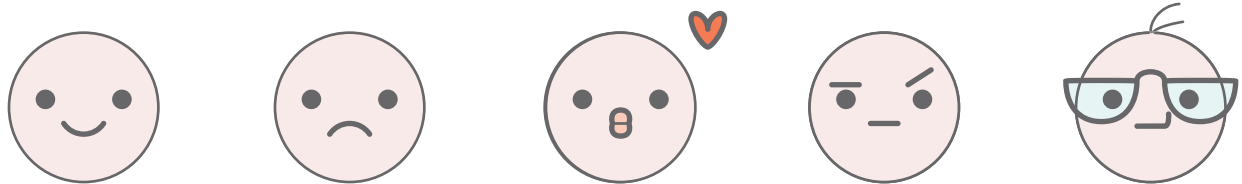




# WARDSAUTO™

THE BIG STORY / SEPTEMBER 2017

## Auto Dealers Love/Hate Third-Party Lead Providers



BY STEVE FINLAY

*Dealers harbor a love-hate relationship with third-party automotive websites that have become firmly established conduits between vehicle buyers and sellers.*

In their perfect world, dealers wouldn't need to rely on and subscribe to the services of middle-man websites that list inventories, post customer reviews and deliver sales prospects.



## THE BIG STORY

**“It’s something you have to accept,” Sergent says.**



**A**nd in a perfect world, we wouldn’t need hospitals.

Ideally, “we wouldn’t need (third-party providers) because your dealer name and recognition would be so strong, everyone would go right to you,” says Andrew Sergent, marketing director for Sellers Auto Group, based in Farmington Hills, MI, and representing Buick, GMC and Subaru.

But the third-party sites – some of which have morphed into new

business models, most of which have enriched their content, functionality and usefulness over time – are go-to places for a majority of online vehicle shoppers.

“It’s kind of something you have to accept,” Sergent says.

Car consumers spend 60% of their time on those independent automotive sites. That’s followed distantly by dealers (16%), search engines (11%) and automakers (9%), according to an IHS study.

Consumers perceive the third parties as unbiased information



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sources, but some reality checks are in order, says Steven Szakaly, chief economist of the National Automobile Dealers Assn.



**“Let’s not fool ourselves,” Szakaly says.**

“They absolutely have the reputation of being impartial,” he concedes in a previous interview. “But this is a retail market. Let’s not fool ourselves by saying these companies are assisting their customer out of the love they have for them. They are there to extract value.”

Because major third parties are technology juggernauts, they have amassed huge amounts of data. Among other things, that data trove aids in search-engine optimization, giving them high placement in search-result listings.

“They can really dominate the SEO game, to the point of showing up higher with the listing of a dealership’s car than the dealership’s listing of it,” Sergent says.

The independent sites are numer-

ous and their business models can differ. The big ones include Autotrader, Kelley Blue Book, Cars.com, Edmunds, CarGurus and

Roadster.

In the used-car market, sites such as Carvana, Vroom and TRED sell vehicles directly to consumers online, something that gives many automotive industry people pause.

Many of the third-party sites are founded and run by

MBA graduates of pedigree universities, including Harvard and Dartmouth. They are people who see opportunities and capitalize on it. New- and used-vehicle sales in the U.S. total more than \$1 trillion a year.

At this year’s Automotive CX Summit in Los Angeles, many participants wondered (and often worried) when Amazon – which is gearing up to sell cars in the U.K. – might make the scene in the U.S.

They figure if the e-tail giant can

### SHOPPING FOR FOR YOUR NEXT VEHICLE?

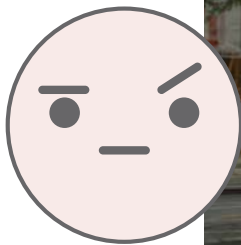
According to an IHS study, here’s how car consumers spend their time online:

- **60%** on independent (third-party) automotive sites
- **16%** on dealers websites
- **11%** on search engines
- **9%** on automakers sites





**Amazon:**  
Will it enter  
the auto-  
retailing  
business?



get into the grocery business in America by buying Whole Foods, as it did this year, inevitably it will enter the country's auto market.

"Amazon is telling us its plan is to serve us – serve us for dinner," says Brian Benstock, dealer principal of Paragon Honda and Acura in New York City.

In something of a preemptive strike, he spearheaded Paragon Direct as a way for consumers to do virtually a complete auto transaction online, with the dealership delivering the purchase to them.

Benstock calls it "click, buy and

deliver." The system enabling it is powered by Roadster.com, a company that has become closer to dealers after a business-model reconfiguration. It started out as appealing directly to consumers. Now, it works through dealers.

## **PIVOTING TOWARDS DEALERS**

"We pivoted the company, taking the technology we'd been offering to consumers and making it available to dealers as white-label solutions," says Roadster CEO Andy Moss.



**Roadster pivoted toward a dealer-oriented model, CEO Moss says.**

“We potentially were a threat to dealers because we directly were offering consumers a full e-commerce experience,” he says. “Now, we are offering solutions to dealers so they can compete with some of the threats they are facing.”

Previously, Roadster had acquired an automotive brokerage firm that allowed it “to take the customer through the entire journey, right up to delivery,” Moss says.

But it shifted away from that business model and toward dealers for a couple of reasons.

One was that some tech-savvy dealers contacted Roadster. They said they didn’t like brokers but did like Roadster’s technology, and were willing to pay to plug into it. In response, Roadster provided what they needed to set up full online commerce and complementary in-store technology.

A second reason for the business-model shift was that even though Roadster as a broker was delivering about 100 vehicles a month to online customers, it wasn’t easy.

“It was a microcosm of living in the dealers’ shoes, with the realization that selling a car is a complex transaction,” Moss says. “It’s hard for a tech company to learn to be a car dealer. If you don’t have the dealer DNA, it’s a lot easier to help a dealer apply and use the technology. That’s why we pivoted Roadster.”

Consequently, he says, “We went from a starting point where we were among the people you might put on the threat list to providing solutions to dealers on their websites.”

Without referring to a particular company, Brian Allan, group director-business development at Galpin Motors, No.52 on the *WardsAuto Megadealer 100*, says: “People who thought they could eat our lunch as dealers have become partners.”



We went from a starting point where we were among the people you might put on the threat list to

**PROVIDING SOLUTIONS TO DEALERS ON THEIR WEBSITES.**



A company that rebuffed Allan is now defunct, he says without regret. Online start-up Beepi had sold used cars directly to consumers, but folded last year after going through \$150 million in venture capital.

“I was so glad to see Beepi go out of business,” Allan admits. He recounts how he once approached a Beepi executive about working together. “I said, ‘I’m with Galpin Motors, and we sell 32,000 vehicles a year and do \$1.4 billion in business.’ He said, ‘Yeah, but you’re still a dealer.’”

Moss says, “Beepi is a case study of having the technology, but going too fast and not understanding the complexities of the underlying business. Being a dealer is harder than they anticipated.”

Roadster’s digital tools are particularly popular with Millennial buyers, says Michelle Denogean, the company’s chief marketing officer. “Car buyers today expect a great customer experience, and a study indicates Millennials walk into car buying with a much more positive outlook than previous generations.”

At the CX conference in L.A., one participant, Eric Angelo, a Cadillac marketing executive, exhorted attendees to “defend the industry before Apple or Amazon tries to take it over.”

Among potential theories on Amazon entering new-car retailing is that it would either buy a dealer group or persuade manufacturers to give it franchises to sell cars. (Selling used cars, online or in person, does not legally require a manufacturer’s franchise.)

“The threat isn’t that Amazon would sell direct,” says Moss. “They would act more as a lead generator and as the first point of contact with the customer. They would hand the lead off to a dealer. It’s a question of which one.”

### UP AGAINST THE WALMART

Another major retailer, Walmart, has teamed up with CarSaver, a website that allows car shoppers to search by body style, make, price and payment.

Several Walmart stores now include “Car Buying Centers” wired into CarSaver technology.



**“I was so glad to see Beepi go out of business,” Allan says.**



## THE BIG STORY

**Walmart and CarSaver have teamed up.**



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The two businesses “are working together to bridge the physical and digital divide for auto sales,” says Chad Collier, CarSaver’s co-founder and president, who is no stranger to dealerships.

He bought his first dealership at the age of 26, becoming the youngest non-succession dealer in Ford’s history. By age 32 he had acquired and sold three stores, the last to AutoNation.

He launched the CarSaver platform in 2011. Besides Walmart Supercenters, partners include AutoNation and Univision, a Hispanic media company.

Collier says the pilot program with Walmart focused on, “How do we turn a grocery shopper into a car buyer?”

New-car consumers who use third-party automotive websites still must buy the vehicle through a dealership. But Internet shopping has turned things around. In the old days, shoppers started their buying journey at the dealership. Now, they end it there, because they’ve done so much front-end work on their own.

Collier points to a survey that says features drawing people to third-party sites include a build-





**Dealers don't fear disruptors, Kain says.**



a-deal functionality, a locked-in out-the-door price (and monthly payment) and verification a car of interest remains on the lot.

Interestingly, “lowest price” did not appear in the top 10.

### **(ALMOST) NO FEAR**

Dealers generally do not fear “disruptors” will displace them, says David Kain, president of Kain Automotive, an Internet training and digital marketing consultancy for dealerships. He retains an interest in a family dealership

near Lexington, KY.

“I’ve never heard dealers say they are nervous about these online retailers,” he says. “What worries dealers more is when they see Macy’s and other brick-and-mortar retailers close stores. They say, ‘I don’t want the same thing to happen to me.’”

He’s a fan of online initiatives that work with and through dealers, calling the arrangement “a sound system.”

Sellers Auto Group’s Sergent says not all dealers are prepared



for the changes disruptors and other emerging forces may bring.

“The auto group I work for always looks at possibilities and tries to predict the market,” he says. “Some dealers will struggle in the future. It’s a different field when you have companies like Carvana selling vehicles directly online. Many dealers can’t wrap their minds around that.”

Sergent grew up in “a General Motors family” in metro Detroit but when he graduated from high school in the recession year of 2008, “dealerships and the auto industry itself weren’t looking so bright.” So he opted to pursue a

college nursing degree. He ultimately switched to marketing, joining Sellers in 2014.

Of today’s auto-retailing world, he says, “It’s always been competitive, but it seems like people are more competitive in their strategies these days.”

## TRED PICKS UP TRACTION

Carvana arguably is the best-known online business selling used cars directly to consumers, but TRED is an up-and-coming competitor. The peer-to-peer website connects used-car buyers and sellers.

F&I provider Ally now offers vehicle financing as well as vehicle-service contracts and gap insurance coverage to TRED users.

The start-up currently operates in Washington state, Oregon and California and “absolutely” plans ultimately to go nationwide, says founder and CEO Grant Feek, 36, a Harvard MBA graduate.

One of TRED’s investors is Rick Wagoner, a former GM CEO, whom Feek first met at Harvard when the auto executive spoke to a class there.



**Carvana arguably best-known used-car site.**



## THE BIG STORY

**TRED  
“absolutely”  
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national  
selling used  
cars online,  
CEO Feek  
says.**



“We’re offering all the advantages of a more-traditional dealership,” says Feek, who previously worked summer jobs (“porter, parts and service, some sales”) at a Seattle BMW dealership. “We effectively are a dealership because we have (used-car) dealer licenses in the states we operate in.”

He launched TRED in 2011 with a different business model than its current one. “Essentially we were selling leads to dealerships and facilitating test drives by picking up demo cars and taking them to

a shopper’s home or office.”

The revised model bothers some industry people of traditional ways. “It’s the beginning of the end,” one of them said on an online social-media website, referring to the Ally-TRED partnership.

Feek describes Wagoner as a great adviser to both the company and him personally. “He has an incredible knowledge of the OEM and dealer space.”

TRED users “definitely skew towards Millennials,” says Feek, who is on the older side of that



much-discussed, sometimes-scorned generation. He seems to defy the Millennial stereotype of the jobless kid living in his parents' basement.

“Actually, there was a six-month period in 2012 when I did live in my parents' basement,” he says.

### **CARGURUS SEEKS TO ‘BRIDGE THAT DIVIDE’**

TripAdvisor cofounder Langley Steinert went on to found CarGurus. It's been tweaked over the years but “the original idea for CarGurus was to replicate a lot of what TripAdvisor does and bring it to autos,” says Martha (Marty) Blue, the automotive website's senior vice president.

CarGurus has a vast inventory listing coming from more than 200 feeds that include inventory-management systems, dealership customer-relationship-management systems and inventory syndicates.

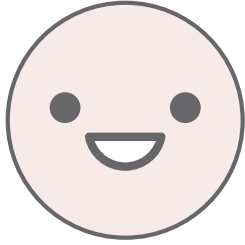
The company puts dealer inventory online whether or not a dealer is a subscribing client. Dealers who don't want their inventory listed can opt out.



**Marty Blue has seen a huge shift in dealer attitudes.**

CarGurus boasts of 23 million unique website visitors a month. Revenue comes from 23,000 franchised and independent dealership subscribers, who buy enhanced listings with descriptions, URLs, directions and contact channels.

Features of CarGurus' website include consumer reviews and assessments of posted inventory based on comparative pricing.



ing. Deal assessments include great, good, fair and a seemingly kiss-of-death label: “overpriced.”

The most complimentary thing CarGurus hears from dealers? “That we help them sell cars. We love to hear that. We’re trying to bridge that divide of offering a service that’s good for both dealers and consumers.”

The biggest complaint her company hears from dealers?

“Complaints are always transparency-related; giving consumers information the dealers would prefer they not have,” she says.

Is CarGurus a disruptor?

“Certainly some people in the industry would describe us that way,” Blue says. “What makes us different is, we’re a technology company. A lot of third-party sites came from media backgrounds. We have an algorithm like no one else has when it comes to pricing accuracy.”

Overall, she has seen a “huge shift” in dealer attitudes toward the ready availability of pricing information and consumer reviews about their individual operations.

“Dealers understand that, because of the amount of research consumers are doing online, they have a lot of knowledge when they walk into the dealership,” she says. “Some dealers want to go back to the way things were. Most understand transparency is a part of auto shopping in today’s world.”

Blue worked for Reebok before joining CarGurus six years ago. She has an undergraduate degree from Harvard. She and Steinert went to graduate business school together at Dartmouth.

Sergent, the dealership marketing director, says the quality of CarGurus leads is high. “I’ve got to throw some credit to them. Previously, the types of leads we were getting were from people like 14-year-old guys interested in Chevy Corvettes.”

Cox Automotive, with 20 automotive brands including Autotrader,



### **COMPLAINTS ARE ALWAYS TRANSPARENCY-RELATED**

— giving consumers information the dealers would prefer they not have.



## THE BIG STORY

**“We learned some things the hard way; I’m not going to candy-foot around that,” says Drive Motors CEO Krane.**



Kelley Blue Book, Dealer.com and VinSolutions, stresses its desire to work with dealers, not deke them.

“We want to transform the way the world buys, sells and owns cars, and dealers are a key part of that,” says Mark O’Neil, Cox’s chief operating officer (and another Harvard grad).

He says his company offers digital tools to make car buying (including trade-in valuations and financing) as automated as possible both online and in-store.

“But we’re not the transformers,” he says. Dealers are. “We’re the enablers. The dealership network is critical. Those distribution points have relevance to the future, but in a different way than historically.”

Digital retailing is coming fast and furious, O’Neil says at a VinSolutions user conference in Kansas City, MO. “We’ve heard a lot of skeptics say consumers won’t buy cars online. I can tell you they will, with the right technology.”



### LESSONS LEARNED

Drive Motors founder and CEO Aaron Krane says his start-up company has learned from its mistakes in its first year of business. It offers dealerships a website tool that allows shoppers to do a self-serve deal online 24/7.

Drive Motors started last year and has grown to 1,000 car orders a month. “In the incubator stage, we had one a day,” he says.

There have been some rough spots, he acknowledges. “We learned some things the hard way; I’m not going to candy-foot around that.”

Showing dealers how to work with the technology and finalize a Drive Motors-generated deal has become a major initiative, he says. “We lost some big dealers because we didn’t train them. Online checkout is the single-most powerful tool for dealers, but you need to know how to use it or you might drill a hole in your hand.”

Drive Motors’ online checkout technology “remembers everything,” including trade-in information, vehicle upgrades and credit applications, he says.

As to the possibility of Amazon

joining the auto action, he says, “I hope they sell cars this way, and I hope they let us help them.”

But he adds dealerships are capable of out-competing Amazon if they add e-commerce capabilities to their other attributes which include professional-looking showrooms and an established distribution system. “Dealers can have a massive leg up on Amazon.”

Kain says letting customers do much of the work of a car deal should be a big lure to dealers.

He explains: “If a dealer goes home in the evening and the next day finds that six or seven people have purchased vehicles from you in a self-serve way, and the only thing you need to do is prepare and deliver the purchases, well, that sounds pretty attractive.” **WA**



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