TIMEWP14

November 2014

It's About Time: Streamlining In-Store Processes to Improve the Customer Experience

Cox Automotive™

Dealers create important experiences for car shoppers every time those shoppers come into contact with the dealership – whether shoppers are online looking at inventory, reading a customer review, walking onto a dealer's lot, or interacting with sales personnel. In all scenarios, shoppers are demanding a better experience and are bypassing dealers who don't deliver it. In fact, car buyers are considering fewer dealerships today than they were ten or even two years ago.[1]

Maintaining high performance across all facets of the dealership experience is therefore essential to the automotive business, not only for closing a sale today but also for creating loyal customers who keep coming back. **This white paper focuses on one of the most critical aspects of the dealership experience: time spent in store to complete a sale.**

According to the *2014 IHS Automotive Buyer Influence Study*, 55% of New car buyers and 57% of Used car buyers experienced frustration during the vehicle purchase process, largely due to the amount of time it took to negotiate a purchase price and complete the sales process *(see Diagram A).*

An AutoTrader.com study further revealed that customer satisfaction is highest within the first 90 minutes at the dealership.[2] **However, as the amount of time a customer spends at the dealership increases, customer satisfaction with that dealer is likely to decrease.** The first sign of declining customer satisfaction occurs at the 1.5-hour mark and continues to decline significantly from that point on. Satisfaction dips below the average at the 2.5 hour mark (see *Diagram B).*[2]

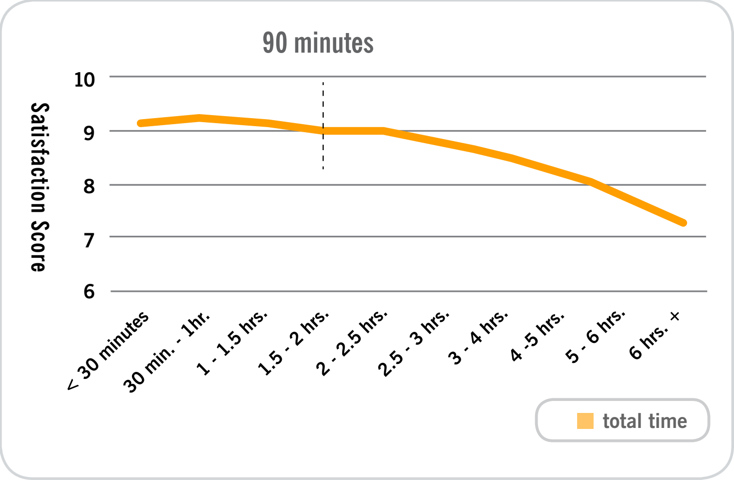
To better understand the disconnect between customer expectations and the dealership experience, as well as areas of opportunities where dealerships may better align their in-store processes with customer requirements, AutoTrader conducted an analysis of four disparate dealerships to document a baseline of dealership processes and cycle time to help identify strategies that can create a competitive advantage.

The analysis revealed that, regardless of the different tactics employed within their unique demographic target areas, **all four dealerships in the study were unable to meet a 90-minute objective when it came to customer cycle time** *(see Diagram D).*

TOP 5 CAR BUYER FRUSTRATIONS[1]

Diagram A

AVERAGE DEALER SATISFACTION VS. TIME SPENT AT DEALERSHIP[2]



Customer Satisfaction is highest within the first 90 minutes at the dealership and declines from that point on.

Diagram B

FOUR DEALERSHIPS, FOUR PHILOSOPHIES

For the purposes of the study, four geographically and demographically diverse dealerships participated in the analysis:

DEALER 1 is a traditional franchise dealership located near a southeastern U.S. city with a population of over four million. They focus on inventory turn and "us versus them" sales tactics.

DEALER 2 is a volume-based commission dealership in the northern Midwest near a population of over three million. This forward-thinking dealership strives to reduce customer cycle time and focuses on the customer experience.

DEALER 3 is a forward-thinking dealership in the Northwest near an urban area with a population of over 600,000. They focus on the customer experience as well as customer in-store cycle time. They maintain transparency in some, but not all, of their processes.

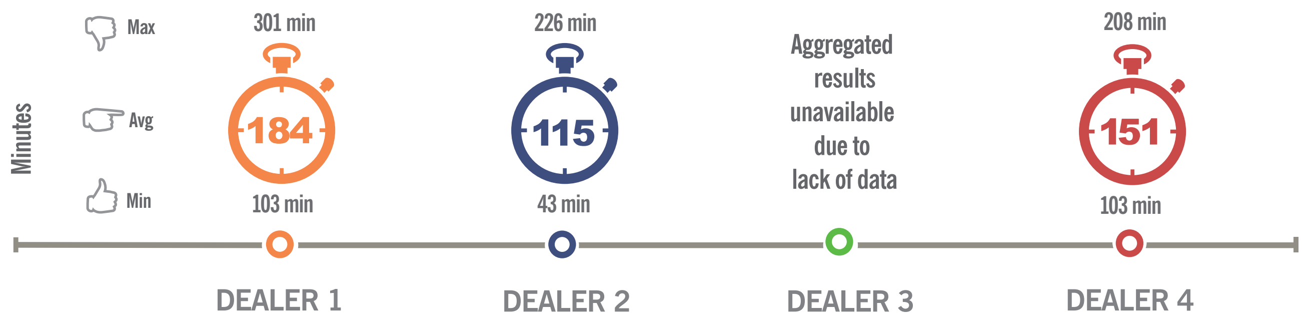
DEALER 4 is a lean dealership augmented by a used-vehicle wholesale business. Located in a Midwestern city with a population of over 800,000, they serve as a test environment for innovations that focus on improving the customer experience.

The analysis documented actual cycle time across key dealer processes from post-vehicle selection to pre-delivery of vehicle *(see Diagram C).* Furthermore, the relative position of each dealership was assessed and represented on a scale from "Traditional" to "Leading" *(see page 8)*, as well as future strategies and tactics that could improve the customer experience.

Diagram C

The time study documented the current state of dealer processes and focused on three specific areas: A) Vehicle Sales, B) Appraisals, and C) F&I. The ideal total cycle time for these areas is 90 minutes combined, while the actual average time ranged from 115 to 184 minutes. Note that the time study began <u>after</u> buyers made their vehicle purchase selection.

TOTAL CUSTOMER CYCLE TIME



Despite their geographic, demographic and strategical/tactical differences, none of the four dealerships consistently meets their desired customer cycle time of 90 minutes.

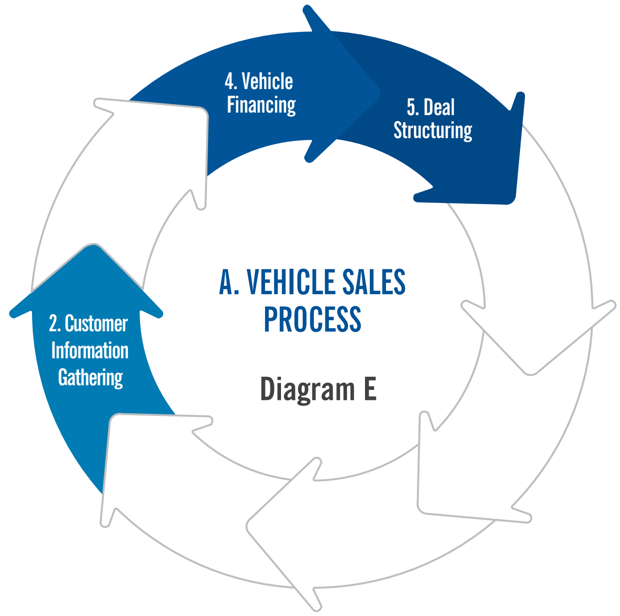
Diagram D

TIME STUDY: VEHICLE SALES PROCESS

The vehicle sales process portion of the time study was conducted from the point at which the customer made the decision to purchase a vehicle and extended through the customer's entry into F&I activities *(see Diagram E).*

The average time to complete the vehicle sales process across all four dealerships was nearly 53 minutes – more than half the desired ideal total customer cycle time of 90 minutes *(see Diagram F).*

The factors affecting the length of the vehicle sales process can be broken down into three primary categories: **People, Process and Technology.**



The vehicle sales process included Customer Information Gathering, Vehicle Financing, and Deal Structuring.

VEHICLE SALES PROCESS CYCLE TIME

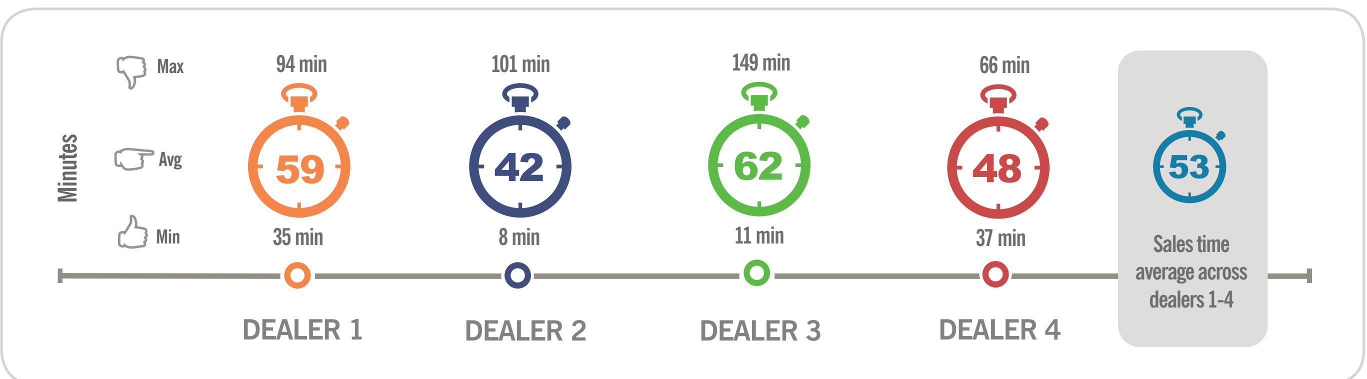


Diagram F

People

- The vehicle sales process varied in length depending on customer behavior and preparedness.
- Multiple personnel handoffs and a lack of adequate communication between sales representatives and sales managers throughout the vehicle sales process extended customer wait times.
- Gross vs. volume-based dealership models affected customer time at the dealership with volume-based dealers having faster in-store times.

Process

- Vehicle pricing negotiations caused re-working and process step repetition that extended customer time at the dealership. **Negotiation** took an average of 21 minutes and a maximum of 41 minutes, making it potentially the most time-consuming variable in the vehicle sales process.
- Providing the ability for customers to perform administrative aspects of sales process upstream (e.g., online) may reduce the amount of time customers spend in the dealership.

Technology

- Using a combination of paper forms and software to perform sales functions created inefficiencies that extended cycle times.
- A lack of streamlined software integration between credit application systems, dealer management systems, desking systems and F&I systems caused time-consuming repetition of tasks.
- The inability to uniformly capture and push customer and vehicle information into downstream systems caused duplicative information capture that extended cycle times.

TIME STUDY: VEHICLE APPRAISAL PROCESS

The vehicle appraisal process time study was conducted from the notification of the customer's intention to sell their vehicle through the delivery of payment to the customer *(see Diagram G)*.

The average time to complete the appraisals process was 43 minutes, nearly half of the total desired customer cycle time of 90 minutes *(see Diagram H).*

Like the vehicle sales process, the factors affecting the length of the vehicle appraisal process can be broken down into three primary categories: **People, Process and Technology.**

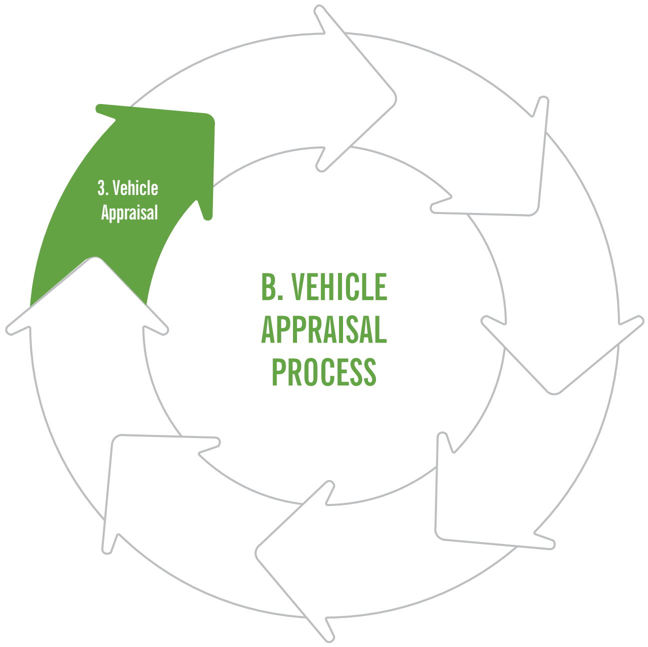


Diagram G

The vehicle appraisal process included appraisal only.

People

- Customer wait time was increased by the involvement of multiple appraisers using multiple paper forms and software systems.
- Cycle time was increased when appraisal tasks were handed off from sales representatives to appraisers.

Process

- Trade-in pricing negotiations caused re-working and process step repetition that extended customer time at the dealership. Negotiation took an average of 16 minutes and a maximum of 39 minutes, making it a significant time-consuming variable in the appraisal process.
- Gathering customer and vehicle information took the longest average amount of time (18 minutes) in the appraisals process.
- Providing the ability for customers to perform administrative aspects of the appraisals process upstream (e.g., online) may reduce the amount of time customers spend in the dealership.

Technology

- The use of multiple software systems in the valuation process increased customer wait time.
- Customer cycle time was extended when the dealership had no electronic notification that an initial appraisal had been completed and a secondary, more detailed appraisal was the next step required.

VEHICLE APPRAISAL PROCESS CYCLE TIME

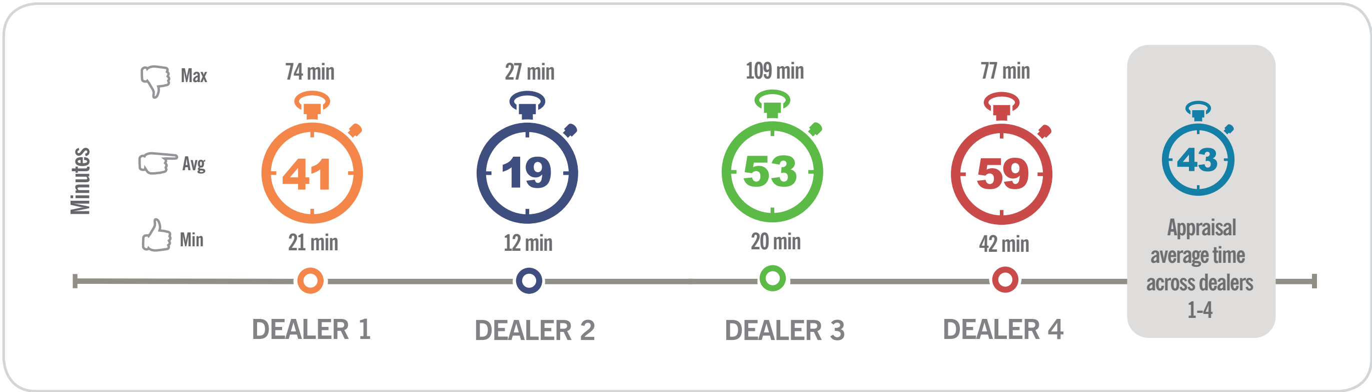


Diagram H

TIME STUDY: F&I PROCESS

The F&I process time study was conducted from the point at which the F&I manager began processing the deal and extended through the completion of the vehicle purchase paperwork *(see Diagram I).*

The average time to complete the F&I process was nearly 61 minutes – two-thirds of the desired length of the ideal total customer cycle time of 90 minutes *(see Diagram J).*

Like the sales and appraisal processes, the factors affecting the length of the F&I process can be broken down into the three primary categories: **People, Process and Technology.**

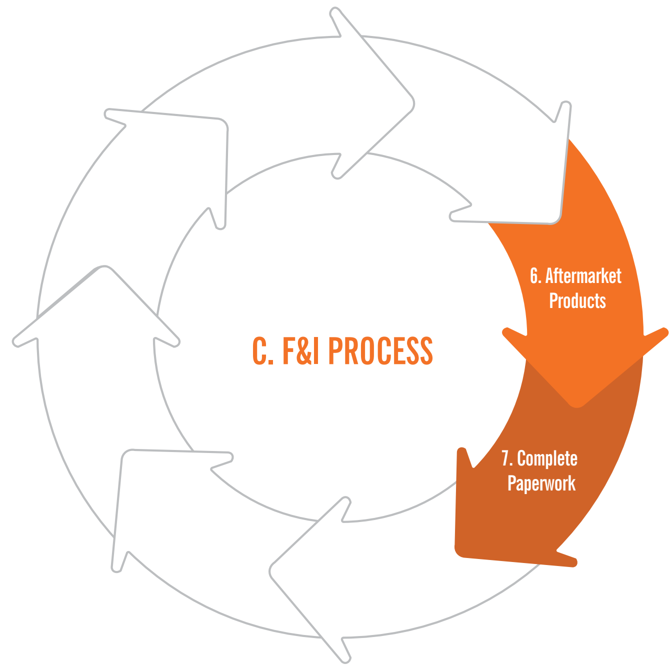


Diagram I

The F&I process included the aftermarket product pitch and completing all necessary paperwork.

People

- The F&I process can vary in length depending on customer behavior, the customer's knowledge of the process, and the dealership's strategy (e.g., wearing down customers versus working collaboratively).
- Customer cycle time was increased when F&I tasks were handed off from sales representatives to an F&I manager.

Process

- F&I cycle time was increased when the dealership was required to act as the "middleman" during multiple communications between the customer and the lending institution.
- Customer time at the dealership was increased due to lack of electronic notification that the deal was ready to be processed by F&I, or that the F&I process was complete.
- The F&I process is lengthened by requiring signatures on multiple paper forms (e.g., federal, state and dealership contracts, titles, power of attorney forms, etc.). Filling out these forms took an average of 21 minutes and a maximum of 44 minutes, making it a significant time-consuming variable in the F&I process.
- Customers were often unaware of the F&I aftermarket pitch. Educating the customer and allowing them to reach a decision during the aftermarket pitch took an average of 28 minutes, making it the longest step in the F&I process.

Technology

- Lack of streamlined transfer of information between systems caused duplicative data entry (e.g., aftermarket menus were separate from the dealer management system).

F&I PROCESS CYCLE TIME

Diagram J

Top Reasons for Inefficiencies	Potential for improvement
1) Negotiations	Increased Transparency and Facilitate Trust; Use a Limited Negotiation or "One-Price" Strategy
2) Administrative Tasks and Wait Time	Lift and Shift Administrative Tasks Upstream; Provide Customer "Self-Serve" Options
3) Fractured Software Environment	Focus on Integrated Software Solutions

Diagram K

CONCLUSIONS

Time studies of the vehicle sales, appraisals and F&I processes not only revealed top reasons for inefficiencies and the potential for improvement *(see Diagram K),* they also illuminated the current dealership landscape and identified trends that will define the future state of dealership operations.

The Present

In the current dealership landscape, a lack of transparency during customer interactions with sales and F&I personnel often results in distrust and causes many customers to feel intimidated. The non-linear and complex sales process is rife with potential deal-breaking decision points. Additionally, dealerships often rely on a wide variety of disparate systems to run their businesses (e.g., CRM, inventory management, credit, appraisals, finance, titling, etc.). Making all of these systems function efficiently together is often difficult and requires duplication of tasks that increases process time and can negatively impact the customer experience.

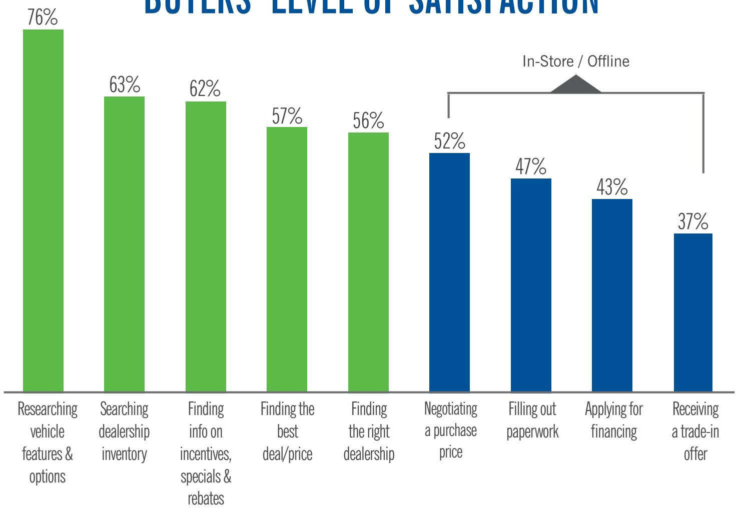
The Future

While the activities may be the same, the process will look different. Ideally, dealerships of the future will use singular end-to-end systems that streamline the vehicle sales process by more thoroughly integrating online and in-store activities. This integration should be designed to give autonomy and transparency to the customer while minimizing the often stressful time customers spend in-store.

Research shows that consumers are most satisfied with shopping activities that largely take place online. Once customers reach the offline stages of the car-buying process, satisfaction numbers start to decline significantly *(see Diagram L)*. An integrated system that more effectively bridges the online and offline aspects of the car-shopping experience could provide consumers with a positive dealership experience that can contribute to improved Customer Satisfaction Index (CSI) scores.[2]

Future dealerships can further positively impact the customer experience by striving to provide a single point of contact for the customer throughout the sales process, by implementing an efficient standardized process where most activities occur offsite, and by ensuring that major customer decision points occur as close to the initiation of the sales process as possible *(see Diagram M).*

BUYERS' LEVEL OF SATISFACTION[3]



Car buyers report lower satisfaction with car-shopping activities that traditionally have occurred in the in- store environment.

Diagram L

Traditional	vs Future State
Multiple dealership employees interact with the customer	One salesperson leading the customer
Process variation	Process standardization within and across multiple mediums (e.g., customer self-serve in-store or online)
Majority of activities occur onsite	Majority of activities occur offsite
Potential process-ending decision points (e.g., credit checks) occur near the end of the process	Potential process-ending decision points occur near the start of the process
Systems support the process	A system dictates the process
Multiple systems do not interface with each other	An integrated end-to-end system ensures maxium efficiency
Maximize the profitability of each deal	Maximize customer satisfaction/reduce cycle time

Diagram M

DEALERSHIPS RANKING

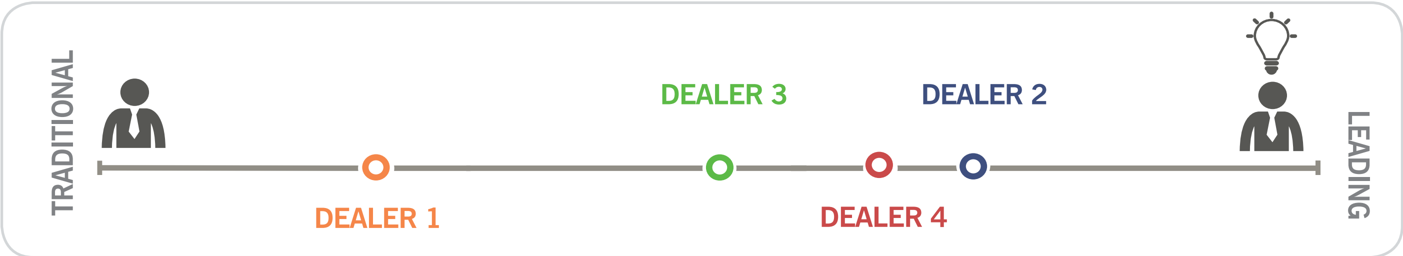


Diagram N

FROM TRADITIONAL TO LEADING: HOW THE DEALERSHIPS RANKED

In addition to documenting customer cycle time across key dealer processes, the in-depth examination of dealership operations revealed the relative position of the four dealerships as represented on a scale from "Traditional" to "Leading" *(see Diagram N).*

Traditional dealerships are defined as those that rely less on technology, strive to conduct their sales process primarily in-store, and focus on gross-maximizing sales tactics. Conversely, leading dealerships are defined as those that embrace technology, strive to take advantage of combining online and offline processes, focus on reducing cycle time, and foster greater transaction transparency to ensure long-term viability in the marketplace.

DEALER 1 was ranked as the most traditional dealership in the study. Their reliance upon separate CRM, appraisal, desking (credit and DMS), titling and aftermarket menu systems and multiple hard-copy worksheets caused significant increases in cycle time. While Dealer 1 was willing to conduct offsite transactions through their Internet Department, their available self-serve options were not user-friendly and therefore required the customers to complete the sales process in the store. Negotiations consumed an average of three hours, largely as a result of a culture that is less concerned with cycle time and more concerned with maximizing profit on each deal. Customers typically had to interact with a sales representative, a sales manager and F&I personnel. The physical layout of the store is based on traditional boundaries that foster a lack of transparency (e.g., management is concealed on a raised platform, F&I is located in back offices).

DEALER 3 ranked squarely in the middle between "Traditional" and "Leading." Like Dealer 1, their reliance on separate CRM, appraisal, desking and aftermarket menu systems negatively impacted cycle time. Multiple hard copy forms, including a customer sheet, deal jacket and credit application, further lengthened the process. Dealer 3 discourages online/offsite completion of buying process steps and offers customer self-serve options only under extenuating circumstances. However, unlike Dealer 1's negotiation-centric philosophy, Dealer 3 strives to maintain a standardized "one-price" process and promotes a culture focused on reducing cycle time. Placing the sales representatives and managers in equally accessible cubes on the showroom floor creates a physical layout that is more conducive to conveying transparency than Dealer 1's layout. However, F&I personnel remain in back offices.

DEALER 4 was ranked as more "Leading" than "Traditional" in the study. While their reliance on disparate systems added to customer wait times, Dealer 4's automation of some tasks has allowed them to eliminate most hard copy forms. Customer self-serve options are currently unavailable, but their process was more efficiently standardized than the two more traditional dealers on our scale. Dealer 4 negotiates on the trade-in vehicle only. Sales representatives, managers and F&I personnel share the sales floor and customers do not have to relocate to complete different steps in the sales process. The dealership fosters a culture dedicated to improving the customer experience by building trust and transparency. A trade-appraisal program encourages sales personnel to focus on customer satisfaction rather than volume or gross profit.

DEALER 2 was ranked as the study's most "Leading" dealership. Like the other dealerships in the study, Dealer 2's reliance on disparate systems for CRM, appraisal, desking, etc., lengthened customer cycle time. The dealership still uses some hard copy forms such as a customer data sheet, deal jacket, and credit application. Customers are encouraged to complete the sales process in-store, although self-serve options are available. However, their no-negotiation pricing strategy increases customer satisfaction and the dealership fosters a culture devoted to reducing cycle time and promoting trust and transparency. Most personnel reside openly on the sales floor, including the GM. Their highly standardized process takes an average of less than two hours to complete.

Leading Dealership Best Practices

Moving from traditional dealer operations to leading dealer operations will require a seismic cultural shift affecting a dealership's people, processes and technology. In order to transform, dealerships will require investments in:

- Hiring, training and coaching personnel
- Reviewing and improving internal dealership processes, operations, and technology
- Informing, training, incentivizing and marketing new operational capabilities to the customer

Industry-leading future dealerships will:

- **Complete customer transactions within 90 minutes** as opposed to requiring customers to spend longer hours in the dealership.
- **Use a single end-to-end system** instead of multiple systems that do not interface across sub-processes.
- **Automate and streamline the process** instead of using manual forms to transfer information.
- **Maximize customer self-service availability and reduce cycle time** by promoting the use of different mediums to complete process steps offsite (instead of mandating that the process be completed end-to-end onsite).
- **Offer fixed prices** with little or no negotiations as opposed to including haggling as part of the process.
- **Emphasize a culture focused on customer satisfaction by reducing cycle time** as opposed to being relatively unconcerned about how long customers are onsite.
- **Have a single sales representative guide the customer** from start to finish as opposed to having the customer meet with several different people throughout the process.
- **Have a store with a physical layout that conveys transparency** to the customer (e.g., personnel remain on the sales floor as opposed to having a showroom filled with offices that can be intimidating).
- **Foster transparency and trust** with the customer as opposed to maintaining artificial barriers designed to keep dealership information confidential.

Driving Innovation: The Role of Cox Automotive

Cox Automotive is committed to furthering the evolution of dealership operations through analyses/diagnostics, prescriptive recommendations, sharing best practices and benchmarks, and promoting understanding of the relative benefits of specific improvement efforts. Most importantly, Cox Automotive will continue to develop products and platforms that drive dealership systems integration, improve sales process efficiency, enhance dealer profitability and increase the customer satisfaction on which the industry ultimately depends.

About Cox Automotive

Cox Automotive is a leader in vehicle remarketing services and digital marketing and software solutions for automotive dealers and consumers. Cox Automotive, a subsidiary of Atlanta-based Cox Enterprises, includes Manheim, AutoTrader.com, Kelley Blue Book and a host of global businesses and brands serving customers such as auto dealers, manufacturers and financial institutions. Headquartered in Atlanta, Cox Automotive employs nearly 24,000 employees in over 150 locations worldwide. We partner with more than 40,000 dealers and touch over 67 percent of all car buyers in the U.S. with the most recognized brands in the industry. We unite over 20 brands in this space, providing an end-to-end solution to transform the way people buy and sell cars every day.

Industry-leading dealerships will be able to complete the entire sales process within 90 minutes.

NOTES

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Sources: [1] 2014 IHS Automotive Buyer Influence Study [2]AutoTrader.com Dealer Customer Sourcing Studies, March 2014 [3]2012 Morpace/AutoTrader.com Dealership Experience Study