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NADA MANAGEMENT SERIES

CR8



A DEALER GUIDE TO

Automotive CRM

CUSTOMER
RELATIONSHIP
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Automotive CRM

EXECUTIVE SUMMARY

Automotive Customer Relationship Management (CRM) systems have evolved to become an essential tool in managing dealership operations. Some dealers might even argue that a CRM system is more important than a Dealership Management System (DMS), as it truly connects the revenue-critical business functions of marketing, sales and fixed operations. The purpose of this NADA *Driven* Management Guide is to help decision-makers at auto dealerships in their selection of an automotive CRM system. *A Dealer Guide to Automotive CRM* will describe the vision of technology-assisted customer relationship management by discussing the goals and driving forces in the automotive CRM market, CRM core functionality, some future CRM applications and the CRM selection process. This guide is not intended to be a comprehensive CRM handbook, but instead a source for basic information and advice that dealers can use in their CRM quest.

I. INTRODUCTION TO AUTOMOTIVE CRM

A. CRM Goals and Benefits

Traditionally, dealers have been inventory-centric and many dealer executives consider the vehicle inventory their most important asset. However, before dealers can capitalize on their inventory and generate revenue from sales and service, they have to make decisions about the right customer segments, marketing budgets and media mix, communication processes, price points, menus and much more. In order to do that, dealers have to collect data from the entire customer experience, process the data to derive the right information, and then focus on the opportunities that promise the highest customer lifetime value.

These decision points circle around the shopper—not the inventory. Applying this customer-centric perspective and making data-driven decisions are the essential goals of any automotive CRM system. The insights that dealers (and OEMs) gain from CRM systems ultimately lead to growing more predictable revenue streams, greater market share, improved retention rates, higher Customer Satisfaction Index (CSI) and Net Promoter Scores (NPS), and better return on marketing investments.

Here are some other benefits of automotive CRM systems:

- ▶ A CRM system helps to consolidate customer-related data in one database and align processes, people and information. This helps to establish a customer-centric position, improve the overall operational effectiveness and differentiate the dealership from competitors.
- ▶ CRM systems keep track of all customer interactions and communications at all touchpoints. They allow effective capture of customer feedback, appropriate management of customer expectations, and improvement of dealership services.
- ▶ Effective CRM use helps dealers create more transparency about the customer buying process—thus illuminating the road to the sale—and understand customer lifetime profitability.
- ▶ Dealers are generally able to improve returns by monitoring the immediate response from marketing activities and by continuously maintaining current customer information.
- ▶ Seamless documentation of customer communications in a CRM system can establish effective methods to market

products and services in one-to-one marketing situations. It can also improve cross-selling and prospecting.

- ▶ Opportunities can be assigned to sales and service personnel, and daily work plans help to manage leads in the most effective way. Performance metrics provide guidance about areas of improvement and training needs.
- ▶ CRM systems integrate with DMS retail management systems and exchange data elements with inventory management, accounting and other modules. This keeps the data clean and current.

B. CRM Drivers of Higher Market Adoption

The concept of using automotive CRM systems to take full advantage of transaction data and increase customer profitability has been gaining momentum with dealers over the last decade. Let's look at some of the factors that have contributed to the increasing relevance of CRM.

The Internet and the New Car Shopping Process

The way customers shop for cars has fundamentally changed. Some 90 percent of customers use dealer or OEM websites in the early stage of the decision-making process. According to J.D. Power, automotive Internet users are surfing the Internet for almost 14 hours prior to purchasing a new car. Studies indicate that the longer consumers spend on the web, the fewer dealers they will visit before buying.

The challenge for dealers is to expand their participation and presence in the communication process that has moved to the Internet. Consumers now dictate the dialogue. They have access to a plethora of information from diverse online platforms and social communities, which makes it harder for dealers to monitor and actively join the conversation to present their offerings.

With CRM systems, dealers can fill in this blind spot. The Internet Lead Management (ILM) modules that usually come with the CRM system—along with the system's integration with the dealer's website, social media platforms and other online lead aggregators—allow dealers to track click patterns, document

searched vehicles and preferences, and even monitor social communication.

Cloud and Software-as-a-Service (SaaS)

Subscription- and web-based software has been a catalyst for many industries and applications. For CRM, a service provider manages the application, the master and transaction data in its secure data facilities. Instead of having CRM users purchase software licensing and build their own infrastructure with servers, server rooms, network equipment, remote backup and disaster recovery plans, security and air-conditioning, dealers outsource such functions to the CRM service provider on a subscription basis.

The vast majority of the available CRM systems in today's market are web-based. Cloud implementation dramatically lowers the barriers to deploy and employ CRM software and therefore reduces transaction costs, ultimately leading to higher adoption rates. SaaS also makes it much easier for service providers and dealers to prepare for Mobile CRM, one of the current trends that will be described later in this guide.

Economic Factors and OEM CRM Recommendation

Dealers and OEMs are facing economic challenges. Increased consumer buying power, rising material costs and other factors resulted in a general stagnation in retail transaction prices and low dealer net margins of about two percent.

Consequently, most OEMs are interested in having their brand ambassadors (i.e., dealers) professionalize the way they deal with their sales and transaction data. OEMs push for higher CRM adoption to capture and nurture leads, and monitor the customer experience to ultimately generate higher revenue and outpace the competition.

C. What Leads to CRM Failure?

Research shows that CRM is one of the fastest growing segments of IT spending, and yet about two-thirds of all CRM implementation initiatives fail. Some of the main reasons are:

- ▶ CRM initiatives often start as a great idea from IT or Sales, but lack the

support of senior management. No CRM implementation can survive without higher management investment in the process.

- ▶ Before implementing CRM, dealers need to identify and quantify the desired customer economic metrics. A baseline measure and projection as to the outcome expected with effective CRM usage will not only make the price tag for CRM more palatable to the management team, but also provide the basis for ongoing measurement of the return on investment (ROI) post-implementation.
- ▶ Dealers cannot just implement a CRM system and start using it. To achieve a high level of utilization, dealers must first create a plan for implementing the system, training employees to capture a greater share of customers' purchases.
- ▶ Many dealers move from no CRM to the maximum available configuration. The transition to a CRM system involves a hefty change process for its potential users, and needs to be digestible. Dealers will succeed only if they plan a sequence of manageable modules and a phased progression over time.

II. CRM CORE FEATURES AND DEALERSHIP APPLICATION

A. OEM Certification

OEM certification is the pivotal piece dealers must use to select any one automotive CRM system over the others available.

This certification guarantees that OEM programs and leads distributed from the manufacturer's communication channels are shared with the regional retail network and become available in the dealer's CRM. Conversely, the CRM system will interface with the OEM and enable the manufacturer to evaluate the customer experience, audit the dealer's activities and record metrics such as response times and satisfaction scores.

Before entering an agreement with a CRM vendor, dealers should request a list of the manufacturer certifications from each bidding CRM provider to make sure they are compliant and appropriate.

B. Contact and Sales Management

One of the most important features a CRM system brings to the table is the capability to effectively manage opportunities. Dealers are enabled to actively affect the entire sales process. That means that sales managers and other CRM users, like BDC agents, can influence all customer interactions from first contact to signature and service. Dealers will be able to track the gathered information from any interaction, whether in personal conversations in the showroom, emails or other media, e.g., text messaging.

Many General Sales Managers and dealership executives, especially, appreciate the functionality to manage sales teams and contact frequency using a prescribed and consistent plan. The CRM integrates with the calendar and creates daily work plans and appointments for the sales and BDC managers. Users also have access to inventory data, including pricing information and customer preferences. Automotive CRMs, unfortunately, often struggle with managing commissions. Thus, you should look at this functionality carefully during the CRM demos. If, later on, you aren't happy with your system's response time or capabilities, you'll have to use the DMS as your fallback or calculate commissions manually.

C. Customer Data and Data Lifecycle Management

Data quality is crucial for deriving the right conclusions and initiating marketing activities. The CRM will help to handle customer details, complete customer records, and group leads. And the CRM will clarify and verify the customer's preferred method of communication. Dealers can easily export the data into Excel spreadsheets or other available output formats, such as PDF documents.

The setup and the workflow of a CRM are designed to avoid duplicates and double-entry. In addition, dealers can sign up for data appends to ensure data quality, and cleansing services to clean the database,

automatically updating address information from the National Change of Address (NCOA) database, as well as phone numbers and Do Not Call flags. Some vendors can even pull the latest email addresses and VIN numbers associated with the contact into the system.

D. Internet Lead Management (ILM)

The ILM package is mainly responsible for inserting the leads from the dealer's OEM, and all other listing partners that dealers use to market their inventory, into the CRM data warehouse. Advanced ILM systems can send dealers alerts and automatically route the leads to the right dealership personnel. The system will also reject bad leads and automatically reply to prospects.

E. Marketing Effort and Campaign Management (Equity Mining)

Marketing effort management features become more relevant as dealers start using CRM systems not just for managing customer data, but for actively running marketing campaigns. CRMs assist with customer segmentation, campaign management planning and analysis. Prospects can be engaged via all available channels, including email, text messages, direct mail and others. Customer insights extracted from the data analytics can be used to improve the marketing processes for future campaigns.

Equity mining tools have become a very popular module. More and more OEMs endorse systems that assist dealers with building campaigns around:

- ▶ Lower payments
- ▶ Upgrade of customer vehicles
- ▶ Not in service
- ▶ Non-service customers
- ▶ Lower APR
- ▶ End-of-lease options
- ▶ End-of-finance term
- ▶ Owner's birthday
- ▶ Purchase anniversary
- ▶ Prior service customers
- ▶ OEM campaigns

Technically, equity and data mining tools are analytics. Together, they are used to run marketing campaigns and help dealers segment their target groups as described above.

F. Reporting and Analytics (Road to Sales)

Managing a dealership without reporting is like sailing a ship without navigation instruments. Try either and you will have no understanding about where you came from and more importantly, no clear direction forward. Dealers are challenged by DMS reporting that mainly focuses on the financial side, with not enough softer indicators of significance such as response time, appointment performance, or even long-term customer value.

CRM systems help dealers to create transparency about the road to sales. With sales funnel analyses they can look at the entire process. By using forecasts, dealers can also predict future revenue streams—parsed by manager, make and other attributes. The drill-down per sales manager is especially helpful in making each individual associate more accountable—for example, by showing the numbers of unanswered emails, work plan performance and salesperson performance. For multi-rooftop organizations a CRM system will create guidelines and measure store performance across brands, region and size.

G. DMS Integration

For a CRM to reach its full potential, the system needs accurate input data—both in the initial set-up and on a systematic basis. Customer, inventory and service-related data elements are primarily retrieved from the dealer's DMS. In the best case the CRM is certified for real-time, bi-directional and secure data integration.

Real-time integration is crucial for same-day delivery and reducing the time customers spend in the dealership. Once the prospect's data is entered or updated through the CRM graphical user interface (GUI), the data need to be instantly pushed back to the DMS. Once that happens, the sales manager can desk the deal or turn the process over to the F&I manager for after-market services. Dealers should always avoid overnight batches and delayed data push.

Bi-directional data integration means the CRM can pull and retrieve DMS data, but also push and overwrite data fields in the DMS. If a sales manager updates contact information in the CRM, then the same information should be available in the DMS. Dealers should ask their CRM reps exactly which data elements get pushed and/or pulled. And they should find out if sensitive Nonpublic Personal Information (NPPI) is included.

Dealers must have data elements exchanged in a secure environment. It is critical that data be encrypted and secured.

All major DMS vendors offer approved data exchange programs. CRM vendors run through a certification process and pay the DMS vendor a recurring integration fee per dealer. In most cases this monthly fee gets passed on to the dealers from the CRM companies. The amount depends on the DMS vendor the dealer employs. There are significant differences among DMS vendors, and dealers should always contact their CRM and other third-party vendors about the integration fees before switching DMS providers. These fees can vary significantly and may escalate with a DMS vendor change.

H. Phone Features and BDC Integration

Missed calls are missed opportunities, and CRM systems can help uncover additional sales potential. With the right telephone system and the right automotive CRM, dealers can create window pop-ups displaying customer information for special greetings, automated notes in the customer history to help salespeople stay on top of customer communication, call recording for training purposes, or call reporting for tracking 800 numbers and the latest marketing campaign return rates. Some CRM vendors can even help with virtual BDC functionality. Dealers can outsource some of their telephony and marketing fulfillment activities, ensuring that no one drops the ball.

III. OUTLOOK OF FUTURE CRM

A. Front-End Business Suites

From an IT management perspective, dealers are increasingly frustrated with the number of third-party vendors they have to manage. In many cases, dealers work with more than 15 complementary technology vendors—the majority of whom support front-end applications. Besides the DMS, dealers regularly take on separate service providers for CRM and ILM, desking, rates/residuals, inventory management and appraisal, equity mining, website and mobile sites, digital marketing and reputation management, service appointment, (virtual) BDC management/call tracking and myriad other functions.

The problems with this “best-of-breed” multi-vendor approach range from managing and monitoring multiple data integration points, overcoming disruption in the workflow, dealing with higher overhead from managing multiple contracts with different contract terms and expiration dates, to having less leverage on negotiations due to smaller contract volume.

Some of the bigger automotive CRM vendors have embraced these challenges, turning them into opportunities to differentiate their offerings and grow. They provide dealers with solutions that can be described as “Front-End Business Suites,” which integrate many of the services mentioned above on the same technology platform. This merged system might not always provide dealers with the best available product in each category. But having a fully integrated and technological ecosystem is a powerful argument for the Front-End Business Suite approach.

B. Social CRM

We’ve already seen that the way customers engage in the car shopping process has changed. One communication channel that end-consumers commonly select is social media like Facebook, not just to exchange experiences with peers about cars and dealerships, but also to directly contact dealers and provide feedback.

Social CRM aims to capture customer-initiated inquiries and feedback on the multiplicity of social networks. It supports sales, marketing and customer service departments to monitor, communicate and engage in social business. In order to fully embrace social media, dealership personnel have to respond in a timely manner to tweets on Twitter and discussions on Facebook. In the process, they're collecting new leads and gathering intelligence on these prospects.

C. Mobile CRM

Mobile CRM and web-based CRM applications go hand in hand. SaaS is the enabler of access to the CRM data from smartphones, tablets and mobile applications. For car dealers Mobile CRM primarily translates into speeding up the sales process and staying connected to prospect and customers—literally from anywhere and at any time.

Sales managers have critical customer and inventory information at their fingertips where it matters most: in the showroom, on the lot or in the service drive. Mobile CRM, however, goes much further than just providing remote access to the CRM database. Automotive CRM vendors are working on applications dealers can use to scan a driver's license or a VIN with the help of a mobile phone's camera. Dealers will also be able to record and track calls from mobile phones. The system will automatically document outbound customer call information in the system.

D. Service CRM

The notion of Service CRM comes primarily from identifying and capturing unsold service opportunities and integrating customer information with data collected from other touchpoints. Repair orders are crucial for quantifying customer lifetime value and focusing on clients with the most potential for future profit.

As they increase relevance of fixed operations in the revenue stream, Service CRM and the integration with true CRM systems will soar in value. Dealers will benefit from tools that will help efficiently load the shop—whether with self-service online portals or BDC-initiated appointment scheduling. Service CRM systems will also help streamline service advi-

sor assignments and daily service work plans. Most importantly, Service CRM systems will help dealers capitalize on a more “upsell”-aware check-in and service write-up process. Tablets will turn digital multi-point inspection forms into animated menu-selling toolkits that will make it much easier for service personnel to upsell and provide vehicle-specific recommendations.

IV. PROCESS OF SELECTING A CRM SYSTEM

A. Specifications and Project Plan

In the initial stage of a CRM selection process, the dealer needs to evaluate his current position and come up with a solid plan. In general, one can say that the better the plan and the more focused the team representing the dealership, the better the outcome of the CRM selection process will be.

This first stage includes the following activities:

- ▶ Clarifying the project goals and scope
- ▶ Reviewing the current performance indicators and identifying the metrics that need to be improved with a CRM
- ▶ Defining the project roles and communication paths (e.g., project manager)
- ▶ Describing the outline specifications and dealer functionality preferences
- ▶ Reviewing the contractual obligations with the dealer's current CRM vendor (e.g., expiration dates and auto-renewal agreements)
- ▶ Creating a project plan that considers lead times and time constraints

B. Demos and Quotes

Completing the activities for the initial stage of the selection process will give the dealership team a clearer picture of its requirements for a CRM system. Some dealers might want to document their ideas in a formal Request for Proposal (RFP) or Request for Quote (RFQ). This process will establish the needs, but it might also prevent a full exploration of some new features and services. In any case, the dealer's requirements—not just for functionality, but also for

price point, terms and contractual obligations and support—will determine which available options in the market are worth pursuing.

The process of determining the right vendor mix for the bidding process includes setting up vendor demos and potential onsite visits. Dealers need to prepare their teams and invite all stakeholders to the vendor meetings: management, sales managers, service managers, BDC agents—basically every user who has to buy into the decision. Formulate demo questions beforehand to uncover potential red flags in the systems, and also to classify features that are unique and therefore helpful in distinguishing the different vendors from one another.

Once the CRM representatives conclude their discovery meetings with the dealership team, they will present the upfront and monthly service fees. The fees typically cover installation and setup, data conversion, training and travel, equipment, monthly support, data integration and maintenance. When requesting the pricing schedules from CRM vendors, dealers need to ask for itemized proposals that allow decision-makers to understand the total costs of ownership (TCO).

C. Vendor Comparison

The key to a successful CRM vendor selection is to understand both the set of business applications that come with the CRM and the system's TCO over the term of the contract or potential lifetime. This is the only way to create an apples-to-apples comparison among different vendors and narrow down the choices. Following are the steps of the CRM vendor comparison:

- ▶ Reviewing the systems' configuration and determining the applications that are needed and desired
- ▶ Generating a side-by-side comparison among different systems to review points of parity and difference
- ▶ Analyzing system upfront costs for software setup, installation, hardware, training and other professional services
- ▶ Critically assessing the recurring monthly charges associated with the system and equipment

Dealers should inquire about and make themselves aware of any hidden costs associated with the technology deal, e.g., extra forms charges, potential price increases, additional travel expenses and lodging.

D. Decision

All the work that the dealership team puts into the previous stages will pay off and ease the process of finding the best CRM fit for the organization. The intelligence that the team gathered will help when negotiating the final price and contract terms.

Dealers should let the CRM vendors know which other vendors are in contention. That will create a competitive environment and give dealers more leverage in negotiations. Before actually making offers to the CRM representatives, dealers should formulate a negotiating plan. Some points to consider: who will have the lead in the negotiations, what is the target price the dealer is willing to sign for and when does the dealer have to make a decision.

When the price is right, dealers should always review the master services agreement and contracts before signing. They need to be aware of the terms, auto-renewal clauses, private guarantees, Gramm-Leach-Bliley data confidentiality details and safeguards, and others. The length and depth of a CRM contract can vary. Some CRM vendors have over 20 contract points; some might not even have a real contract. Each member of the dealership team should act as though he or she would be personally responsible for the outcome of the project and longevity of the CRM partnership.

E. Installation and Training

Once dealers have concluded their negotiations they will have to set the dates for the final installation and go-live. The CRM vendor should prepare a CRM workbook and installation schedule that will provide the dealer with a clear timeline.

During the implementation dealers should manage logs to keep an eye on the progress of the install, setup and training. Any issues need to be reported immediately. The installation should be monitored and documented, with a clear deadline for completion.

F. Maintenance

The final stage is no less important than the previous steps in the process; this phase is all about monitoring the CRM and guarding the DMS contract (i.e., policing or auditing the contracts and making sure the service providers honor the agreements). At this point, the CRM needs to begin generating a return on investment. Ongoing and repetitive training on the system are crucial for long-term success. Dealers should use the best practices embedded in the CRM; many dealers benefit from online CRM classes and periodic visits by the CRM vendor to the dealership.

For one thing, dealers can use these contacts with the CRM vendor to recalibrate their ideas about the perfect customer experience. Trainers can also help dealerships by discussing other dealers' approaches. And trainers can introduce new and related products.

From an administrative perspective, dealers need to analyze the vendor's monthly billings frequently to ensure the billings are in compliance with the negotiated terms.

And finally, all decisions about system add-ons and enhancements should be approached with the same diligence as the initial CRM choice.

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