

There Is No Bubble

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By Tariq Kamal

The past few years have brought extraordinary gains in sales, leasing, available credit and marketing opportunities. To find out how long the good times can last and where the Digital Age is leading us, *ADT* sat down with Raj Sundaram, co-president of Dealertrack.

ADT: Industry forecasters appear to be united in their enthusiasm for continued sales growth in 2015 and beyond. Do you agree?

Sundaram: Yes, I agree. The momentum over the past few months has been terrific and all our indicators are pointing to a very strong second half. Demand and credit availability continue to be strong, setting us up for a very good sales year overall.

Car buying continues to evolve, especially in the last few years, and technology innovation is helping drive that evolution. Technology will become increasingly central to dealers' strategies and ability to scale as consumers prioritize online as a first step in their car-shopping experience. Digital marketing spend continues to climb and dealers are focused on leveraging tools like digital retailing to drive stronger conversions and help sustain this year's sales growth into the future.

ADT: Subprime auto finance companies have rebounded strongly in the past few years. Do you fear a subprime bubble may be forming?

Sundaram: Based on what we have seen at Dealertrack, the credit environment is good for American consumers, and there is no subprime lending bubble in automotive retail today.

Today's lending market is healthier than it was in the months leading up to the recession several years back. Dealers are selling more vehicles with much of that growth fueled by financing, and lender's loan portfolios, including subprime lending, are performing very well.

We have seen some larger lenders pulling back slightly from the subprime lending market due to greater regulatory oversight and compressing of lender margins, but not from fear of a subprime bubble. We continue to see more subprime lenders filling the void created by the pullback of some big lenders in this market. In fact, the number of lenders in this subprime space has increased by 100 percent on the Dealertrack Credit Application Network in just five years.

Since 2011, 82% of all lenders added to the Dealertrack network lend at least partially in the nonprime market. In addition to an increase in the number of lenders, we are seeing an increase in the number of credit



Raj Sundaram

application submissions per unique customers, further signaling the expanded availability of financing supply in the market today. Based on the credit applications submitted through our automotive finance network, subprime submissions have remained at about one-third of the total number of credit applications that we receive today, compared to 58% in 2007.

Even though today's financing markets and consumer confidence are in a lot better shape than 2008, dealers and lenders still need to be vigilant and prudent when it comes lending. We expect that subprime lending, along with automotive lending in general, to be strong for the remainder of 2015 and into 2016.

ADT: Will leasing continue its strong showing in the next several years?

Sundaram: Yes. Leasing has hit record levels this year and all signs continue to point toward growth in leasing, driven by captives, for the next few years.

ADT: Will dealers ever sell F&I products online and, if so, how would the sale and administration of those products have to change?

Sundaram: Digital technology is changing everything about how the automotive retail industry operates — from car sales to the connections dealers make with customers, even to how they interact with customers in the showroom. Consumers want to be empowered and dealers are leveraging technology to enable digital retailing.

We have been successfully working with dealers to incorporate digital retailing tools on their websites so shoppers can build a vehicle, look at interest rates and adjust terms to find a monthly payment that meets their budget. They can even apply directly for financing or obtain a trade-in value through the use of these tools. As a result, dealers have increased their lead-to-sales conversion rate by 30%, thanks to the use of these tools on their website.

Dealers see the value of leveraging technology to raise awareness of F&I products and educate consumers on the options available to protect their investment with warranty, insurance and aftermarket products. For example, we are actually seeing mobile digital tools giving dealers a tremendous edge in selling F&I products within the showroom. Dealers who are using our eMenu for iPad tool for presenting F&I options to in-store shoppers has resulted in more than 51 percent more profits-per-deal and 45% more products sold per deal. In the coming years, it will be critical to integrate the online/digital to in-store workflow with tools like this to drive continued growth.

ADT: Dealertrack has a rich history in the Dealers' Choice Awards, including three wins this year. What do the awards mean to the company and your customers?

Sundaram: Recognition by dealer clients through the Dealers' Choice Awards is an incredible honor for Dealertrack. We are committed to helping dealers transform automotive retailing and will continue our aggressive investment in products and technology to help drive the evolution of the car-buying experience. Receiving high marks in the Dealers' Choice Awards is widely appreciated by our company, and affirms we are delivering on our promise to our dealer clients.