Is Digital Retailing Promising More Than It Can Deliver?

Dealers are embracing digital retailing, but misleading quoted payment terms are standing in the way of Digital Retailing reaching its potential

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Section 1 | Digital Retailing Revisited

It is hard to engage in a discussion of the future of automotive retailing without constant references to the catch-all term 'digital retailing.' While there is no solid consensus on what digital retailing actually is, an emerging consensus is that consumers want more of their car purchasing process available to them digitally and on their terms– especially when it comes to payment information – and that means having more control.

A key indicator of how this consumer desire for control is manifesting comes in a recent J.D. Power study that showed that nearly half of auto loan customers shopped online for vehicle financing options *before* visiting the dealership and, of that group, only 42% opted for financing from their dealer. This is worrying data for dealers, compounded by the fact that satisfaction scores proved to be much higher among those consumers who secured direct financing outside the dealership. These are trends that eLEND Solutions has been observing and analyzing for some time and that have the potential to be solved with digital retailing – if it can live up to its promise.

In a 2017 study on digital retailing, eLEND found that dealers are interested in digital retailing, but that their adoption of digital retailing lagged behind intent. In that 2017 study, dealers overwhelmingly said they were willing to adopt more digital retailing tools (84%), yet the majority defined digital retailing very narrowly as posting inventory. These same dealers reported that over 50% of their process continues to be manual/paper-based.

With this information, and the fact that consumers are increasingly interested in direct financing options, as context, eLEND fielded a new survey at the end of 2018 to further investigate some of the disconnects that continue to stand in the way of dealerships' success with digital retailing – especially when it comes to the finance part of the equation. The resulting data reveals that among the key barriers to adoption of digital retailing are the digital retailing tools themselves.

Section 2 | The Problem: more consumers with prearranged financing

The survey started by asking dealers what percentage of customers arrive at the showroom with pre-arranged financing. Echoing J.D. Power, the majority of dealer respondents reported that between 10% and 25% of their customers arrive already financed. A relatively small number today, but one that is trending up as more research-savvy millennials enter the market.

While the majority of dealer respondents (57%) reported that they are able to flip at least a quarter or more of those consumers into their own finance programs, the effort involved likely costs not only time, money and resources, but also critical CSI scores.

> ***43% unable to transition most customers with pre-arranged financing into dealership financing.***

Adopting digital retailing tools to satisfy customers who prefer more of a self-serve process is one way many dealers are attempting to solve the challenge of consumers arriving with pre-arranged financing - as well as improving the very complex negotiation and F&I processes that breed so much consumer confusion and skepticism.

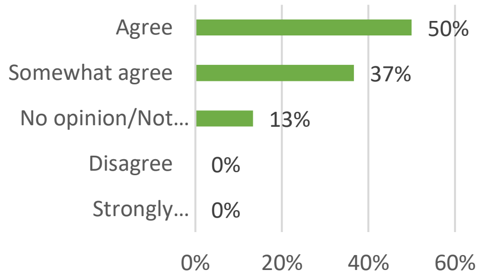
A popular way of doing this is to provide online digital retailing tools that oftentimes include basic payment calculators or payment estimators, giving the consumer the sense of not only being in control, but offering the promise of saving time at the dealership. These tools are being used by over 50% of the dealers surveyed – and the majority of them - 60% - believe that these tools are time savers for the consumer and the dealership.

60% believe payment calculators/estimators are time savers.

But are they?

Section 3 | Digital retailing tools with 'matched' loan terms: dealer friend or foe?

How strongly do you agree or disagree that it is common (>50%) for a payment estimator tool to provide an inaccurate or unrealistic monthly payment expectation?



A key friction point uncovered by the survey are the inaccurate or misleading payments quoted by most standalone basic payment calculators and self-penciling tools that power many digital retailing platforms. An astonishing 87% of dealers surveyed agreed that it is common for payment tools to return an unrealistic or inaccurate monthly payment expectation.

And 74% report that over a quarter of deals that include digital retailing-provided payment terms have to be reworked because they cannot be matched to the consumer's credit profile or to the final deal structure or a lender program - with 37% reporting that between 51 and 100% have to be reworked. And even then, success is far from guaranteed: the vast majority (70%) of dealers are losing 60% of those sales.

Because most of these tools return unqualified payment quotes - unmatched to the customer's credit profile, or specific vehicle and, crucially, any of the dealer's lender programs, they establish an unrealistic payment expectation for the customer that leads to an unavoidable conflict at the dealership. And, for dealers striving to deliver a frictionless buying experience and 'deal transparency,' these less advanced digital finance tools actually get in the way of the dealers' desire to evolve.

60% of reworked deals caused by inaccurate digital retail-provided payment quotes are unable to be saved.

"Digital retailing tools that provide unrealistic payment expectations are setting dealers up for failure when it comes to delivering frictionless buying for consumers."

Section 4 | Dealers want to adopt digital retailing, but disconnects remain

The survey indicates that dealers are bullish on digital retailing: nearly 60% of the dealers who are using digital retailing solutions say that the average profitability of digital retailing-initiated transactions are equal to or higher than non-digital retailing transactions. However, as the data above indicates, dealers are reworking many of those deals -- something that surely is having a negative impact on profits (nearly 30% say digital retailing deals are less profitable), on time delays and, of course, customer satisfaction and loyalty.

The hard reality is that unrealistic payment quotes often lead to deals that have to be re-worked – a primary source of mistrust and dissatisfaction for the customer and inefficiency for the dealership – exactly the opposite impact dealers were intending when these basic calculators were made available on dealership websites.

30% say digital retailing initiated deals are less profitable than non-digital retailing deals.

Nearly half of dealers who aren't use digital retailing tools believe that unrealistic payment expectations hurt F&I profitability.

There are indications that this is driving some dealers away from online calculators and digital retailing tools: The majority of dealers who report that they do not use digital retailing tools acknowledge that it is common for payment estimator tools to provide inaccurate or unrealistic payment expectations, and nearly 1 in 2 of these dealers agree that payment expectations hurt F&I product sales.

The survey does reveal, however, that dealers are looking for improvement and have a willingness to embrace further transparency in the F&I process: 62% say that there is room for improvement when it comes to transitioning online shoppers into the showroom. They cite the number one area for improvement as: "matching finance terms to a consumer's credit profile".

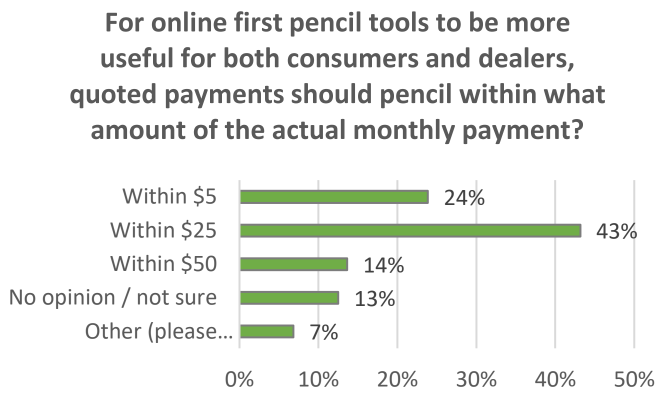
Number one area for improvement in transitioning online shoppers to showroom cited by dealers: "Matching Finance Terms to Consumer's Credit Profile"

Majority of dealers want to improve how they transition online shoppers into the showroom.

Section 5 | Two Major Process Disconnects

Dealers may be out of touch with customer expectations as the survey reveals that they believe it is acceptable for quoted monthly payments to be off by as much as $25 per month; a number that would add up quickly for consumers who finance over 60 or 72 or 84 month terms - and deplete funds for additional F&I product add-ons.

And whether or not dealers are adopting digital retailing, another key disconnect uncovered by the survey is an issue of timing. While the majority of dealers (63%) report that the F&I time delay continues to be the biggest obstacle to profits, customer satisfaction and loyalty, nearly 60% of the surveyed dealers wait to pull credit until after the deal has been negotiated - something that often compounds the time delay! How? Because the negotiated deal terms haven't been qualified and often times cannot be honored – so they have to be reworked – adding unnecessary delays to an already confusing and lengthy buying process.



57% pull credit after the deal has been negotiated - compounding time delays when negotiated deal terms can't be honored or matched to the dealer's lender programs.

And, at the end of the day – or before the first pencil – by changing when and how the shopper is introduced to "qualified" payment information and dealership financing options, the combination of technology and data enable the dealer and the consumer to come together much faster. The two-way transparency is a trust multiplier. And the sooner finance gets involved in the deal (digitally or otherwise), the more confidently and profitably they can be structured. The 'deal' transparency also increases finance penetration – and Improves the speed and quality of the customer's transition from the dealer's website to the dealership and thru F&I, increasing profits and customer satisfaction

Section 6 | Conclusion

The survey confirms that dealers are definitely moving towards embracing digital retailing - 67% agree that 'powering up' with technology can enable dealers to simplify the process and run higher volume at higher profits. However, it also clearly indicates that digital retailing tools unintentionally returning misleading payment expectations can often times create conflict and inefficiencies in the dealerships. Until digital retailing tools can be powered with advanced finance technologies that can return realistic, qualified payment terms that can be matched to the dealer's lender programs, the promise and potential of digital retailing will remain elusive.

The good news is that "smart" consumer facing, online and in-store 'finance' tools and technologies do exist today and more are just over the horizon and dealers that are ready to embrace them and refocus their in-dealership processes on the customer experience - will win today and in the long run.

Survey Methodology

Survey of auto dealerships conducted online from October to November 2018.

ABOUT eLEND SOLUTIONS

eLEND Solutions™ (DealerCentric rebranded) is a FinTech SaaS and DaaS company focused on providing a simplified vehicle purchase process for the retail automotive industry. The benefit of their industry neutral credit and finance decisioning solutions is a more efficient, faster-moving Sales and F&I deal-flow that sells more cars at higher profits in less time – benefitting dealers, lenders and consumers.

In the meantime, what can dealers do?

- Turn the customer mirror on your dealership and experience what your customers experience. Online and in-store.
- Consider the advantages of pulling credit (hard or soft pull) prior to presenting the first pencil - or even the test drive
- Do your homework. There are "dumb" and "smart payment calculators. Understand the differences.