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MK&A®
FRANCHISE DEALER ADVERTISING STUDY

THANK YOU

We thank all of the participants who dedicated their time and shared the information that enabled us to develop our observations and conclusions regarding the current and likely trends in digital marketing.

As promised, we will individually review our findings, including those not published, with any of our survey participants.

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01 INTRODUCTION

As the internet became the primary source of vehicle information, car dealers embraced digital and shifted away from traditional advertising. Early adopters of various forms of digital marketing, including SEM and later social media, often saw a boost in visitors and sales. But as more dealers embraced these channels, they saw them as necessary to maintain share rather than generate additional sales, and as digital was universally adopted, some forms of it became defensive as opposed to generating incremental sales: "We have to be on X, Y, or Z channel because our competitors are there." This study was undertaken to better understand these digital trends as well as the current and future role of digital and traditional advertising in the franchise dealership.

Dealer profit margins for both new and used cars are narrowing as price transparency and competition eat into dealer profits, making it nearly impossible to earn a profit on a new car without an OEM sales volume incentive. With expenses rising due to higher interest rates, employee costs, and other factors, dealers in a flat unit sales environment are focused on expenses, including ad spend. Most of our interviews revealed that dealers were more carefully analyzing vendor performance with the obvious intention of spending more with those that offer the highest return on investment and possibly cutting others.

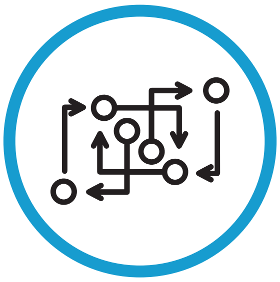
The simple fact for automotive advertising, whether initiated by automakers or dealers, is that it cannot influence the total number of new cars purchased—but it does influence the market share of automakers and dealers.

Automakers play a big role in dealer advertising choices through dealer co-op funds and brand requirements. Co-op funds provide partial compensation to dealers for ad placement, with specific vendors or media, and increasingly favor digital over traditional advertising. But dealer choices are also limited by automaker mandated programs, like websites that influence dealer ad spend without taking into consideration that one size does not fit all.

As automakers cut back on advertising expenses to spend funds elsewhere, they are also relying on dealers to promote the OEM's brand. GM and Ford combined have cut back their per unit advertising costs 14% from 2013. Other automakers, like Toyota, have announced similar cutbacks, choosing to redirect funds to R&D or strategic investments. These automaker-level trends will not reverse as automakers are faced with headwinds from industry changes, like mobility, electric vehicles, tariffs, and competitive incentive offers.

Early on in the survey, we realized that individual dealers define "digital marketing" differently. Many include their own websites, third-party lead generators, equity miners, SEM, social, and many other items. However, dealers reported that the various subcategories of digital perform differently, some much better or worse than others. Overall, digital advertising will continue to grow but at a slower pace than in the past. Additionally, some segments of digital, like AI and digital retailing tools, will experience quicker growth.

Finally, although it captures the minority share of the dealers' ad budgets, traditional media has not gone away, and nearly all of our respondents plan to continue using it. The percentage spent on traditional media varied widely among our respondents. While newspapers seemed to be the biggest loser, direct mail, cable, radio, and billboards have an important role in dealers' advertising strategy as well.



a METHODOLOGY

To conduct our study, we surveyed nearly 400 dealerships via e-mail, telephone, online, and/or in-person. Our study participants included franchise dealers, independent dealers, automaker executives, and advertising executives throughout the U.S. Over 80% of our survey respondents were auto dealers, including all franchises, rural and urban areas, and both private and publicly traded companies.

02 SHOPPING BEHAVIOR OF NEW & USED VEHICLE BUYERS VARIES

Franchise dealers serve two distinct buyer groups: new and used customers. Each group requires specific and often overlapping marketing strategies, which are based upon their shopping behaviors. It is obvious that a luxury brand franchise dealer with a high percentage of lease customers and a used vehicle inventory skewed toward late model off-lease same brand units will rely on different digital and traditional advertising strategies than a rural mass market dealer with a used vehicle inventory spanning a broader price, model, and credit range.

Although a "one-size-fits-all" approach to marketing does not fit every dealer, all franchise dealers are facing the same trends. More shopper education is occurring online, so dealerships across the country are seeing less store traffic, with those who come to the store being ready to buy after having often decided on a specific car.

New car shoppers typically start their buying quest on automaker websites where they compare vehicles, prices, features, etc. New car buyers want to know about current incentives as well as specific inventory from dealers, and since online price information is often limited to MSRPs or perhaps just a current rebate or promotional offer, shoppers will then often visit a research or third-party site for price discovery and model specific information. New car buyers might also come from lease maturities, and those that do are receiving marketing offers from dealers up to six months or more before their leases expire. Other new car buyers might come from affinity groups in which a customer is entitled to special discounts.

In comparison, used car buyers are typically interested in a vehicle that fulfills a specific need at an affordable price. So, franchise and independent dealers rely heavily on third-party marketplaces and classified services, where actual selling prices and specific used car inventory is displayed. Used car buyers have access to an enormous amount of data, not only price and condition, but also previous ownership, accident history, etc. Used car buyers are generally more price and credit sensitive and since they are more of a "need" buyer, their path from research to purchase is often shorter than it is for new car buyers, who often know months in advance when they will change cars.

Generally, used vehicle specific advertising accounts for 20% to 30% of a franchise dealer's new and used advertising budget. Our study's results represent franchise dealers that sell both new and used cars, but mix is not a consideration we explain since our participants often blended the two together in their results and predictions, but it's important to note and understand some of the new and used shopping differences discussed above.

03 DIGITAL WILL CONTINUE TO GROW BUT AT A SLOWER PACE

Automotive digital advertising has undergone an evolution that continues today. Twenty years ago, many franchise dealers were lucky to have a website, and well-known companies like Cars.com and AutoTrader were just emerging. But today, there are many offerings within the digital advertising space, and the industry has grown into a multi-billion-dollar ecosystem with many different subcategories.

Almost all of our participants stated that digital advertising is their most utilized advertising medium. Ten years ago, the average new car customer visited five showrooms before purchasing a vehicle. Today, customers visit less than two, opting to research online instead. So, given this shift in shopping habits, dealers naturally embraced digital.

Most dealers intend to spend more on digital advertising in the future but at a slower overall pace than in the past. Certain areas will see faster growth than others, and some will see contraction. Dealers reported that the growth areas relate to e-commerce functionality and artificial intelligence, such as chatbots or inventory management tools. They also reported that they will spend more on targeted display, digital video, and social media. But many dealers also complained that a high portion of their digital spend is defensive and made to protect share not gain it.

Over the last five years, dealers reported that the digital spend share of their advertising budgets doubled from 25% to 53% (a 112% increase). But in the next two years, dealers predicted that digital share will grow more moderately from 53% to 60% (a 13% increase). As new digital offerings continue to emerge, dealers will evaluate these products and increase or reallocate their digital advertising budgets accordingly.

a HOW DO DEALERS DEFINE DIGITAL ADVERTISING?

So much goes into the dealers' definition of digital advertising that it is difficult to accurately keep track. Most industry followers think that third-party sites like AutoTrader.com or Edmunds constitute most of auto retail digital advertising, but there is so much more.

We asked dealers to define the digital-related percentage of their advertising budget as well as the offerings they considered as digital advertising. As shown in the auto retail digital marketing bucket below, many dealers are grouping unrelated digital services into their digital advertising spend. Many of these offerings are not advertising-related, such as software or merchandising tools, and belong in other areas of expense budgets. It's important to understand that these mistakes in categorization can be inflating the digital portion of most dealers' ad budgets.

We did not attempt to break out the share of each offering as it would have significantly delayed our study.

THE AUTO RETAILER DIGITAL MARKETING BUCKET

- » SEM
- » SEO
- » Digital Video Ads
- » Banner and Mobile Ads
- » Affinity Programs
- » Equity Mining Software
- » Mobile App Providers
- » CRM Providers
- » Chat
- » AI Tools
- » Inventory Mechandising
- » Social Media Ads
- » Reputation Management
- » Digital Retailing
- » F&I Presentation Products
- » Lead Providers
- » Third Party Marketplaces
- » Website Providers
- » E-Mail Marketing
- » Display Ads

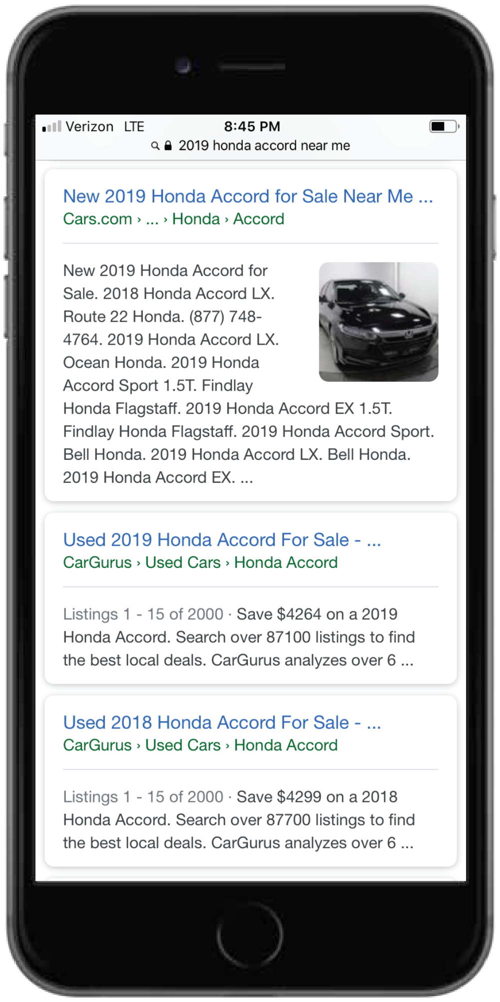
b THE ROLE OF THIRD PARTIES AND LEAD SITES

When the topic of digital advertising in the auto space arises, many industry pundits are quick to point out the major third-party marketplace and lead sites (third-party sites) as the 800-pound gorilla of digital advertising, but the spending on these companies (e.g., AutoTrader.com, Cars.com, TrueCar, CarGurus, Edmunds, etc.), even when combined, often adds up to a minority of most dealers' digital ad budgets. Dealers reported that these third-party sites occupied 22% of their total ad budgets and 40% of their digital advertising share. During our interviews, we received consistent feedback on dealers' preferences among the third-party sites, some of which were consistently described as better (or worse) than others.

Every third-party site has value; factors like a particular market, automaker co-op support, new and used vehicle mix, and others will affect the value of each site for a particular dealer. Some third parties are better at demonstrating value versus their competitors. Sales attribution, or the process of measuring cars sold as a result of an advertising source or a specific third party, is enhanced by metrics and trained staff that can explain the supporting data. Some third parties struggle with attribution and are, therefore, more vulnerable to dealer cancellations, while other companies have fine-tuned their process to substantiate that their services generate a favorable ROI with dealers.

The history of attribution began more than a decade ago when "lead count" was the standard benchmark to measure the value dealers received from these services. Lead count generally measured factors like a customer submitting a lead via a form or dialing a trackable phone number, but the adoption of mobile devices forced change as mobile visitors were less likely to submit leads to dealers versus desktop users. This paradigm shift made it difficult for dealers to attribute value to a third party.

Largely as a result of mobile, third parties were forced to adapt. Today, "connections" have replaced "lead counts," and this new term now represents all the measurable touchpoints that a consumer might interact with via a third-party site. Connections might include a phone call, obtaining the hours and directions for a dealer, viewing dealers' inventory, using a mobile app on dealers' lots, submitting a trackable lead, printing a price certificate, and much more. Dealers generally understand the metrics associated with connections and will often review them as they determine the value of each third-party vendor to their store.



In performing a mobile-based model specific search for vehicles "near me," third-party sites consistently appear at the top of the search listings.

Traffic Overlap

Dealers want to promote their inventory to unique shoppers and limit audience crossover, but many believe that third-party sites have overlapping traffic, and if too many similar services are subscribed to, then they will fail to generate incremental value. As one dealer explained, advertising on multiple third-party sites is the equivalent of running the same TV ad on multiple channels: the return on investment decreases as advertising channels increase.

But the majority of automotive internet traffic is occurring on third-party sites. According to recent data from ComScore, 63% of automotive shoppers are using third-party research sites before making a purchase. Additionally, automotive buyers visit third-party sites more frequently than other automotive sites, with 2.4 average visits per visitor. In comparison, dealership websites and OEM sites were visited 1.8 and 1.6 times respectively. This illustrates that third-party research sites are important customer acquisition channels for dealers and automakers, and they are very important to automotive shoppers.

Forward Trends

As this space continues to evolve, dealers and automakers reported trends that are generating enhanced value to a third-party's core listing or lead service. Complementary offerings, like social media integration and chat, are providing dealers with access to distinct audiences and omnichannel marketing abilities. Affinity programs from warehouse clubs and, more recently, automotive lenders (notably credit unions) are viewed by many dealers as generating incremental sales and having higher conversion rates. Dealers are continuing to invest in affinity programs as are automakers, who are increasingly creating their own.

Outlook

The third-party space continues to undergo an evolution. Companies that were leaders 20 years ago are fading from existence while others are growing, adapting, and continuing to evolve with the changing digital landscape. An example of evolution in this space is that of the well-known lead provider AutoByTel (now officially named AutoWeb).

Once two separate companies that were started in the late 1990s, with a combined market capitalization of over $1 billion, today's combined company is facing an uncertain fate and is increasingly losing relevance to franchise dealer advertising. Its current market capitalization is less than $40M, and its ability to cost effectively deliver leads to dealers is under intense threat. So, while the automotive digital marketing space grew significantly since the late 1990s, not all companies grew with it.

Third-party sites that aren't evolving are facing an uncertain future; weak companies will likely disappear or continue to lose share. While newcomers might attempt to enter this space, and some niche players might survive, there is limited growth in the third-party space for non-differentiated companies. Instead, a fight for dealer market share is ongoing as this space evolves.

Dealers need to consider third parties that best fit their needs and are likely to generate the most value. If dealers don't believe a particular third-party site is performing well, then they have the flexibility to cancel that provider and choose another. The majority of participating dealers are considering cutbacks or have already made them. Some dealers, instead of cancelling, downgraded premium options and now only subscribe to basic listing programs. There is likely a cap on the number of partners a dealer should use, but it's up to each dealer to determine that cap.

Dealer Tips:

01 Meet with your third-party provider regularly. Ask them to show metrics that prove their value. Use objective platforms like Google Analytics, in addition to your CRM, to gauge their value.

02 Attempt to identify overlap amongst third-party providers.

2-YEAR OUTLOOK:

Overall automotive third-party site spend by dealers will remain the same for most dealers. The stronger and better performing providers, especially those with complementary offerings, will continue to take share away from the weaker performing providers.

C DIGITAL RETAILING ADOPTION IS GROWING

Digital retailing initiatives, also referred to as e-commerce, are being considered by most dealers. These tools allow customers to start the buying process online or perform specific tasks like F&I product selection from home, essentially making the transaction more seamless by blending the online and offline experience for shoppers. The majority of dealers we spoke with, 75% in fact, were either experimenting with or considering e-commerce initiatives. Most of these experiments were described as successful in certain ways, while some dealers had varied opinions.

As dealers explore e-commerce initiatives, it's important to recognize that at least for now, these platforms are rarely selling a car solely online; purchasing a vehicle is still a very complicated transaction. While technically possible, in practicality, consumers and many dealers are not ready for this shift. Friction points like trades, financing, fraud verification, signatures, staff training, and even consumer reluctance, are making the transition to online sales slower than expected. While the transaction can be complemented by online technologies, at the industry-level, most shoppers and dealers are not ready to skip the offline transaction process.

Rather, the main benefit dealers reported is making the overall sales process more efficient by yielding a quicker transaction and more seamless customer experience. Omnichannel tools that blend the in-dealership and online experience are growing in popularity and are being touted by dealers as improving deal flow, lowering transaction times, and improving customer satisfaction. F&I menu review, uploading of important documents (e.g., credit applications, licenses, etc.), and comparing multiple models with relative price accuracy are functions that a customer can perform at home, work, or via a mobile device. Moreover, as a result of automating sales processes and empowering sales staff with more control over the transaction, some dealers reported being able to repurpose or remove certain management-level staff, such as an extra F&I manager or a "desk" sales manager.

Some dealers also stated that digital retailing initiatives can reduce shoppers' dependence on third-party sites for price verification, both in the showroom and online. By presenting vehicle details and prices via a streamlined, upfront, and transparent process, consumers were described as more comfortable in trusting the prices offered by dealers. Thus, some dealers claimed that certain consumers were able to bypass third parties for price-related research and go directly to the dealers' site for price discovery. However, it's important to note that digital retail platforms are not marketing or customer acquisition tools. In order for them to reduce dependence on third parties, dealers must first drive traffic to their dealerships and websites, which often rely on third parties. So, while these tools may reduce third-party dependence for some shoppers, these tools do not reduce dealers' dependence on third parties for customer acquisition.

Some studies found higher grosses resulting from these platforms; $500 increased profit per vehicle retailed was a common number. There are multiple explanations for this increased gross profit, including customers that are more comfortable and are, therefore, less price sensitive, or customers having the freedom to "desk their own deal" by playing with payment levers and letting them upgrade their vehicle at their own leisure. However, after reviewing multiple studies, we have not yet found conclusive evidence that digital retailing tools will increase profit per vehicle retailed. The success of these initiatives involves many factors, including sales process changes, and, therefore, attempts to measure increased retail profits are subject to many variables. However, many dealers did achieve sales-related efficiencies, both in transaction flow and staffing levels, which is a positive contributor to overall dealership profitability.

Growth in the e-commerce space will continue for dealers as the technology is beneficial to the customer experience and overall retail transaction flow. Dealers that fail to provide customers with more convenient tools to interact with their stores will be increasingly disadvantaged as these tools continue to scale industry-wide and will be expected by shoppers. But dealers should recognize that e-commerce solutions will not generate significant incremental sales, and if the solutions are implemented poorly, they can also cause damage.

Dealer Tips:

01 Make sure the showroom and sales processes are appropriate for an e-commerce strategy. Dealers need to consider several factors, such as their market, competition, franchise, and current processes.

02 Keep expectations in line after launching an e-commerce platform. The most obvious benefits will be an improved customer experience and higher customer satisfaction scores. Significant sales volume growth is unlikely, but staff efficiencies might be realized with sales- and F&I-related staff, which will impact dealership profitability.

2-YEAR OUTLOOK:

Dealers will increasingly spend on e-commerce initiatives over the next two years to improve their customer experiences but not to increase sales volume. Use of e-commerce tools will vary by market, franchise, and dealer. For example, some dealers might offer online car sales with one-price pricing, while others might only support remote F&I menu review. Only a small minority of car sales will occur solely online, and these transactions will likely be simple ones, like a new car lease for a returning off-lease customer.

d SEARCH ENGINE MARKETING (SEM) SHOWING DIMINISHING RETURNS

Search engine marketing, as a digital advertising subcategory, has become a frustration point for the majority of our survey respondents as compared to the past. We were regularly advised that returns from SEM continue to diminish. Dealers explained that "clicks" have become more expensive while conversions are dropping. Many dealers reported frustration with their SEM-related ad agencies, especially those that are mandated by automakers to receive co-op funds.

Multiple issues are contributing to these diminishing SEM returns. The most obvious explanation is intense competition for the same keywords in the same markets. Third-party automotive sites, ad agencies, automakers, and dealers are all bidding against each other to acquire traffic for their respective sites. More bidders in an auction means costs increase for the winning bidder, and, thus, cost-per-conversion increases. Another explanation is consistent keyword bidding overlap amongst related parties as well as a lack of transparency to prevent this overlap. While some third-party sites and automakers actively avoid campaigns that might compete with their dealers, others do not, and this becomes impossible to police. In one example, a major third-party site recently launched a highly anticipated SEM offering for car dealers, but it refused to disclose the keywords it buys, meaning dealers might bid for the same keywords from a different vendor or ad agency. Finally, franchise dealers of multiple makes were often disappointed with automaker mandated SEM agencies, despite the benefits of co-op assistance and franchise compliant advertising. Dealers reported that these agencies failed to provide distinctive and differentiated campaigns as a result of adhering to automaker guidelines.

Despite the diminishing returns, at least for now, dealers still consider SEM an effective advertising tool to gain them specific exposure and quality leads. However, they explained that monitoring campaign performance and ensuring conversions have become more difficult than in the past, and that campaign optimization remains an ongoing priority.

Dealer Tips:

01 Audit your agency's keyword reports on a monthly basis. Demand transparency in their practices.

02 Monitor branded search costs for variants of your dealership's name and location.

03 Consider non-OEM approved ad campaigns that might provide more differentiation.

2-YEAR OUTLOOK:

Despite costlier and less frequent conversions, dealers do not plan to cut back on SEM spend. Instead, they reported that this slice of their ad budget will remain consistent into 2020.

e DIGITAL ATTRIBUTION REMAINS AMBIGUOUS

> “Attribution in dealership advertising is like going to a bar and having one drink, followed by a second, third, and fourth drink, then a fifth, sixth, and a seventh drink. Then waking up the next day and saying, ‘it must have been the last drink that gave me a hangover.’”
>
> *– Charlie Vogelheim, Host of the Flying Car podcast and well-known industry figure*

Charlie’s analogy, while comedic in nature, captures the frustration and limitations of attribution. No single drink led to the hangover; each drink had a role. In digital advertising, we need to consider all the digital touchpoints that led to the sale and the role each one played. Sure, the final touchpoint might have been the last one before the sale, but the sale might not have happened without the contribution of many others.

Last click attribution, or the last trackable digital source before a lead arrived at a dealer, often involves easily traceable measurements, like submitted leads or tracked phone calls. As mentioned earlier, the advent of the smartphone disrupted many of the digital attribution measurements that dealers previously used, like lead count. The overwhelming majority of automotive shoppers are using mobile devices to research, and these consumers aren’t willing to submit a lead via a form. Instead, they might visit the dealership’s site, view hours and directions, click a URL, engage in a text chat or SMS, or maybe phone a dealer. Thus, dealers that monitor the value they obtain from certain digital sources must consider multiple methods to prove their value.

While dealers reported digital as their most effective ad medium, they cannot often detect which type of dealer advertising serves them the best. They value knowing that they can obtain some level of attribution with digital ads, but in cases where there’s no nexus with sales, they will remove the digital source. We also heard examples of groups cancelling certain third-party sites and immediately seeing a drop in overall leads and sales even though the third-party site didn’t seem to be generating results prior to the cuts.

Progress is being made with attribution. Today, certain vendors can track customers using their app on a dealer’s parking lot or even driving past a digital billboard, but knowing the impact that all these customer touchpoints had during the process of a sale is difficult to substantiate. However, as dealers pursue digital advertising, they should limit audience duplication in certain areas of the purchase funnel. Dealers should pursue advertising options that will provide them with distinct coverage and audiences.

While many digital companies are very sophisticated in proving last click attribution, dealers that rely on this measurement are often exposing themselves to a fallacy. But given the absence of other information, it’s easy to understand why dealers are making advertising-based decisions on the last click premise.

f HIGHER GROWTH AREAS FOR DIGITAL

In the next two years, dealers reported that they intend to spend more on certain digital marketing areas and related services. Tools related to transparency, e-commerce, and artificial intelligence were commonly reported as areas where dealers will actively increase spend as they seek new and more seamless ways to interact with their customers. Other areas, like display ads, social media, and digital video are also expected to grow as dealers cite them as new channels to acquire customers.

TRANSPARENCY AND E-COMMERCE TOOLS

Tools related to transparency and e-commerce will continue to see growth in the future as dealers and automakers attempt to redefine their customer experiences. Other transparency tools, especially those related to price discovery and trade verification, will see growth in multiple areas of the retail transaction. As we reported in our white paper, Trade Disrupted, new tools are bringing transparency to the trade-in process and are quickly being adopted by dealers.

Dealer Tips:

01 Dealers that have not embraced new trade-in tools might be at a disadvantage as they are not realizing the maximum values for vehicle trades.

ARTIFICIAL INTELLIGENCE

Artificial intelligence tools interest dealers and will likely become critical to dealership operations. Emerging tools are allowing dealers to perform sophisticated functions that were once impossible. For example, some tools allow a dealer to predict a selling price of a specific vehicle (within a small margin) as well as the expected time to sell the vehicle. Other AI tools are being acquired to handle web-based chats with customers, identify vehicles with mislabeled trim-levels, as well as perform a variety of other tasks. AI tools are growing in popularity for dealers as they allow business model optimization at relatively low costs and continue to bring new innovation to dealerships.

Dealer Tips:

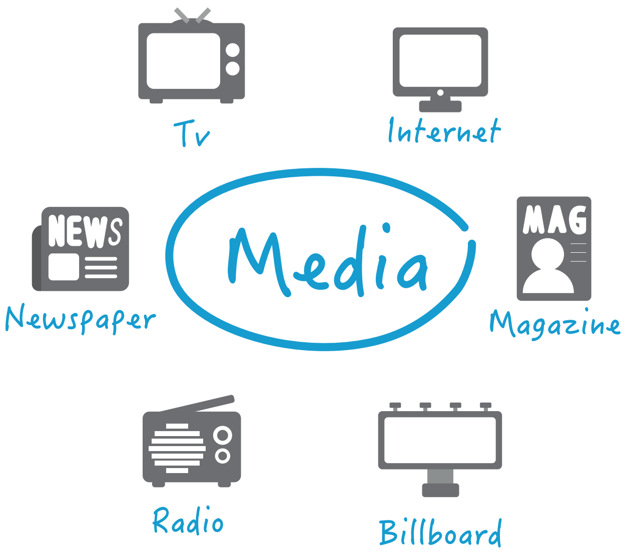
01 The fad of "velocity" selling, or turning used car inventory simply to meet inventory age guidelines, has lost industry acceptance. New AI tools allow VIN-specific vehicle pricing optimization based on market demand, supply, and other variables, and require little dealer effort.

TARGETED DISPLAY AND DIGITAL VIDEO ADS (INCLUDING SOCIAL MEDIA)

Targeted display and digital video ads are two areas that will see significant growth over the next two years. Digital display ads that consist of multiple ad types (e.g., retargeting, geo-fence) and platforms (e.g., social, app-based) are being increasingly sought by dealers. The ability to target, based on filters like geofences or social profiles, is encouraging dealers to develop creative campaigns and spend aggressively to promote them. Similar to display, dealers are also spending more on digital video ads. Cord-cutting (cancelling paid TV service) combined with the rapid rise of relatively inexpensive and targeted advertising in areas such as streaming video is creating advertising options that cost much less than television and are more targeted. These ads-types will likely see significant growth over the next two years as dealers take advantage of their low costs, accessibility, and manufacturers' increasing willingness to co-op them.

04 TRADITIONAL ADVERTISING STILL WORKS

Despite the continued shift to digital, traditional advertising (i.e., direct mail, print, outdoor, radio, and television) is still effective. While a small percentage of dealers have moved their advertising budgets completely towards digital, the majority still integrate traditional advertising into their marketing objectives.

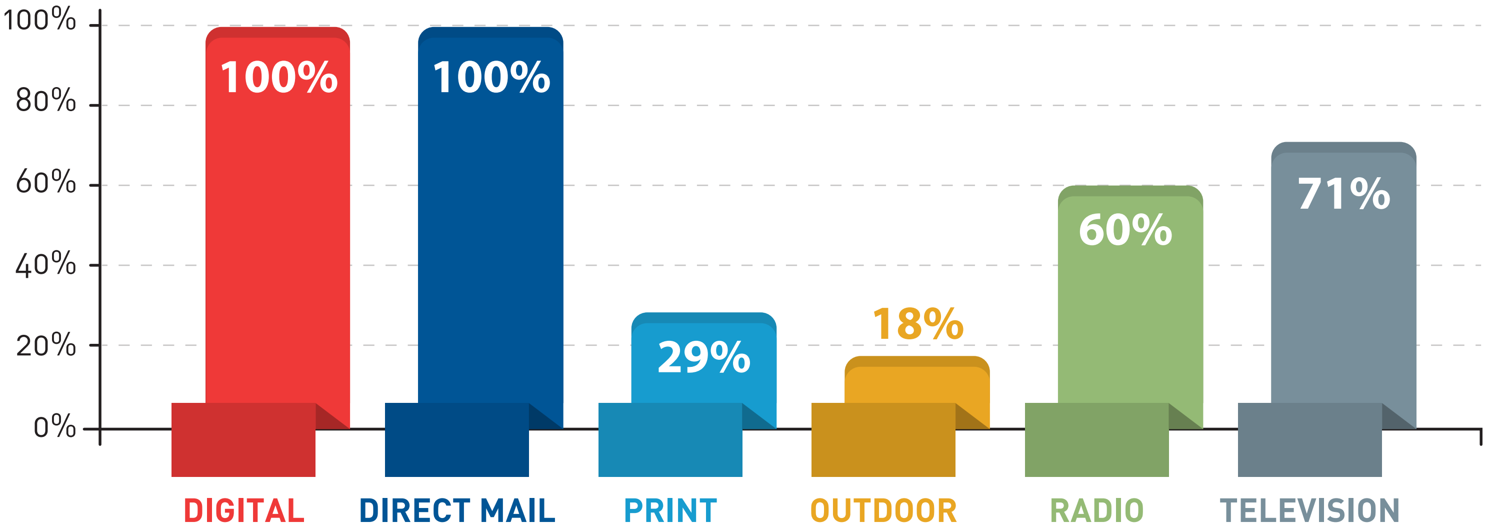


Dealers explained that rates for many traditional mediums have decreased substantially, providing dealers with better value than in the past. Other dealers report that traditional mediums allow them to target customer segments that are difficult to target via digital, such as the Hispanic market. In other cases, dealers reported weak digital effectiveness for automaker brands with insignificant market penetration and low brand awareness, whereas traditional advertising allowed these dealers to promote both their franchise brands and dealerships more effectively.

Traditional advertising also complements strong digital presences, especially as digital retailing initiatives continue to scale. For example, the rise of dealership e-commerce-based initiatives has many dealers leveraging traditional advertising to promote their websites and e-commerce capabilities. Dealers reported that traditional advertising effectively communicated their websites' ability to price and buy a car online, which generated "direct leads" for dealers, or leads that bypassed third-party automotive sites.

The following chart shows the advertising mediums used by our participants. While traditional advertising constitutes a minority of dealers' ad budgets, it is still used by the majority of car dealers.

ADVERTISING MEDIUMS USED BY DEALERS



SPECIFIC FEEDBACK ON TRADITIONAL MEDIUMS

DIRECT MAIL

All of our study's participants used direct mail, and it was considered the most effective form of traditional advertising. Dealers provided multiple reasons for using direct mail, as well as the types of campaigns they deployed. Most dealers are using direct mail to send information to their existing customer base or to woo customers away from competitors. Dealers explained that the only way to reach certain customer segments, or to offer specific promotions (e.g., conquest offer) was via direct mail. The most common campaign-type reported was related to equity mining—specifically, targeting potential customers who are likely to replace their current vehicle. Other campaigns, such as one designed to drive foot traffic, that might feature a contest or a prize, were also reported, but these approaches were significantly less common than equity mining. Direct mail generated recognizable incremental sales from customers that other advertising could not have reached as effectively.

2-YEAR OUTLOOK: Dealers reported that the direct mail portion of their ad budgets will remain consistent at 11%.

TELEVISION (BROADCAST AND CABLE)

Television, which was used by 71% of our participants, was considered the second most effective type of traditional advertising. Many dealers used television to promote their brands and websites, but others also used it for specific promotional offers. Dealers stated that advances in television ad targeting offer more value than in years past. Specifically, in some markets, dealers can target certain customer demographics or even specific street addresses. Dealers anticipate declines in broadcast TV ads but increased spend in cable TV ads. Since dealers blended broadcast television and cable into the overall television category, this grouping resulted in overall stability in the category. Advanced targeting abilities, more aggressive rates, and the need to generate brand awareness were the most common reasons dealers cited for choosing television.

2-YEAR OUTLOOK: Despite cord-cutting trends, overall television advertising will likely decrease slightly to 14% of dealers' ad budgets. Broadcast television advertising will see contraction, but cable advertising, and solutions that allow advanced targeting, will see growth.

PRINT

Print advertising was used by 29% of our participating dealers. Five years ago, it comprised 11% of our participants' advertising budgets, but today the share is 4% and is expected to decrease further. Most of the feedback pertaining to print advertising was negative; however, some dealers reported that while print was no longer as effective as it was in the past, there were great print deals to be obtained. Depending on the market and marketing objective of the dealer, print advertising might be used for branding or simply for a promotion to generate foot traffic.

2-YEAR OUTLOOK: Dealers reported that the 4% print portion of their ad budgets will decline to 2% in the future.

RADIO (INCLUDES DIGITAL RADIO)

Nearly 60% of participating dealers use some type of radio advertising. They explained that radio advertising is cheaper than in the past and is valuable for specific promotions. Moreover, radio allowed them to reach certain demographics more effectively, like the Hispanic market. Dealers also reported that digital radio advertising, including satellite radio and Pandora, was something they continue to use, but it was only a small portion of their ad budgets. The majority of dealer radio advertising was reported on traditional AM/FM frequencies.

2-YEAR OUTLOOK: Dealers reported that the radio portion of their ad budgets will decline from 10% today to 7%.

OUTDOOR (OUT OF HOME)

Dealers with outdoor billboards are fiercely loyal to them; they do not want to give them up to a competitor. While outdoor was the least common advertising type among our participants, it was also the most exclusive; a combination of limited availability and zoning regulations in certain markets makes outdoor billboards inaccessible for many dealer advertisers, which explains the lower penetration. However, for dealers that do use billboards, they described them as an effective means of generating brand awareness in their markets, as well as a way of connecting their brands to their communities. Analog billboards were commonly used for branding purposes, and in geographically disbursed areas, directional ads were more common. Digital billboards that allow dealers to update their advertisements in almost real-time are increasingly used to advertise time sensitive promotions.

2-YEAR OUTLOOK:

Dealers reported that the outdoor portion of their ad budgets will remain steady at 2%. Wider adoption of digital billboards might generate growth in this category.

During our study, we spoke with chief marketing officers from a handful of large auto groups as well as their title equivalents at two automakers. With few exceptions, we commonly heard that a blended digital and traditional advertising strategy was the most effective for dealership marketing, even for smaller stores. While traditional advertising spend will contract in the next two years, most dealers will continue to advertise offline in some capacity.

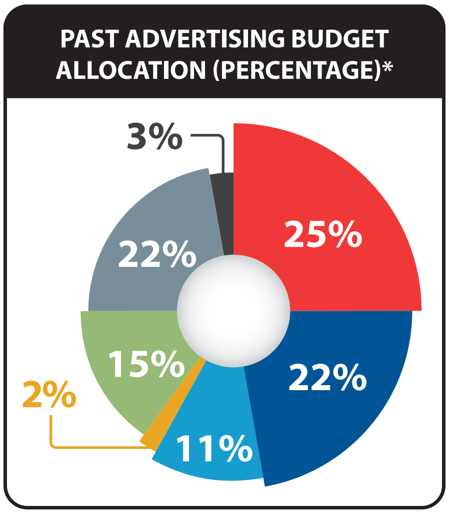
05 MOST DEALERS WILL NOT INCREASE ADVERTISING SPEND

Franchise car dealers have kept advertising spend a consistent variable of new car sales for nearly 20 years. The standard industry benchmark of nearly $640 per new car retailed remains the common gauge still spent by dealers—even though margins have compressed considerably since the late nineties. When used cars are factored into advertising cost, the standard industry rate, which represents a blended rate of new and used retailed units, is $350. On an industry level, according to its latest data, NADA reports that the average dealer spends $579,425 per year in total advertising costs, with import dealers spending more and domestics less.

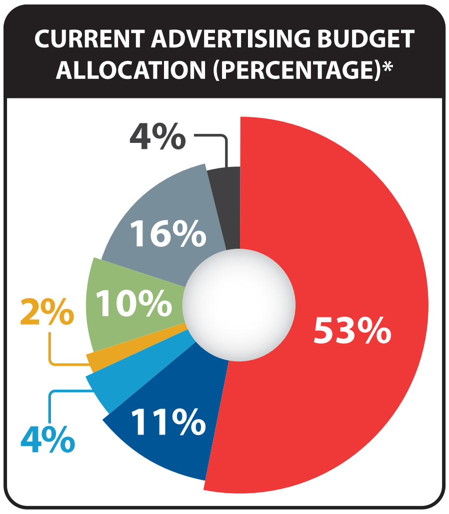
In our study, some dealers spent nearly $850 per new and used unit sold, and others reported less than $200 per unit. There are multiple reasons for this delta in per unit advertising costs. Dealers with a strong brand in a community, or groups with a large multi-store platform, generally reported significantly lower advertising expenses at the group level. Our analysis found that these stores achieved significant advertising-related "economies of scale," which has a major impact on net profit. Conversely, small groups or single point stores that might be seeking specific sales objectives tied to volume incentives and stairstep programs tended to be at the higher range of advertising costs. Other dealership-specific factors, like a change of ownership, new and used mix, or the opening of a new location, also significantly affected advertising expenses.

In the next two years, 80% of participating dealers anticipate that their advertising expenses will remain the same or decrease slightly on a per vehicle sold basis. The remaining 20% expect those expenses to increase slightly. In our opinion, as historical data supports, we expect that increases or decreases in advertising expenses will be tied to the new car sales rate and not other factors. We also note that the forecasted increase in used car retail volume will not have a major effect on total franchise dealership advertising spend.

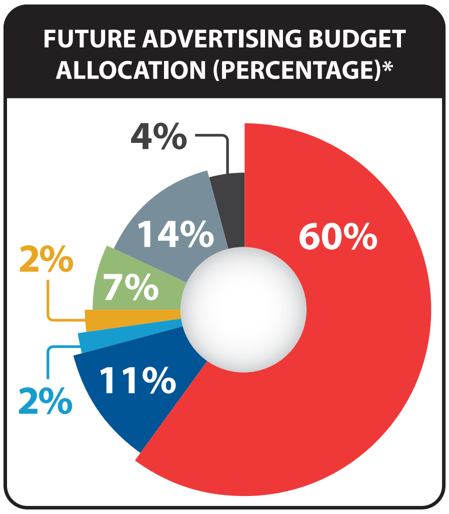
If new car sales increase or decrease, advertising spend will adjust accordingly while remaining close to $600 per new car retailed, at least for the next two years. We should add that dealership advertising has not yet adjusted to compressed margins, which is the result of dealers chasing volume incentives to achieve automaker goals. If this correction does occur, it will result in the contraction of ad dollars spent in this space.



PAST ADVERTISING BUDGET ALLOCATION (PERCENTAGE)*



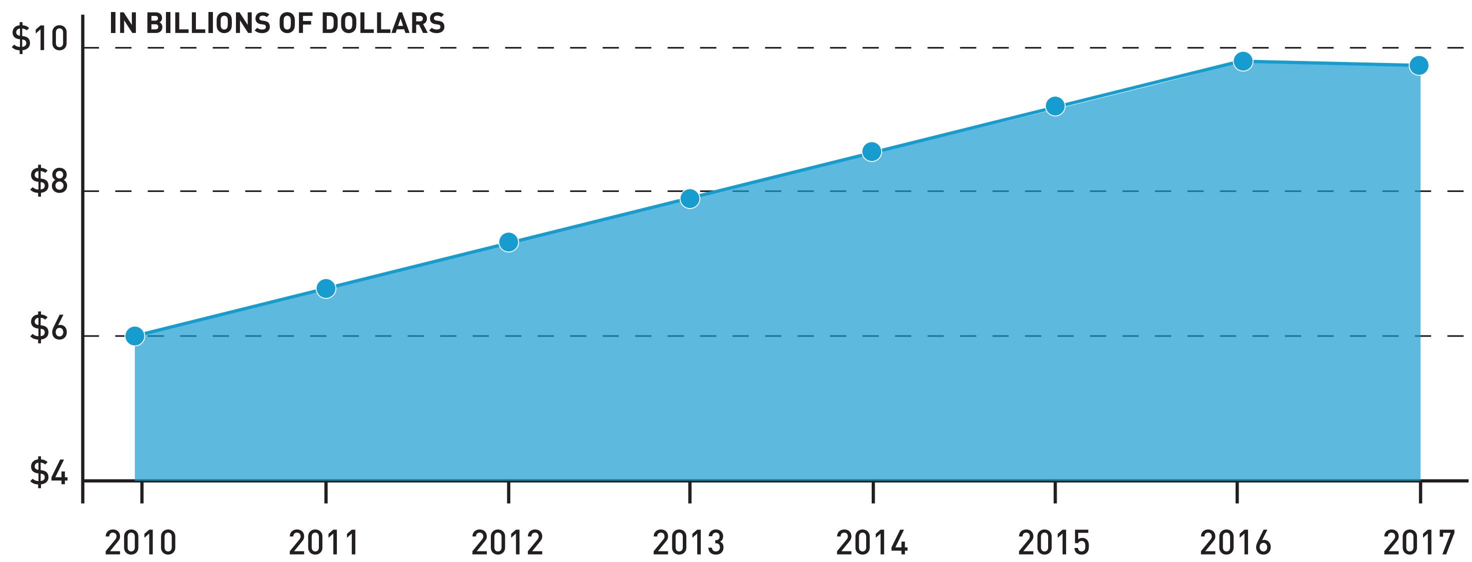
CURRENT ADVERTISING BUDGET ALLOCATION (PERCENTAGE)*



FUTURE ADVERTISING BUDGET ALLOCATION (PERCENTAGE)*

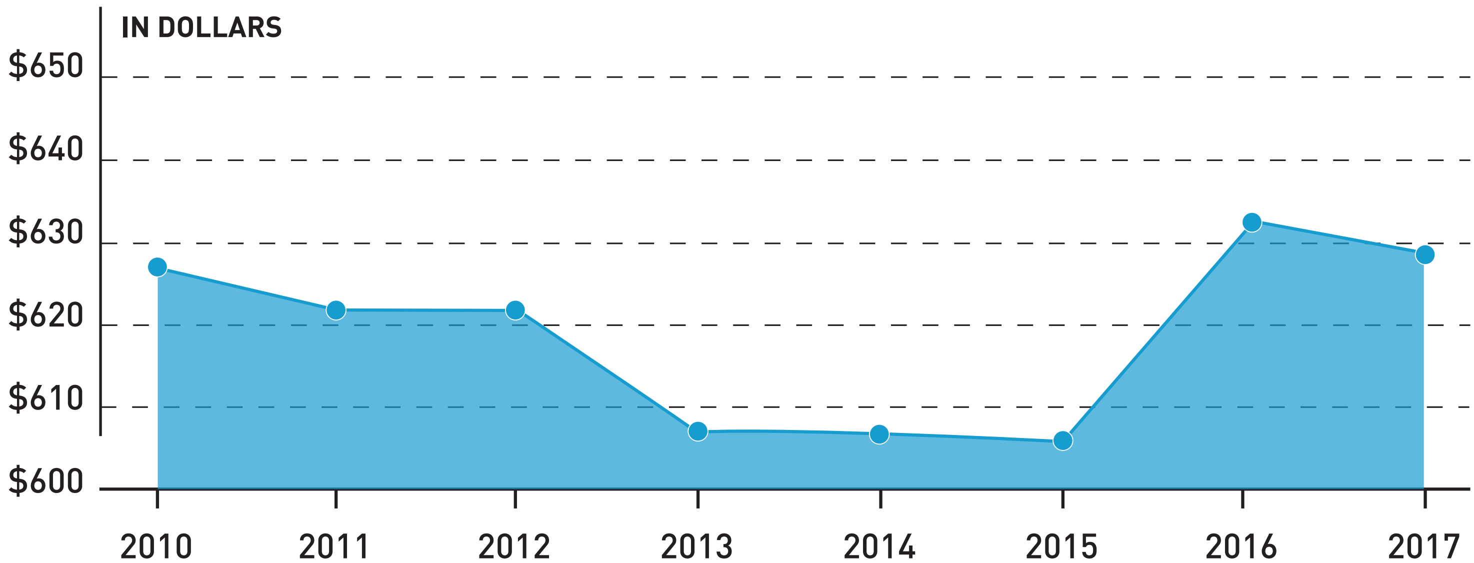
● DIGITAL ● DIRECT MAIL ● PRINT ● OUTDOOR ● RADIO ● TELEVISION ● OTHER

TOTAL DEALERSHIP ADVERTISING EXPENDITURES BY YEAR



Source: NADA

AVERAGE DEALERSHIP ADVERTISING PER NEW UNIT SOLD BY YEAR



Source: NADA

06 OBTAINING MORE DIRECT "LEADS" IS A FOREFRONT ISSUE

While dealers recognize the role of third parties in a retail sale, they also feel that their websites and showrooms are more technologically sophisticated than ever before. Dealers feel that e-commerce initiatives, as well as sophisticated website tools, allow them to offer shoppers the information necessary to start or complete a purchase online, offering the consumer independence from a third party for tasks like price discovery or trade values. Consumers that bypass third parties during the vehicle research process are called "direct leads."

Many dealers explained that obtaining direct leads is a critical reason for their shift towards more in-store transparency and technology. They feel these customers convert at a higher rate, are easier to sell to, and are generally more profitable. With dealership new car margins at historic lows, it's easy to see why the trend towards direct leads and traffic is pursued by dealers.

To obtain more direct leads, dealers are using both digital and traditional advertising. They explained that generating brand awareness and top-of-mind advertising is a critical first step for direct leads as they want consumers to know about their brand and enhanced website functionality before they start researching a vehicle purchase. Dealers also advertise specific promotions or one-price pricing in mass media or via social media platforms and encourage consumers to buy online via their e-commerce integrated websites. These measures have been effective in increasing direct traffic to dealership websites and showrooms.

But all dealers agree that for a direct lead strategy to work successfully, it must be supported by a robust and accurate website. While a website doesn't necessarily require e-commerce functionality, it does require a high level of sophistication while also being engaging to the shopper. Tools related to transparency, price discovery, artificial intelligence, and chat are critical factors, as well as accurate and detailed inventory and specials.

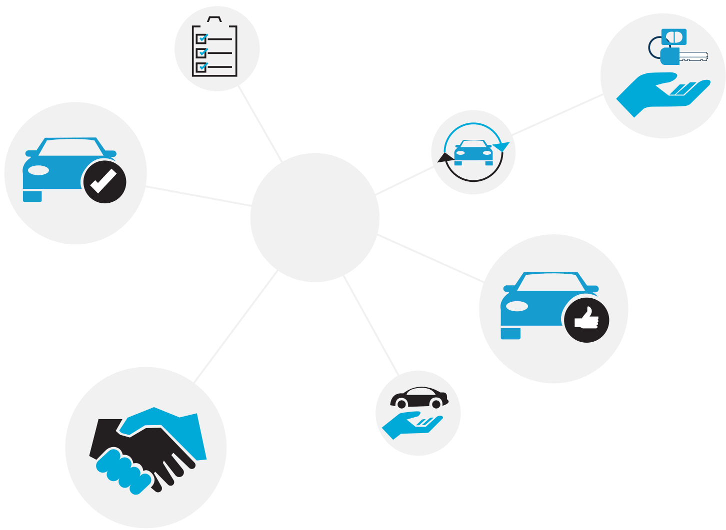
According to ComScore data, the majority of automotive-related internet traffic occurs on third-party shopping sites, exceeding that of automaker and dealership websites combined. This statistic, combined with the well-known reality that the average car buyer physically visits less than 1.5 dealerships before making a purchase, demonstrates the long-accepted notion that car buyers are relying on third parties and the internet for the information necessary to make a vehicle purchase.

Consumers rely on third parties before consummating a vehicle transaction, and while dealers recognize this reality, they are still placing a major emphasis on obtaining direct leads. Dealers explained that they aren't attempting to siphon all traffic away from third parties, but only a marginal amount, which they believe will generate significant additional income for their stores.

There are several factors that are necessary for a dealer to be successful with a direct lead strategy. The website is the most obvious, but the dealership's brand equity, customer segments, market, pricing strategy, and other factors will affect the outcome. Dealers must conduct a thorough analysis of their existing operations and business and identify ways to differentiate themselves before launching a strategy.

07 AUTOMAKERS ARE SPENDING LESS ON ADVERTISING

Automakers are allocating less funds to advertising. In reviewing the publicly available financial statements for Ford and General Motors, we found, on a per unit basis, a 14% decrease in advertising expenses since 2013. Recently, Toyota announced that it will cut back on advertising spend and invest the funds into R&D; other automakers have made similar cutbacks. This trend is placing more pressure on dealers to advertise their franchise brand in the face of decreased retail margins.



Seventy-three percent of dealers reported that OEM sponsored co-op dollars are important to their advertising decisions. Factors like a dealer's franchise or dealership group-size make co-op less important as some automakers do not offer co-op funds, and larger auto groups often make group-level decisions that are independent of automaker co-op funds.

But all automakers, even those that do not offer co-op funds to dealers, have regulations related to dealership advertising, some of which are highly restrictive. One common automaker mandate requires dealers to use certain website providers, which was often described as a burden to dealers' marketing activities. Many dealers also reported that OEMs are pushing favored vendors, for everything from display ads to websites, a practice that many dealers feel is partial to automakers since they might involve non-disclosed benefits to automakers at the dealers' expense.

For advertising mediums supported by automaker co-op funds, dealers reported that automakers push digital above all other types. In fact, one CMO from an import automaker advised his dealers to solely advertise online. The CMO's rationale for this is that internet-based advertising is "lower down" the purchasing funnel for a new car buyer. Since dealers are primarily responsible for handling purchase transactions, they should deploy digital advertising and allow the automaker to advertise on a mass media level. Conversely, some dealers reported that certain automakers have become too digitally focused and are ignoring opportunities with traditional advertising.

Automakers are facing industry headwinds from trends like mobility, tariffs, electric vehicles, lower volume, and the rising incentive war. As a result, they are cutting back expenses across the board, including advertising spend. While automakers are spending less on advertising, they continue to regulate and control dealers' advertising practices and are tasking dealers with greater responsibility to advertise their franchised brand. However, as the complexity of franchise dealer advertising continues, dealers should not hesitate to question the value of certain automaker endorsed programs, which might not actually be the best solution for their stores.

2-YEAR OUTLOOK: For most automakers, total dollars spent on advertising will remain the same or decrease.

08 STUDY REMARKS

ASPECTS OF MARKETING ARE UNIQUE TO EACH DEALERSHIP

It's important to note that our study represents the most common feedback we received or the average of any figures we collected. Many dealerships are unique to their franchise and their market. What might work in one market, or appeal to a specific customer demographic, might be different in another market. Even for digital, one site might penetrate in a market better than another. It's also important to understand that some dealers, especially dealer groups, often have more brand recognition than standalone franchises, and, therefore, can market their stores differently. Dealers attempting a "one-size-fits-all" approach to advertising will be making an ill-fated decision; a dealer must consider multiple variables when making marketing decisions.

NO VENDORS NAMED

With the exception of Google and Facebook, we do not provide the specific feedback we received regarding any particular company. While we heard considerable commentary regarding specific companies, we chose not to include names as this study was broad in nature and not vendor specific. We also do not want to unintentionally endorse any vendors' products or unfairly penalize others. In the future, we might release a study that examines specific vendors within the automotive marketing space.

OUR OUTLOOK

When applicable, we provided a two-year outlook for certain advertising trends. In the next five years, new trends might appear, or the predicted changes may be more significant. Areas where we expect higher growth percentages, such as certain digital services and tools, will likely have more pronounced growth beyond a two-year period.

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