

THE FIVE FACTS OF THE DIGITAL TRANSFORMATION, AND WHAT THEY MEAN FOR YOU

By Rusty West, President, Market Scan Information Systems, Inc.



MARKET SCAN™



- 04  THE THING ABOUT ALL THAT DATA
- 06  **FACT #1** - BIG DATA WITHOUT SCIENCE IS JUST NOISE
- 07  I THINK THERE IS AN APP FOR THAT
- 08  **FACT #2** - THOSE WIDGETS WON'T CARRY THE DAY
- 09  **FACT #3** - STEPPING BACK IS THE FIRST STEP FORWARD
- 10  **FACT #4** - THE JOURNEY MUST BE MADE WITH PARTNERS WHO "GET IT."
- 11  **FACT #5** - THE CONSUMER WILL DRIVE CHANGE
- 12  THE POWER OF INSIGHT

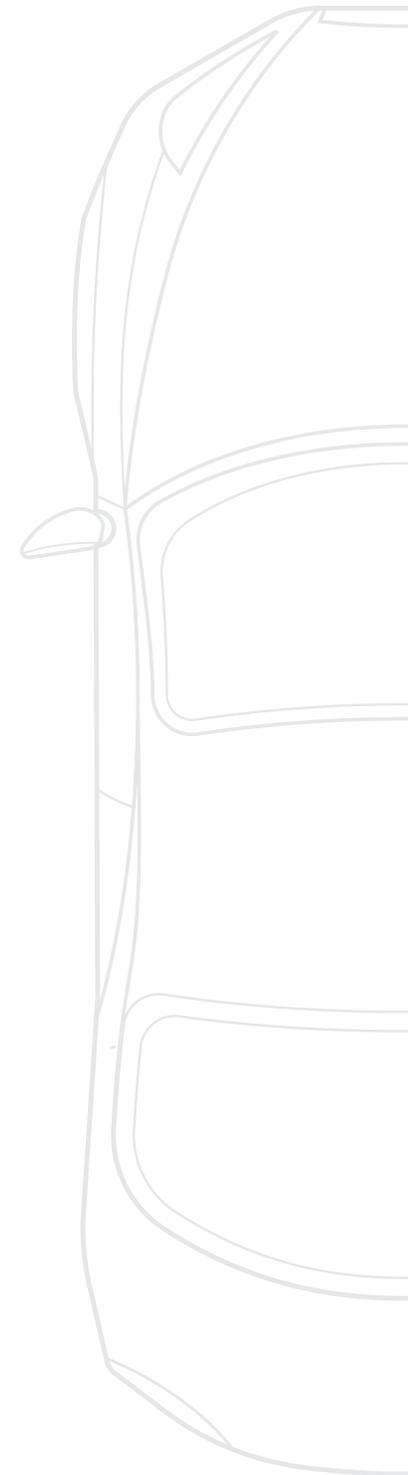
The retail automotive industry is in the midst of a long-running change, a digital transformation. Now, a convergence of new technologies, disruptors in the broader consumer retail arena, and rapid-fire innovation have sped up the evolution (some might say revolution) we find ourselves in today. And every link in the chain – dealers, manufacturers, lenders and solutions developers – are seeking ways to adapt successfully and pursue a better consumer experience, speed up processes, drive better productivity, take costs out, and make more money.

But not all is as easy as we would wish.

The state of things is such that gaps exist between the promise of our new tech and the reality of it in practice. Opportunities are lost, expectations are missed, and value is left unharvested. And even with significant investment in new tools and channels, there are well funded, capable, and competitive newcomers rising up to separate you from your customer.

Having been at the nexus of retail automotive for more than three decades, the company I helped found has given me a unique vantage point to observe many of the key challenges we are all grappling with today. This brief paper is intended to highlight some key facts about the digital transformation that I've recognized through conversations at all levels of our industry and with many who serve it. My hope is to encourage those who are embracing this transformation to look closely at our assumptions so we can evolve some of the challenges that affect us all.

We start with a component that's
core to the digital transformation:
Big Data.



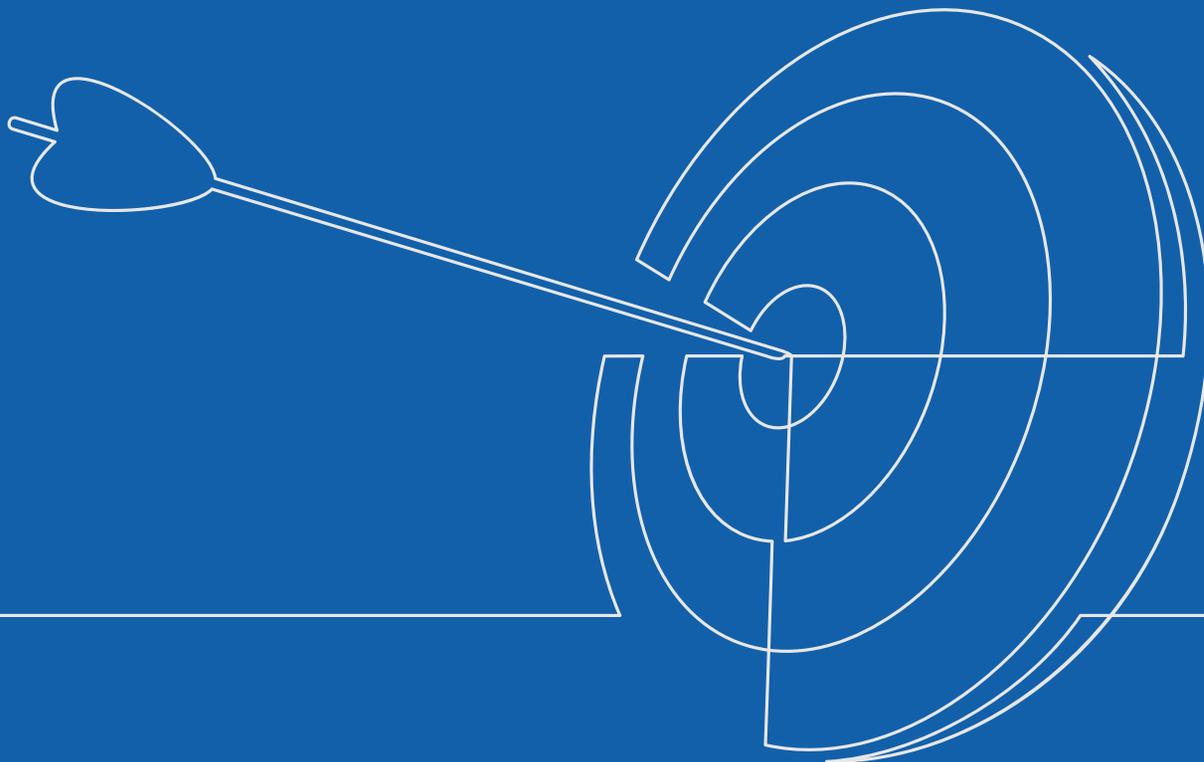


The Thing About All That Data

Today, the topic of data and how we tap into the vast pool of knowledge and insight that can come from it is at the forefront of most corporate conversations. Advances in technology, the ubiquity of cloud computing, and new tools for software developers are making data much more accessible to our industry for innovation and use.

While accuracy, relevancy and timeliness are important attributes of any data set, those are now considered table stakes. More challenging is ensuring the **completeness** of the data and the sophistication of the **science** that makes the data useful in a given application.

Regarding completeness of data, it is common sense that missing an important factor can spell the difference between just getting close or getting it perfect (and getting close isn't good enough anymore). Many times, well intentioned developers, in designing their products to take readily available data feeds, can sometimes think they are bringing you all the right information, but their data sources may be missing a key data set. This missing element doesn't become evident until customers walk in the door with those out-of-ordinary situations or something as common as an online price quote. But how do you know what you don't know?



But how do you
know what you
Don't know?



From a dealership standpoint, any solution that is less than perfect invariably results in lost revenues or overlooked opportunities. For example: Take calculating a payment that will be to-the-penny true online as well as in the store. You speak to every dealership today and you ask them,

“What is your biggest source of heart-burn in your online retailing efforts?”

They will tell you a major one is when a customer comes in and the payments aren't right (and the customer may believe that you have intentionally misled them). In order to calculate the payment accurately for every transaction, all “classes” of data must be present. Those classes derive from the manufacturer, lender, municipality, dealership and consumer. Interestingly, the dealership class of data, which includes such things as

- ✓ Dealer profitability
- ✓ Fee structures
- ✓ Business goals
- ✓ Inventory

is where a gap can occur that affects delivering the precise quote. This is because the dealer data class that includes every dealer in every city and state is not as readily available for software providers to access. This is only one example.



Fact #1

Big Data without science is just noise

Big Data is like fuel. Just as fuel can be used for lots of things – running engines, providing heat, etc. – data can add more or less value depending upon how it is processed for use.

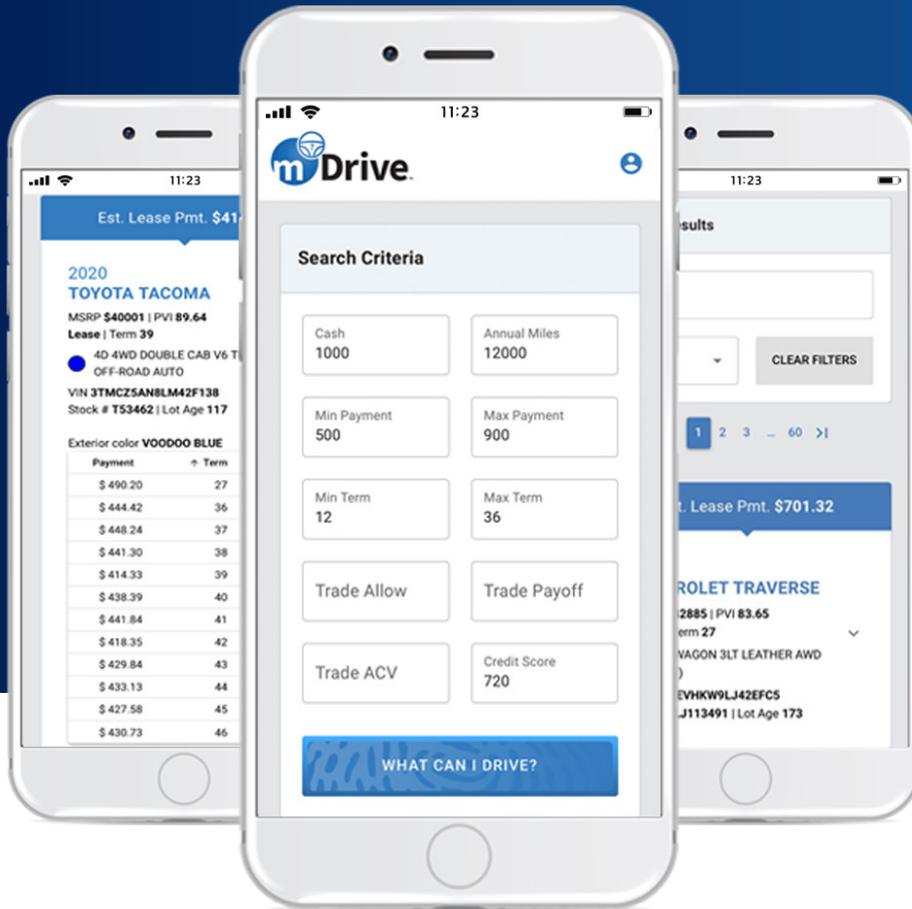
What does this mean for our industry? *We all need to look more closely at the science being applied to the data we are accessing and make sure it is up to the task.* In practical terms, developers should invest more in not only the infrastructure and interfaces to present the data, they must ensure their science is sophisticated and proven. As nice as a dashboard is to simplify the information you've purchased, it is only as valuable as the science that lies behind the aggregation of the data. The end users should be asking their technology partners more about the science behind the systems. This conversation will help find those unnoticed gaps that need to be filled but which might not become known for some time.

Up until recently, many of the lenders and OEMs my company serves went through a labor-intensive process each week to analyze the data related to financing programs they were offering to determine how best to position themselves competitively. One national lender had an entire department of people assigned to do analysis and produce a report every

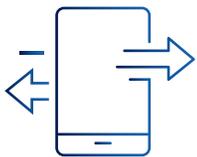
Monday so decisions could be made to adjust the offerings for the week ahead. Not only was this very expensive, it also wasn't very timely and provided openings for competitors to step in and win deals.

After embracing a sophisticated and complete data tool, the lender can now automatically analyze every competitor's published lease and retail finance programs to present highly targeted loan and lease market support programs without the army of highly paid analysts.

The precision of the science involved allowed this lender to make visible to dealers their best possible lease and loan scenarios for every potential new and used vehicle consumer, including by vehicle type, trim, consumer profile, and location, and to make changes to their complex offers in minutes vs days. So, from both a macro as well as a micro level, the complete dataset aggregated through advanced science is able to automate a critical process and provide significant value to the lender. Just feeding data to them would have left blind spots their competitors could exploit. The lesson here is to be certain that the data you are receiving is both complete and scientifically aggregated.



I Think There is an App for That



In an attempt to satisfy our rapidly evolving business needs and customer demands, our industry has sought technological solutions. With noble goals like taking costs out, speeding things up, and becoming more profitable, we have approached this effort with admiral aggressiveness. As an industry, we've certainly opened our minds as well as our wallets with good intentions of finding benefits in a more automated, digital world. After all, there are plenty of pain points we'd like to eliminate, and the tech entices so. But the reality has been very different, which leads to an important realization:



Fact #2

Those widgets
won't carry the day
(and they may make things worse)

The technological “widgets” that have proliferated within our industry often don’t meet expectations and are essentially one-offs that leave gaps and add complexity and cost. The more programs we add, the more people we have to train, and the more reports we generate, the fewer get read. We need to face the music sooner rather than later: just adding more and more widgets or point solutions isn’t the answer to successfully navigating the digital transformation.

I have to confess, I’m guilty of contributing to the widget epidemic, albeit in a small way. My excuse is plausible and likely similar to how everyone else is allowing this to happen...we were trying to solve specific needs, so we added one here and one there. As our portfolio became larger and more complex, it also became more difficult for us to help customers

understand the value of another specialized solution. I started to realize more widgets weren’t the answer and that we needed to simplify our offerings. So, we combined our most popular products into two integrated tech stacks. Now our customers can have all of the same features they had before as well as some new capabilities without adding to the list of separate applications they have in place. In other words, rather than providing one-off point solutions to solve singular problems that leave gaps, the right approach is to provide the data and science to be the enabler and the intelligence inside of your solution that is designed to solve your unique and differentiated needs.

I believe the sooner we recognize the reality of our love affair with more widgets and address it critically, the sooner we’ll be able to focus on the next key point of the digital transformation.



Fact #3

Stepping back is the first step forward

Better than applying one-off tech solutions (those widgets), we see the smart entrepreneurs, developers, and organizations adopting a “systems thinking” approach and identifying a Use Case as a first step. This means starting with a broader view of the total business and how individual processes influence each other before applying technology fixes. Unfortunately, most organizations aren’t very good at systems thinking because it is hard to think outside of our immediate line of sight. A systems thinking discipline often requires business leaders to start asking more questions that involve the broader context than just solving a pain point. For example, rather than thinking, “I need an application to sell cars online,” we need to consider the entire process. It means asking ourselves, “[How does the outside world see us vs how do we see the outside world.](#)”

This approach should also tackle the not-so-comfortable step of identifying your

major landmines while asking the broad questions around improving costs, speed, revenue, and serving your customers better.

Consider mismanaged expectations. Whether we serve another business or the consumer, this can be a major landmine that we need to remove wherever we find it. [The promise of the digital transformation is supposed to deliver consistency, transparency, and accuracy and meet expectations.](#) If your clicks-to-bricks transition is breaking down and the price quoted online is different from the price quoted in the dealership, expectations can’t be met, and trust is lost, by way of example. You probably need to step back and look at the entire process to determine where the inconsistency is occurring so you can eliminate this landmine.



Fact #4

The journey must
be made with
partners who
“Get it.”

After taking a step back and developing a well-informed Use Case, it's time to step forward with the right partners. **Whether dealer, manufacturer, lender, data provider or solutions developer, you should seek to engage with those of like mind who understand they work within an ecosystem and are willing to work together to enable this transformation journey we are all on.**

The partners you choose will determine your success within the digital transformation. The old adage, “the chain is only as strong as its weakest link,” comes to mind. Do your partners understand the bigger picture and know where they fit in helping you (and your customers) succeed? The only way to find out is to have some in-depth conversations with them. And not necessarily one-on-one! Involve more of your partners to collaborate on the path

forward and the issues you all need to solve. You will quickly come to know where the gaps are as well as who can help fill them. In short, you'll quickly determine who gets it and who doesn't.

For partners who do get it and start to see the world with a 360-degree perspective, there are many interesting opportunities and new ways to build value. Companies that rarely interface or even interact can find ways to collaborate to bring new solutions that solve nettlesome problems. **These strategic alliances are useful to entire industries, not just those organizations in our immediate field of view.**

It matters who your partners are and whether they get the bigger picture. I think Fact #4 can be one of the most satisfying—or frustrating—experiences of the digital transformation.



Fact #5

The Consumer will
drive change

As an industry, we spend our lives and our treasure trying to figure out what the consumer wants and satisfy them with the products and services we provide. I believe we would all agree that how consumers want to be served is not their problem to solve. Yet, we continue to allow things to get in the way, whether because of legacy, fragmentation, inertia, or you name it. Without more diligence and attention to solving some of the most common issues, consumers are voting with their feet and migrating to new entrants who are not distracted by the arguments of why we can't do this or that versus deliver the experience customers want.

Everyone in the retail automotive chain has a vital role to play, but ultimately, the consumer's actions drive change.

The current ubiquity of CarFax as an essential element in the sales process is a prime example of how the consumer will drive change. It is fair to say there was early resistance within retail automotive to providing a CarFax report to consumers. There were fair debates about cost and value that slowed adoption. But consumers ultimately prevailed by selecting those dealerships that

recognized the value and who gravitated to those in the marketplace who satisfied the customer need for more transparency and information.

As I've already cited, a major concern among consumers is that they be able to shop for a car online and complete it seamlessly in the dealership. Customers don't understand why the monthly payment they were quoted online is different when they get into the store, even though there are many truthful explanations one could offer. Are they being unreasonable to want it to be the same...even perfect? And why can they visit one dealership and be offered a \$25,000 car and go to another dealership and be offered a \$45,000 car for the same amount down and the same monthly payment?. **There is no great mystery: The winner in this contest has more effectively deployed data, science, technology and process to ensure their offer meets a customer's needs while remaining profitable.** Those winning dealers are further along in their digital transformation because they understand the role of the consumer in driving change and have responded to it.



The Power of Insight



By now, you've likely recognized the interrelationship of the Five Facts of the Digital Transformation. Taken together, they form a very powerful case for positive change. Big Data with applied science and the proper technology form the foundation for your digital transformation, but the recognition of the larger picture and the important roles of the various parties involved give us the deeper insight needed for the way forward.



Deeper insight needed for the
Way forward.





M A R K E T S C A N™

Rusty West is the President and co-founder of Market Scan Information Systems, Inc., a leading provider of technology and analytical solutions for the automotive industry. The company's proprietary technology and analytics mine value from vast amounts of data to enable efficient, frictionless and scientifically accurate transactions. Market Scan's solutions facilitate easier, more complete, competitive and accurate results, enabling automotive dealers, lenders and manufacturers to provide better products, experiences and profitability to serve customers and take share. For more information, call 800-658-7226 or go to www.marketscan.com.