In the New "Golden Age" for Automotive...

Where Are the New Frontiers for Dealership Profits?

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Earlier this year, the Boston Consulting Group published a bullish outlook on the role of technology and innovation in the U.S. automobile industry.

The report notes that manufacturers and top tier suppliers have invested heavily in R&D since the down-turn years of the recession. Volkswagen, for example, spends more on R&D than any company in the world – outpacing Samsung and Microsoft. And, overall, there are eight automotive companies in the top 25 companies worldwide in R&D spend.

Those investments have led to a slew of new models and innovation in vehicles, accompanied by an increase in vehicle quality – virtually across the board. And the pace of new model innovation and vehicle quality doesn't show signs of slackening.

Those factors certainly have been crucial in pushing sales of new vehicles steadily higher – with industry forecasts this year pointing to the 16+ million mark – and on track to hit levels not seen since before the recession.

Is this a new "Golden Age" for automotive?

It would appear so.

Yet, if you read between the lines, you start to see the profit pressures automotive *retailers* are under.

- In spite of that overall sales pace, the profit on new car and truck sales is *not* growing. And net, pretax profit as a percent of revenue was flat in 2013 at 2.2 percent, the same level as 2012.
- Service department profit has declined five of the last six years and is at 2005-2006 levels.
- F&I operations are increasingly under pressure – and scrutiny – from government regulators, including proposals to cap a number of traditional profit opportunities in F&I.
- Most analysts also see the industry's steady annual increase in vehicle sales reaching a plateau around the 16+ million vehicle mark – and staying there for the foreseeable future.
- Dealership throughput – the average number of sales per dealership – is also likely hitting the "top of the curve" in 2014 and will continue to slow until turning down in the next several years.
- Finally, the Department of Transportation notes that the number of miles driven per American peaked in 2005 and has declined by nearly 10 percent since then. That's never happened before. As

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a result, per capita automobile use now matches levels from the late 1990s. That means fewer opportunities for dealers to engage with automotive consumers.

When those industry trends are combined with added pressure from the changing habits of automotive shoppers, the influences of Gen Y, and the way other retail experiences are now being applied as a new standard for what to expect when buying and servicing a car, then it's no wonder dealers may be asking themselves: A Golden Age? Or the Age of Alchemy?

That's the paradox of the "New Normal" that dealers face.

Yet, in the "New Normal" there are tantalizing new profit frontiers for dealerships to conquer:

- If dealers can change *how work is accomplished* inside the four walls of the dealership;
- If dealers can change *how they reach and interact* with consumers;
- If dealers can change *how consumers experience* the dealership – anytime, anywhere – inside and outside the four walls.

To conquer those new profit frontiers requires the right technology, paired with the right processes to move the needle on dealership productivity and on delivering a seamless, frictionless consumer experience with the dealership.

While a number of those new frontiers are hidden in plain sight in a dealership's current operations, one new frontier is just over the horizon and it may hold perhaps the most profit potential that dealers have seen since adding the F&I department 40 years ago.

To bring that new profit frontier into clearer focus, simply look at the floor of the car. Look at the windows, the paint, even the trim.

That's the new profit opportunity to conquer: Accessories.

Accessories: The New Frontier for Profit

Consumers spend roughly $40 billion a year on vehicle accessories – everything from floor mats, window tint, and custom paint and trim to remote starter systems, interior illumination, video screens, and DVD players.

- 9 out of 10 consumers purchase accessories for their vehicles.
- 6 out of 10 consumers spend at least $1,500 on accessories.
- The majority of consumers buy accessories within the first 90 days of purchasing their vehicle.

- The majority of consumers also prefer to buy accessories at the dealership – yet fewer than five percent do.

Even though accessories are a hot commodity in the eyes of most consumers, most dealers don't see accessories the same way and haven't lined up to sell them.

Why not?

What's Wrong with this Picture?

Like a lot of untapped business potential, dealers typically have lacked the right technology and the right processes to effectively market and sell accessories. As a result, there is an overall perception that some dealers have "been there, done that" with accessories sales, and it's been a high-hassle, low-return effort.

And there's something to that.

After all, the accessories business has been highly fragmented – with suppliers and retailers ranging from the original equipment manufacturers and 3Ms of the world to the mom-and-pop shop down the street from the dealership.

Information from accessory suppliers and distributors is also fragmented and typically only available to dealers or consumers on different media and on different platforms – which are not connected.

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For too many dealers and consumers, trying to make sense of the accessories world has been like trying to navigate the Internet without Google search: That's the vast untamed world of accessories. It's a confusing universe of fragmented information, products, colors, sizes, suppliers, prices, and installers. Without the right technology and processes – a seamless, cohesive ecosystem of accessories products and suppliers – it's been virtually impossible to navigate and make sense of the accessories frontier.

Looking back, the right technology tools have *not* been available nor has the process expertise to properly incorporate accessory sales into dealership operations.

Looking ahead, however, with the right technology and processes – the ones that link together manufacturers, suppliers, dealers, and consumers – accessories becomes a new frontier for profit that dealers *can* bring into the dealership and conquer.

Conquering the New Frontier of Accessories

The most recent *Auto Accessories Trend Report* for 2013 looked at a sample of 150 dealerships that have adopted new technology in selling accessories. Those dealerships sold more than half of the

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customers presented with accessories. And, in aggregate, the 150 dealerships sold more than $63 million in accessories across two dozen vehicle brands in 2013.

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The *Auto Accessories Trend Report* concludes this way: "The days when consumers walked into a dealership with just standard options packages in mind are long gone – the ideal combination of options and features no longer exists. That means accessory offerings from dealers have become more important, as have the tools that help consumers navigate the almost limitless number of options."

Dealers invest a considerable amount in reaching consumers, capturing their interest, and engaging them in purchasing a vehicle. Why not take that next step and offer them accessories – and claim a new profit stream for the dealership?

- First, find the right technology that delivers an accessories ecosystem in one seamless experience; a technology that *dealers* can use to market and sell accessories and that *consumers* can use to visualize accessories on the specific vehicle – make and model – the consumer is purchasing.
- Second, find the right process insights to change how work is done in the dealership to make the most of the technology to sell accessories.
- Third, combine both the technology and the processes to redefine how consumers experience the dealership – and how they buy accessories.

In this new "Golden Age" of automotive, that's how dealers can conquer a new frontier in profit.

Visit ***reyrey.com/AddOnAuto*** to read more about how the automotive industry is changing.

Ron Lamb is president of the Reynolds and Reynolds Company. He was named to that position in October of 2010. Prior to being named president, Lamb was senior vice president of Sales and responsible for all sales of Reynolds systems and related applications in the United States. Throughout his career at Reynolds, Lamb has held a variety of leadership positions in sales and marketing. Lamb holds a bachelor's degree in politics from Princeton University and a master's in business administration from Loyola University in Baltimore.

Acknowledgements:

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