A journey of a thousand miles...

How customer self-serve facilities can be the first step on a growth journey for finance houses locked in by competition
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Offering end users a digital self-serve facility is often — and incorrectly — seen as a bit of a “nice to have” in the motor finance market; at face value it saves on customer service costs, but is otherwise viewed by some as not particularly transformative in the long run.

But for those lenders seeking a route to growth in a crowded competitive environment, initiating digital interaction with end users will offer far more than just cost-saving or efficiency gains.

It all depends on taking a long term view: one which sees self-serve not just as part of a communications toolkit, but as the first step in a new way of engaging with customers.

Developed and then deployed correctly, the capability to provide a digital customer journey makes possible an entirely different — and much tighter — relationship with customers, with considerable short, medium and long term benefits.

It boosts retention and renewals, helps mitigate risks, and offers lenders a cost-effective way to carve out market share. If an organisation chooses the right technology it will deliver a robust digital financial platform for cross-selling and become an origination tool for new business.

In this paper, I will consider the practical development of the digital self-serve proposition, looking at it not just as an end in itself, but as the starting point in a more in-depth, strategic journey.
"...nine in ten vehicle purchases are now facilitated by a finance agreement of some kind."

The Challenge
Critical Mass

After several years of incredible performance, the motor finance market has reached a point where industry pundits are beginning to ask where new growth will come from.

In the new vehicle market, dominated by manufacturer-owned finance companies, nine in ten vehicle purchases are now facilitated by a finance agreement of some kind. The PCP product has been the lever by which OEMs have exerted their influence on the market: the rates made possible by record low-interest conditions have seen it not only become the product of choice for most buyers, but come to redefine the UK’s approach to vehicle ownership. Many consumers now think in terms of the monthly cost of owning a vehicle rather than the forecourt price of the model.

Things have become crowded in the used market, too. Penetration of finance into used vehicle sales is soaring as independent providers build their books, and now even the perennially underserved subprime market is beginning to fill up with business.

But how much further can the market as a whole grow?

To get much bigger, the industry would need a surge of growth in consumer demand for cars, and a continuation of current finance conditions - both of which seem unlikely at best, given a number of macroeconomic likelihoods including interest rate rises, increased cost of living, falling used vehicle prices, and rising import costs. While it’s hard to put a timer on any of these changes, they are looking increasingly likely in the midterm.
Looking Elsewhere

While few in the industry think that motor finance is likely to experience a crash situation in the near future, it does seem reasonable to assume the auto retail market is as big as it is going to get, and is nearing saturation point when it comes to finance.

When a market reaches this stage of maturity, its participants get to a point where winning market share from competitors offers a better return on investment than seeking and developing untapped customer bases. In a no-growth market the only economic outcome is margin erosion for the participants. This in turn erodes margins for all concerned - after all, winning market share is not cheap. Where acquiring a customer also necessitates converting them from the books of a rival, the cost of origination grows steeply against increasing volumes - as such, marketing spend and competitive pricing both eat more and more into returns the further a business goes from its core sales territory.

And it’s not just the immediate cost of sale that rises: so too does the cost of servicing customers and retaining them. After all, it stands to reason that if customers are won over by an increased service proposition, they will want to feel the benefit of that enhanced level of service throughout their agreement. Better service traditionally means increased headcount, and therefore even more costs associated with growth.
Actions that would usually require direct employee contact and time investiture can be performed by customers on their own in the comfort of their own homes.

The Solution
A simple fix?

It probably will not surprise you to hear that I think digital offers a way to support competitive growth, while mitigating the cost penalties usually involved in upscaling. The primary immediate benefit is breaking the correlation between increasing new business volume and increasing customer service costs.

Being blunt, that’s one of the principles our business is built on: we know that creating online and mobile spaces for customers to manage their relationships with lenders has an alleviating effect on costs. Actions that would usually require direct employee contact and time investiture can be performed by customers on their own in the comfort of their own homes, at a convenient time for them.

That’s a clear relief on overheads, and cost efficiency is certainly one of the advantages attached to digital self-serve capability. But let’s face it - it’s hardly revolutionary in itself.

Personally, I feel that offering customers a self-serve capability is just the first step in a much longer digital journey - one which more deeply addresses the challenges associated with growing in a mature and highly competitive market.

I think the opportunities afforded by this journey are particularly relevant to point of sale motor finance providers, due to a long standing issue they have faced concerning brand and visibility.

Building an identity

Uniquely among providers of consumer credit, motor finance providers have very little identity in the eyes of their end users. Consider an individual with a prestige vehicle on a PCP agreement with a finance house, and a bank account with a high street retail bank. While they may have a larger credit agreement in place with the finance house, they will almost certainly feel more of a customer to the bank.

The reason is pretty straightforward: motor finance providers are, by and large, B2B brands. Although it is consumer paper that makes up their books, they are not on the whole built for consumer engagement: it is dealers who are their customers, and with whom they engage in direct sales activity.

Until recently, when we began to see rebrands such as Duncot to Moneybarn and Carlyle to Motonovo in 2012, and then the creation of B2C broker brand Zuto in 2015, motor finance branding has barely taken visibility by the consumer into account. Certainly, it never anticipated the need to directly appeal to consumers - it has always made sense for finance houses to view end user relationships through the lens of intermediation.

Conventional wisdom has it that to consumers, a finance provider is little more than a name that was mentioned at the dealership when they purchased their vehicle: a business that was involved in the transaction, but which they will likely never speak to again, unless they get in trouble with payments (another part of the customer lifecycle, by the way, where digital can add value). Indeed, evidence seems to back up the idea that consumers feel disengaged from finance providers and the finance process.

Research Intelligent Environments conducted in July 2016 showed that 48 percent of consumers found finance to be the most difficult part of buying a car, with a third putting off vehicle purchases altogether due to the hassle involved with the process. There is clearly an issue with negative perception here that needs to be addressed, and deepening engagement with improved digital self-service is a great way to begin.
Opening up

In a connected world, where would-be buyers have a world of information available to them beyond their local dealership, it no longer makes sense to keep finance walled off from the public. Rather than put customers off the process of acquiring a vehicle, the finance element should incentivise it.

The new business growth of direct-to-consumer broker brands in recent years shows the efficacy of having a direct appeal to consumers. Our own research bore this out, with 48 percent of consumers saying they would prefer to sign up to vehicle finance online.

Point of sale lenders will likely be reading this and thinking that a direct approach to consumers sounds all well and good, but risks putting a finance company in competition with its own dealers. Well, yes and no. While origination may be something a lender wishes to remain entirely with its dealer partners, there are still significant commercial benefits in having an online service option directly for end users. There is appetite for it, too: we found some 56% of consumers - more than opted for online origination - were keen to manage their finance agreement online.
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A space of their own

Finance companies need to begin developing excellent relationships with their customers, and digital engagement is key to that - it comes back to the issue of making somebody feel like a customer.

If you contact an individual through outbound mail or calling, you are coming to them, and entering whatever environment they are in at the time. By contrast, in offering them a space of their own within your system, you’re inviting them to come to you, at a time that suits them. Instantly, they become your customer - rather than someone who pays you money because of a car they bought once.

Personal communications using push notification to smartphones, or targeted messages within app or web propositions, are all part of the arsenal of improved engagement tools an organisation gains through this approach.

Persistent and rewarding digital engagement will give customers reason to engage with a finance house repeatedly. As they do so, the finance provider will develop into a unique voice for the customer, and a brand separate from that of the vehicle they have elected to buy. Even in a manufacturer finance operation, there are benefits to having a brand independent to that of the parent OEM.

If you get this right as a captive finance business, for example, then even if your customer selects a competitor OEM’s vehicle as their next purchase, you have the option to keep the finance relationship.
Competition sensitivities

This approach not only avoids the sensitivity around perceived competition with dealers: it actively supports the business of a finance house's intermediaries. An individual in a solid digital relationship with their finance house as well as their retailer is a customer of both firms, meaning both can play a part in setting up retention and renewal opportunities.

Of course, care must be taken to avoid information overload, as too much contact - especially from two parties - can alienate a customer. Careful communication must be undertaken with retail partners to agree mutual best practise, and decide which touch points should be offered to customers at which stage of the digital customer journey.

The question also arises, upon successful renewal, of whose sale it is - the finance house or the dealer’s. However, this is not a new debate. In such a close symbiotic relationship as exists between dealers and finance houses, there has always been a level of tension and flux around the issue of customer ownership.

I suspect this is an area which will become less controversial with the increasing prevalence of direct-to-consumer motor finance. Dealers are adapting well to no longer being the sole route to market for motor finance, and part of this adaptation has meant accepting and embracing some disruption from point-of-sale providers developing direct offerings to consumers.
Conclusion

My experience in the motor finance sector is that the long-term ownership of the customer remains like Banquo’s ghost at Macbeth’s feast; a problem haunting the relationship but perhaps only recognised by the one or the few.

It is not going to be possible to gain all of the cost saving benefits of digital financial technology and the up-sell, cross-sell, and new business benefits of digital engagement without deciding who ultimately owns the long term customer relationship.

I fear that OEMs and their finance functions may allow themselves to be further disintermediated from the customer by new independent entrants, unless they leverage the tremendous brand identities they have built to forge long lasting digital engagements with their customers. Unfortunately, if compromised decisions on customer ownership result in digital propositions being developed in silos - or if fragmented digital customer journeys proliferate - they only have market share to lose.
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About the Author

David Webber
Managing Director, Intelligent Environments

David joined Intelligent Environments in 2012, bringing over 15 years hands-on experience of the financial services software industry. He is responsible for the day-to-day running of the company, working closely with all divisions of the business to effectively determine and define the organisation’s overall strategy, strategic partnerships and global sales and marketing activities.

Prior to joining the organisation, he was CEO at electronic trading, risk and exchange systems provider, Patsystems Group, a role he held for 6 years. While in this position David led a geographically diverse team across 7 global offices and oversaw exponential growth across all markets, particularly in the Asia Pacific region as well as the identification and execution of a major acquisition in the US. Before this he was the CEO and Managing Director of retail financial systems provider, AttentiV, a role he held for eight years.

About Intelligent Environments

Intelligent Environments is an international provider of innovative financial services technology. Our mission is to enable our clients to deliver a simple, secure and effortless digital customer experience.

We do this through Interact®, our digital financial services platform, which enables secure customer acquisition, onboarding, engagement, transactions and servicing across any digital channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving digital customer engagement platform that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group, MotoNovo Finance, Think Money Group and Toyota Financial Services.

If you’d like to hear more please contact David Webber
+44 (0)20 8614 9800
dwebber@intelligentenvironments.com
Kingston Upon Thames

Riverview House
20 Old Bridge Street
Kingston upon Thames
Surrey
KT1 4BU
+44 (0) 20 8614 9800

Belfast, Northern Ireland

Suite 1B Ground Floor
Concourse Building 1
Northern Ireland Science Park
Queens Road
Belfast
Northern Ireland
BT3 9DT
+44 (0) 2890 785 795

info@intelligentenvironments.com
www.intelligentenvironments.com