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That Makes Cents
Season 1: Episode 12
November 2020

Plugging into the future of automotive retail

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Bobby Stephens: Hi, everyone. Welcome back to another episode of That Makes Cents. Today, we're covering a sector within the industry that we really haven't talked about on the show yet but is a critical part of the economy and of our everyday lives—the automotive industry. Many of us don't actually think about it every day, but it's really important to consider the impact of COVID-19 on the way we buy and sell cars.

What trends were already moving that either kicked into high gear or hit the brakes? By the way, very bad puns intended, and there's a lot of opportunity for that on this topic because of social distancing and other safety measures. And how will this impact auto dealerships and the way they're structured, the way they train salespeople? How will pricing and a good, old-fashioned car negotiation change, especially if more sales happen virtually? And bottom line, what will be the new role of the car dealer going forward? So, our special guests today know a thing or two or maybe a million or two about selling cars, and we're really lucky to have them on this episode.

It's Brian Benstock and Chris Spensley. Brian is the general manager and vice president of the number-one certified Honda and Acura dealer in the world, Paragon Honda and Paragon Acura in New York. And Chris is an automotive retail performance coach and leader within Deloitte & Touche. Gents, before we get going, please tell the audience just a bit more about yourselves.

Brian Benstock: I'm Brian Benstock. As you said, Bobby, I'm the general manager and vice president of Paragon Honda and Paragon Acura in Queens, New York. We're just outside of Manhattan. I've been working for the organization since 1982, so I guess we're going on 38 years. And it's exciting to see. There has been more change in the last five years than there was in the previous 33 years, and we can expect to see a heck of a lot more change over the next three to five years.

Chris Spensley: Hi, it's Chris Spensley here. I have worked with the automotive industry for most of my life, starting in 1986. I've always had a passion for it. I've been fortunate enough to hold a number of leadership positions in the automotive space, but started my journey in sales, much like Brian did. I've had a chance to work with several dealerships as they moved through the significant change of modernizing their sales operations and respond to consumer expectations. It's a pleasure to be part of the conversation.

Bobby: Awesome. Thank you both for being here. Why don't we just start by giving a thirty-second or so recap of some of the trends and where they were headed in the industry, sort of at the beginning of 2020, and how that's changed with COVID over the past six months. I just want to catch our listeners up to speed if they're not so familiar with the industry.

Brian: Well, the industry really hadn't changed all that much. We were creeping into the digital age. We were creeping into an age of online retailing. And I think that with the advent of COVID-19, that that creep has been accelerated by five to ten years. But, reluctantly, for some reason, the dealers and the OEM were just putting their toe in digital retailing. And I think this pandemic has created an incredible opportunity for both dealers and the OEM and the industry to move us forward like many of the other retailers have already done.

Chris: Spot on, Brian. What we've seen is that, the beginning of the year, when we started reading about the pandemic, it was kind of business as usual. And creeping is an excellent word because dealerships were starting to look at the best way to lean into consumer expectations and virtualize some of their processes, and also make them a bit more customer centric. And when we were working with dealerships for both premium and also non-premium volume brands, we came across an awareness that change was necessary, but a slowness or a lack of real speed in getting there. The pandemic changed that. Twenty to 25% of all dealerships had a digital retailing approach in February of this year. And it's gone up to almost 80% and to varying degrees since the pandemic. And so it kind of forced the hand or moved the business forward.

Brian, I agree it's five to ten years ahead of where it would have ended up because the automotive industry was in a pattern of growth that had gone back for nearly a decade. And the expectations going into the year was that the overall new vehicle sales volume would start to fall off this year. That hasn't been the case despite the pandemic. But I think that this is probably driven by the variation in approach, that 80% that I mentioned earlier. So, it's going to be interesting times as we exit the pandemic wto see where we go next.

Brian: Think of it this way. Nobody likes change, except for a wet baby. And that's true for individuals, but it's also been true for our industry. The industry itself talked about change and creeped toward change, but really resisted it. And it resisted it on every level, the OE level, on the dealer level, and with the pandemic, we were forced to face the new reality. We were forced to change.

Chris: I completely agree. By the way, you have mentioned one of my favorite quotes, actually, Brian, and it's interesting because I've been in dealerships that were very, very, I'd say old-school, that have kind of finally migrated or creeped toward this. So that's a great observation.

Bobby: Well, let's talk about that a little bit. Let's jump into that first topic around, you've gone from creeping and I like that one, especially since we're recording this near Halloween, so it's a good time to use that term. And if you look at digital sales and the automation around that and the move from 20 to 25% digital to 80% digital, why has it taken so long? I mean, is it just resistance or were there other reasons, and how and when can it become permanent to really have digital sales and process automation at the dealer level?

Brian: The dealers have to embrace the transparency that's inherent in online retailing. And not just the dealers, the OEMs have to embrace that transparency as well. I think a lot of dealers, we're looking at how we can have the best of both worlds, and what's turned everything upside down is the Elon Musks of the world coming in with a completely different perspective. And they don't have any of the baggage of legacy to worry about. And so, I think they're really sort of blazing a trail, and it was shocking to me to see how many OEMs and dealers discounted, wrote off the potential buyability of Tesla and other large outsiders that have come into our industry. And it's only with the advent of COVID that now they're starting to embrace that business model of online transacting. But, Bobby, the slowdown was due to a reluctance to embrace the transparency, I feel. And that's at both the OEM level and at the dealer level.

Chris: What Brian said is spot on. And earlier, he said there's a fundamental resistance to change. And the industry has been on a roll here for a decade. So, if it's not broke, why would you bother to fix it? There's innovation in this space. Brian's a very good example of that. But I would add to the transparency, which is hard to move forward in such a way that your cards are on a table versus having to dole out information as is required, I would add autonomy to that. Your salespeople have to be able to have more decision-making authority. And also the customer has the ability, using a more virtual approach, to do some of the calculations on their own. It's one of those things or notions that has been bantered about in the car industry for decades, basically the whole time I've been part of it, is controlling the customer and controlling the process.

We have probably not had control for a long time, but the realization that it's not necessary is probably the biggest change. And that transparency that Brian mentioned is a big piece of that. The information that people need to make a retail car purchase or lease is out there for them to get.

Brian: Look at the businesses that are thriving today—the businesses that realize that consumers today want shared control of the process. They don't necessarily want to control it, but they want a say in the process. They want to be able to say, "I want it now, here's how I want it, here's where I want it." And you think of a company like Peloton and something as simple as a bicycle that you can ride on. And they have classes that allow you to pick the genre of the music, the instructor, the intensity, the length of the class that you're taking. And giving the consumer shared control of the process actually helps the retailer be in control. And what are we afraid of? When you ask a customer what percentage margin do they think a dealer should make, without exception, they give you an answer that's 5%, 6%, 7% margin, which as we know is much larger than the actual margin we make. So why would we be hesitant to give customers shared control of the process? I think it makes it easier for us, and certainly it makes it more desirable and pleasurable for our customers.

Chris: A good quote from a dealer that I've been working with recently is, "Let consumers do what they want to do and just get out of the way." And I like that. The thing is, the misnomer, probably more on the inside of the automotive space than on the outside, is that customers don't want dealers to make margin. And that's really—I didn't hear that statistic before, Brian. That's actually good to know, that tells me that consumers know that a margin is required to take care of them. And so, I learned something today already in that.

Bobby: One final question before we switch gears a little bit. As you've had to adapt in the physical-virtual in-between world that we've been in for a bit, can you tell me a little bit about how the physical dealership, how much it matters in that process, and what are some of the key learnings that you've seen from sort of mixing those two and implementing contactless sales and delivery processes and those sorts of things. Just a little bit about what it's like right now to be in the industry trying to sell cars.

Brian: You know, the most important sale you make is the one you make to yourself. Gosh, I know a lot of people have suffered and I don't want to talk about benefits of something like a pandemic, but there are some learnings, I should say, that we come out of this with.

And one of those learnings is certainly that, we can conduct a transaction without the need for a consumer to come to the physical dealership. And we've been doing pickup and delivery for service now since 2016. And when we started that, we started with the notion that customers do not want to go to the dealership for service under any circumstances. And we wanted to make the service experience where we could take care of everything that a consumer would take care of at the dealership online or on their smartphone.

And that business went from a zero pickup and deliveries a month to 600 in the first year. A year later, it was 1,900. And now we're picking up 3,000 customers' cars per month without the customers needing to come to the dealership. The interesting part of that also is that the margins on the service transactions have actually increased and we're not charging for the pickup and delivery service.

So, I think when this COVID-19 happened, we were able to shift gears more easily than some of our fellow dealers, because we had that infrastructure built. Today, I think the consumer wants the ability to decide whether or not they want to go to the store. And I think the dealerships need to cater to having a better experience for those that do elect to go to the store, but also to give customers complete control to decide, do I want to do business with you online? Or do I want to do business with you in the store? And I think today's retailer needs to be prepared to have an amazing experience for consumers either way.

Bobby: I'd like to change gears just a little bit. And, Chris, I'd love to get your take first on this one. We read about the future of what it's like to work in the automotive space, especially in retail for auto. And how dealers and auto retailers are kind of evolving their approach to attracting, retaining, and really training up the staff that works at the dealership that's probably been relatively similar for many years. And again, another place where there are some very accelerated changes. So, Chris, talk me through how that approach is evolving.

Chris: Well, this is pretty much hot off the press, working with a dealer group right now. And what they've discovered is that the talent model is evolving, and it's happening in two different ways. The type of quote, unquote "ideal salesperson" or "talent model" is changing.

And I think that, to some of the points that Brian made earlier, the ability to offer that optimum or personalized experience no matter where the customer approaches you is something that requires probably a little bit more technological savvy or the ability to engage people via online or digital resources, but also requires more of a concierge and someone who has the ability to deliver a customer experience, and there's less notion around the ability to negotiate and close, although it still matters. So, the front end is, yes, what dealers are looking for is changing, but probably the salesperson applicants, the people that are actually pursuing a sales job, they're changing too.

It doesn't take very long to figure out that perhaps the industry or the approach to sales is different or it's evolving, as Brian said, very quickly now. So, what's happening is they're getting people that wouldn't have applied for work at the dealership that now are. Because they recognize that the job is changing to something that's more palatable, I would say, or just more desirable for them.

And there's also a matter of driving towards a career. And as you think about the people that typically are working in retail or transactional environments, the car business isn't necessarily categorized as being the same. The good news is that I think that dealerships are starting to see higher quality applicants and they're also modeling what they're looking for a little bit differently. As far as evolution, I'd say that the ability to hold a conversation is very important, and the ability to lead a conversation is very important as you hire salespeople. It still is, but I think the ability to be very organized and the ability to have or deliver an optimal customer experience over time becomes more important. And you're hiring more of that concierge versus just a quote, unquote "closer."

Bobby: With that different role, how does incentive, whether it's commission-based, whether it's how you actually incent, train, and discuss the role with these folks, how is that changing? Is it dramatic or is it just a light touch that most talent that's coming in understands because they've experienced this change in every other part of their life?

Brian: My take is it's new and it's old. Money is a great motivator and that has not changed, and incentives drive performance. That has not changed. The world of sports is not paying everybody the same wage. They pay certain players that perform better substantially more than players that don't. So, I think there's still an absolute need for incentivizing performance, because whatever you incentivize, you'll get more of.

And we've seen that when we've had salespeople that worked on salary, our digital sales team worked on salary, and we thought that was a great direction, and this would give us a different employee that we could hire, one that wasn't worried about making the commission and that could concentrate on serving. And as soon as they got a certain level of skill, they looked to move to our regular sales commission basis.

They wanted to get off of that structured hourly wage with perhaps a commission per transaction, rather than being paid on the gross profit. They looked on their own to move to a commission-based type of a compensation plan. And when we resisted moving them, you know what they did? They left us and they went to work someplace else where they could get incentivized. So, I think that money is still a very good motivator. I think that there will be a place for that, whether it's online sales or whether it's in-store sales, but to Chris's point before, I think it's really important to recognize that we can hire different people today and the people that we can hire today, we can look for the most important quality, the quality of niceness. We don't necessarily need somebody who can negotiate. We have sort of a simple rule when we're hiring somebody and the rule is this: Would you let this person, this candidate, babysit your children? And if the answer is no, you should probably eliminate them, and if the answer is yes, then you can go on to the next step in the process. But the quality of niceness has always worked and will continue to work as we move to less of a negotiation-based business model.

Chris: I just wrote down "make sure that you would let them babysit your children" because I've never heard that one before. It's pretty good.

Brian: It's a pretty good litmus test, right? And if you sit there and say, "No way, man. That is just not going to happen," then why the heck would you let them talk to your customers?

Chris: Good stuff. I think that there was an evolution for a short time, Brian, where people were, our salespeople are all salaried and that doesn't work either. A couple of different people I've worked with have always said the same thing. You show me a pay plan and I'll show you a job description. There should be a way to incentivize the behaviors that you want repeated, and if you have flat salary, you don't have the ability to do that. And you also don't feed high achievers. You want the best, right? I like that approach. I think that a mixture is probably ideal. If you have the ability to change your compensation model on the fly without creating wrinkles, it's probably one of the biggest battles that a lot of the dealerships I'm working with are fighting right now.

Bobby: That's really, really interesting. I think that's a challenge that you guys will be working on for years to come, trying to continually adapt. I'd like to tackle a sticky topic, probably for consumers but also for those in the industry when it comes to buying a car: Pricing, pricing strategies. Brian, you mentioned earlier, transparency, and that probably applies to pricing, as well as a lot of other information about the car buying and owning and service process. But let's start with you, Brian. Do you think you can be truly transparent with vehicle pricing and still make money as a dealer?

Brian: Well, of course. If people say you can't make money online selling automobiles, I just point them to Amazon and say, "Well, that guy seems to have figured out how to make money online." And then we've got a lot of examples of where we're able to do that, and I'll speak from firsthand experience at the dealership. We have basically, on used cars, gone to a one-price business model now for Paragon probably about 13 or 14 years and what has the net effect of that been?

Well, we're the number one selling certified Honda and Acura dealers on the planet, and so it's certainly not hurt our ability to be profitable. Now what's changed is the margins per transaction. We don't generate the same margin, but we have the opportunity to do far more transactions. And I think that was the lesson of Amazon for us is that, they're certainly not the lowest price providers online, but they do so much business that it makes sense and they don't have to be the bottom price provider. They provide an incredible service. You know with a certainty when you order something for the most part, it's going to be there the next day, and you know what time it's going to be there. I think consumers, today's consumer, values time more than money. If we can provide timeliness and transparency, then there's less focus on getting the rock bottom price with no profit to the dealer. Consumers are really not looking for that. They're looking for, be honest with me, make it easy for me to transact, take the friction out of the transaction, and I'll do more business with them. And I think we're seeing a lot of this now in many industries.

Chris: That's a good point because I don't think I'm different from most consumers in that if I can get something in the next day, I'm not necessarily chasing the price so much as the convenience of having it brought to me at a timeline that I've chosen. The question about being truly transparent, the reality is that, whether we like it or not, you can pull off with reasonable assurance the value of a new vehicle with incentives and what you can buy it for in about 45 seconds, if you have an active internet connection. So, the transparency really is a matter of communicating it and just matching up the delivery versus the expectation. And I think that's really where the rub is. Dealers don't control the pricing information solely anymore.

Brian: We never did. There's something called market value, and look at what's happened in real estate. The transparency in real estate, you used to look in a newspaper and you had to try and find ads for similar properties in similar markets. Right now, we can price a building in Manhattan. We can get the transparent information of every single sale in that particular building, what the average square foot was sold for per floor, to make better decisions. That has not harmed real estate sales. And if we have that level of transparency in our industry, it will not harm automobile sales. In fact, it will enhance sales as people have more trust in the system and in the process.

Chris: Totally true. Kidding yourself if you think otherwise. And even, say, our business, the pre-owned vehicles, there are some models out there that are worth more this year than they were last year. So, pricing transparency is a moving target. I think that the used vehicle market is a lot like the real estate market. It is changing because the demand is changing the availability of a product. So, it's not as simple as just being transparent. It's also being responsive.

Bobby: You guys kind of jumped ahead of a couple of questions I was going to ask on this topic, which is awesome. And I think one of the points I heard there that really came to life for me is, the transparency and the availability of data in the real estate example is good. It actually gives the buyer or the consumer more confidence to some extent, and so he or she is more willing and more confident and much less likely to have buyer's remorse when they feel like, "I saw everything in front of me all laid out, I got really comfortable making this big decision, and you helped me do that," versus someone trying to pull a fast one or even just the perception of it, right or wrong. So talk about that a little bit.

Brian: The biggest fear of the consumer is they don't want to make a mistake. That's the biggest fear of the consumer. And transparency takes away that fear, that friction. I think that's where many of the other online retailers have taken out that fear. I don't have to worry that the Apple iPhone that I buy online is going to be priced differently on 57th Street or the 61st Street store. I think those are really acute things that we can learn from as we move ever so slowly into that online retailing business model.

Chris: Completely agree. There are a lot of dealers that really feel that they still can control what the vehicle is sold for, but they don't control what the price is, and you make a great observation that people are going to arm themselves with information so they don't make a mistake. People make more reasonable offers now than they did when the information was not as readily available. But most of the time they make more sense. If the offer is unreasonable for whatever reason, you can go back on the research they've done to help them make a good decision so they don't feel like they've been taken advantage of. It's the availability of information that's changed things, but as you said, it's always been there. It's always been available.

Brian: Chris, we dealers really cause a lot of the difficulties. I don't believe any customer walks into a store expecting to buy a product, any product, for less than what the retailer paid for it, unless it's distressed merchandise. Yet, every day, customers walk into a dealership and make proposals or offers under what the dealer owns the car for. And then the dealer spends a lot of time trying to justify that. And I think that's on us. Because of that lack of transparency, customers are likely to take shots or guesses at what the bottom is, never knowing where that is.

And as we have that transparent information available, as customers have access to it, like you've said, I think we're more likely to see a normalization of the margins. And, in fact, what I was speaking about before, the average customer would give a dealer a 7% margin. And can you imagine how happy most dealers would be if they could make a 7% margin on the sale, as opposed to the 1% or 2% that most dealers earn?

Chris: I don't think a retail operation in the country would have any problem with a 7% margin. So, I think it's a matter of expectation.

Bobby: Well, we could keep probably talking for a while, but let's fast forward and wrap up a little bit. You guys are both obviously, as evidenced by this conversation, very plugged into today's trends, but also have a keen eye on the future for the industry, both what's happening in the industry and what's coming in from outside of the industry to influence it.

So just give me each of your—Brian, we'll start with you—each of your take on just what will the role of the car dealer be in the future. A few years out, what's your snap kind of answer around what you think the role will be?

Brian: I see our role now and in the future being similar. We are distributors of transportation. Whenever, wherever, and however today's consumer wants to consume it. And whether that's fractional, whether that is autonomous, whether that's ride share, I see dealers today as being distributors of transportation.

And let's face it, in the 50s, there were nearly 40,000 dealerships in the country, and today there are 17,000 plus or minus dealers in the country. And yet the number of vehicles sold has gone up. Why is that?

I think this trend will accelerate as we see consolidation and the means of distribution being enhanced. And I think we'll see the need for the number of rooftops to be reduced. And I'm okay with that, so long as I'm not the one being reduced.

I think the dealers really have to see themselves, how do they fit in the future where consumers are going to be buying cars online and expecting those cars to be brought to them. And I think a dealer that does not adapt to that world could find themselves fitting in perfectly in a world that no longer exists.

Chris: I agree. Adaptive is a good word. There's always this prevailing notion that comes out every couple of years that dealerships are going to become a thing of the past. They're going to be fulfillment centers or storage facilities for product. The consumers have spoken. They don't want that. They want this engagement and to adapt. They just want to engage in ways that are comfortable to them and more palpable across the board. I do think, to echo Brian's point on this, that if you don't want to adapt, if you want to continue to do things the way you've always done them, and there's a large contingent out there, larger than you would expect, then you might as well start buying the plywood today so you can board up your business. Because the ability to change and adapt, and it has been evidenced by the pandemic, there are dealers out there, and Brian's one of them, that have done very well during this time, and despite some fairly, especially early on, some insurmountable odds.

I see the dealers that have taken these steps forward, they have an option. They can either continue to charge ahead and adapt and evolve their business, or they can roll back to what is easiest, to echo the change comment that Brian made. And that's where the bifurcation will take place. That's where either you're going to grow or you're going to die, to speak in very simple terms.

Bobby: We've covered a lot of ground in a short period of time from the industry creeping along to getting accelerated really fast. Transparency, thinking about giving more autonomy to the salespeople, especially those who, if you wouldn't let them watch your kids, why would you let them talk to your customers? Which I think is a great analogy.

Even the notion of what we can borrow from other industries in terms of the balance between value of volume and margin. Why not go for the volume, if you can start to expand the four walls of the dealership into the virtual world. And we're seeing some of that with the consolidation of just the number of dealers across the US and likely globally as well.

So, first off, many thanks to both Brian Benstock and Chris Spensley for joining me today. Do you want to learn a bit more about Brian? You can visit brianbenstock.com or find him on LinkedIn. For Chris, just find him on LinkedIn as well. These guys have a lot of awesome things to say about the industry, and probably more outside of auto.

I can tell they have good, broad opinions about lots of things, which is awesome. But to deeper dive into this topic for today, including the future of automotive retail, go to deloitte.com. And on the main menu, you can select industries and then automotive. There are other ones, but let's go to automotive for today's show. Really great insights and research there covering topics from additive manufacturing, to women in the industry, to consumer sentiment around purchasing vehicles. Lots of good stuff to add to what you've just learned today. Go check it out, and we will see you next time on That Makes Cents.

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