White Paper

# How Used Car Trends Impact Service Contracts

Allied Solutions | revolos

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## Understanding Car Shopping Behavior

For many years, repair costs have continued to rise as vehicles become more complex and adopt advanced technology. When financial institutions offer service contracts, they provide consumers with an essential cost-saving solution towards vehicle repairs. New studies show that an evolving car buying process and the changing behavior of consumers could have a positive impact on how financial institutions sell service contracts. Consumers can conduct extensive online research on their next vehicle purchase, which results in less time spent at car dealerships. Additionally, used car sales continue to rise, more Millennials are entering the buying market, and the number of consumers buying cars online continues to increase. When best understood, car-buying behavior and trends like these can be leveraged to help financial institutions get in front of more consumers to sell more service contracts.

## Online Shopping Trends

Over the past decade, studies reveal that consumers are changing the way that they shop for cars. Now more than ever, car shopping research begins online. According to a survey by Cox Automotive, consumers spend an estimated 61% of their time shopping online with the remainder of their time spent at a dealership. This shows that consumers are well educated when it comes to purchasing a vehicle. With extensive car research taking place, consumers are less likely to buy a service contract from a dealership that doesn't cover their needs.

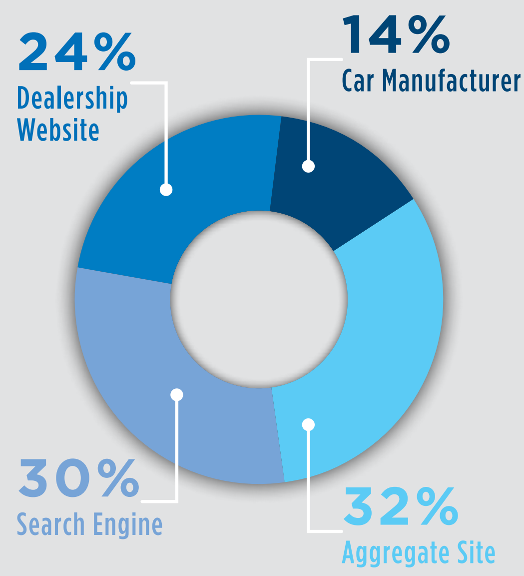
According to a study by Adtaxi, the majority of consumer's first step taken towards car shopping is to visit an aggregate site, such as CarMax (32%), or by visiting a search engine (30%), while only 24% of consumers choose to visit a dealership website as their first step. Consumer shopping behavior has shifted away from dealership websites, which leaves an open opportunity for financial institutions to sell more service contracts.

Consumers have more access to vehicle information than ever before and are likely to research the pros and cons of service contract options available to them. Financial institutions need to be clear and transparent with the coverage they offer so that consumers quickly realize the advantages of the program, and don't go shopping for coverage elsewhere. By providing comparative data on service contracts, financial institutions help consumers research products and prevent them from leaving their website, turning shoppers into buyers. Financial institutions should leverage their website and social media presence to educate consumers when researching vehicles and service contracts.

**86%**

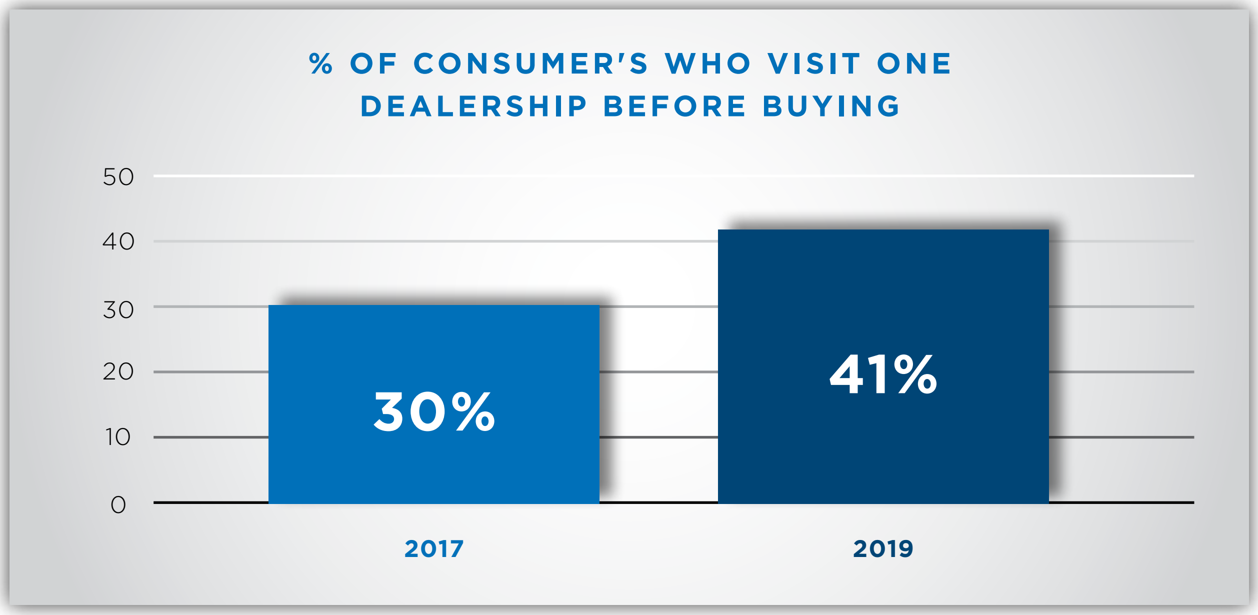
***of consumers research cars online before visiting a dealership***

**1ST WEBSITE VISITED DURING CAR BUYING PROCESS**



## Less Time Spent at Dealerships

With approximately 86% of consumers conducting online car research before visiting a dealership, car shoppers spend less time at car dealerships. In 2019, the average consumer who bought a car from a dealership only visited 2.3 dealers compared to 2.7 dealer average in 2017. Also, 41% of car buyers only visit one dealership before purchasing a car, compared to 30% in 2017. Consumers are spending less time at dealerships because they retroactively research and have a vehicle in mind before they visit. Nearly 50% of car shoppers are in the market for less than 30 days before making a purchase.




Financial institutions may benefit as consumers continue to spend less time at car dealerships. These trends suggest that dealerships may try to sell more aggressively since car shoppers are visiting fewer dealerships than in previous years. In contrast, financial institutions can approach selling service contracts at a pace that makes consumers feel comfortable having multiple touchpoints throughout the borrower lifecycle to highlight the value of service contracts. Financial institutions should leverage their long-term relationships with consumers to sell more service contracts, especially as online car buying grows in popularity.

## Cars Purchased Online

Companies that sell vehicles online, like Carvana and AutoTrader, have gained popularity in recent years. The CEO of Carvana, Ernie Garcia, believes that Carvana will soon be able to sell 2 million used cars online yearly. "It's a totally different business model. You can get finance approved in a minute; you can get your trade approved in a minute," says Mike Maroone, Board Member at Carvana. While studies still show that the majority of consumers conduct online research and purchase vehicles at dealerships, online car buying trends continue to increase. Consumers are turning to internet dealerships for convenience and the ability to save time. Many online car dealers will even deliver vehicles straight to the consumer's driveway. According to Cox Automotive, only 39% of car buyers believe that the dealership purchasing process has improved since the last time they bought a car. Online car dealers have a unique opportunity to expedite the car buying process and increase consumer satisfaction by making it more efficient. With the online shopping process being central to the automotive buying experience, consumer's interest in online car shopping is likely to increase, which gives financial institutions the opportunity to sell service contracts to these buyers.

Financial institutions need to think about how they position service contracts to online car buyers, and the unique opportunity to sell service contracts to consumers who don't go through the traditional car-buying process at a dealership. Without a car dealership, consumers face fewer opportunities to purchase coverage. If financial institutions want to capture online car shoppers, they need to leverage consumer brand loyalty in the process.

## Consumer Loyalty

Financial institutions can develop emotional connections with their consumers and their community better than many industries. Trust can take years to establish, but financial institutions, unlike many other business sectors, are uniquely positioned to sustain life-long relationships with their account holders. As consumers become more committed to their financial institution, they will likely become more willing to try new products and services. Loyal consumers become profitable consumers.

While consumers can do extensive research into their next car and service contract options, there is still a lot of information out there that can be hard to decipher. Help simplify consumers' decision making by offering them a service contract that they can trust. According to invesp, people are 90% more likely to buy brands when recommended by someone they trust. Consumers that trust their financial institution are the ideal target market for service contracts.

When a consumer follows a financial institution on social media, this typically means that they trust and want to learn more about them. Take advantage of these loyal, engaged audiences by promoting service contracts through this channel. Educating consumers on product benefits may even lead to organic sales growth, especially among Millennial buyers.

## Understanding Millennial Shopping Trends

For many decades, Baby Boomers have dominated as the top car buying generation, but now Millennials make up the largest share of the U.S. population, according to Bloomberg L.P. The Millennial generation has largely influenced many of the current trends and statistics. With up to 88 million Millennials in the U.S. alone, financial institutions need to understand how Millennials shop for cars and coverage to protect their investment.

The exact dates of the Millennial generation vary, but were generally born in the 80s and 90s. Millennials are tech-savvy, independent thinking, and highly diverse individuals. This generation has seen technology evolve from an early age to where it is today and are quite proficient. In the United States, Millennials are demographically diverse and will have a significant impact on social, economic, and political changes in the future. Understanding who Millennials are will help financial institutions attract and retain this generation for years to come.

It is projected that Millennials will represent 40% of the car-buying market by the end of 2020 and spend around $200 billion per year. While Millennials have been slower to buy cars than previous generations, there could be a rise in car buying due to economic shifts. As housing and living costs continue to rise in major cities, Millennials are beginning to move to the suburbs, which means that owning a car will be a requirement. Millennials are buying cars out of necessity rather than personal desire to own a vehicle. While previous generations spent excess income on luxury vehicles, Millennials generally buy cars to get from point A to point B and would rather spend money on experiences. According to Auto Remarketing, Millennials are buying 1.5 times more used cars than generations before them. Financial institutions will have success by targeting this unique generation through their website, social media, and by creating ad campaigns that reflect the diversity that makes up this generation.

## Increasing Used Car Sales

**11.5 years**

***Average Life of Vehicle***

Millennials aren't the only generation buying more used cars, however, it's a national trend across all demographics. According to Cox Automotive, buying a used car is becoming more appealing to consumers because of affordability. The average cost of a new car in 2018 was $35,671, which has led 64% of car shoppers to lean towards buying used.

Brian Landau, Senior Vice President at TransUnion, said that the average monthly payment for a used car is around $125 cheaper per month than a new vehicle. As consumers become more educated due to online car shopping, they can find deals that align with their financial goals and needs. The price of new cars are rising, but so is the life expectancy of vehicles on the road today. According to IHS Automotive, the average life of a vehicle is 11.5 years and will last a quarter of a million miles. "But along with that capability, you need to pay more attention to maintenance.", says Mike Calkin, manager of technical services at AAA.

Recent used car buying trends may benefit financial institutions. With consumers buying more used cars and cars lasting longer on the road, financial institutions have an opportunity to sell more service contracts to protect the financial wellbeing of their consumers and the cars they drive.

## What does this mean for financial institutions?

It's clear that consumers are changing their car buying behavior. The biggest influencer to the changing market is evolving technology that allows consumers to be well educated during the car buying process, resulting in less time spent at dealerships. Consumers are slowly adapting to buying from online car dealerships, offering a more convenient buying experience. As new cars increase in price, consumers are turning to the used car market more than ever. A new generation of car buyers, Millennials, are challenging how the automotive industry is conducting business. Through brand loyalty and leveraging technology, financial institutions have the advantage of selling more service contracts to this generation.

Understanding how consumer buying behavior has changed is essential for financial institutions to sell more service contracts. However, merely understanding these behavioral changes won't cause consumers to buy more service contracts. Financial institutions need to approach consumers with a product that they can rely on and trust. Ask yourself the following questions to determine opportunities for growth at your financial institution:

## Questions to Consider:

- Is our financial institution offering service contracts that will attract consumers?
- If not, is it time to reconsider the product that we have available?
- How is our financial institution targeting consumers to purchase coverage?
- As a financial institution, what information is available on our website for consumers to learn more about options available?
- How can we leverage consumer loyalty to sell more service contracts?
- Are we promoting our offerings on social media?
- How is the Millennial generation being targeted in the process?

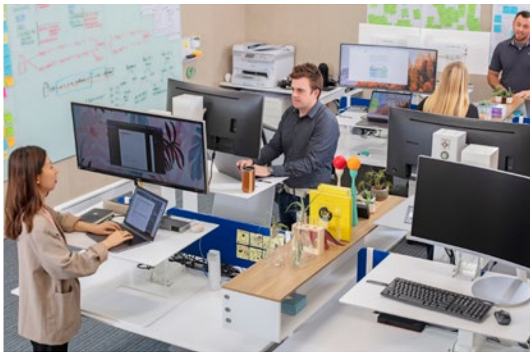
# Revolos: Service Simplified

Partner with a reliable vehicle service contract provider and offer your consumers a service they can trust. With more than 40 years of industry experience, Revolos is a leading provider of service contracts. Their products act as a safety net for the unpredictable mechanical breakdown situations that your consumers may find themselves in. With a wide array of coverage options, friendly customer service, and an intuitive online platform, Revolos makes it easy for financial institutions to provide protection and performance for their consumers.

Now that you understand how consumers buy vehicles, the next step is to partner with a dependable service contract provider that understands your consumers. To learn more about our trusted partnership with Revolos and how you can protect your consumers from unexpected repair costs, contact an Allied Solutions representative or visit the Revolos website.

**Benefits:**

- Car Rental
- Emergency Roadside Assistance
- Wear & Tear
- Travel Expense Reimbursement
- Seals & Gaskets
- Paintless Dent Repair
- Windshield Protection
- Key, Tire, & Wheel



## About Allied Solutions

Allied Solutions, LLC is one of the largest providers of insurance, lending, and marketing products to financial institutions in the U.S. Allied Solutions uses technology-based products and services customized to meet the needs of 4,000 clients, along with a portfolio of innovative products and services from a wide variety of providers. Allied Solutions maintains over 16 regional offices and service centers around the country and is a subsidiary of Securian Financial Group, Inc.

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