of whom already spend an average 16 hours researching a vehicle online – to the right products and through the purchase funnel to final delivery and beyond. No-haggle fixed pricing may become the norm as car dealers look to conform to other retail models consumers are becoming used to and trust.

Dealers stand to gain from this transition to digital. Higher profit margins are forecasted as Internet sales increase staff throughput, lessen the need for maintaining large and expensive facilities and provide new

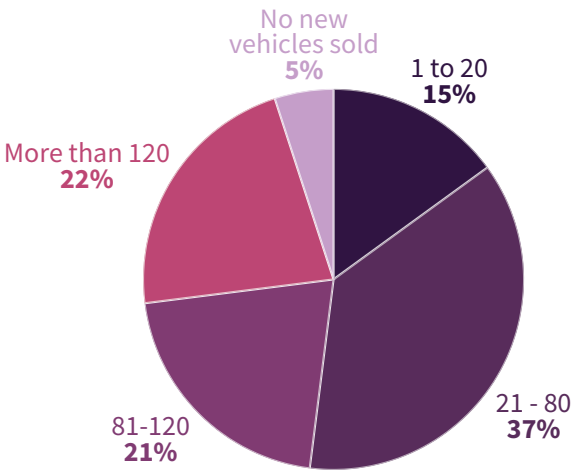


revenue opportunities as dealers extend their market reach. A survey by Wards Intelligence and Ally Financial of 169 owners/operators, general managers and sales and service staff at U.S. dealerships indicates automobile retailers recognize these trends, although some are moving faster than others to accommodate them.

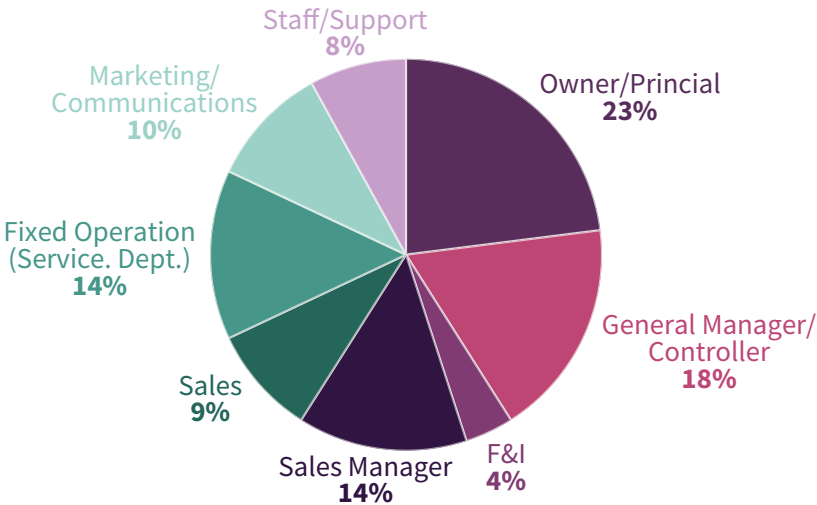
The survey closely looks at the expected impact of digital technology on sales, service and F&I operations over the next three years and the tools dealerships think they will need and services they expect to offer to meet demands of this evolving consumer base.

The survey was conducted Oct. 5-26, 2020 and includes responses from a cross-section of the U.S. retail network, from both new- and used-vehicle dealers and from small (monthly sales of 20 vehicles or less) to large (120 vehicles or more).

**Approximately how many new vehicles does your dealership sell per month?**



**What is your primary job function?**



**how prepared are automobile dealers for the digital age?**

**Selling Vehicles**

Digital new-vehicle sales today make up a minority of deliveries for U.S. dealers, according to the Wards Intelligence/Ally survey, but significant growth is expected near-term. On average, dealers believe digital will account for more than half their sales in three years, up from 36% today.

### What percentage of your monthly vehicle sales do you consider digital sales (initiated via Internet, email)?



### What percentage of your monthly vehicle sales do you expect to be digital sales in three years (initiated via Internet, email)?



The outlook shifts among large and small dealerships, and high-ranking dealership personnel (owner/principals and general managers) are slightly more bullish on digital's prospects than frontline sales staff – a sign management may need to close a communication gap when discussing their vision of the future with their sales teams. On average, top management believes digital will account for 56% of sales in three years, compared with sales/service staff projections of 50%.

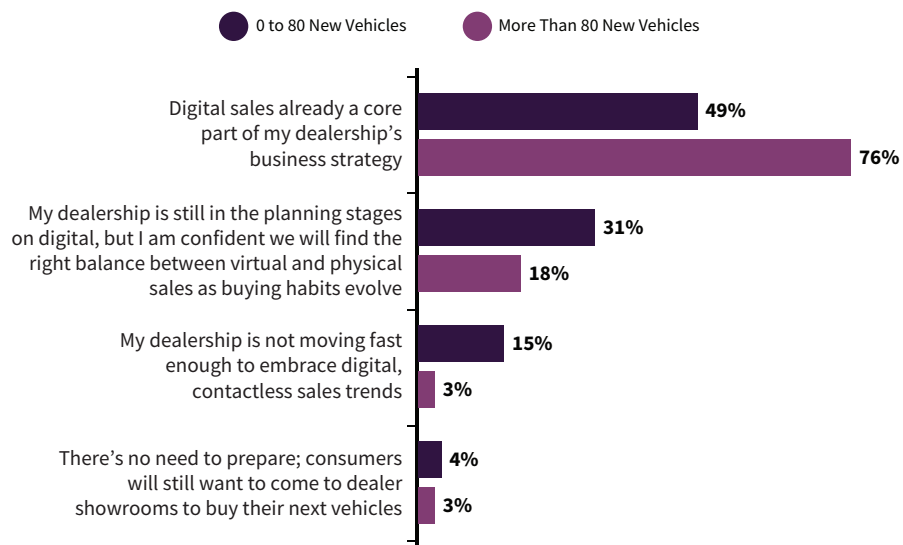
Larger dealerships, already ahead in digital sales than smaller retailers, also are more bullish on the future. Those selling more than 80 vehicles monthly today expect digital sales to account for 58% of their total volume



on average in three years, up from 40% today. Dealerships delivering fewer than 80 vehicles per month forecast digital to account for only 48% of the total on average, from 33% today.

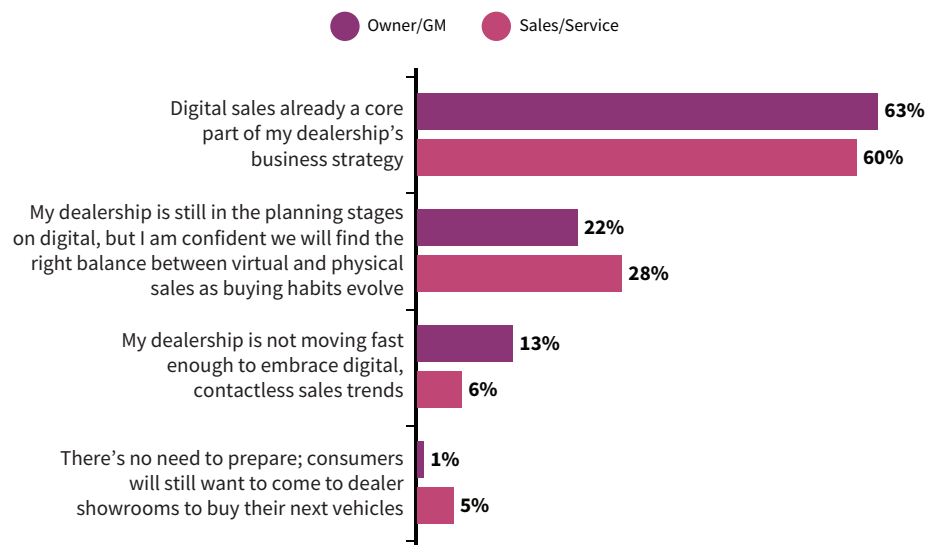
That chasm between large and small reappears when asked how prepared they are for the future of digital, contactless sales. Overall, 61% of respondents say their dealership already makes digital sales a core part of its strategy. But less than half of the smaller-dealership personnel say a digital strategy already is in place, compared with 76% of those in larger operations. Overall, 10% say their dealership is not moving fast enough, but only 3% of those at larger operations feel that way, compared with 15% at smaller dealers. Few dealers, regardless of size, believe it is unnecessary to prepare for a near-term shift to digital.

## How prepared is your dealership for the shift to digital, contactless sales?



Although top management and sales/service staff are in general agreement that a digital/contactless sales strategy either already is in place or is in the works, there's a slight split on whether the transition is moving fast enough. Thirteen percent of top management believes their dealership needs to move faster, likely seeing an opportunity for increased return on investment and new ways to extend their reach. But only 6% of sales and service personnel, likely fearful of how an accelerated shift to digital may impact their jobs or their day-to-day work routine, favor picking up speed.

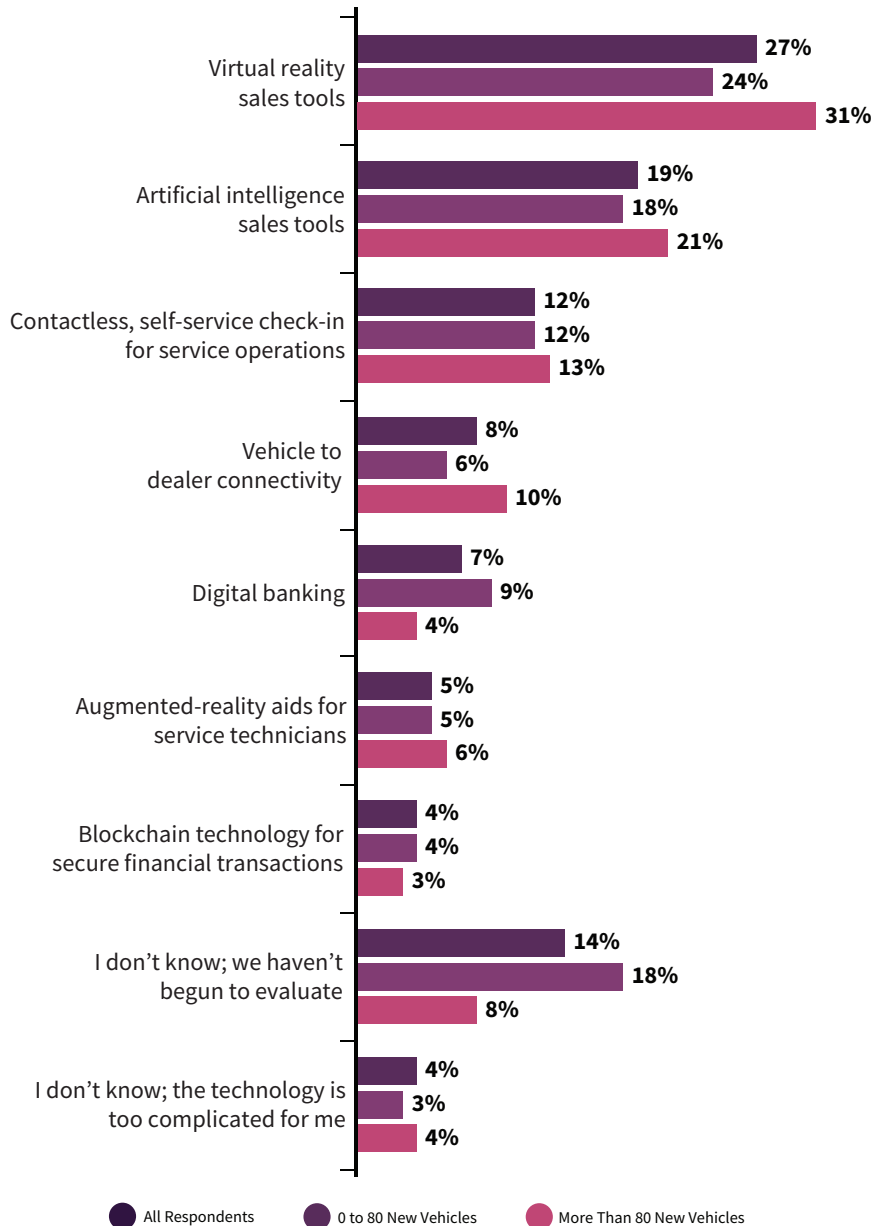
Making this shift in a significant way will require a variety of tools, retailers believe. Contactless check-in, vehicle-to-dealer connectivity and



digital banking will be important, but emerging technologies such as virtual reality and artificial intelligence top the list. However, 14% indicate they haven't begun to evaluate what new tools might be needed and another 4% find technology too complicated to make a proper evaluation, meaning there likely will be a wide range of approaches to how dealers try to serve this evolving market.

Those surveyed at larger dealerships were extremely bullish on virtual reality tools (31% of respondents), compared with smaller operations (24%) – and this view is fairly uniform throughout the workforce, from top management to frontline sales personnel. Twenty-one percent of dealerships with 80 or fewer sales per month say they have yet to begin

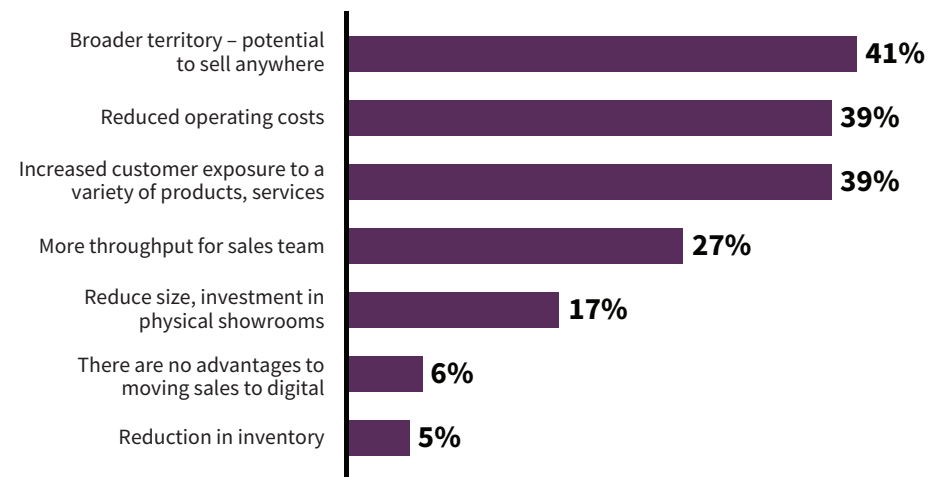
## What digital products or capabilities would be most valuable to your dealership?



evaluating available technology or find it too complicated, compared with just 12% of higher-volume sellers. Lack of understanding may be why blockchain – the cybersecure data-management technology at the core of cryptocurrency – is cited by only 4% of respondents as something that could have value for dealerships in the next three years.

U.S. auto dealers see the value in moving quickly to implement digital technology, however. In the survey, 41% cite the potential for expanding their territory through digital sales and 39% say it will allow them to reduce dealership operating costs and better expose customers to their products and services. They also see digital maximizing sales-team throughput. That's particularly true for dealerships with more than 20% of their sales digital, 34% of whom say throughput will increase, compared with only 15% of those with digital sales penetration at 20% or less.

## What digital products or capabilities would be most valuable to your dealership?



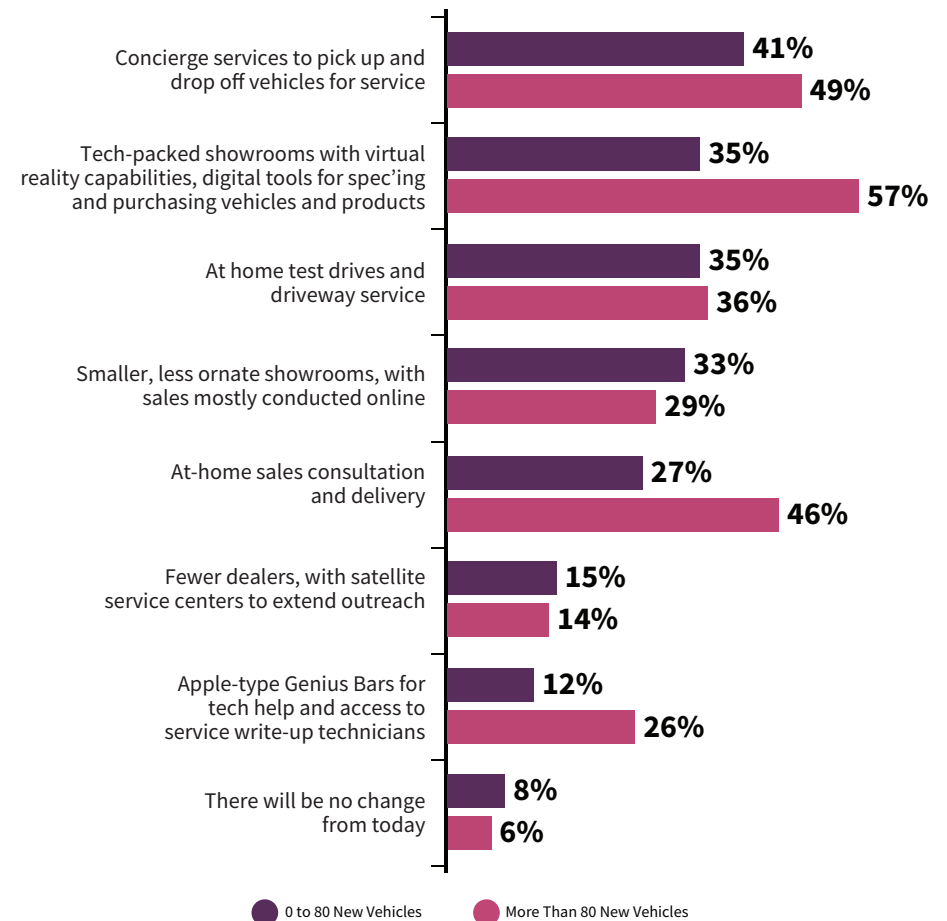
However, few – only 5% of respondents – believe the digital revolution will allow them to reduce inventory. This suggests they don't believe there will be much near-term momentum from manufacturers to shorten the build-to-delivery timeline and allow buyers to customize their orders online rather than purchase almost entirely from available dealer inventory.

A smaller physical footprint is another potential benefit dealership personnel cite from the move to digital, meaning less investment will be needed to build and maintain showrooms. Regardless of size, retailers strongly expect a change in how sales and service centers look and operate.

Respondents say technology will dominate their stores, but they also acknowledge a likely movement toward at-home sales and service, concierge pick-up and drop-off of vehicles for repair or maintenance work, extended test drives and at-home final delivery. Those who do come to the showroom will find virtual reality technology replacing some physical test drives and digital tools for specifying and ordering vehicles and other products, 44% of those surveyed say. Here larger dealerships also are more bullish on how quickly these trends will roll out in the next three years. Fifty-seven percent of respondents from higher-volume dealerships expect showrooms to be highly technology driven, compared with 35% of smaller dealers. Of larger retailers, 49% predict concierge services will be in place for picking up and returning cars for service and 46% expect at-home sales consultations to take place, compared with 41% and 27%, respectively, for smaller dealers.

Apple store-style Genius Bars that allow customers to get help with their in-vehicle technology and access service are anticipated by 26% of higher-volume dealers and just 12% of smaller retailers. Only 7% overall believe there will be no change in the way showrooms look or operate three years from now.

### Which of the following best reflects how the retail network will look and operate three years from now? (Limited to four choices)



## selling F&I.

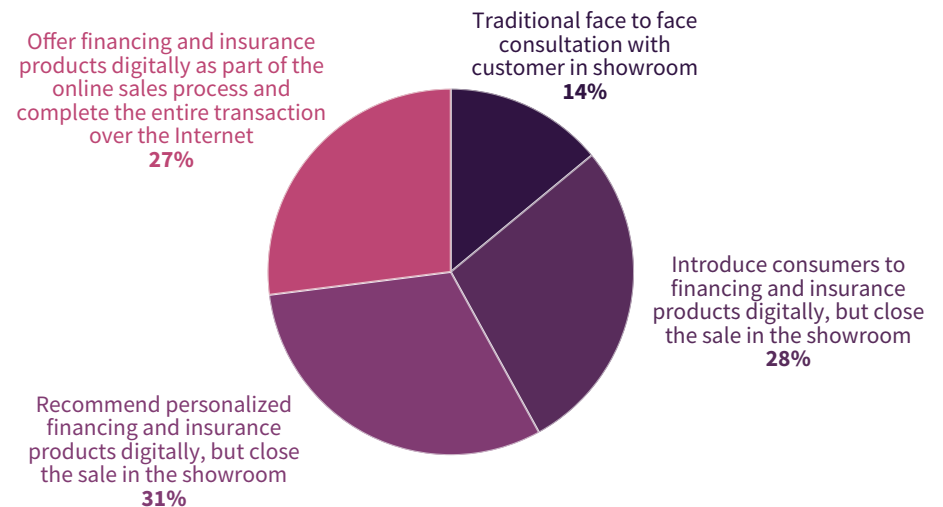
Selling F&I products is another area where digitalization is having a huge impact. Consumers want convenience and to spend less time closing the sale and in the showroom overall. This represents a challenge for dealers, because revenue generated from F&I products is a big part of their bottom lines.

The National Automobile Dealers Assn. estimates F&I income represents 2.9% of new-vehicle sales and 3.8% of used-vehicle sales. By contrast, NADA says dealers lost an average \$913 on every new vehicle sold in 2019.

The technology exists to manage a buyer's credit application online and present a menu of F&I products from which to choose. But it is often difficult to get consumers to recognize the value of such things as extended warranties, protection plans on wheels and tires, payment gap insurance and vehicle-service plans without a face-to-face consultation with an F&I sales manager. Dealers are reluctant to completely let go of traditional practices – and some consumers are, too – but retailers recognize where the momentum is pointing.

In the Wards Intelligence/Ally survey, 86% of respondents say that in three years the Internet will play at least a partial role in the F&I sales process, as most buyers are at minimum introduced to products through an online portal. Twenty-eight percent expect dealers to digitally consult with consumers on F&I product availability and help them choose packages that fit their needs, but still finalize the sale in the showroom. But 27% of respondents expect the entire F&I sales process and transaction to be completed online.

### What approach to selling F&I do you think will be most effective in three years?



This means not only new tools, but new skills also will be needed. Selling online is a much different process, industry experts agree, with different rhythms and requiring different skills if the virtual discussion of product offerings is to go smoothly.

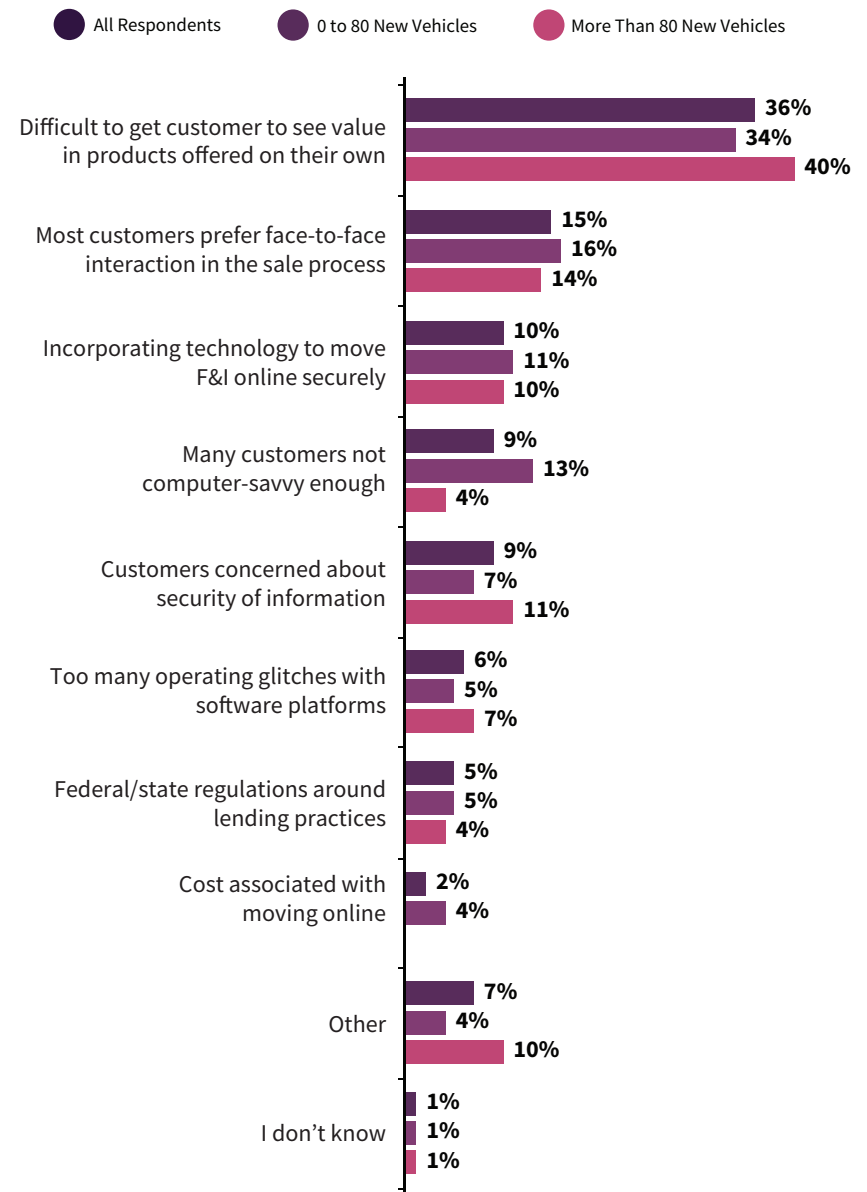
In the survey, 36% of dealers say the biggest impediment to selling F&I products online is to get consumers to see value in the offer, by far outdistancing other hurdles in the minds of respondents. Interestingly, bigger dealerships report having a tougher time selling F&I products online than smaller retailers.

While, as noted in the J.D. Power survey, bigger numbers of consumers are gravitating to online credit applications, dealers say that when it comes to the broader F&I process that includes purchasing products such as extended warranties and other protections, many customers shy away from digital. Twenty-four percent of all dealership personnel responding to the survey believe consumers either prefer a face-to-face with the F&I manager in the showroom or lack the necessary computer skills to conduct the negotiation online.

Less of a factor, but still a concern – both from the dealership and consumer perspective – is security, which could prevent online sales from progressing as quickly as some envision. Nineteen percent of respondents say they are worried about securely conducting F&I transactions online or that their customers are wary. With some consumers still distrustful of online-transaction security, it will be critical for dealers to ensure data is protected; one breach could turn customers away from digital sales or look elsewhere altogether.



## What is the biggest impediment to effective selling of F&I products digitally?



But concerns over safety appear to be secondary to efforts to streamline the process. Consumers value time more than ever, and that is likely to be even more true as vehicle buyers across all demographics get comfortable with online purchasing and learn to rely on the convenience offered. Even pre-Internet, time required to close a sale and complete the paperwork was a critical pain point for consumers purchasing a new car or truck, and automobile dealers have been looking for ways to simplify the process.

A large percentage of respondents to the Wards Intelligence/Ally survey – 51% – say their dealership already is or plans to conduct preliminary financing paperwork online. At least 40% say they already do so or plan to in the future. A third expect the vehicle trade-in process to be completed online, and nearly that many see the final delivery process shifting to the buyer’s home.

Roughly a quarter of respondents indicate more at-home and over-the-Internet services are being employed or are in the offing, including specifying vehicles and locating matches in inventory and conducting vehicle test drives. This same percentage expects a one-price system to be used to take haggling out of the buying process, reduce time spent transacting a deal and give consumers the confidence they needn’t make a trip to the showroom to ensure they are getting the best deal.

Again, responses show faster movement in these directions are likely at higher-volume dealerships. The disparity in response between big and smaller retailers is most apparent when it comes to transacting all types of sales and completing paperwork online, but also in questions of at-home services, such as test drives and final delivery. Dealer owner/principals and general managers also believe these tactics will be more firmly in place three years from now than frontline sales and service staff do.

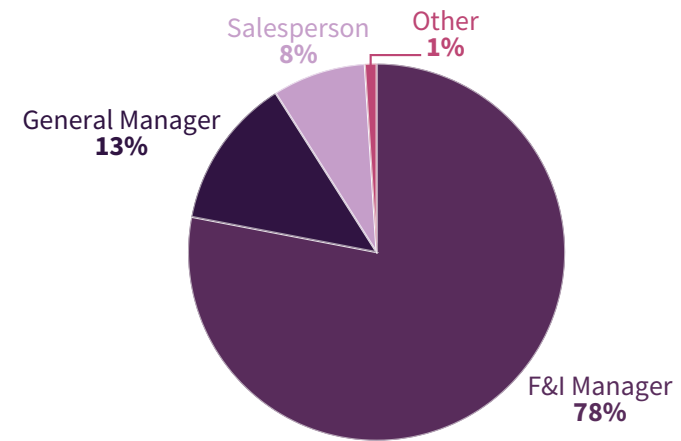
## Consumers often complain about how long it takes to complete a sale in the showroom. Which of the following is your dealership implementing or expecting to implement to speed the process?

	All Respondents	0 to 80 New Vehicles	More Than 80 New Vehicles
Preliminary financing application work online	51%	45%	58%
Completing most sales paperwork online	42%	35%	51%
Completing all financing applications online	40%	40%	40%
At-home delivery of vehicles	35%	25%	47%
Online trade-in process	33%	31%	36%
Marketing F&I products online	29%	23%	38%
At-home test drives	27%	19%	38%
One-price system to eliminate lengthy purchase negotiations	25%	21%	31%
Completing sale of F&I products online	25%	20%	31%
Online spec'ing of vehicles and matching to inventory	23%	24%	22%
Marketing dealer-installed options online	16%	15%	18%
Completing sale of dealer-installed options online	13%	8%	18%
Other	4%	2%	6%
None of the above	3%	3%	3%

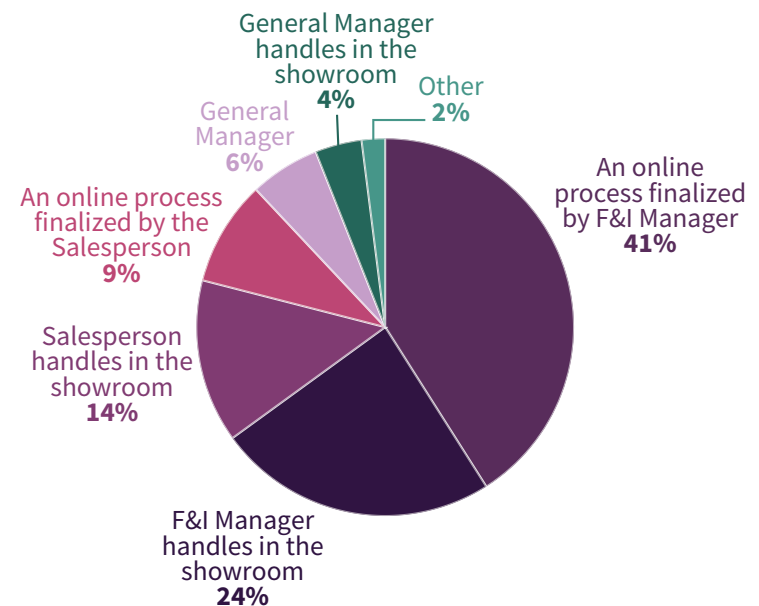
Currently, 78% of dealership personnel surveyed report the F&I process is handled by an F&I manager. And although new methods, pipelines and skills will be needed to reach customers, most see that going unchanged over the next three years. Sixty-five percent say F&I managers will continue to lead, though the process will be split between transactions conducted entirely in the showroom and those begun online and finalized at the dealership, with the latter expected to be the primary path.



## Who handles the following processes at your dealership?



## What will be the best approach to the F&I process in three years?



## service/fixed ops.

Like F&I, Fixed Operations represent a key profit center for dealers – and a pain point for consumers. NADA data shows 12.9% of dealer sales comes from Fixed Operations, and there could be opportunities to increase this share and overall stake if dealers can find ways – including use of new digital tools, connectivity and data monitoring – to make servicing vehicles faster and more convenient for customers.

One potential point of contention involves software updates. Today, customers typically must take their vehicles back to the dealership for software updates made under warranty, a return trip that not only is profitable for dealers but also gives them a chance to upsell consumers on additional maintenance and services or even persuade them to trade in their old model for a new one.

However, the future will see ubiquitous use of over-the-air (OTA) updating, as automakers launch new-generation vehicles with more advanced and capable electronic-systems architectures and software-controlled features

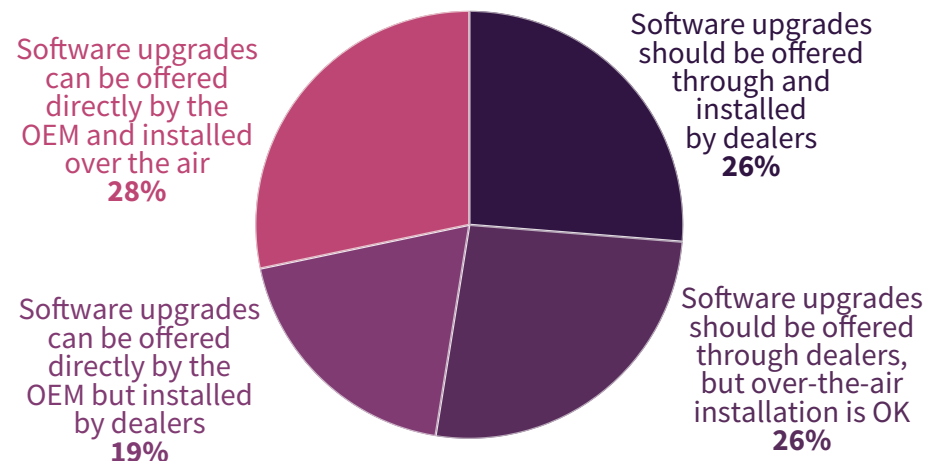


begin to proliferate. Depending on how this is handled, OTAs could cut dealers out of the customer-service process and reduce their opportunity to interact with their buyers.

The survey shows little consensus among dealership personnel on best practice for OTA updates with one exception: Fewer believe the process should be a collaboration between retailers and manufacturers.

Upgrades should be offered and installed through dealers either in the service center or over the air, or handled entirely by manufacturers, most respondents say. Sales and service staff are more open to allowing OTAs than upper management, whether delivered by the dealership or the OEM, the survey shows.

### From the perspective of your dealership, what is the best way for the industry to handle vehicle software upgrades?



Dealers do acknowledge servicing software is a challenge today. Service technicians in general are hard to come by, with Carlisle & Co. predicting U.S. new-vehicle dealers will face a near-term shortage of 20,000-25,000 service personnel. But beyond the basic numbers, having technicians with the right skill set to diagnose and resolve software issues remains a huge challenge.

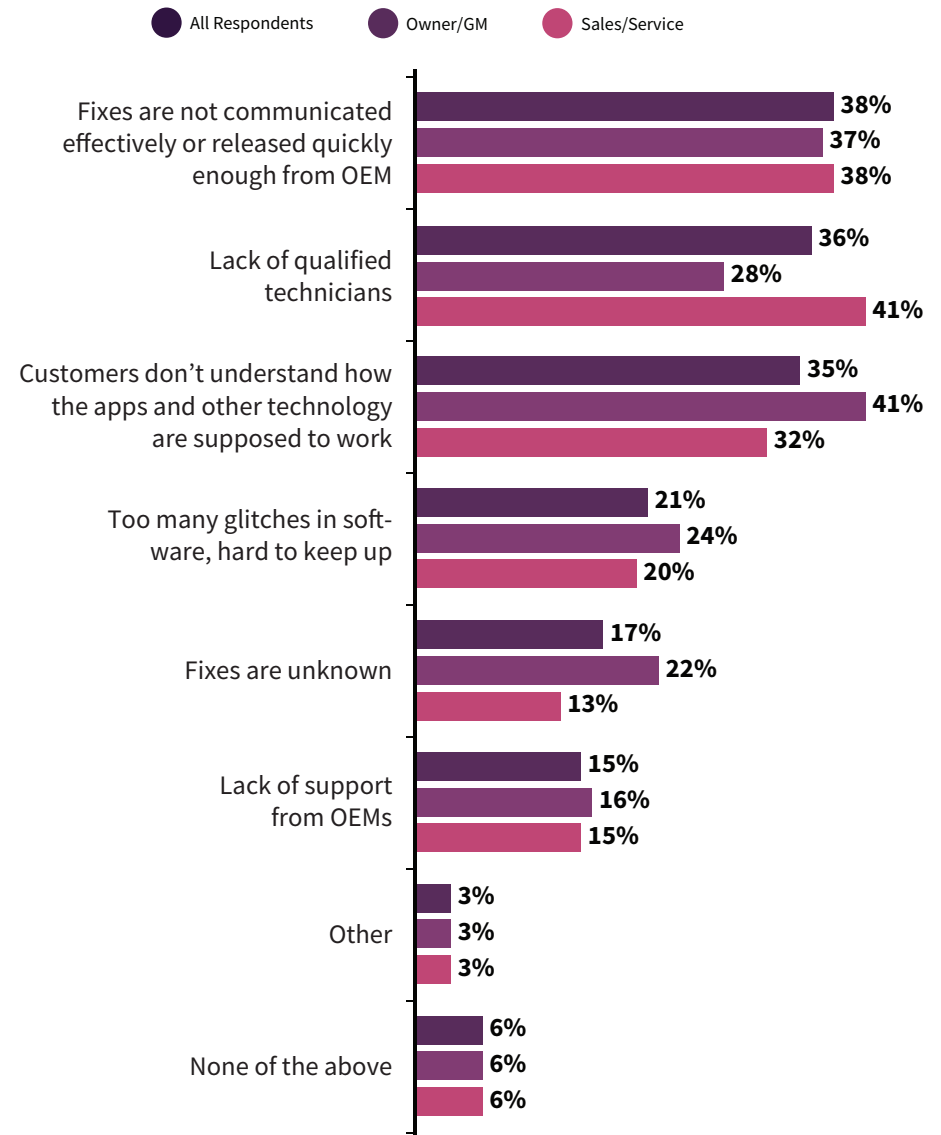
In the survey, 36% of respondents say a lack of qualified technicians represents the biggest barrier to servicing software. Blame also is laid on automakers, whom dealers believe don't release fixes quickly enough or communicate the repair process effectively. Fifteen percent say they don't receive enough support from OEMs in this area, and 17% contend the fixes often simply are not known.

Also high on the hurdle list are the consumers themselves. Many don't understand how the technology is supposed to work, 35% of respondents say. In addition, the software can be glitchy, 21% of those surveyed note, leading to intermittent problems that are difficult for service technicians to diagnose and remedy, further frustrating vehicle owners.

There's a wide gap between how upper management and sales and service staff view these barriers. Forty-one percent of sales/service respondents think lack of technicians is a huge roadblock, while only 28% of Owner/General Managers identify that as a problem.

Lack of understanding by customers on how the technology is supposed to work is cited by more upper management (41%) than by sales/service respondents (32%). Twenty-one percent of those at higher-volume dealerships say lack of support from OEMs is an issue, compared with 11% at lower-volume operations.

## What are the barriers to servicing software at your dealership? (Limited to three choices)



Solving the problem of consumers not understanding their vehicle's technology is a difficult task for dealers, and this is reflected in the survey results. More than 60% believe a detailed walkthrough of the vehicle's operation at delivery is the single most important component of the process, but with the proliferation of infotainment and safety technology and the increasing complexity of those features, dealers recognize that may not be enough.

A third of respondents from large dealerships say having something like Apple's Genius Bar in the dealership that buyers can return to for help and usage tips will be needed, compared with 15% of those at smaller retailers. Post-delivery how-to videos are favored by 47% of the lower-volume dealerships, compared with 36% of the higher-volume group.



**Vehicles are packed with new technology and features customers often are unaware of or don't understand. What is the best way for dealers to familiarize their customers with their vehicle's capability? (Limited to three choices)**

	All Respondents	0 to 80 New Vehicles	More Than 80 New Vehicles
Explain at the point of delivery	62%	56%	68%
How-to videos delivered to customers digitally after delivery	42%	47%	36%
Genius bar-type experts that can explain technology and solve problems for customers	22%	15%	33%
Periodic how-to videos highlighting various technologies delivered over life of ownership	20%	22%	16%
Connect with customers during service and offer to assist with tech features and questions	19%	71%	22%
Offer one-on-one video calls with customers to walk them through in-vehicle technology	15%	13%	18%
Periodic in-showroom tutorials customers can attend	14%	10%	18%
Post how-to videos and FAQs on social media	14%	13%	15%
In-showroom kiosks	13%	41%	12%
FAQs on website	8%	11%	3%
Other	2%	3%	1%

With greater connectivity will come better access to vehicle data – and more of it. How this data is collected, used and controlled are key factors in whether a dealership's Fixed Operations department can be cost-optimized, provide better service to customers and act as a lead generator for new sales.

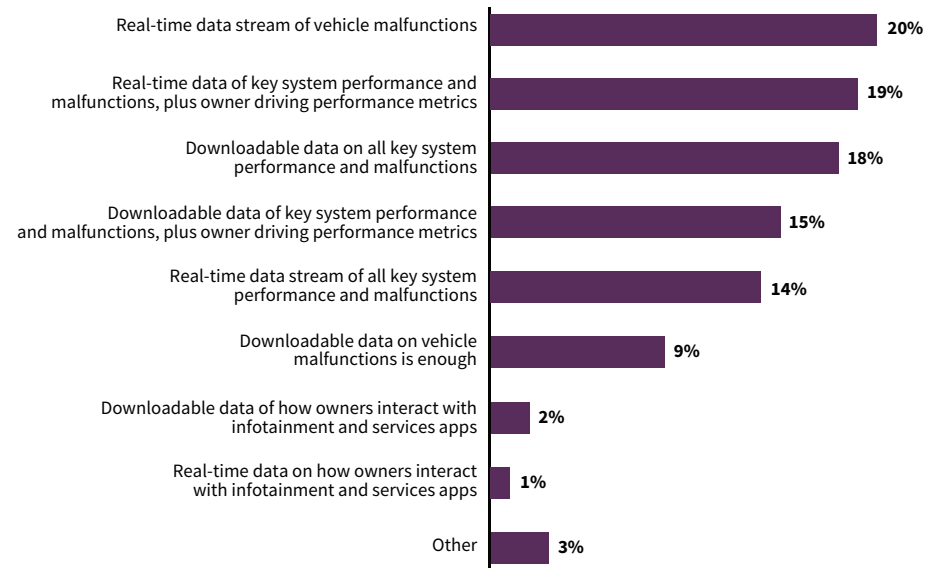
Although survey responses indicate access to data is key, there is no broad consensus on the type of data dealers would like to have or its method of delivery. Eighteen percent of survey respondents say data on both system performance and malfunctions downloaded when the vehicle is brought in for service is good enough, but 14% say they would like that data to be streamed in real time directly to the dealership.

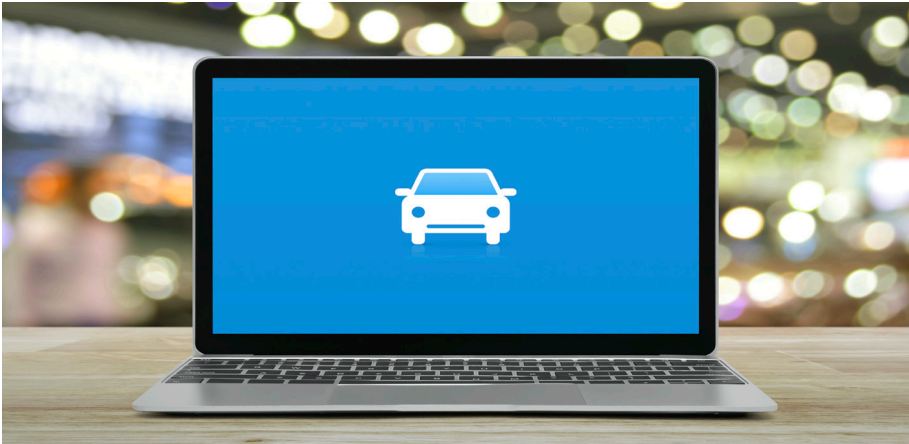
A high number indicate they would prefer to go beyond vehicle operation and have access to driver-performance data, presumably so they could more actively customize products and recommend service at appropriate intervals. But dealers are split on whether this data should be streamed in real time (19%) or whether having it available to download at the point of service (15%) is enough.

Data on how vehicle occupants interact with the car's infotainment system is of almost no interest to dealers, indicative of the limited role they currently play in selling these mostly OEM-marketed features to vehicle buyers.



## What data would help you service vehicles better?





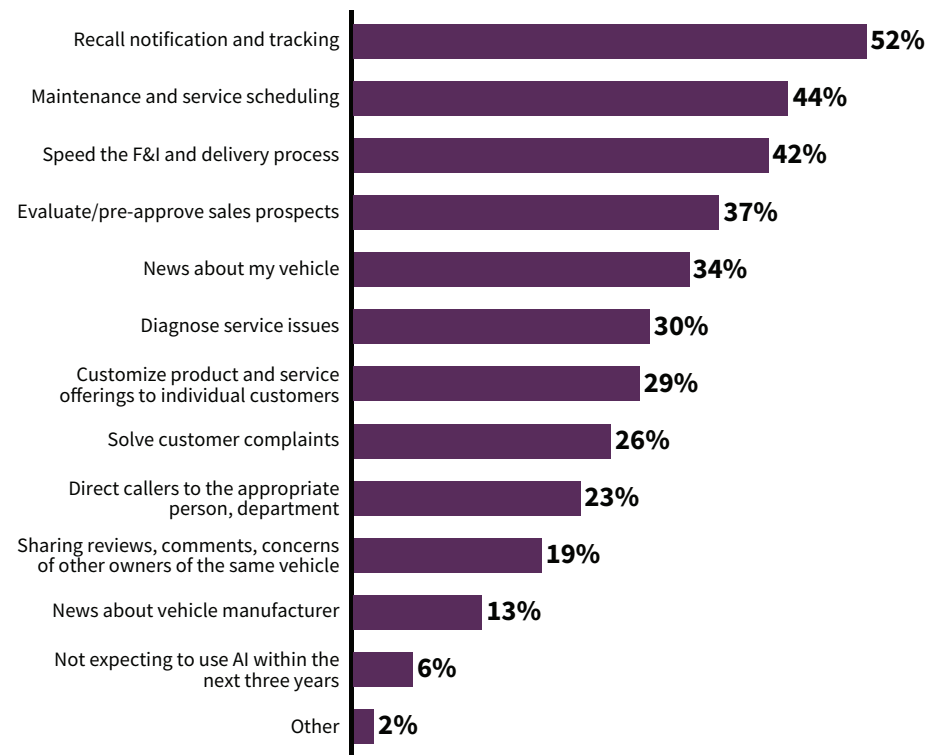
Artificial intelligence is seen as a key service-department technology near-term. Getting consumers to take recalled vehicles to the dealership for required repairs has been an industry problem that has worsened as recalls have begun to involve greater numbers of cars and trucks due to vehicle platform consolidation.

Typically, only about 70% of vehicles make it back to the dealer for safety-related repairs, according to the U.S. National Highway Traffic Safety Admin., and automakers spend considerable sums to repeatedly contact owners to encourage them to comply with the recall. Recall warranty work not only is lucrative for dealers, it provides another opportunity of contact with the vehicle owner and a chance to offer additional services or move the customer into a new model.

In the survey, 52% of respondents cite the potential for AI to help with recall notification and tracking. Second on the list is maintenance and service scheduling (44%), followed by speeding the F&I and delivery process (42%) and qualifying sales prospects (37%).

Overall, those surveyed are bullish on what AI can bring, also citing potential help from the technology in interacting with customers to update them and solve any problems and trafficking incoming calls to the right department and individual. Only 6% say they won't make use of AI technology in the next three years.

### In what ways do you believe your dealership will begin to use AI within the next three years?



Dealers see value in obtaining vehicle-performance data, though 69% characterize the opportunity to add revenue through predictive maintenance as moderate and 15% say that technology won't be a game changer. Small dealerships are more optimistic, with 76% saying there's a moderate opportunity to add revenue.

How do you rate the revenue opportunity with predictive maintenance?

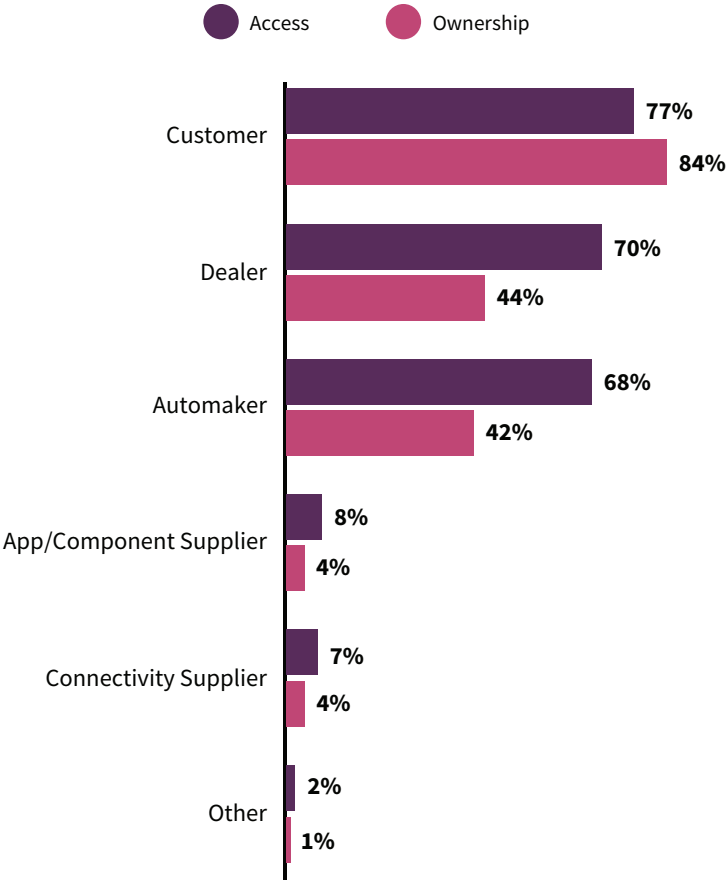
	All Respondents
Low. There will be some opportunity, but not a game changer.	15%
Moderate. There are gains to be made as we get better vehicle data in real time.	69%
High. This is a significant part of our business strategy going forward.	16%

The ability to collect data – particularly on driver performance and vehicle use – raises concerns related to privacy. Consumers are reluctant to share personal data as well. However, surveys show younger people are less concerned than older generations about privacy, meaning over time more data on how drivers and passengers use their vehicles could become available to dealers.

The Wards Intelligence/Ally survey shows strong agreement as to who should have access to that data and who should own it. Respondents believe customers, dealers and automakers all should be able to tap into the data generated onboard the vehicle, while there is little support for suppliers and app providers to be given access.

As to ownership, a vast majority – 84% – believe the data belongs to the customer. More than 40% of respondents say both dealers and automakers also should have an ownership stake.

Significant amounts of data are collected onboard the vehicle about its operation and the people in it. Who should have access to and ownership of that data? (Limited to three choices)



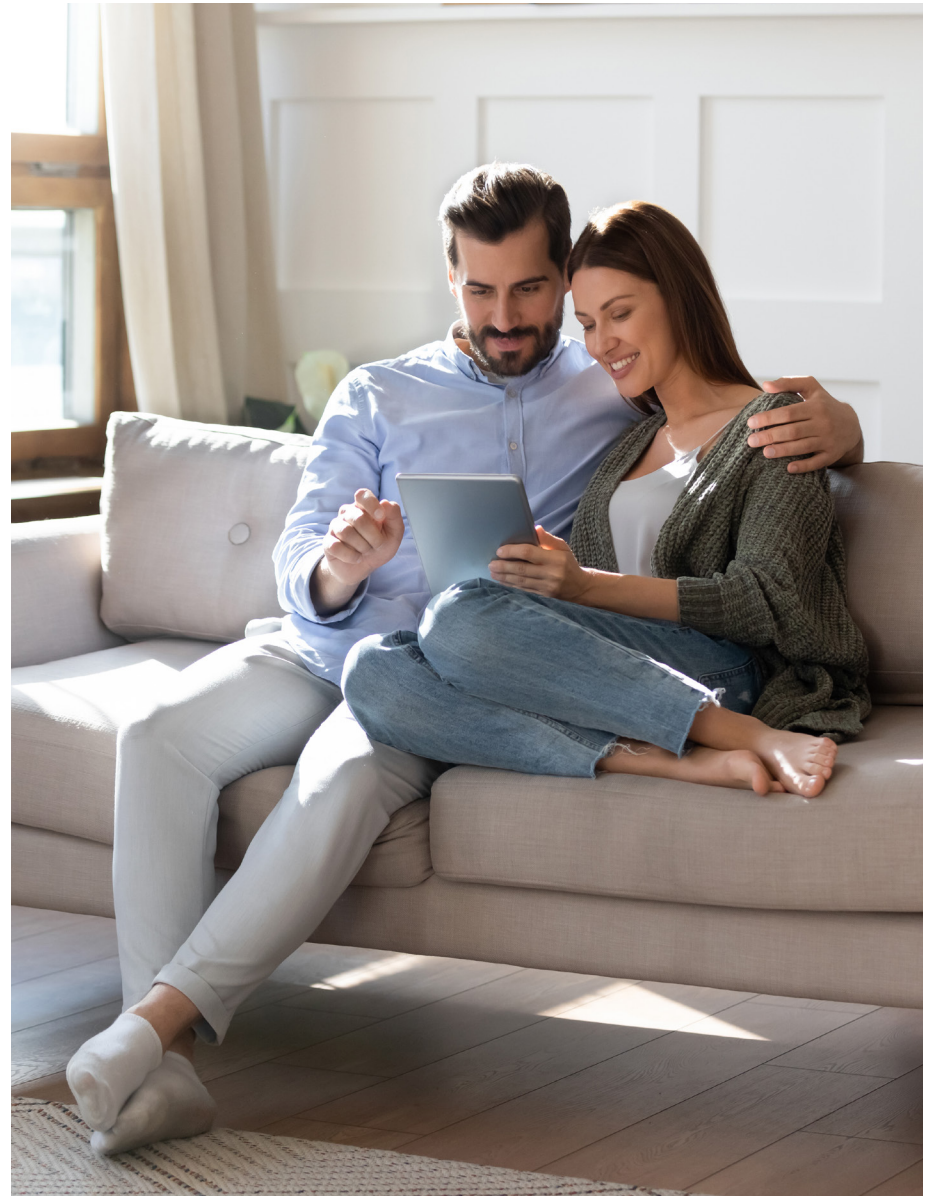
## conclusion.

Digitalization is having broad impact on how auto dealers sell and service new cars and trucks. COVID-19 has increased demands for at-home shopping and touchless delivery and service across buyer demographics, a trend that is unlikely to change direction even after the pandemic has subsided.

Consumers value time and convenience more than ever when it comes to investigating products and ultimately deciding whether to purchase. As new technology makes that process even easier for car buyers, it is likely automobile dealers will be required to conduct a higher percentage of their activity online and away from the traditional showroom.

The Wards Intelligence/Ally survey shows dealers overall are keenly aware of this, though some – typically larger operations and those already with higher volumes of digital sales – are moving faster in this direction than others. There is some consensus, however, on how far this transition may go in the next three years. Among the findings:

- Most vehicle sales at minimum will start online, and more of the process – including loan qualification and F&I sales – will be completed over the Internet, saving consumers time and improving efficiencies for dealers.
- Dealership staff will require new tools – including virtual reality and AI-driven software – to meet demands of the Internet-savvy consumer, and they'll need to become more conversant in these technologies and techniques to close sales online rather than in the showroom.





- Dealers will benefit from the shift to online sales, which will lower operating costs, improve throughput, allow for expanded sales territory, improve communication with customers and lessen the need for large, expensive-to-maintain showrooms.
- Near-term, particularly post-pandemic, many consumers still will prefer to conclude the sale at the dealership, but showrooms likely will begin to look different over the next few years, with the addition

of something like Apple's Genius Bars and information kiosks to help consumers sort through technology issues, and more services, such as test drives, will happen at home.

- Technology will continue to play an increasing role in service operations, with artificial intelligence and data collection used to diagnose and solve problems for vehicle owners, schedule service appointments and keep customers informed about their vehicle and additional related product offerings.
- Like consumers, dealers are concerned about privacy issues and data protection, but fears over cybersecurity threats are secondary to the need to speed the sales process and provide better service.
- In general, larger dealerships are ahead of smaller ones in transitioning to the digital economy and have more bullish views on the speed in which Internet sales and new methods of selling and servicing vehicles will take hold.
- There is somewhat of a gap between how quickly sales/service staff and top management (owner/operators and general managers) believe the transition to digital will take place, suggesting better communication of the dealership's vision and strategy to frontline employees may be needed.