

# Recession-Proofing Your Dealership

How AI-powered Automation is Helping Auto Dealers Do More with Less



# Table of Contents

AI Goes Mainstream .....	3
The Promise of AI for Auto Dealers .....	4
Why the Time to Act is Now .....	4
Many Dealers are Already Seeing Outsized Returns from their AI Investments .....	5
A New Vision for Customer Lifecycle Management .....	6

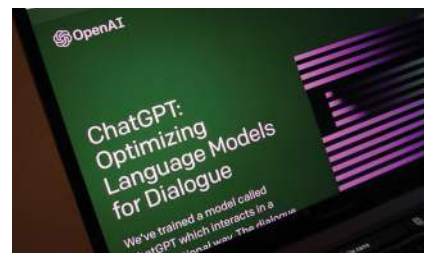


Dealership operations are under pressure. After two years of record profits, auto dealers are now facing an uncertain future. With the global economy on the brink of recession, productivity has become the new watchword as decades-old operating models are being reimagined and redesigned to take advantage of new technologies that until now were practical only in limited settings. Retail headwinds show no signs of abating any time soon, but thanks to the widespread availability of AI, 2023 is poised to be a year of reinvention for auto dealers around the world.

## AI Goes Mainstream

It seems that not a day goes by without another news story touting the rise of AI in virtually every aspect of our lives. From Time Magazine announcing that “The AI Arms Race is Changing Everything<sup>1</sup>” to The New York Times reporting that “Artificial Intelligence is changing how people work<sup>2</sup>,” media outlets around the world have been rushing to report on the impact that AI is poised to have on industries around the globe. Whether it’s preparing tax returns and helping teachers plan daily lessons or debugging software and streamlining customer service activities, new applications of AI are popping up at a remarkable rate. According to a report by PwC, the contribution of AI to the global economy could reach \$15.7 trillion by 2030<sup>3</sup>.

One of the key drivers of the general public’s infatuation with AI was the release of ChatGPT, an artificial intelligence chatbot launched by OpenAI in November 2022. The company’s technology prototype gained widespread attention for its ability to generate detailed answers across a seemingly endless array of topics. ChatGPT gave anyone the opportunity to explore and interact with AI technology in an easy-to-understand manner. By January of 2023, more than 100 million users per month were using the technology<sup>4</sup>, and the company’s valuation ballooned to \$29 billion<sup>5</sup>.



While companies like Impel have been leveraging large language models (LLMs) and natural language processing (NLP) technology for the past several years, the seemingly overnight success of ChatGPT has set off an AI arms race. Leading tech juggernauts including Microsoft, Google, Meta and Salesforce recently announced major investments in the transformational technology. As venture-backed startups and solution providers scramble to embed AI in their products, users can expect to see an endless supply of applications and powerful new capabilities emerge in the near future.

## The Promise of AI for Auto Dealers

For years, dealers have struggled to keep up with the hundreds of activities and interactions required to maximize the lifetime value of every customer. Effectively managing every touchpoint in the customer lifecycle is simply too complex and time consuming to be achieved with limited human capital. The emergence of intelligent automation powered by AI changes all that by providing dealers with access to highly scalable technology that can be used to expand the productivity and effectiveness of existing staff, while at the same time delivering an exceptional white-glove experience to every customer.

The benefits of AI for auto dealers are numerous. First, because AI provides a consistent and reliable process for engaging in real-time with every customer, dealers are able to deliver a much-improved customer experience. Whether it's responding to after-hours leads or delivering personalized service recommendations at precise points in a vehicle owner's lifecycle, AI ensures that every customer gets the attention they deserve. Second, because AI is constantly learning and adapting, its performance continues to improve over time. Dealers who are using the technology see significant increases in lead conversion rates, vehicle sales, service appointments and customer retention. And finally, AI provides much-needed automation that streamlines operations by taking over repetitive, manual tasks and freeing up staff to focus on higher-value activities. With AI technology in place, dealers can reduce headcount or support additional business growth without increasing staff levels.

In the Automotive Ventures January 2023 Auto Intel Report, respected auto-tech industry pundit Steve Greenfield predicted that AI technology is going to power a new wave of process automation that will help dealers and OEMs increase worker productivity and significantly reduce operating costs. And global consulting firm McKinsey estimates that the industry-wide benefit of AI in automotive Marketing and Sales could reach \$44 billion or up to 2% of total operating margin by 2025<sup>6</sup>.

### Next Wave of AutoTech: Process Automation

The automotive space has always fostered a healthy amount of innovation. Just walk around the convention floor at NADA each year to get a sense of the sheer volume of technology companies that support dealers and OEMs.

We strongly believe that the next wave of automotive tech will help dealers and OEMs automate processes and reduce costs. In many cases this will be by reducing vendor cost and complexity, reducing headcount, or making existing headcount far more efficient.

Artificial Intelligence (AI) is going to fuel automation that disrupts knowledge work. Manual, repetitive tasks will start to go away, freeing human capacity for more creative and complex problems in the world. The end result will be a whole new class of "intelligent software" that acts dynamically with the user's intentions in mind. Machine Learning (ML) will create a second wave of SaaS innovation that will dramatically increase worker productivity and reduce operating costs as a direct result.

AUTOMOTIVEVENTURES.COM

## Why the Time to Act is Now

Over the past few years, unprecedented macroeconomic conditions have created turmoil in the auto industry. From COVID-induced shutdowns of physical showrooms to supply chain challenges that severely hampered new car production and artificially inflated vehicle values, dealers have been forced to adapt in ways that most could never have imagined. Interestingly, although unit sales in 2021 were down significantly from historic levels, thanks to sky high prices and resilient consumer demand, many dealers reported record levels of profit.

So why the need to change? It's simple - because the tide has turned. Forecasts from JD Power and LMC Automotive reveal that since reaching a high-water mark of nearly \$5,300 in profit per vehicle in December 2021, unit profitability has steadily decreased<sup>7</sup>. By February 2023, the average profit per vehicle had dropped by more than 27% from the highs, and that trend is expected to continue. With inventory levels and consumer demand likely to be constrained for the foreseeable future, lower per unit profitability means that dealers need to find new operating levers if they want to generate the same levels of profit in the coming years.

### Total Retailer Profit Per Unit Inclusive of Grosses and F&I Income



What's a dealer to do with unit volume off the table as a growth driver? Quite simply, the answer lies in doing more with less – converting more leads into vehicle sales, driving more service appointments, and turning more customers into repeat purchasers . . . all while maintaining or reducing headcount. While that's historically been easier said than done, today's auto industry AI applications were designed to help dealers do just that. In addition to taking over repetitive tasks associated with responding to customer inquiries (creating the opportunity to reduce or reallocate sales staff), advanced AI technologies are also being used to uncover and activate “found” revenue opportunities in other parts of the business (including fixed ops and customer loyalty/repurchase). With recession fears mounting, there has never been a better time for dealers to embrace AI-powered automation to increase productivity – providing them with greater operating leverage to maintain profitability in a down market while at the same time building the foundation for greater scale when business reverts to more “normal” conditions in the future.

Quite simply, the answer lies in doing more with less



### Many Dealers are Already Seeing Outsized Returns from their AI Investments

The widespread media coverage of AI has driven unprecedented interest from auto dealers eager to understand what the technology can do for their businesses. While many are racing to explore how they can apply AI to their operations, thousands more have already activated new automation capabilities throughout their dealerships. Here are just a few examples of the business impact that AI-powered automation is having today<sup>8</sup>:

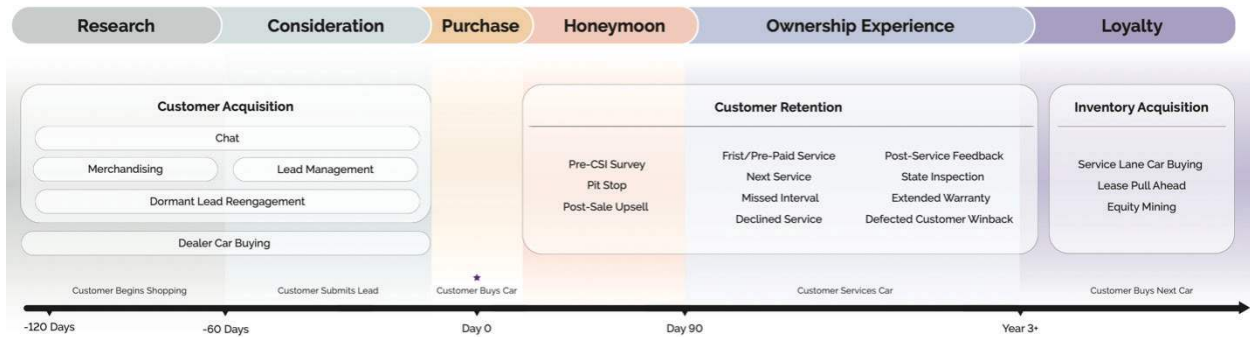
- Bob Rohrman Kia, Indiana's largest Kia dealer, saw a 43% increase in leads converted to showroom appointments after implementing AI to engage and follow-up with inbound internet sales leads. With more than \$1M in vehicle sales influenced annually by AI, the dealership generated a whopping 56x ROI from AI-powered automation.
- With the help of AI-powered service communications, a large mid-Atlantic dealer group was able to proactively reach out to more than 19,000 past customers in just three months. Using predictive analytics and DMS data mining to identify VIN-specific servicing needs, the dealership delivered hyper-personalized service reminders and recommendations that generated nearly 3,200 repair orders worth \$1.1 million.
- Littleton, Colorado-based McDonald Audi Denver deployed AI to increase the capacity of its already lean sales staff. As a result, the team is now able to engage an impressive 54% of inbound leads, bolstered by a 21% engagement rate of formerly non-responsive shoppers. The ROI of their AI-powered communications was more than 32x.
- In early 2022, a large multi-state dealer group adopted AI technology to automate communications for its service operation. At one of its locations, the retailer was able to reengage more than 3,000 defected customers who had chosen to service their vehicle somewhere other than the dealership. The AI's proactive outreach efforts were able to generate 730 new repair orders valued at nearly \$175k from these “lost” customers.
- A Midwestern dealer group implemented AI to handle lead response and follow up activities for its sales operation. With the technology in place, sales reps were able to make 23% more phone calls per lead while handling 79% fewer inbound emails, with the total number of touchpoints per lead increasing by more than 90%! In the first 3 months after launching AI, although overall lead volume was DOWN by 20%, the sales team (with the help of AI) was able to generate 17% MORE showroom appointments from inbound internet leads than in the previous period before AI was activated.



## A New Vision for Customer Life Cycle Management

AI technology is ushering in a new era for dealership operations, providing unprecedented customer engagement capabilities that enable dealers of all sizes to run much leaner operations. Many leading dealership groups believe that future growth in Sales, Service and Inventory acquisition will be driven not with additional headcount, but rather from investments in technology that allow them to reallocate staff to higher value activities. By automating time-consuming tasks and engaging customers in personalized two-way dialogue across the entire customer lifecycle, dealers can drive greater levels of performance in nearly every area of the business.

### AI-Powered Customer Lifecycle Management by Impel



For years, dealerships have run their businesses using legacy CRM and DMS platforms to manage mission-critical operations. But when it comes to keeping up with the growing number of customer interactions that take place outside of the showroom, most dealers have had to rely on a patchwork of point solutions and providers to help them execute. Unfortunately, the lack of sophistication and integration of these myriad applications has resulted in a less-than-stellar customer experience and too many missed revenue opportunities.

It's time for dealers to adopt a new operating model for customer lifecycle management. An operating model that drives new levels of profitability by automating manual tasks and enabling dealers to do more with less. An operating model that leverages the power of AI to deliver exceptionally engaging experiences at every customer touchpoint. An operating model powered by Impel's industry-leading Digital Engagement platform. It's the future of dealership operations and it's here today. **Visit [impel.io](https://impel.io) to learn more.**

## Sources

- <sup>1</sup> TIME, Feb 16, 2023
- <sup>2</sup> The New York Times, The Morning, March 2, 2023
- <sup>3</sup> PwC's Global Artificial Intelligence Study, June 28, 2017
- <sup>4</sup> UBS research note, Feb 1, 2023
- <sup>5</sup> The Wall Street Journal, Jan 5, 2023
- <sup>6</sup> McKinsey, "How to win tomorrow's car buyers - artificial intelligence in marketing and sales," Feb 14, 2019
- <sup>7</sup> Mercer Capital, Auto Dealer Valuation Insights, March 3, 2023
- <sup>8</sup> Impel customer results



Impel.io