

CDK GLOBAL®

2023

Trendsetter's Guide to Automotive Retail

CONNECTIONS THAT MOVE YOU

Digital Sales / CRM / F&I / Fixed Operations / DMS / IT Solutions / Intelligence

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The Predictable Unknown

If there's one constant in the automotive retail industry, it's that there's always an unknown lurking around the corner. And unfortunately, it's never the same unknown rearing its head. Yet, car dealers have persevered — and thrived — despite these repeated challenges.

As we prepared for this year's study, we certainly knew one previous unknown that we would have to investigate: the rapid rise in interest rates. How would this impact on affordability change operations, sales and more at the dealer level? Questions about inflation and recession fears were also added to address the economic concerns that have been hanging over every part of the economy for many months.

In last year's study, we focused on how Trendsetting dealers had taken some of the pivots spurred by the pandemic and made them permanent parts of their business. Many of those specific needs are in the rearview mirror, but two issues in particular have long outlasted the original need for touchless delivery.

“We’ve had to adapt to the volatility of the market. Between inventory shortages, vehicle market pricing and a depressing economy, we’ve had to adapt quickly.”

– Trendsetter, 3-5 rooftops, Missouri

Inventory and Interest Rates

The top challenge in the past year for all surveyed was managing supply chain-driven inventory disruption, with 68% of those surveyed saying it was very or extremely challenging. This was true across Sales, Service and Parts departments.

Concern over volatile interest rates came in second at 43%. But here there was a clear difference in which parts of the business found

it very or extremely challenging. Operations ranging from Sales to F&I to BDC ranked it much higher at 52% than Fixed Ops at 34%. That’s due to a stark uptick in monthly payments with higher rates factored in. Car shoppers focus on that monthly number as they look to fit a car purchase into their home budget.

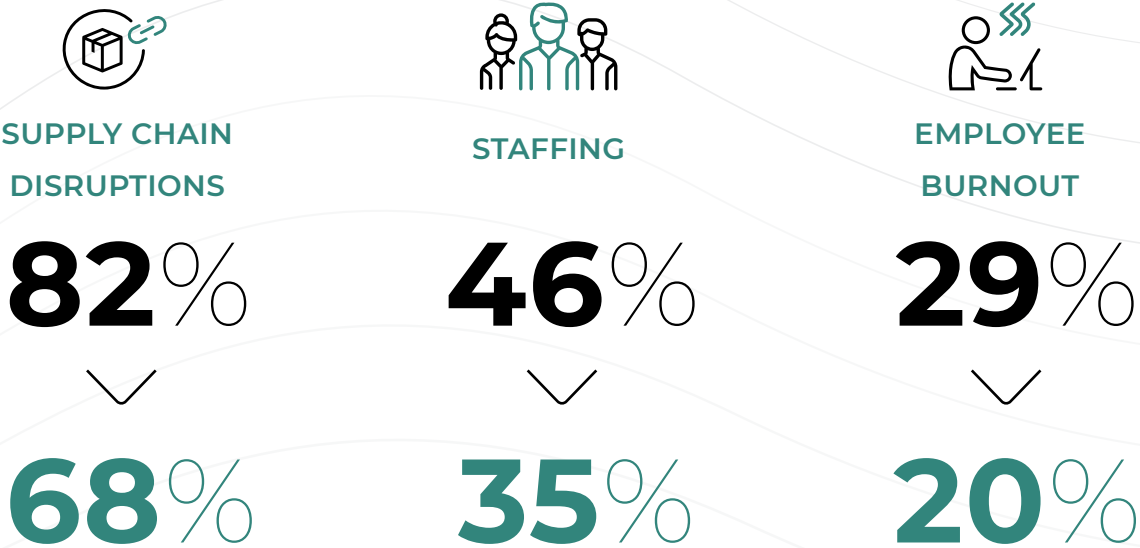
“The economy has been very unpredictable. Due to high interest rates, the monthly payments for customers have gone up and they’ve started to take retail loans...resulting in losing out on loyal customers.”

– Non-Trendsetter, 1-2 rooftops, Massachusetts

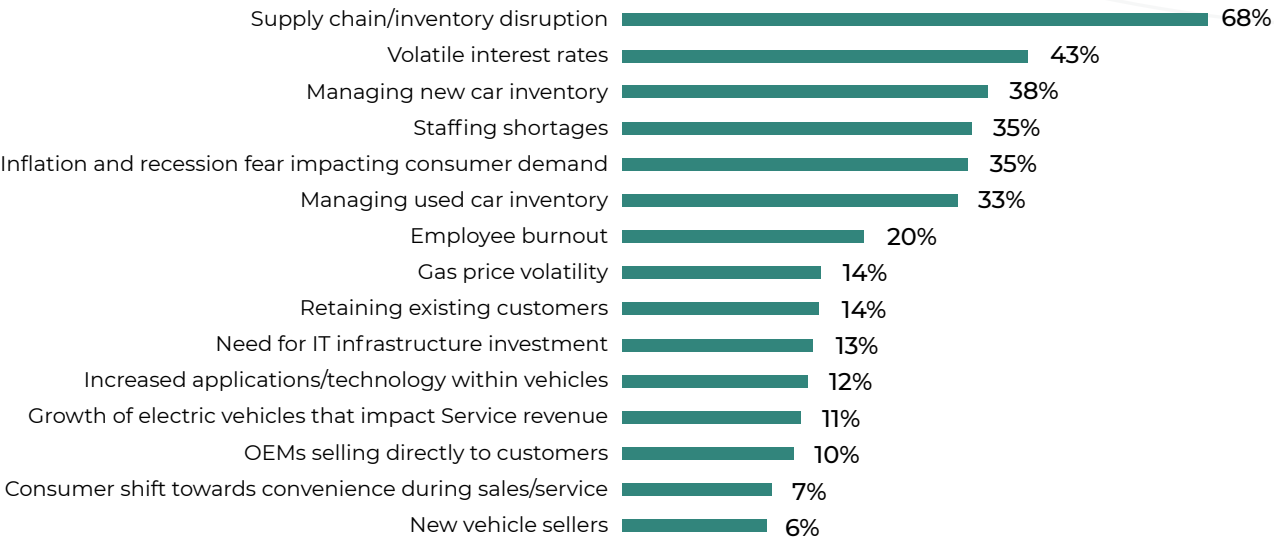
Dealers have been using all means available to secure new and used inventory the past few years, but they continue to struggle with sourcing. Managing new car inventory ranked third in terms of challenges, and managing used inventory trailed slightly at 33%.

The most positive finding in this year’s study was that these top concerns were markedly less challenging than in 2022. Last year, an overwhelming 82% of respondents found supply chain disruptions challenging compared to this year’s 68%. Other areas also fell, including staffing shortages and employee burnout.

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Key Challenges in the Last 12 Months (2022)



Respondent Demographics and Survey Breakdown

Dealership Role

72%

Department Heads

28%

Executive Leadership

311
total respondents

Dealership Location

76% United States

24% Canada

16% Rural

42% Urban

38% Suburban

4% Prefer not to say

Dealership Size

34% 1-2 rooftops

24% 3-5 rooftops

11% 6-10 rooftops

7% 11-15 rooftops

20% 16 rooftops or more

4% Prefer not to say

New And Used Monthly Sales Volume

11% Less than 50 units

31% 51-100 units

39% 101-250 units

13% 251-500 units

6% More than 500 units

1% Prefer not to say

Trendsetters Carve an Even Clearer Path

When we surveyed dealers in the U.S. and Canada, we wanted to clearly identify those most likely to try new tactics across their operation. Nearly half of respondents (49%) categorized themselves this way. This significant number is intriguing and illustrates just how forward-thinking the automotive retail industry truly is.

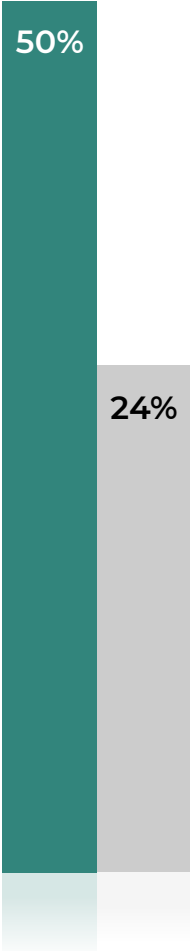
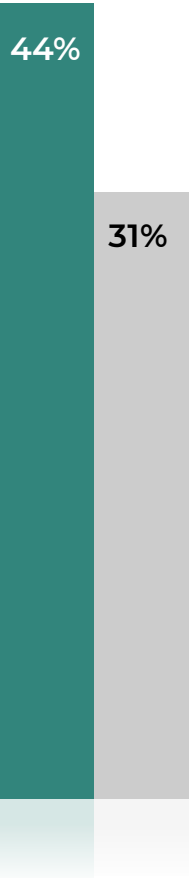
These Trendsetters overwhelmingly applied a variety of changes to their operations to meet the moment compared to the other half of dealers we surveyed.

This was true whether it was a broad change, like transitioning from traditional sales tactics to improve the buying experience, or a specific change like using photos and videos to estimate Service recommendations.

Non-trendsetters only over indexed against their more forward acting colleagues in two areas, reducing costs and changing their pricing strategies.

Transition from traditional sales to focus more on improving the vehicle buying experience

Use photos and videos to estimate Service recommendations



Trendsetters
Non-trendsetters

Technology Is a Trendsetting Divide

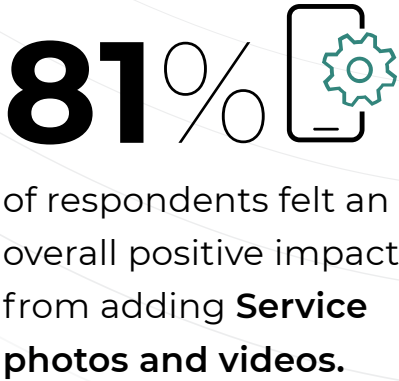
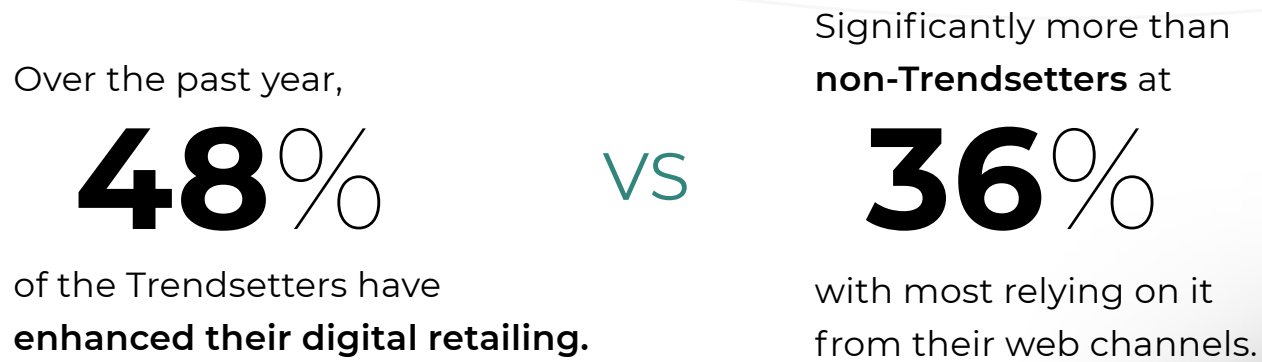
The biggest gulf when it came to making changes at Trendsetting over non-Trendsetting dealerships focused on the use of technology to address challenges.

Technology can help reduce friction points for consumers at nearly every step of the purchase process. That's likely why nearly half of the Trendsetters (48%) enhanced their digital retailing over the past year — significantly more than non-Trendsetters at 36%. And 72% of all dealers said it had a very high impact on their business. However, there's an opportunity for dealers to do more here, as only 25% of dealers said they enhanced digital retail technology to a large extent last year. This lines up with findings from our latest Friction Points report; only 30% of all dealers said they bring digital retail technology into their stores, with most relying on it from their web channels.

More than two times as many Trendsetters had implemented a change at the Service level to use photos and videos — generally captured and shared via mobile devices — to provide repair and maintenance

cost estimates or recommendations. This one feature outperformed nearly every other in our survey, with 81% saying it had an overall very positive impact. It was second only to changing pricing strategies when it came to very positive financial (32%) impact and was first in terms of operational impact (43%).


The tech packed into today's vehicles is also impacting how Trendsetters train their teams. From the test drive to delivery, a dealership's staff are expected to be experts on the multiple screens customers are seeing for the first time. If someone is stepping out of a five-year-old car or older, any new model will have a cavalcade of features they may not be familiar with. And while they may have read reviews or watched videos online, they're relying on the Sales representative to walk them through.



The delivery process has changed from pulling up with a customer's newly purchased car and handing them the keys. Now it often requires the Sales rep to walk through the tech features, pair a smartphone or even help download a manufacturer app for their car.

That's likely why **47% of Trendsetters invested in technology training** last year **compared to just 21% of non-Trendsetters**. 70% of the Trendsetting dealers that initiated this training said it had a very high impact on their business overall. 81% of all dealers who implemented training plan to keep investing in it in 2023.



70% 

of the Trendsetting dealers that initiated **technology training** said it had a very **high impact** on their business overall.

81% 

of all dealers who implemented training plan to **keep investing** in it in 2023.

“We saw a pronounced growth in Sales and Service customers, and CSI has increased because Sales and Service have become more streamlined.”

– Trendsetter, 1-2 rooftops, Connecticut

Profits May Hide in Unexpected Places

Any change a dealer makes to the inner workings of their store will have an impact on the bottom line, whether incremental or outsized. In our survey, both reducing costs (31%) and changing pricing strategies (35%) were areas dealers said had a financial impact on their business. These were also areas where non-Trendsetting dealers implemented more changes.

As the industry watches the eventual fall in prices, taking the right approach to vehicle pricing is obviously vital. Dealers need to keep a pulse on broad economic shifts like higher interest rates or the significant drops in tax refunds for families this year to determine just how much their customers are willing to pay. Will a buyer be happy with the MSRP without a markup? Will a small discount be needed to move

that vehicle? Or will larger cuts to pricing be needed when trying to find that right monthly payment?

Luckily, there were other areas that showed similar financial returns outside of how vehicles are priced, and they may be less impacted by these outside economic forces. Using photos and videos in Service delivered financial benefits from 32% of those we surveyed.

“Photos and videos in the Service drive have had a positive effect on consumer confidence and convenience, resulting in quicker quote approvals, higher CSI and profitability.”

- Non-Trendsetter, 11-15 rooftops, British Columbia, Canada

Traditional Profit Centers Still Popular

Changes with high financial impact



But Trendsetters look at other avenues of profit...

Unexpected Profits

31%

Nearly one-third of dealers reported a significant operational impact from forging stronger partnerships with OEMs.

When we asked how these changes impacted the operation of the dealership, there was a definitive shift in responses with Service features jumping 10% from their financial impact. Forging stronger partnerships with OEMs also shifted significantly higher, with nearly one out of every three dealers (31%) saying it had a very or extremely high operational impact. Investment in training for new technologies and transitioning from traditional sales to improving the buying experience both rated at 29%.

Using photos and videos in Service delivered financial benefits from

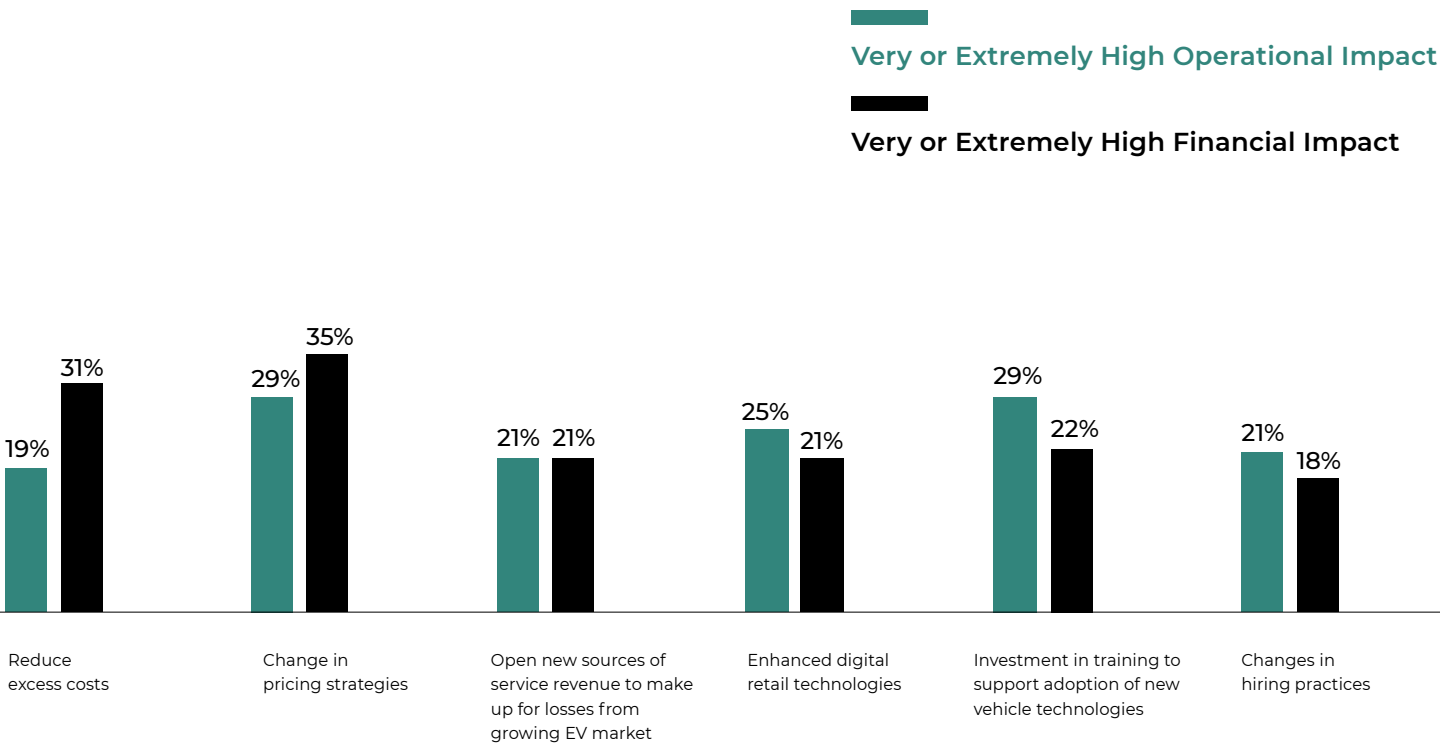
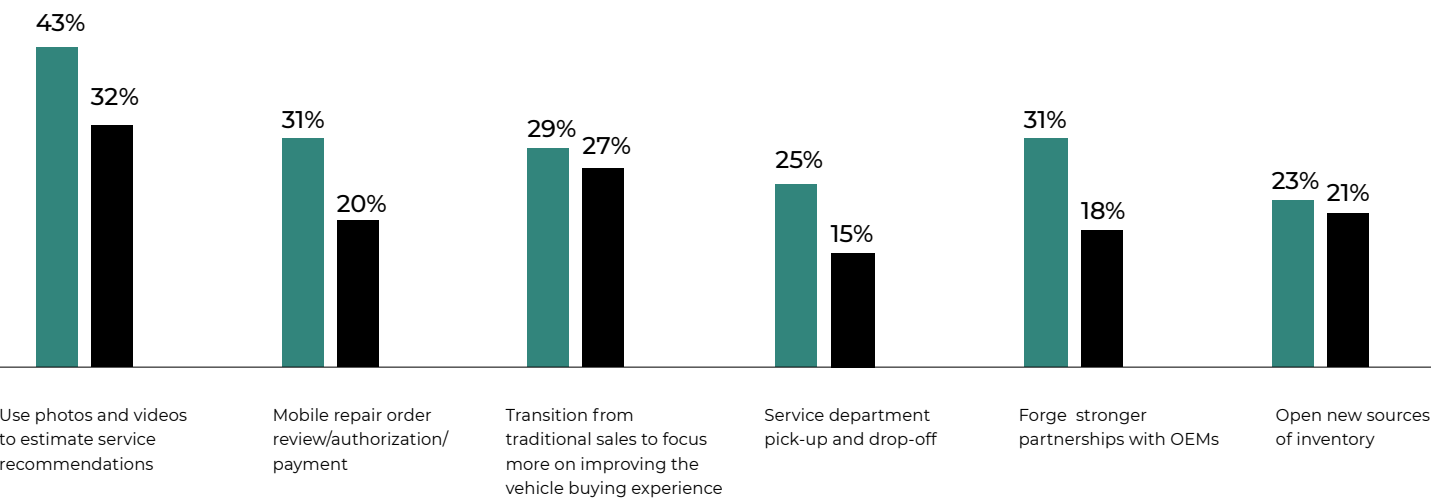
32%

of those we surveyed.



Using Innovative Ways to Service Customers and Focus on Improving the Vehicle Buying Experience Had an Overall Positive Impact on the Dealerships

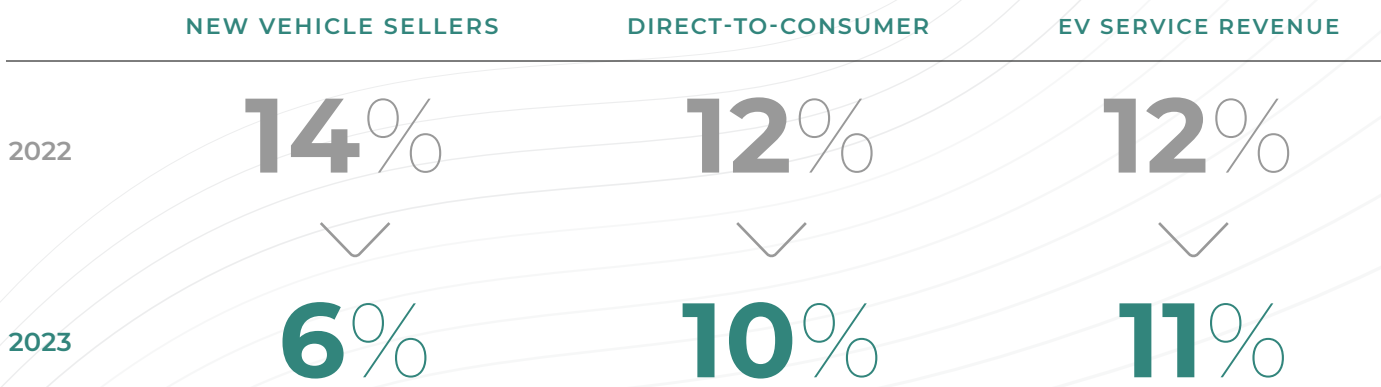
Level of impact by the implementation of changes



Dealers Unprepared for Buzzworthy Issues

Last year, it was somewhat surprising to learn that dealers were relatively unconcerned about several of the industry’s most talked about issues. These issues ranged from new retailers like Carvana and Vroom, OEMs pursuing a direct-to-consumer model and the impact of EVs on Service revenue.

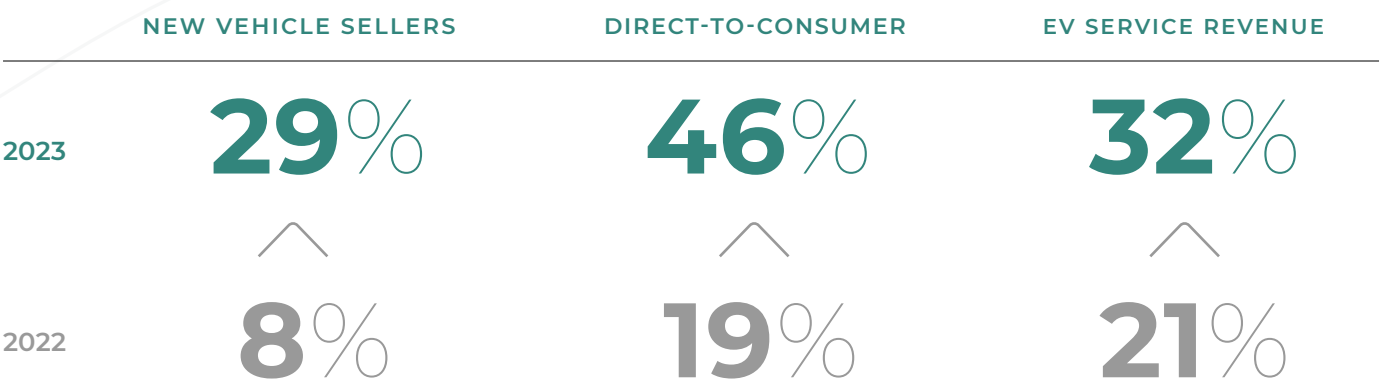
Dealers **are even less concerned** about these buzzy topics in 2023.



Despite how little they seemed to worry about these challenges, dealers admitted they aren’t fully prepared to address them. If OEMs attempt to shift to a direct-to-consumer model, **46% of dealers said they were unprepared to handle the issue.** Industry leaders, trade organizations and large retail groups are all voicing concerns around this potential shift in efforts to continue operating as they see fit and many don’t believe manufacturers have an appetite to force the issue either.

Manufacturers are also leading the charge on EV adoption. This likely explains the outsized responses from dealers on that issue. The rollercoaster ride of sourcing and managing used car inventory could also be a reason why more dealers say they’re not prepared for competition from newcomers like Carvana compared to the very few who are concerned about the challenge they present.

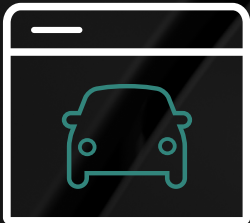
Top Challenges Dealers Are Unprepared To Meet



If OEMs attempt to shift to a **direct-to-consumer model,**

46%

of dealers said they were **unprepared** to handle the issue.



What We Can Learn From Trendsetters

While there isn't a clear blueprint dealerships can follow to improve performance, we can clearly see what Trendsetters are focused on and how they prioritize their businesses. The next year will be yet another test for not just the trendsetting crowd, but all stores.

FOCUS ON TECHNOLOGY

Whether it's in the Service department, F&I or the showroom floor, adding to or enhancing your technology stack can improve results. And training is a big part of that effort — whether it's with the technology you're using to interface with customers, or the evolving gadgetry found in today's new vehicles. Utilizing technology across the store will also allow management to right-size staffing if more manpower needs to be addressed in F&I versus Sales, for example.

STRENGTHEN YOUR STAFF

One out of five dealers considered employee burnout a top challenge in 2023, with 28% worried about staffing shortages. That means each one of your employees will require more attention than they may have in the past. Ensure that training is not seen as a chore but rather an investment in their career. Department heads should be focused on career paths, enhanced benefits and improving the work/life balance for employees. Rising inflation doesn't just impact what customers are willing to pay on a car, it also means dealers will have to increase pay for their employees to improve retention.

TRY NEW SOLUTIONS

If there's one, clear takeaway from this report it's that there's a financial and operational return to nearly every solution that Trendsetters put in place. Did they move the needle enough to warrant the investment? Possibly not but uncovering those new pathways that did take hold and showed their value can be a buffer when the next unknown rears its head.

About This Study

This is the second year CDK Global has looked at the state of the automotive retail industry through the eyes of Trendsetting dealers. It's one of several research outputs we consistently deliver to our dealer customers, stakeholders and the industry at large.



Peter Kahn
CDK Global Head of Research

With over 20 years of experience in researching all aspects of the automotive retail industry, Peter's work is focused mainly on how dealerships and brands can improve efficiencies and meet the changing needs of the vehicle buyer and service consumer. As the Senior Director of CDK Global's Research and Insights group since 2015, Peter has produced work that covers a range of topics such as Artificial Intelligence in the Dealership, Women in Automotive, the State of the Automotive Retail Industry, Job Seekers in Automotive Retail and many more that help inform decision-makers in our industry.



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Rohini Tripathi is the Senior Market Research Analyst at CDK Global. She has over nine years of experience in research with global organizations spanning different industries such as media and entertainment, CPG and automotive retail. At CDK, Rohini works on various research initiatives for the Product, Technology and Marketing teams and provides insights and analysis to help make business-related decisions.

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