Openpay to help dealers recalibrate future business models

More and more dealerships are getting on board with Openpay's tools as they look to get creative to deal with the crackdown on the automotive finance and insurance (F&I) sector.

The potential impact from the Australian Competition and Consumer Commission (ACCC) on vehicle dealers' bottom line has led to a reinvention of the way dealers attract ongoing incremental revenue, with a focus on service retention as well growing service transaction values.


Simon Scalzo

With over 20 years in the automotive industry Simon Scalzo, chief executive officer of Openpay, is working to implement the alternative payment method across its dealership network as part of its marketing strategy to future-proof its businesses.

"We have seen that sales teams will need to put greater importance on understanding the customer needs, and meet these with a new product offering and financial tools that bring additional value," Scalzo says.

With Openpay, customers can pay for their car service over time, interest free. Customers can choose that payment over three, six or nine months, and most recently 12-month terms.

"Even though similar types of products like ours have been around for a while, the key difference is that our process is completely paperless and streamlined. It can all be done through your mobile phone," Scalzo told *AutoTalk*.

"The system also works in the same way for the aftermarket. For example, if a dealership is looking to sell accessories to the car, like a car care product or packaging future services at a discount rate, this allows customers to pay for them over time."

More service retention leads triple the profits

With the increase in service retention, dealers are also starting to see a direct reflection in service profitability. According to Pitcher Partners modelling, a 1% increase in service retention correlates to a 1% increase in service profitability.

"Manufacturers are helping with the push of service retention, once the customer is through the door, it is up to the sales team to activate the strategy to grow transaction value by upselling additional work and bundled services," Scalzo notes.

"Our automotive partners are reporting a growth in the number of deals of 61% per month, and have attributed Openpay to their increased average transaction value up to $1800, compared to the average service of $450, this is an increased basket size of 400%," Scalzo says.

Openpay has been working with local dealerships for just over 12 months. With buy now, pay later options available to customers, in which bundled goods can be paid off over extended periods, with no interest, dealers are reporting close to 25% more new customers per month.

"We already work with the three big dealer groups in Australia, AHG, AP Eagers and Inchcape, and have a number of other private dealer groups, around 500 to 600, that are looking to take the system on board in 2017," Scalzo told *AutoTalk*.

He notes that dealers are under significant pressure to have strong income streams as the spotlight hits the F&I sector, and notes: "Dealers are highly reliant on that commission structure, now with the ACCC cracking down on them they will need to look at other ways to make money."

The ACCC spotlight has led a growing number of dealers to use Openpay and utilise the tools to get an in-

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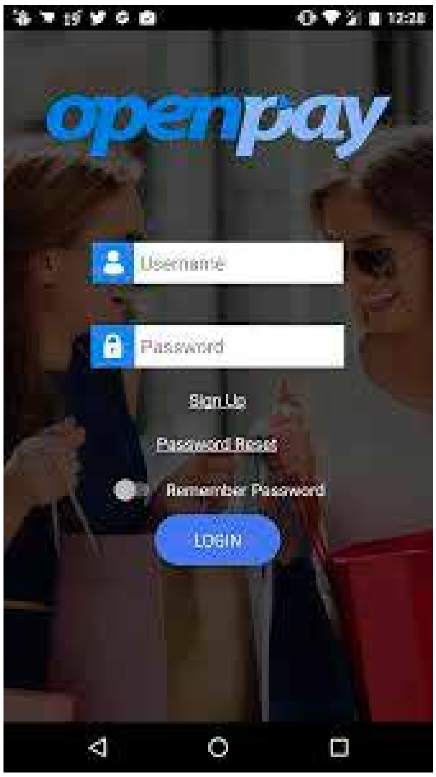

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crease in the amount of dealer sales revenue, according to Scalzo, "in some cases up to three times the income of a traditional dealership."

"We have also seen dealers getting creative in the way they use the system to sell. For example, actively promote tyre packages and dealers using it to package a service. One dealer used it to package a car service by offering customers to pay now for the next two years of car services at a discounted rate over time, and interest free.

John Gavljak

"Not only do they get to sell cheaper service, but they get to retain that customer," he adds.

Scalzo believes this is really just the beginning of a new paradigm for the dealership revenue model, also pointing to the opportunity to reignite the used-vehicles market to inject velocity into the business.

"Currently the used-car market benchmark is underdeveloped. For every new car sold, fewer than half a used car is moved.

"When it comes to finding success within new constraints, there are always opportunities abounding, the untapped incremental revenue from the used cars services and aftermarket packages is a prime example of this."

Dealers urged to recalibrate business model around used vehicles

With a big year ahead in terms of the ACCC investigation into vehicle F&I, John Gavljak, partner – business advisory and assurance at Pitcher Partners has advised dealerships to focus on two key areas going into 2017 — increasing service retention and transaction values, and the used vehicle department.

"With a continued pressure from ACCC on add-on insurance products as well as flexible commission, regardless of any decision to cap finance and insurance commissions, marketing and the introduction of innovative business development tools is really going to become key to survival as profit margins are tightened," Gavljak says.

"If you look at used vehicles and what AP Eagers is doing with their Carzoos model, and similarly what AHG is doing with their Easy Auto 123 program, it's about focusing on how used car dealers are taking the haggle free approach to selling used cars and how they are looking at certification of used vehicles and building value from that," he told AutoTalk.,

"Essentially what dealers need to focus on is a recalibration of the dealership profit model, which dealers are quite good at."

With the amount of attention on the car dealer F&I sector this year Gavljak believes car dealers will need to be more focused on F&I penetration rates.

"Until you have a final position on the matter from the ACCC it is difficult to recalibrate the dealer model. But I think any smart dealership would be focusing on increasing F&I penetration because they won't be able to earn the same dollar value from a transaction like they did in the past," he told *AutoTalk*.

The advice from Gavljak to dealerships is to take back control of the used vehicle market.

"Dealers should be looking at building value into used vehicles purchases like AP Eagers and AHG have done through Carzoos and Easy Auto 123 through services like vehicle certification, roadside assist, car warranties, the no haggle aspect, etc.".

"Currently, the number of used cars sold are higher in the private-to-private sector than through used-car dealers, so these used-car programmes are all about swinging the pendulum back in favour of dealers and telling customers, 'why risk a private to private sale when you don't have all these guarantees and services that we can offer you."

Interestingly, Gavljak points out that there needs to be an aggressive price to market to create traffic and create the right buying dynamics. "There needs to be a three- to five-day pricing cycle for used cars where you continually reprice the vehicle to create the ideal buying dynamics for that vehicle," he says.

"That may not necessarily mean that used car prices will go down, it just means they will need to be more agile in the buying process. Market data will also be crucial to identify opportunities for pricing leverage, whether that be pricing the vehicle up or down," he concludes.