CodeRoad

What's next in automotive retail technology?

4 trends driving the future of automotive dealership software

Car and truck buyers demand personalized experiences and built-in conveniences. To keep up, auto dealerships must innovate at every stage of the buyer journey.

Building loyalty is the name of the game. From research to negotiation, financing to maintenance, every step creates an inflection point to get the deal across the finish line with a satisfied customer driving off the lot.

Like other retail environments, delighting the customer provides the path to the ultimate achievement of repeat purchases. But in a rapidly consolidating and competitive industry, it's easier said than done. Technology provides a viable route.

Tech-Fueled Competitive Edge

For software vendors looking to make inroads into the more than 18,000 dealerships operating in the U.S., a key question remains: how can we make a business case for auto industry digital transformation?

Turning the focus to operational and market developments offers a great place to start. In this eBook, CodeRoad takes a closer look into four trends impacting software developers in the space.

LET'S DIVE IN.

TREND 1. CHANGING BUYER BEHAVIOR: THE SHIFT IS ON

How people buy cars and trucks is changing… and changing fast.

Vehicle sales are going online in a big way. Consumers seek to avoid the dealership altogether by researching and closing auto purchases online. So much so that one survey found 56% of millennials would rather clean their home and 34% wait in line at the DMV than do business with a dealer.

Can you blame them? Dealers' reputation for being slow, deceptive, and overpriced precedes them. So too are the technology platforms that support them, by many accounts. Clunky and poorly integrated systems contribute to inefficiencies that show up in the customer experience.

Ditching the Dealer?
Purchasing Trends by the Numbers

80% initiate purchases online

61% would buy entirely online

52% feel anxious at dealerships

A Move to Mobile-First

As younger audiences in particular migrate to online or hybrid purchasing journeys, the impact on development strategies is profound. Vendors must adopt a mobile-first strategy that meets consumers where they're at.

> **Dealerships need to be accessible 24 hours a day, even though it's not a 24-hour business**," says Dennis Odishoo, CodeRoad CEO. "Demand for automation and personalization dictate the need for intuitive mobile user experience, seamless channel integration, and rapid-response data streaming."
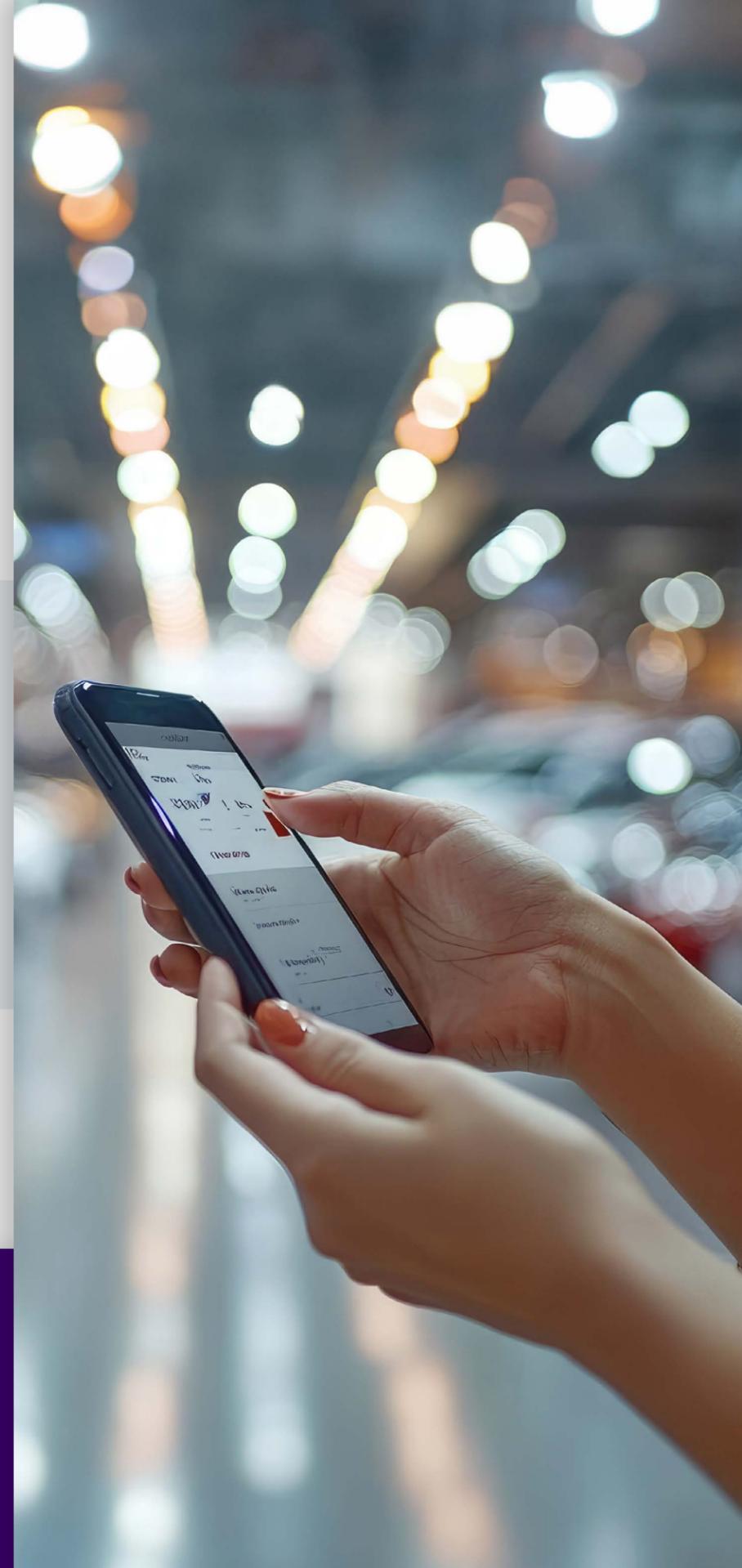
Creating a Frictionless Omnichannel Experience

The auto sector is in the early stages of consumer-driven transformation, notes advisory firm Solomon Partners: "As dealerships navigate a changing landscape, traditional retailers that successfully traversed the offline-to-omnichannel shift offer blueprints for how auto dealers can successfully manage — and win — in an increasingly digital environment."

Test drives, trade-ins, handovers, and service drop-offs require personal transactions. Everything else? Not so much. Technology may not be a perfect substitute for the feel of heated leather seats, but it can simplify and accelerate the decision-making process.

Tech Enables What Customers Want
Opportunities to Improve the Auto Shopping Experience

- ✓ Detailed, mobile-friendly specs
- ✓ Personalized outreach and offers
- ✓ Real-time inventory status
- ✓ Flexible and fast financing
- ✓ Transparent, all-in pricing

TREND 2. REDEFINING DEALER REACH: A BROAD ECOSYSTEM

Lucrative add-ons entice dealers to opt for adjacent products and services (and tech).

Dealers don't just sell cars and trucks. They're selling all the things that go along with them, and then some. Revenue from service, parts, and body shops represents a $76 billion market in NADA's latest report. At the average dealership, that represents about 13% of sales, but close to half of gross profit. In the push to increase recurring revenue streams from fixed operations, dealers seek new avenues to sell ancillary products and services.

New Sales & Engagement Opportunities
Expanded Offerings Keep Customers Locked In

REVENUE GENERATION ←

Loan Offer Marketplace Towing & Roadside Help Tire Damage & Replacement Mobile Servicing Car Washing & Detailing Cafes & Coffee Shops

→ CUSTOMER ENGAGEMENT

Happy Customers Mean Higher Profits

Naturally, many of these services require apps and integration with third-party tech solutions. Figuring out what consumers want—and what offers the highest profit margins—requires a balancing act. "What's happening in the market is you're getting access to a broader sphere of tools and services," says Ken Hamkins, CodeRoad VP of Solution Engineering. "Everyone's trying to put together the right puzzle or matrix of products and services to offer the customer."

Spotlight: Loan Financing

The majority of auto purchasers originate loans at the dealership. In the traditional in-person buying process, in-house financing is convenient, if cumbersome. Dealers take full advantage by rolling up as many additional products and services into the loan as they can, increasing interest income.

But consumer desire for more flexible financing, faster approvals, and lower rates means they're less likely to opt for the 'bank of least resistance' in the future. Dealers have a choice to make:

- **lose control** by widening the financing options available or
- **embrace a marketplace mentality** that increases customer satisfaction.

Banks and credit unions need dealers to support their customer base and dealers need banks and credit unions to finance their customers. It's a mutually beneficial relationship that when handled well, increases value for all parties. Technology-driven competition for loans accelerates the process and has the added benefit of lightening the F&I resource load.

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Increasingly, we are seeing auto dealerships pursuing bolt-on services that enhance the customer experience while delivering measurable ROI. Getting customers in the door—and keeping them for the lifecycle of their vehicle and beyond—creates dynamic market opportunities for forward-thinking software developers."

— Ken Hamkins, VP of Solution Engineering, CodeRoad

TREND 3. BIG DATA IN THE DEALERSHIP: WORKING SMARTER

Accessing and analyzing real-time data holds game-changing potential for dealerships.

Dealerships eye technology innovation as a pathway to enhance revenue streams and create new ones. Rightfully so. They see the massive potential for an ecosystem seamlessly connected by free-flowing data: better-informed decisions, more efficient internal operations, and more satisfied customers. Data serves as a force multiplier, ultimately leading to higher profitability and loyalty.

Today, those data-driven insights are closely related to the digital operations hub and the core functions that roll up into the DMS, like inventory management, desking, and service. But the possibilities to expand the reach of the dealership into consumers' lives are limitless.

Innovations on Tap

Connected vehicles open up a wealth of solutions built on real-time, streaming data. Think gas stations that use telematics and geotargeted advertising to offer you a free coffee with fill-up as you near the exit. Think automated diagnostics that alert you to a potential safety concern and service need. Think smart parking that allows you to reserve a spot from your console. Your car becomes the conduit for the dealership to extend their reach into the community.
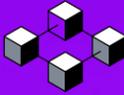
Data Analytics & AI in Action

Key Use Cases in Play Today

Customer Acquisition
High-potential lead identification, campaign effectiveness tracking, and personalized outreach strategies

Inventory Management
Real-time tracking and forecasting of vehicle and parts to support predictive, just-in-time ordering seasonal demand, promotions, and incentives

Pricing
Dynamic adjustments based on inventory, historical and seasonal demand, promotions, and incentives

Service & Maintenance
Smart scheduling that recognizes customer preferences, history, service milestones, and upselling offers

In Search of Centralization and Optimization

The convergence of data analysis and AI continues to unlock insights across every facet of the automotive retail experience. A holistic perspective built on AI-enabled predictive analytics allows dealerships to forecast future sales patterns, anticipate service needs, and pinpoint operational bottlenecks.
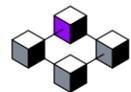
Use Cases Across the Customer Lifecycle
CodeRoad is seeing these trends play out in specific functional areas, meriting greater attention and investment.

Customer Acquisition

When dealers better understand customer behavior, they cultivate stronger and longer relationships. Automotive CRM software offers an advantage to organize and analyze data effectively—even before a potential customer walks through the showroom door.

Like any retail organization, dealerships collect data from multiple channels and sources, including websites, calls, visits, and transactions. Data analysis helps make sense of it all, allowing dealers to develop ideal customer profiles, personalize campaigns, prioritize leads, and accelerate the sales process.

Pricing

Fluctuating demand depends on a host of economic, political, and cultural factors such as tariffs, interest rates, EV market penetration, and price sensitivity. Dealerships are looking to dynamic pricing models to smooth out the impacts of market forces.

"Various sectors, from travel companies to gas stations, have successfully deployed AI-based advanced pricing to navigate through market uncertainties," notes analysis firm Simon Kucher. With dynamic pricing, dealers can maximize profit margins while remaining competitive in a saturated market.

Inventory Management

Inventory risk comes in all shapes and sizes. From carrying costs and depreciation of unsold vehicles, to missed sales opportunities due to OEM shortages or slow turnover, inaccurate vehicle inventory disrupts operations. The ability to "turn and earn" is compromised.

Vehicle inventory management software enables predictive capabilities, balancing supply and demand of vehicles and parts. Visibility into real-time availability combined with data-driven forecasting can identify which levers to pull, notably pricing strategy.

Service & Maintenance

Walk into any service department, and you're likely to hear a recurring sound: ringing phones. It's often a dealbreaker: research finds that "Nearly 70% of customers placed on hold for less than 30 seconds hang up—of those customers, nearly 60% will never service with that dealership again."

Increasingly sophisticated vehicles require equally sophisticated operations. In addition to self-service appointments, automotive service software tools also help dealers anticipate peak periods, reduce wait times, and allocate resources efficiently.

HOW EVERYTHING WORKS TOGETHER

"Data is the foundation of informed decision-making, yet most dealerships are still building the infrastructure and capacity to optimize its use. Outsourcing can help close skill gaps in analytics expertise and mitigate underutilization of advanced technology already available in-house."

–Todd Workman, GM & VP of Global Services, CodeRoad

TREND 4. INDUSTRY CONSOLIDATION: THE IMPACT ON TECH

Consolidation is chipping away at a fragmented U.S. dealership landscape.

So-called "mom & pop" auto dealerships are still the norm—and still supremely profitable—but they're starting to give way to conglomerates representing multiple brands and markets. Although 92% of dealers still own between one and five stores, the top 10 dealership groups now own 9.3% of the dealers in the U.S., an all-time high, according to Bank of America.

As the pace of dealership consolidation bumps up, so does the need to modernize technology tools and platforms to accommodate margin pressures and consumer desires. "As they grow and merge, dealers tend to shift to an enterprise approach to technology investment," shares Ken Hamkins, CodeRoad VP of Solution Engineering. "The focus on local market knowledge shifts to data-driven insights and scalable operational efficiency."

A Voice for Change

In a recent sector perspective on automotive technology, PwC notes, "Dealers are large, mature businesses. Dealership technology is highly sticky as it is embedded in daily workflows, and not often replaced without cause." That said, larger dealers have more purchasing power and economies of scale, giving them greater leverage to influence tech trends.

They're not the only ones looking for end-to-end integration of niche offerings. Major DMS players themselves are looking to build or buy point solutions to create a connected ecosystem built on a unified data layer. A natural outcome is likely an increase in acquisitions, strategic partnerships, and pilot projects within technology providers as well.

COMPETITIVE CONSIDERATIONS

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A network of disconnected digital channels propagated by manufacturers and their dealers alike fragments the customer experience, which not only creates customer friction but a network in competition with itself."

–Ross Pettit, Thoughtworks

THE DEMISE OF THE DEALERSHIP?

The franchise dealership model remains the norm in the U.S., but not for long if advocates for alternative purchasing models have any say in the matter. Keep an eye on these emerging models:

1

Direct-to-consumer (D2C) sales

Vehicle OEMs are on the prowl for new revenue streams and a more unified customer experience. Although significant legal hurdles exist to implement true D2C supply chains, a potential shift to an "agency" model is in the air. In this scenario, OEMs hold and sell inventory, and dealers perform key customer-facing functions.

2

Auto subscriptions

Subscription culture is here to stay. As an alternative to traditional ownership or leasing, auto subscription consumers get flexible, fee-based access to vehicles. The global car subscription market size is projected to reach nearly $100 billion by 2031, as users seek to minimize headaches and maximize utility.

TALENT STRATEGIES FOR AUTOMOTIVE RETAIL TECHNOLOGY

For automotive retail software developers seeking to capitalize on these trends, agility and speed matter most. Integration with market-leading DMS platforms and cross-platform mobile compatibility are table stakes.

Capturing market share means capturing the attention of dealership executives, investors, and integrated solutions providers. It means documenting and delivering ROI and a positive customer experience.

Specialized Automotive Retail Tech Talent

Access to emerging technology skills—at a compelling price point—provides significant advantages to vendors in this space. Like automotive market conditions, these skills aren't static. Be sure you're partnering with a talent provider with a pulse on the trends driving the future of car dealership software.

Momentum-Building Nearshoring Strategies

An outsourced partner offers a workable route to keep pace with emerging tech without the overhead and development costs associated with in-house teams. Compared to traditional offshoring models, nearshore software development opens up access to talented LATAM professionals while minimizing geographic distance, time zone, and language barriers.

CodeRoad's extensive track record in the automotive retail sector pays off in agile strategies and seamless execution. Let us know how we can help you compete for dealership opportunities.
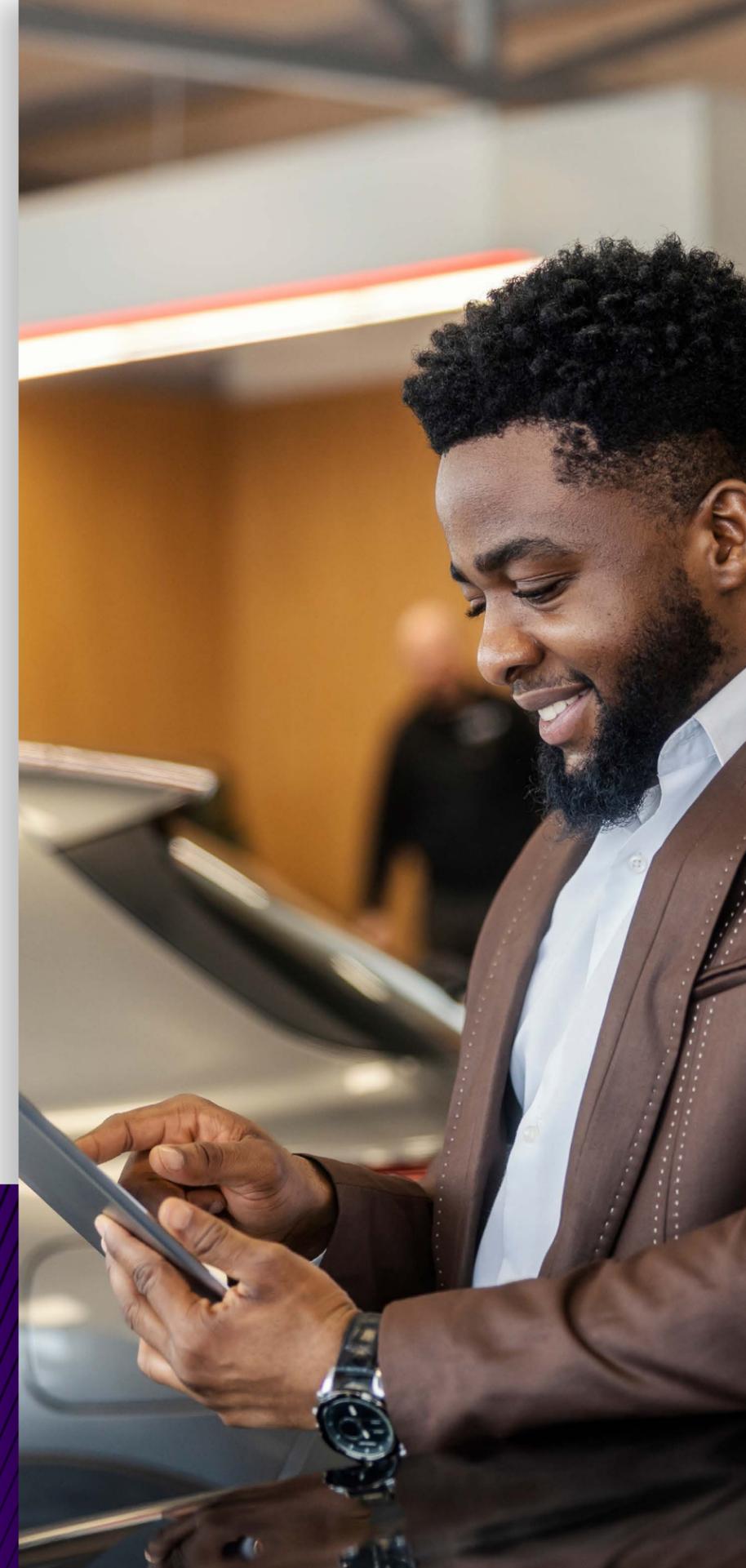
CodeRoad delivers end-to-end software engineering solutions to fuel your business growth.

Whether you need staff augmentation, a dedicated team, or to outsource a portion or the full software development lifecycle of an application, our nearshore technology services are ready to support your success.

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