

Navigating Automotive Industry Trends

FINDING A PATH TO OPERATIONAL PROFITABILITY

In 2018 it finally happened. 17.6 million cars were sold in the United States and dealers lost money.

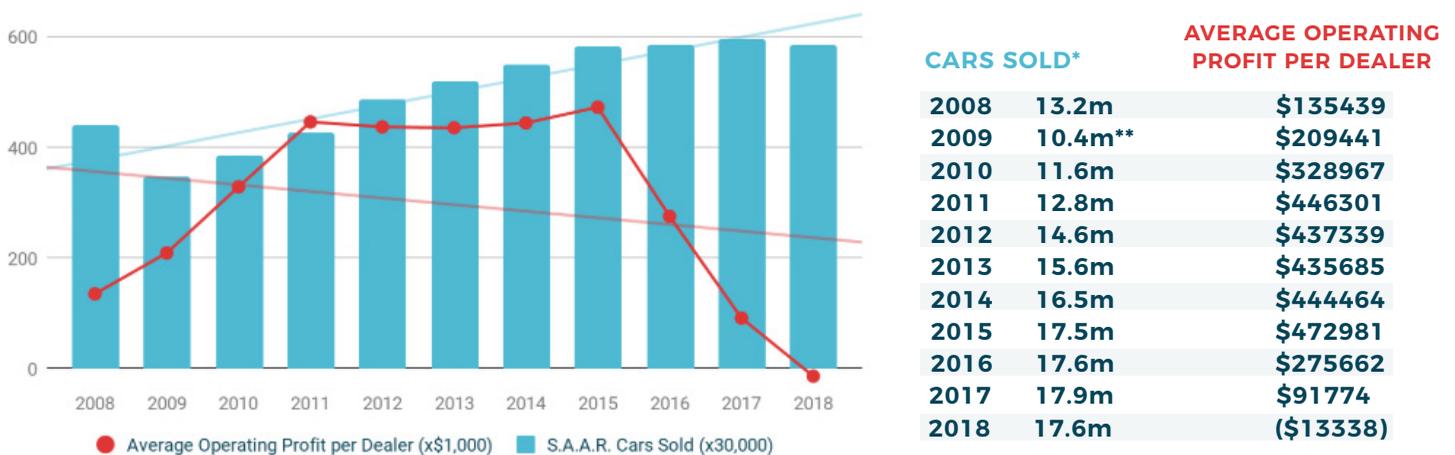
Dealers *lost* money. Manufacturer incentives provided net profit for many dealers, but not since 2009, during the worst year ever in the car business, have dealers lost money *operationally*. That year 10.4 million cars were sold; about 59% of current sales. How did the last 10 years lead us to today, where dealers are selling 7 million more cars and making less money? More importantly, what do we do now? In this whitepaper we dig into the data and provide suggestions on business practices that are critical to thrive in the next 10 years.

TREND 1: SALES DON'T EQUAL PROFITS

Dealers sold an average 16 million cars each year from 1999-2007. In those days selling cars meant operational profit. When the recession hit, both sales and profits both took a big hit. Customers put off car purchases as long as possible. During the recession the gap between historical average sales and actual sales shows that roughly 20 million less cars were sold 2009-2014. The recovering numbers from 2014 to today represent, in large part, deferred car purchases that customers just can't put off any longer.

Good news, right? Well, yes...for manufacturers. The last few years something shifted for dealerships. Sales held steady while operating profit dropped. Something has changed.

Car Sales & Average Dealer Operating Profit Trend Comparison



*Calculated using Seasonally Adjusted Annual Rate (S.A.A.R.)

**The industry fought hard to keep this from being even lower with aggressive "cash for clunkers" programs



TREND 2: SPOT ON PRODUCTS DON'T EQUAL PROFIT

Cars being produced today are the most customer friendly vehicles ever created. Engineers and designers are at the top of their game. Cars are safer, quieter, faster, more intuitive; soon they'll drive themselves. They know when you're tired, bored, too cold or hot. They're even designed to protect your pets. The product is spot on.

On top of that, manufacturers' marketing teams do extensive research to find out what emotional benefit customers want in a car. They spend millions to create compelling ads that leave us in tears, inspired to be our best, or otherwise emotionally invested in their product. The marketing is spot on.

If that isn't enough, there's data available that allows us to track and customize the customer's journey down the sales funnel. We can predict within days when a customer will visit the dealership. And when the customer actually shows up on the lot, all those billions of dollars invested in design, marketing, and behavioral intelligence come down to the experience the customer has with an individual, usually a sales person.

TREND 3: THE POWER OF ANXIETY

As a General Manager, I used to look at the stats and think how great it is that a customer visits 1.2 dealerships before buying a car. I believed it meant dealerships were doing a great job closing sales. I thought it meant I was in a "seller's market" and customers were so anxious to purchase their next vehicle they were just saying "yes" to the first option. I know better now, but looking back I was right about one thing: customers are anxious.

Anxiety is like a motorcycle. A motorcycle is perfect for a trip down highway 101 in the spring, but not very helpful for your daily commute in Seattle. Anxiety keeps you alive if you run across a bear in the woods, but shuts down parts of the brain used in complex decision making. And while most of us know when to take a motorcycle (43 degrees and raining? No thanks.), our primal brains don't always know when we're in a life threatening situation. Emotional or cognitively stressful situations often trigger an anxiety response even when it's counterproductive. Anxiety responses include, among other things, physical distress (fatigue, restlessness, sweating), cognitive irregularities (lack of concentration, racing or unwanted thoughts), and fight or flight behaviors (hypervigilance, irritability). I'm willing to bet this describes some of your customers.

Let's face it. We have a reputation that triggers anxiety in the very people we're in business to serve.

Customers are so anxious about the dealership experience that they take all action available to

minimize their time with us.

They research dealers with the best reviews and still show up defensive, expecting to be taken advantage of. They do their shopping and pricing online and arrive with the "deal" in their pockets ready to "get this over with" as quickly as possible. They tolerate the process with their armor up, show as little vulnerability as possible, and automatically say "no" to every option offered.

Like it or not, our industry has earned the reputation. Many customers will do all that work and still leave 3 hours later, beaten down and feeling taken advantage of, but at least with a car to show for it. They think they've survived the dealer experience only to have their salesperson call them a few days later begging for a perfect survey. Buying a car is supposed to be a joyful experience, but we've turned it into a thunderstorm on graduation day, a brussel sprout ice cream cone.

Auto & Light Truck Sales (S.A.A.R.) since 1999 (in millions)



Manufacturers: “We’ve recovered from the recession!”

Dealers: “Congrats on your chart. Why am I making less \$ than a decade ago?”

Customers: “I want the car, but I don’t want the fear, anger and shame I feel at the dealership.”

Disrupters: “Unhappy Customers + Internet + Lots of \$ on the Table = Opportunity.”

TODAY: A DISRUPTED INDUSTRY

In 2007 the first iPhone was introduced. Apple launched its app store in 2008. Smartwatches are everywhere. You can get a ride to the airport from your phone. The last decade has changed a lot, and it's catching up to dealers. Consider these changes from the last 10 years:

- Online reviews matter more: Google, Yelp, DealerRater, and Facebook ratings all have real effect on sales.
- Customers know more: Truecar and its competitors and the expectation that dealers will post prices online give price-sensitive customers the ability to choose a dealer based on a \$100 price difference.
- Manufacturers changed the rules: Dealers regularly lose money on each new car sold and rely on manufacturer incentives to show a profit.
- Next generation disruptors are getting a foothold: Carvana, Ebay Motors, Tesla, and others are making slow progress toward exploiting the weaknesses of traditional dealerships and building sustainable business models.

These trends and disruptions can make the future look grim. But there are reasons to be optimistic! In the next sections we'll explore opportunities on the horizon for dealers who embrace learning and are creative enough to win business in new ways.

OPPORTUNITY 1: LOYALTY IS CHANGING

While the age of connection has disrupted traditional business models, it's also ushered in the potential for customers to become more purposeful in their purchases. Manufacturer loyalty is fading. Purpose loyalty is growing. Buyers want to be associated with people and organizations that exist to do more than make money. Give a customer a reason to buy that's bigger than your pocketbook. If they share your values they'll gladly partner with you. A shared purpose leads to real relationships; customers who'll not only buy a car from you, but will slap on your bumper sticker and hashtag you on their way out the door.

Purpose is how you win real boosts in your Customer Service Index (CSI); not by calling and begging someone who feels you've dehumanized them to rate you a 10.

Here's an uncomfortable truth about the connected economy in which we live: If you're smart and work hard enough there are a million ways to make money. So why cars? **Dealers who do the hard work of really identifying why they are in the car business, and then the harder work of aligning all marketing messages and operations around that purpose, win back the jaded customers who keep the automobile industry at arm's length.**

Shared purpose turns customers into promoters. And isn't it exciting that in the age of loyalty to purpose rather than manufacturer customers are much more likely to put your dealership's logo on their car instead of Calvin taking a leak on a Chevy. Purpose is how you win real boosts in your Customer Service Index (CSI); not by calling and begging someone who feels you've dehumanized them to rate you a 10.



OPPORTUNITY 2: TEAM MEMBERS AND CUSTOMERS HAVE HIGH CULTURE EXPECTATIONS

Ten years ago the TV show Undercover Boss didn't exist, unemployment wasn't hovering at its lowest point since the late '60's, and millennials weren't the largest generation in the workforce. Business in every sector is wrestling with rising employee expectations. Employees

want to be valued team members who are working arm in arm with management to do work that matters. Similar to customers' desire to align with an organization that shares their values, employees want to be in places where what they believe about the world is valued, the workplace is fair, their managers support their success, and they get to participate in crafting and delivering strategy.

You can complain about rising employee expectations if you'd like, but the dealers who embrace the employees' new vision for work will reap the benefits of profitability by building teams whose interactions with each customer are authentic and aligned to the brand promise of the dealership.

Here's how it works:



PURPOSE: A clear and authentic purpose aligns the entire enterprise: marketing, operations, sales, service, facilities, communications & every team member interaction.

PEOPLE PRACTICES AND EXECUTION: Commitment to the purpose becomes unmistakable and consistent in services provided to team members. Team members are empowered to integrate the purpose into all interactions, operations & communication. Teams and individuals learn to execute projects & tasks effectively.

ENGAGEMENT AND LOYALTY: Purpose-driven people practices attract & retain team members who align with the purpose and are inspired to contribute above & beyond effort. Purpose-driven execution practices attract & retain the right consumers. These practices deliver authentic experiences to team members and consumers that inspire meaningful relationships & loyalty to the brand.

PERFORMANCE: Revenue grows. Retention improves. Team members are developed. The purpose is realized both inside & outside the organization.

OPPORTUNITY 3: THE NEED

I used to tell my salespeople that if they want to be reminded that the car business will be around years from now, just sit by a major road and count the cars you think are more than 10 years old. You'll be amazed by just how many are on the verge of retirement. The average car on the road is nearly 12 years old with over 120,000 miles on it. That's 2 years older than a decade ago. People are going to continue to need to buy cars for many years to come. One of the best ways that forward-thinking dealerships ensure their place in the future is to embrace the changing landscape of business and become more focused on the people and relationships required to be profitable. Their leadership teams. Their team members. Their customers.

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PURPOSE THAT DRIVES PERFORMANCE

Our purpose is to “Design Intentional Experiences that Drive High Performance Dealerships.” What that really means is that we exist to help dealers figure out why they exist. A few weeks ago I asked a dealer friend, “Why does your dealership exist? What purpose does it serve being on the planet?” After a minute of thought he said, “isn’t it to be profitable? Isn’t that the purpose of being in business?” My next question was, “Aside from money, why do you exist?” What followed was the most authentic conversation I’ve ever had with another car dealer.

Most dealers know that a higher purpose behind selling is important, they just don’t know how to make it happen, and already have too much on their plate just running the store.

Our passion is coming alongside leaders to help discover and implement a culture that’s more than a cheezy mission statement on the wall. Reach out if you’d like help designing intentional experiences that align all business activity to produce exceptional results.

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MIKE SHACKELFORD, PRINCIPAL, AUTO DEALERSHIP PERFORMANCE

Mike is a native Tulsan with an unequaled passion for influencing, motivating, mentoring and leading people. Mike applied his skills of supporting and developing people to become one of the most successful auto dealership General Managers in Southern California. After establishing the highest volume and most profitable Kia dealership in San Diego, Mike

became partner in an ownership group responsible for the operation of six stores. After an amazing run as an executive leader for more than a decade, Mike retired as a dealership owner/operator in January 2019, and now focuses on helping automotive dealerships create cultures that significantly improve performance by establishing differentiators that crush industry stereotypes.