

The Big Deal: A Brighter Future for Car Dealerships



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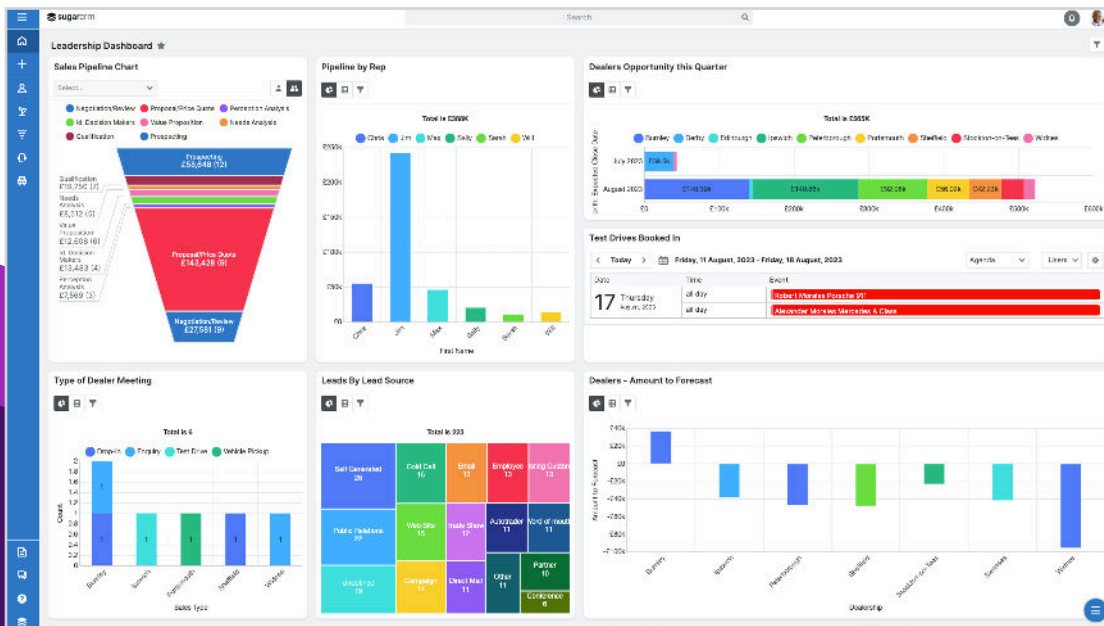
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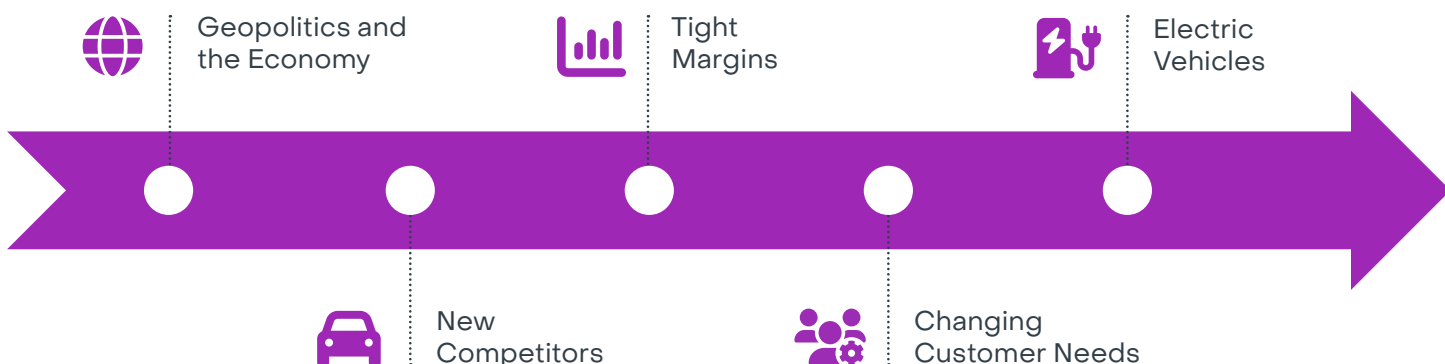


The Motor Trade is on the Move: Disruptive Trends

Ten years ago, nobody would have foreseen the remarkable pace of change in the motor trade. In this guide, we're going to look at some of the trends which represent disruption and upheaval. But we're also going to suggest that, across the ecosystem, things aren't quite as challenging as they seem. In fact, with a little of the human touch, dealer brands can emerge leaner, stronger and with customers committed for life.

But let's start with the headwinds. And sadly, on a macro level, most of those headwinds are issues over which you have little influence. You didn't ask for a pandemic or a chip shortage which inexplicably led to a 2022 drop of almost 10% in new cars to sell¹. You didn't ask for economic uncertainty from Ukraine to China to the Middle East which has upended supply chains and scared off customers for big-ticket items. You also didn't ask for a government/regulatory environment, where – from Brexit to ULEZ – the rules seem to change without much warning or consultation. And you have no control over these challenges, either.

1) <https://www.eenewseurope.com/en/chip-shortage-hits-uk-car-production/>



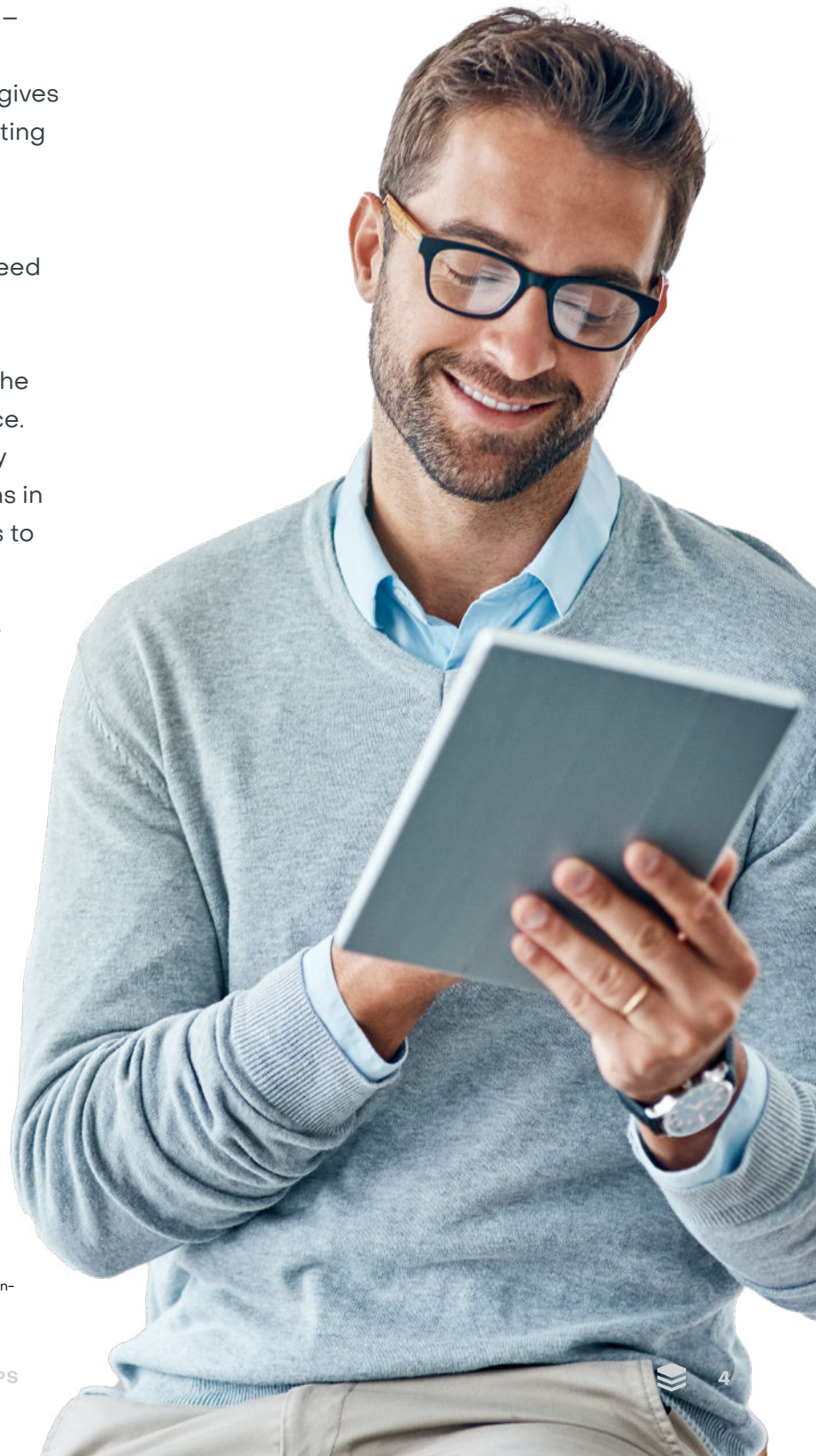
The industry has also changed. New car margins have dropped consistently in the past decade, and while there is still room for healthy profits at the luxury end of the market, car dealers typically make around 7% on a new vehicle sale (annoyingly, the public thinks you're raking in money – the majority in one survey by Car Dealer magazine thought dealers were creaming off 20% of the sticker price!)². And that's if you have any control over margins at all – many manufacturers are attempting to enforce brand consistency with an 'agency' model that gives dealerships less wiggle room on pricing, marketing and operational processes than ever.

At the same time, competition is increasing. As well as the big-box car supermarkets, a new breed of digitally enabled and non-franchised/brand-agnostic dealers has entered the market. They promise scale and convenience, particularly if the customer is prepared to sacrifice a little on price. This all means more competition and, for legacy dealers, more overhead, chasing tighter margins in a more constrained market with a lot of reasons to expect lower unit sales.

The customer also has changing preferences – particularly generationally – and that's serving to upend the market too. Those new, digitally enabled dealers are popular because they operate as simply as possible: the customer feels like they are in charge, taking the dealer out of the picture, and definitely not enduring the 'I'm just going to go into the back room and see what I can sort out with the boss' type conversations. The modern customer is also moving towards the idea of Mobility as a Service (MaaS). Dealers are already structuring "all in" offers (vehicle, servicing, repairs, insurance and financing in a simple and comprehensive deal). But the future of MaaS is pay-as-you-go, by the mile – and as

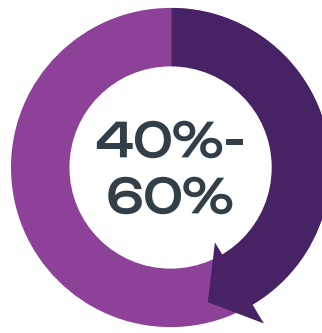
we head towards a driverless future, service without any ownership at all. Right now, 20% fewer under-25s are taking their driving tests³ than ten years ago.

3) <https://www.thedrive.com/article/12373/why-arent-young-people-in-the-u-k-learning-to-drive-anymore>



2) <https://cardealermagazine.co.uk/publish/how-much-profit-do-car-dealers-make-on-new-and-used-cars-heres-the-perception-versus-reality/225342>

Finally, there's the elephant in the room: electric vehicles. Manufacturers have used their resources to make the EV investments that customers and governments increasingly demand – even though this is a market still full of big gambles (BMW, Toyota and Honda, for example, are also heavily investing in hydrogen powered cars). All we know is that the internal combustion engine is on the way out, and that will change the dealer's economic model yet again. First, the longer service intervals thanks to fewer moving parts and (thank you Tesla...) move towards replace-only elements means that, in the words of KPMG, "battery EVs are expected to reduce SMR requirements by 40%–60% compared



Battery EVs are expected to reduce SMR requirements compared to ICEs.

to ICEs"⁴. Second, those simpler and cleaner repairs, alongside the proliferation of enterprise-grade chargepoints in customers' homes, will foster innovation in mobile and on-site servicing with fewer reasons for the customer to actually visit a garage.

4) <https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2020/02/the-future-of-automotive-retail-strategy-in-europe.pdf>



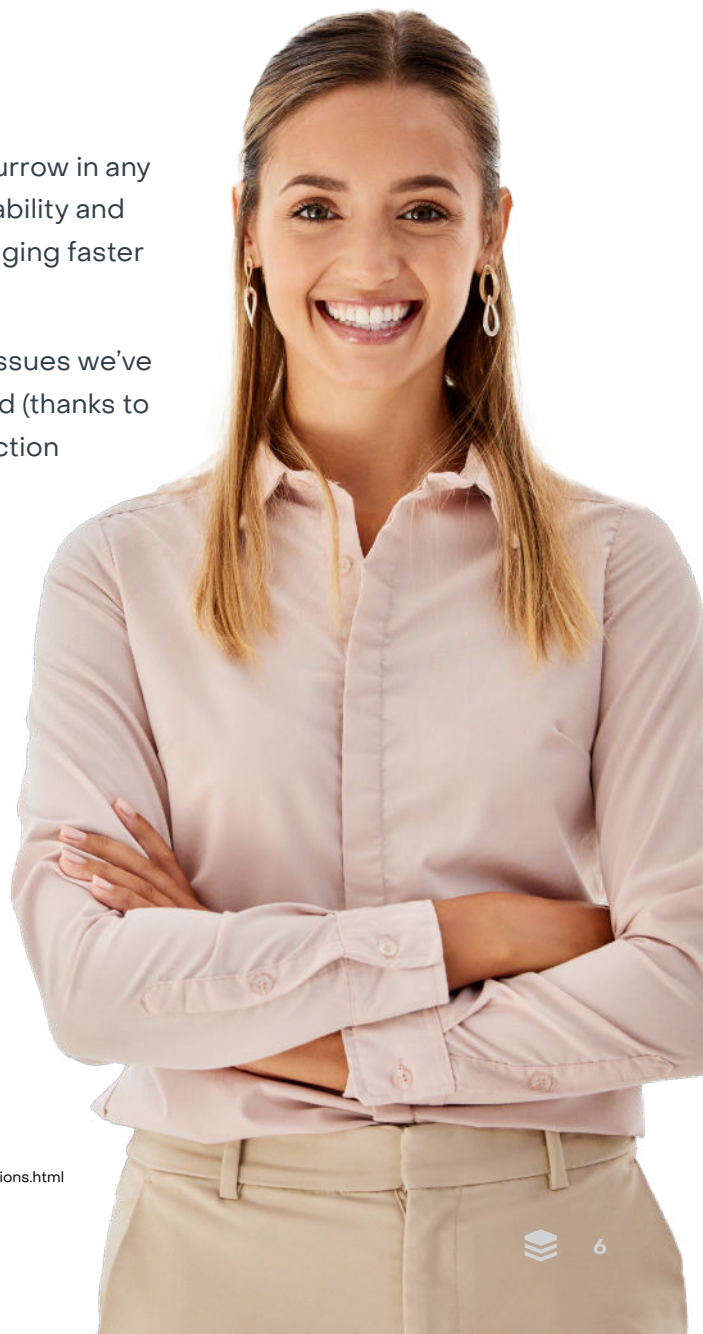
Armageddon Averted...

It looks bleak. Combined, these concerns are enough to put a furrow in any dealer's brow. And yet, there's a difference between unpredictability and commercial disaster. We do indeed live in times which are changing faster than ever before. But change also means opportunity.

Besides, there is an argument against almost every one of the issues we've raised above. The chip shortage has largely been resolved – and (thanks to demand from other sectors like communications and AI) production of tech is going up, not down. Yes, supply chains have been disrupted – but manufacturers have taken the opportunity to diversify those supply chains for resilience; which will set you up for a better future. People are indeed worried about their finances in the cost-of-living crisis; but the market for second-hand vehicles remains buoyant. Edmunds' Q2/2023 Used Vehicle Report said that “used vehicle prices have dipped from record levels but still remain historically high”⁵, with deferred demand from 2021-2 filtering through nicely. People still want to buy and sell used cars!

Dealerships aren't history, either. The direct-to-consumer model is valid, but it's not an outright replacement for dealerships. It didn't work for Daewoo and it will only work now for low-touch, low-margin sales. Even digital challengers

5) <https://www.edmunds.com/car-news/surging-demand-in-q2-2023-used-car-market-unfazed-by-rough-conditions.html>



are not guaranteed success: in the US, for example, the once-loved Carvana is still over \$6BN in debt and (more importantly) has never once turned a profit⁶. And PwC reports that despite online sales reaching a tipping point, a whopping “80% of car buyers prefer to go to dealers in person — to experience brands and products, test drive and complete transactions.”⁷

And those young people not getting drivers’ licenses? Some of them just can’t get a test. As of October 2023, the waiting time for a driving test was still over 18 weeks⁸. It’s true that younger people are more likely to seek smaller electric vehicles, digital enhancements to their mobility experience and to be attracted to MaaS propositions. But it is an urban population that’s getting all the press for driverless cars, mixed-mode mobility services and the rest. The ULEZ debacle in London has shown that only urban areas can truly do without cars. In the suburbs⁹ (long before escaping to more rural areas), public transport is already scarce enough that people desperately need their cars. Desperately enough to smash cameras and spray paint over monitoring vans.

The news on EVs is also not as one-sided as it might look. Prime Minister Rishi Sunak has already rowed back on the outright ban of petrol engine vehicles from 2030 to 2035¹⁰. Attractive tax breaks have also been pulled: EY reports, “A setback for the sector was the decision to scrap the ‘plug in grant’ which made the UK the only major European market to have zero upfront purchase incentives for EV car buyers. Less draconian, but still unwelcome, was the news that EVs would attract road tax from April 2025”¹¹. EVs are coming; they are an important part of your portfolio, but the petrol engine isn’t out of road yet.

“...despite online sales reaching a tipping point, a whopping 80% of car buyers prefer to go to dealers in person...”

6) <https://techcrunch.com/2023/06/09/carvana-crashes-back-down-to-earth/?guccounter=1>

7) <https://www.pwc.com/us/en/industries/industrial-products/library/automotive-consumer-and-dealer-trends.html>

8) <https://despatch.blog.gov.uk/2023/10/24/what-the-driving-test-waiting-time-actually-means/>

9) <https://www.bloomberg.com/news/articles/2023-07-21/why-london-s-ulez-charge-became-a-political-football-quicktake>

10) <https://www.electrive.com/2023/09/21/uk-prime-minister-sunak-postpones-ice-phase-out/>

11) https://www.ey.com/en_uk/news/2023/01/2022-a-year-of-continued-challenges-for-uk-automotive



A Strategy for the Modern Motor Dealer

We think this means two things for the modern dealership.

1

You're going to be juggling slow change: All these trends are real, but they are happening much more slowly than an over-excited, tech-obsessed press would have you believe. These are generational changes which will take a decade to fully filter through. And in some ways, that's annoying: businesses like a simple, consolidated customer base. Instead, in the coming years, we'll have to appeal to everyone from the traditional car buyer to the new, urban seeker of mobility services. ***The modern motor business will have to appeal to many communities.***

2

It's going to be just fine if you put the customer first. Reports of the death of the car dealership are greatly exaggerated. There's competition, but the dealership business model isn't dead. Digital challengers can thrive on scale, brand and convenience (just as Amazon has grown by ruthlessly digitising the customer journey). But traditional dealers can thrive on service excellence and human contact. As analysts KPMG write in 'The future of automotive retail strategy in Europe', "Taking a customer-centric approach will be key to capturing value over the course of the customer relationship"¹². ***The modern motor business will have to be obsessively customer-centric.***

12) <https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2020/02/the-future-of-automotive-retail-strategy-in-europe.pdf>

It's time for a new paradigm of customer-focused operations. If you're not thinking about the customer for breakfast, lunch and dinner, you're leaving money on the table – and hungrier competitors will swipe it.

Unfortunately, old reputations die hard. In fact, dealers face a rather unfair uphill battle. If you cut costs and corners, you run the risk of being branded an Arthur Daley, always ready to skimp and haggle. But it seems that customers don't like too much glamour, either. When Car Dealer's survey showed that customers hugely over-estimate the dealer's margin (see above), Jim Holder, editorial director for *What Car? Magazine* said "We've witnessed massive investment – some of it forced by manufacturers on to retailers – into modern, often swanky 'gin palace' dealerships and corporate identities, all of which I suspect is giving this impression that selling cars is a route to printing money"¹³. Ouch!

But again, it's not all bad news. Reputational improvement has sometimes come from the strangest places. Analysts Deloitte wrote in 2019: "While increased consumer finance regulation will require the sector to adopt new ways of working, it also presents a major opportunity to increase consumer trust and satisfaction"¹⁴. An increasingly complex set of finance options (loans, leasing etc.) has tightened up the sector overall. And manufacturers are just as increasingly demanding that their dealers protect their brands with ethical behaviour.

So if the groundwork has already been laid, what can you do to be a truly customer-centric dealership?

"Taking a customer-centric approach will be key to capturing value over the course of the customer relationship."

— KPMG



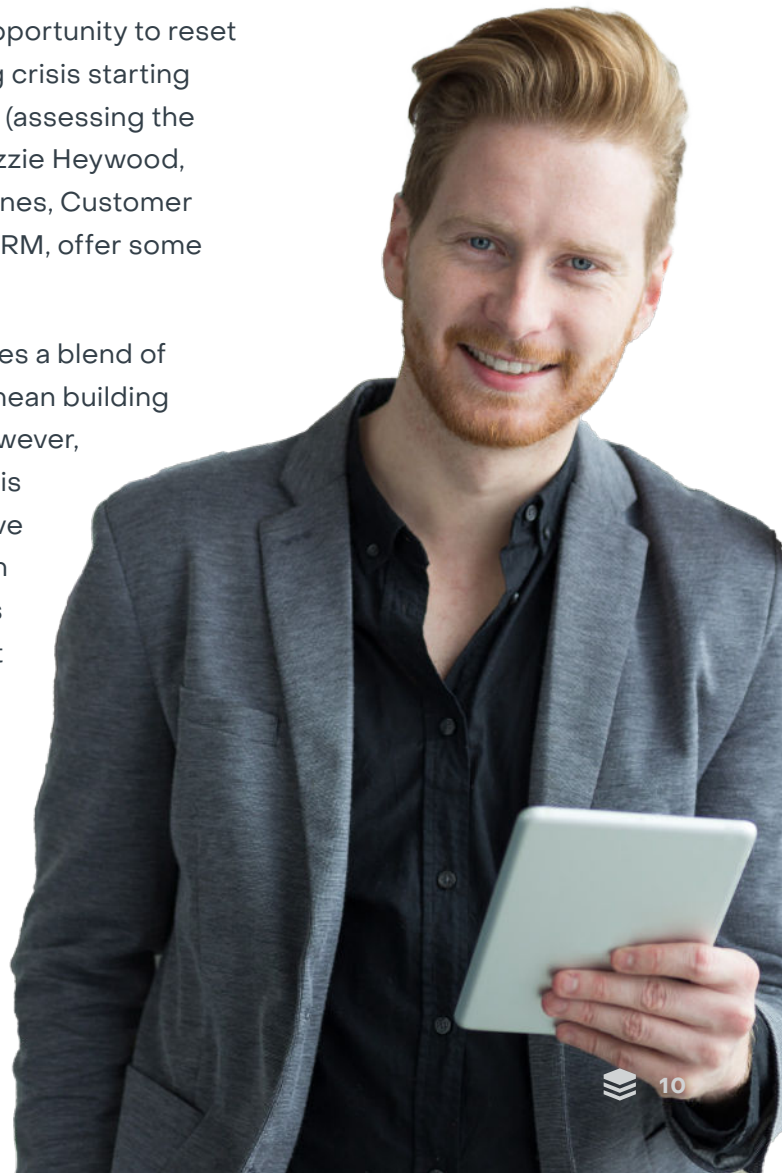
¹³) <https://cardealermagazine.co.uk/publish/how-much-profit-do-car-dealers-make-on-new-and-used-cars-heres-the-perception-versus-reality/225342>

¹⁴) <https://www2.deloitte.com/uk/en/pages/manufacturing/articles/the-changing-landscape-of-the-dealership.html>

Towards the Customer-first Dealership

The themes above have given car dealerships a unique opportunity to reset their relationships with customers. With the cost-of-living crisis starting to bite, they want honest advice on more than just the car (assessing the leasing market, for example). So there's no time to lose. Lizzie Heywood, Customer Success Manager at SugarCRM and Emma Haines, Customer Success Manager at one of Sugar's partners, Provident CRM, offer some advice.

Top of the list is getting to know the customer. This requires a blend of human and digital skills. Limited time and resources can mean building personal relationships with every client is a challenge. However, you can ensure that every interaction you have with them is meaningful and relevant. For example, the most destructive experiences are incongruent – e.g. when a customer with a recent problem suddenly also receives a sales call. Says Emma, "Try to record everything. And do it at the time, not at the end of the month. This will help to ensure whoever next picks up the phone or meets the customer at the front desk can at least have the last interaction to hand and act accordingly." In this simple way, good record-keeping feeds the human front end that customers love and which will be the heart of the customer experience that will support dealerships ongoing.



If you're struggling to cover those basics today, Lizzie suggests conducting a simple customer experience gap analysis: "Where are we now, and what do we need to do to close the gap? What information and processes do you need to get the right person in the right place at the right time saying the right things to make your brand's service offering outstanding when compared to the other buying opportunities that the consumer has these days?"

Of course, to achieve this, you need technology, but it must be carefully harnessed in the service of building out what will ultimately be rewarding face-to-face contacts. And that's quite special – there are plenty of end-to-end digital customer management tools in businesses where the ideal outcome is to handle customers without any human interaction. But the future of car dealerships is the opposite, and your Customer Relationship Management (CRM) strategy must put that customer contact at its heart. We know that, more than ever, customers are conducting their research

"Where are we now, and what do we need to do to close the gap?"

online – a recent YouGov survey found that 57% of UK customers read online reviews before ever considering a test drive¹⁵. So whatever your digital marketing efforts (emails to existing customers, online advertising, local outreach etc.), your CRM system must connect your digital touchpoints to nudge customers down the sales funnel towards those magical moments of personal contact. Says Lizzie, "A modern CRM system will enable you to put your customer at the heart of everything you do; and provides so much more scope and functionality

15) https://business.yougov.com/content/46570-what-are-the-websites-britons-use-to-research-buying-a-car-and-does-it-differ-by-car-type?redirect_from=%2Fcontent%2F8181-what-are-the-websites-britons-use-to-research-buying-a-car-and-does-it-differ-by-car-type



than using the traditional spreadsheets which many sales teams are used to. Your CRM system can be as complex or as simple as you need – this should be led by the evolving requirements of the business. But there is one crucial requirement: it must integrate with other systems: your marketing tools, your in-house phone and email systems, insurance marketplaces and finance services – so that when calls, emails or customers themselves come in, you get a rounded picture of the customer and services which will be relevant to them.”

It is also important to consider the value of an efficient, informative and intelligent CRM not just for your end customer but also for your company end users. The more value each of your associates sees in your CRM solution, the more they will use it, populate it, and in turn reap the rewards which then drive the customer intelligence which ultimately supports a high-definition customer experience.

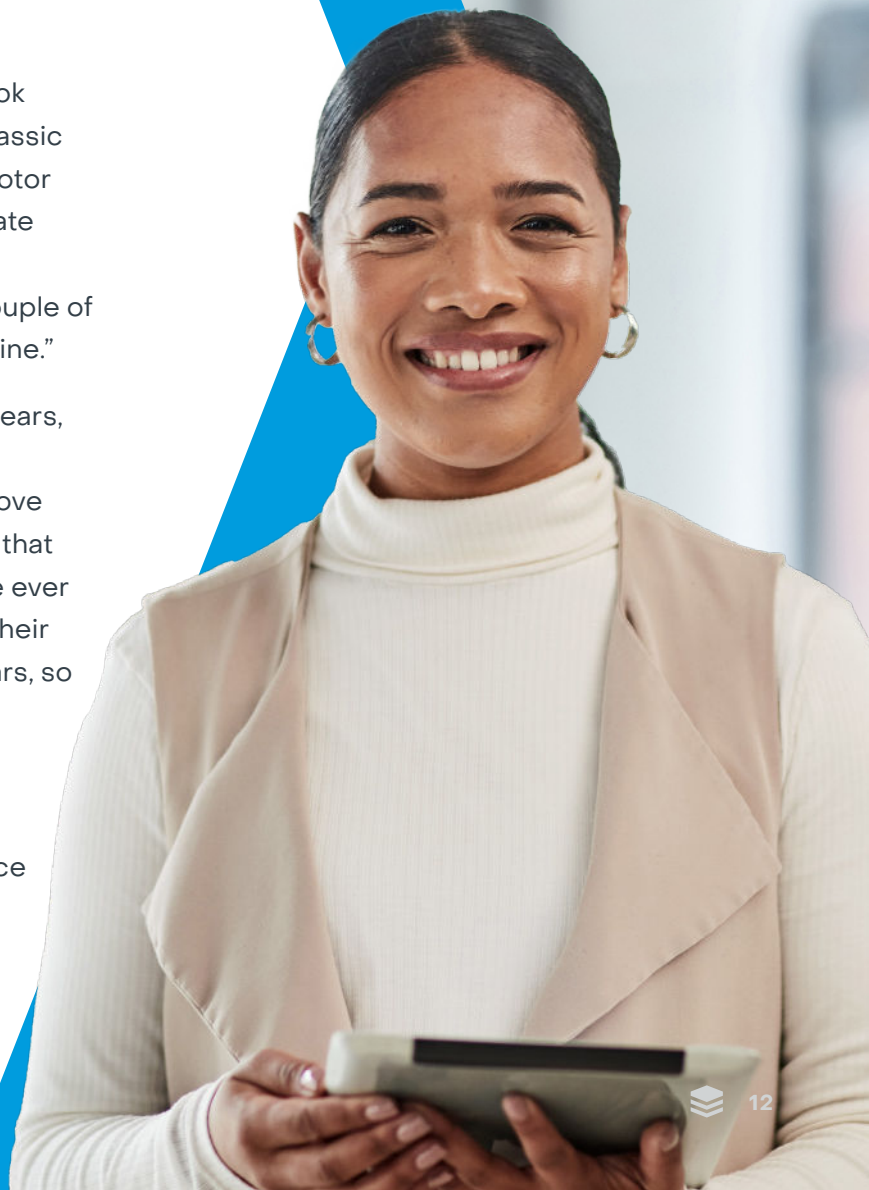
“And with the digital opportunity moving so fast, look for a CRM that will grow with you”, she adds. The classic ‘MOT reminder’ has been a jewel in the crown of motor marketing – imagine a world where you can automate contact activity to offer relevant services like paint protection or insurance, or to send an apology a couple of days after somebody has put a negative review online.”

Boston Consulting report that “Over the next few years, the boundaries between subscribing, renting, and leasing will become even more blurred”¹⁶. As we move to more subscription vehicle and add-on services, that opportunity to reach out to customers will become ever more salient. They might see a payment to you on their statements every month instead of every three years, so they need to feel valued.

As well as relevance and service, a further component of customer experience is seamlessness. “We all recall the grinding experience of signing endless forms in a Portakabin was such a hallmark of the old way of doing business”,

“And with the digital opportunity moving so fast, look for a CRM that will grow with you...”

— **LIZZIE H.**, CUSTOMER SUCCESS
MANAGER AT SUGARCRM



¹⁶) <https://www.bcg.com/publications/2023/the-rise-of-the-car-subscription-market>

says Emma. “That’s just not good enough today.” Customers want to see seamless and connected digital experiences where they only need to fill in forms once (after all, if the all-online providers can achieve it, so should you). “The right customer experience management will integrate with e.g. services like DocuSign, so that T&C paperwork can be truly one-and-done.”

None of this is hard to achieve – but it does need sponsorship. Lizzie says, “There needs to be, to some degree, a shift in expectations from leadership. They must prioritise customer success over the long term – which is a big ask in a world that has been dominated by the monthly and quarterly quota. Sales leaders need to say: this business is no longer about selling the heck out of everything, but understanding the lifetime value of the customer. To achieve that step change, a good start is to promote roles within the organisation responsible for driving forward a customer success strategy; so that that long term perspective has champions in the business.” Those roles and champions will come from several disciplines: sales, customer experience, governance and more.

“The right customer experience management will integrate with e.g. services like DocuSign, so that T&C paperwork can be truly one-and-done”

— **EMMA H.**, CUSTOMER SUCCESS MANAGER,
PROVIDENT CRM

“Some salespeople might need convincing”, says Lizzie. “But customer sentiment tells us it’s time to make these changes. And the financial benefits will soon become apparent. The modern dealership just needs to be customer-obsessed. If you’re worried about handling the torrent of change in the sector today, how about this for an opportunity: surely your customer is even more confused and ideally placed to need your professional assistance?”





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For more information about SugarCRM, visit www.sugarcrm.com.



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