September 2017

The Digitalisation of Automotive Finance

sophus3

The Digitalisation of Automotive Finance

A Sophus3 whitepaper

London, September 2017

Published by: Sophus3 ltd. Registered Office: Fairmile, Silwood Close, Ascot, Berkshire, SL5 7DX, UK, Registration Number: 432136

Contents

Part 1
Setting the scene

Introduction

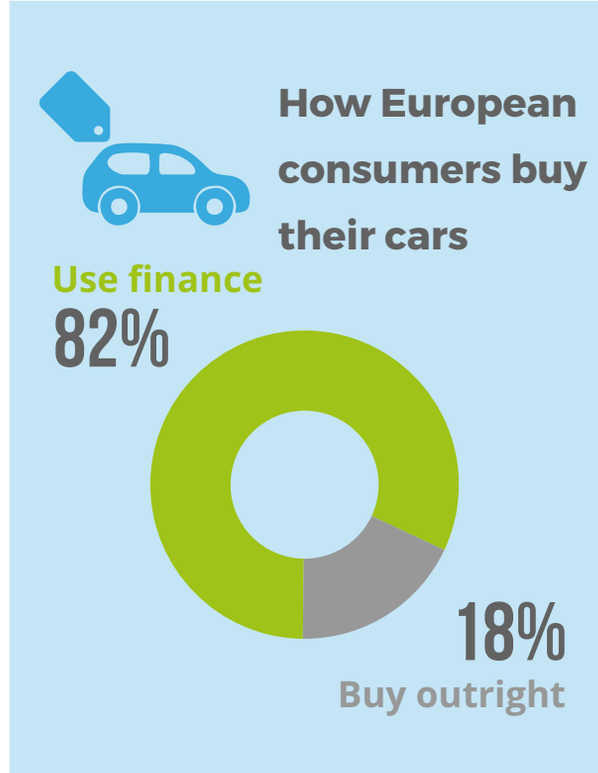
Finance has moved centre stage in the concerns of the European automotive industry in recent months. On the one hand it is providing the industry with near unprecedented growth, on the other, there are fears that a credit-fuelled boom may be priming the market for a meltdown.

For the automotive brands, and their captive finance arms, there is the added concern that whatever the short term fate of the car finance market, a growing number of competitors are successfully entering what has traditionally been 'their' space.

Longer term structural change – the much anticipated move to mobility service models – will disrupt not only what the industry sells but alter the revenue and transactional models also.

In 2015 in the 'Big 5' markets, an average of 82% of new cars were acquired using finance[1]. Markets like the UK see an even higher number of vehicles changing hands in this way – 85% in 2016, amounting to £18bn of credit.

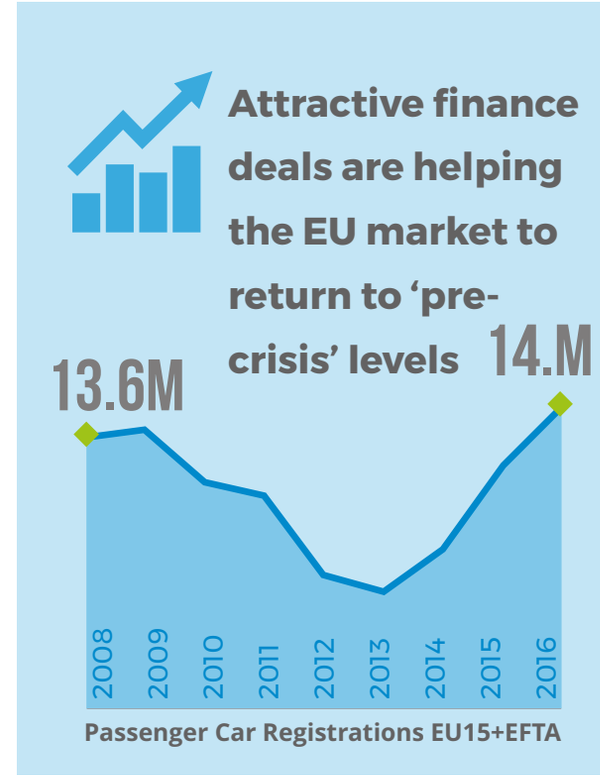
1 'White paper: Automotive captive banking', Roland Berger GmbH, Munich, January 2016



Market growth

This easy availability of consumer finance has allowed the car market to recover near enough to its pre-crisis levels of 2007/2008. In the first half of this year new vehicle registrations in the EU27 were up nearly 5% over the first six months of 2016[2].

2 "Historical series: 1990-2016: New passenger car Registrations by manufacturer", EU15 & EFTA markets, ACEA, http://bit.ly/2sOJgmA



Finance products

A trinity of finance 'products' is enabling this boom in vehicle acquisition: Personal Contract Purchase (PCP), Personal Contract Hire/ Leasing (PCH) and traditional Hire Purchase. (In addition there are some variations on these – Lease Purchase and Finance Leasing – which are less popular. Consumers also continue to utilise personal loans from banks, mortgage top ups, and their own credit cards as other options to fund car purchase.) The features of the three main mechanisms are explained below, but by far the most used, and the one most pushed by the automotive OEMs and their finance arms, is Personal Contract Purchase. In the UK for example this is currently used in 80% of new car purchases[3].

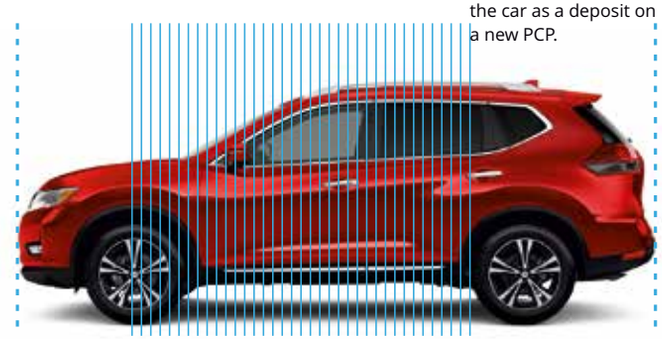
3 "Are the wheels about to fall off car finance?", Financial Times, 24/03/2017. http://on.ft.com/2tG7Hz (paywall)

Personal Contract Purchase (PCP)

1 **Deposit**
Can be as low as 0% in some cases.

2 **Amount to finance**
In this example 36 monthly payments are made to cover depreciation.

3 **Final Payment (optional)**
or, hand back the car or, use any equity in the car as a deposit on a new PCP.



Total amount to pay

At the start of a PCP the Guaranteed Minimum Future Value (GMFV) of the car is set. This is its expected value when the contract ends.

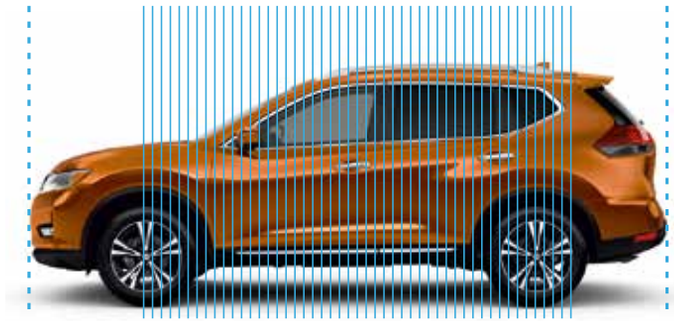
The money borrowed is paying for the depreciation - the difference between the price of the car and what it will be worth at the end of the contract. Charges can be added if the agreed mileage is exceeded or there is abnormal wear and tear.

Personal Contract Hire (PCH)

1 **Advance rental**
of a number of months.

2 **Monthly Rental Fee**
In this example 48 monthly payments.

3 **End of rental period**
hand back the car



Total rental

Also known as a personal lease, this is a pure hire agreement with no option to own at the end. Like a PCP, the payments are to cover depreciation up to the contract's end.

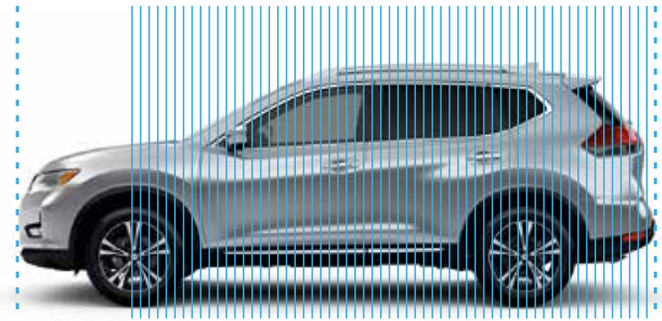
Charges are added if the set mileage is exceeded or for wear and tear.

Traditional Hire Purchase (HP)

1 **Deposit**
a percentage of purchase price.

2 **Monthly Repayments**
In this example 60 equal monthly payments.

3 **End of rental period**
the borrower now owns the car.



Total amount to pay

HP is like a personal loan with monthly repayments at a fixed interest. The borrower is in effect hiring the car from the finance company until the last payment is made, then becomes the owner.

Because the payments cover the whole cost with no end 'balloon' payment, the monthly cost is usually higher than a PCP or lease.

The monthly cost is now 'the price'

What all of these methods of paying for a car have in common is that they have moved the decision to purchase away from the consideration of the retail price of the car, to the monthly payment the consumer will need to make to be able to place themselves in the driver's seat.

Some of these monthly payments are startlingly low – for example the cheapest advertised PCP on a new car we found in the UK in July 2017 had a 'headline price' of just £79 a month – below the monthly contract price of a top of the range mobile phone. A stark reminder if one was needed of the speed at which automotive is advancing towards a heavily commoditised and transaction-based mobility model.

£83
a month

iPhone X

source: www.ee.co.uk

£79
a month

Suzuki Celerio 1.0 SZ2

source: www.cars.suzuki.co.uk

New price points

The monthly payment figures are what savvy brands are now keenest to promote and we can see car market segments beginning to coalesce around certain PCP 'price points' in each national market. In the UK "£269 a month" is currently one of these golden numbers with an interesting array of quite different vehicles being offered at that monthly price. (Of course, examination of the fine print – the initial deposit required, the number of payments, the size of any final balloon payment, and the effective APR shows that the 'real' cost to the consumer of this 'identical' monthly figure may well be very different from model to model.)

The appeal of PCPs to consumers

The attractions to the customer of PCP type finance are many:

- The entry point to a brand new car is lower than ever before with zero or incentivised deposits common
- The fixed monthly payments are less than traditional HP payments
- Warranties cover most of the risks of a typical PCP's three year duration
- The guaranteed future value (GFV) makes disposal of the car at the end of the contract someone else's problem
- But if the car proves more valuable at the end of the agreement period, then the buyer has increased equity to put into their next car
- There is the flexibility to keep the car at the end of the agreement, but ...
- ... also the opportunity to upgrade more frequently to a brand new car

Car brands like them too...

PCPs appear to be a 'win-win', superficially at least, with perhaps even greater benefits for car manufacturers. Finance customers have been shown to:

- Choose more expensive cars
- Add more optional equipment to their car
- Replace their car at a greater frequency

In addition, these contracts create considerable improvements in customer loyalty. The Roland Berger study shows that 63% of finance buyers will stay with a brand when they upgrade their car, whereas only 46% of cash buyers will return to the same brand. That loyalty extends to the use of dealers with 48% of finance buyers going back to the same dealer against 29% of cash buyers[4].

The manufacturers that have benefited the most from the PCP feeding frenzy are undoubtedly the premium brands. Because of the low depreciation on their cars, the relative cost of a PCP is only marginally higher than that for many mass market models that depreciate more quickly. As a result the premium brands have greatly increased their sales in recent years. Mercedes-Benz, for example, has increased its European sales by 40% and its market share by 30% in the period 2010-2016[5].

4 All data from "Turning Wheels into Gold", Automotive Insights, Roland Berger GmbH, January 2016.
5 "Historical series: 1990-2016: New passenger car Registrations by manufacturer", EU15 & EFTA markets, ACEA, http://bit.ly/2sOJgmA

Some negatives

Of course, there are downsides as well for both parties in a PCP deal.

For the consumer there is the possibility of hidden charges resulting from excessive mileage or wear-and-tear to the vehicle. Also in many, if not most cases, the 'buyer' will never own the vehicle as the amount they would be required to put aside each month to meet a final balloon payment would match or exceed their basic monthly payments. Consumers may therefore feel locked into a cycle of PCP renewal and chained to one brand so as to retain their mobility.

The current availability of cheap PCPs is also predicated on two factors that are susceptible to market changes. The first of these is historically low interest rates; the second, a healthy used car market that is sustaining high guaranteed future values so that the depreciation the PCP payments has to cover is low. A shift in bank base interest rates and/or a collapse of the second hand vehicle market would mean that PCPs could get suddenly much more expensive.

For the manufacturers, or other providers of credit, it is the latter scenario that is their greatest fear. Because any shortfall between the price at which they can dispose of the returned car on the second hand market and the value they guaranteed, is a loss that they have to bear.

Part 2
The changing landscape of providers

The main players

The worth of the automotive finance market is currently reckoned to be $1.2tn in the US[1]), in excess of €215bn in Europe (2013 estimate)[2], whilst in the UK, in 2016 alone, automotive consumers borrowed £32bn.

As would be expected with a consumer market on this scale, automotive finance is a highly competitive arena with a large number of huge companies battling to preserve or extend their share. Around them, smaller entities circle, consciously looking to disrupt the industry giants through innovations in their business models or use of technology.

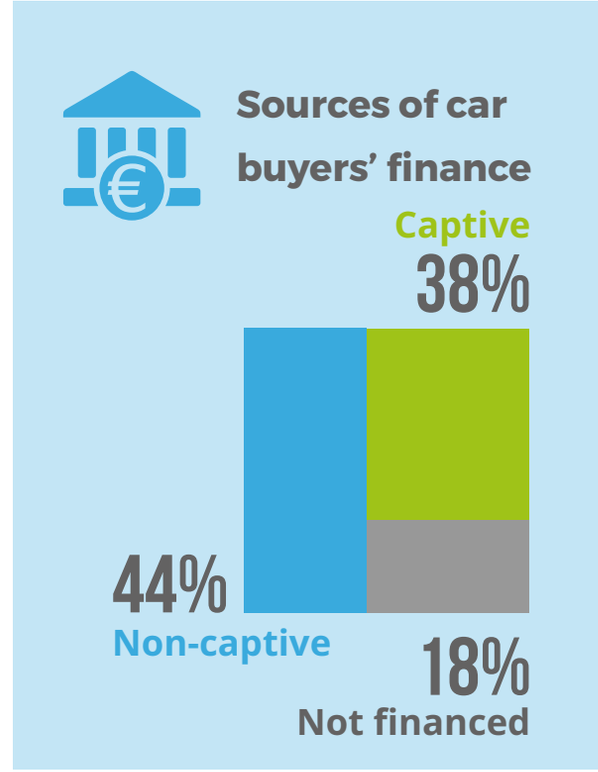
The 'captives' are one of the main providers of new car finance, these are the finance arms of the automotive manufacturers, set up initially to service car buyers' needs for credit and other financial services, such as insurance. Many of these have grown and diversified into other areas, to become in effect full-service consumer banks. In Europe the largest captive is Volkswagen Financial Services with €130bn of loans on its global balance sheet[3]. Nearly all of the major car brands have similar, parallel entities which through their size and profitability are as significant to company revenue as the core activity of vehicle manufacture.

1 "US banks pull back from car loans market", Financial Times, 29/05/2017, http://on.ft.com/2t2vz3z (paywall)
2 "Automotive Finance and Leasing for Consumers in Europe", Finaccord Ltd., 2013.
3 "Carmakers' finance arms go into overdrive", Financial Times, 05/07/2019, http://on.ft.com/2tFOMFt (paywall)

The captives have always enjoyed a Point of Sale advantage through having near exclusive access to the customer in the brand's dealerships at the exact moment they are considering how to fund their desired purchase.

Going head-to-head with the car brands' finance arms are a whole number of globally recognised banks and lenders offering vehicle finance with specialist teams targeting that market. The big players vary from market to market. Spanish bank Santander has perhaps the strongest pan-European presence and is the most active non-Captive in Germany; in the UK, Black Horse finance, part of Lloyds Bank, is the dominant non-captive entity.

In some areas the distinction between these two pillars of car finance is often blurred with consumer banks providing 'white label' finance solutions for car brands in smaller markets or where they have a small market share that does not support a dedicated finance operation.



THE AUTOMOTIVE FINANCE UNIVERSE

Captives

VOLKSWAGEN FINANCIAL SERVICES

FCA BANK

FINANCIAL SERVICES | TOYOTA

Mercedes-Benz Financial Services

RCi BANK AND SERVICES

Ford | FORD CREDIT

BMW GROUP Financial Services

PSA BANQUE

GM | GM FINANCIAL

Non-captives

Santander

BANKIA

Cetelem

VIAXEL

FIDITALIA

CGI

BARCLAYS

BDK

BANCA IFIS

blackhorse

Findomestic

New entrants

Atom, LOOT, HOLVI, N26, fidor BANK

'Challenger' Banks

CarMoney, MotoNovo FINANCE, MY CAR CREDIT, Zuto, CarFinance 247

Aggregators

ZOPA, Rate%Setter, LendingWorks

P2p lenders

amazon, Google

Tech giants

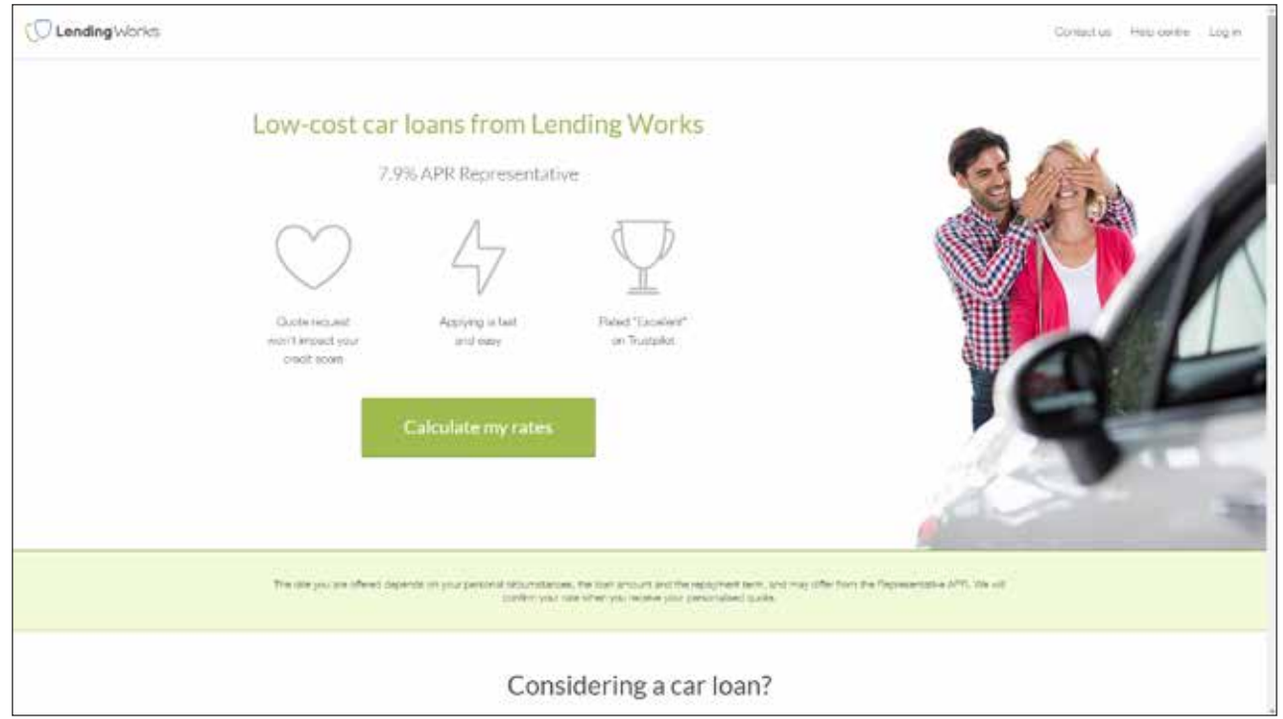
sophus3

New entrants

But as we noted in Part 1, the traditional auto finance providers now face competition from new sources. The first are the so called 'challenger banks' made possible by changes to the regulatory environment. The smaller of these exploit digital technology with a focus on the user interface to offer convenience and lower costs. They aim to shake up the finance sector in the same way as budget carriers have disrupted the airline industry over the last two decades. Loan finance is an inevitable part of the digital challenger's proposition: to provide reactive and transparent services at keenly competitive rates made possible by the lack of 'bricks and mortar' overheads.

More advanced in claiming an 'alternative space' within the car finance terrain are a number of peer-to-peer (P2P) lending initiatives. These platforms effectively crowd source funds from savers then offer this money in the form of personal loans. Again, because they follow a largely digital model, the reduction in costs means that they can offer more attractive rates to both savers and borrowers than traditional financial institutions.

An example from the UK market is Lending Works which offers loans on car purchase "in 48 hours from application to payout". Their current representative APR to borrowers is 7.9% of which they claim "at least 51% of our customers receive the representative rate or better".



Aggregators

Another irritant to the monopoly previously enjoyed by the captives and large lending bodies are digital aggregators / brokers. This model has become common in other industries such as insurance (gocompare), travel (expedia), and housing (zoopla) and is now being applied to vehicle finance. Aggregators offer finance for car buyers from a number of different lenders. CarFinance247 for example “compares products from 18 of the UK’s top lenders to get you the best deal” and stresses “it is a broker not a lender”. Again the customer interface is largely digital. Online applicants for a loan receive an initial response within three minutes, and if approved, receive a follow up ‘phone call “to discuss your budget and agree exactly how much you can borrow”. With a loan approved, the buyer is free to approach any “reputable dealer” to obtain their car. CarFinance247 claims on its site to be “the UK’s Number 1 car finance broker” with in excess of 600,000 visitors and arranging over £300m of approved loans each month.

The Tech Giants

But the biggest potential disruptors yet to enter the car finance market are the so called 'tech giants'. Google, Apple, and Amazon. Each has been actively growing its capability in the payment space, with, respectively, 'Android Pay', 'Apple Pay' and 'Pay with Amazon'. Amazon looks particularly committed to move into consumer finance through its extension into credit cards and the expansion of its Lending Division. It is also showing keen interest in the new car market through its partnering in online sales with FCA.

What all of these new disruptors have in common is that they are digitally savvy – at a time when consumers in the car market are moving rapidly in that direction, whilst the incumbents – the OEMs, their dealers and finance arms – are, in many cases, resistant to change.

Part 3
The digital transformation of automotive retail

Tracking the digital auto consumer

It has become a commonplace to say that car purchase has moved online. Although the final transaction invariably takes place at a dealer showroom, the majority of the automotive consumer journey is now conducted digitally1. Prospective new car buyers research their choices, compile a shortlist, and, in most cases, decide on their first preference before even setting foot in a showroom.

Consumer studies show that, globally, more than 90% of car buyers use 'digital' within their research. The eDataXchange (eDX) project – which tracks visitor traffic across the websites of nearly all the automotive brands active in the European 'Big 5' Markets – gives a uniquely detailed insight into the digital automotive consumer's behaviour and preferences as they go about that research2.

The long term trend over the life of the project shows how central the web has become to the car buyer with the number of visits recorded across the 'Big 5' (Germany, the UK, France, Italy and Spain) almost trebled in little over a decade.

In 2016 there were 1.09 billion visits to car brand sites equating to 99 unique visits for every car sold. (Whilst Autotrader reported that, in the UK for example, visits to dealerships had continued to decline – with 50% of customers visiting only the one dealer from whom they eventually bought their car.3)

Digital auto consumer behaviour

The online consumer is in a hurry. Between commencing online research and buying a car the gap has shortened to between 4-6 weeks. The time between a first visit to a car brand site and any resulting test drive request averages just six days.

Visitors tracked across multiple sites consider an average of 4.2 brands (five years ago the average was just 2.5 brands). Brand loyalty has clearly declined; interest in 'the deal' appears to be paramount.

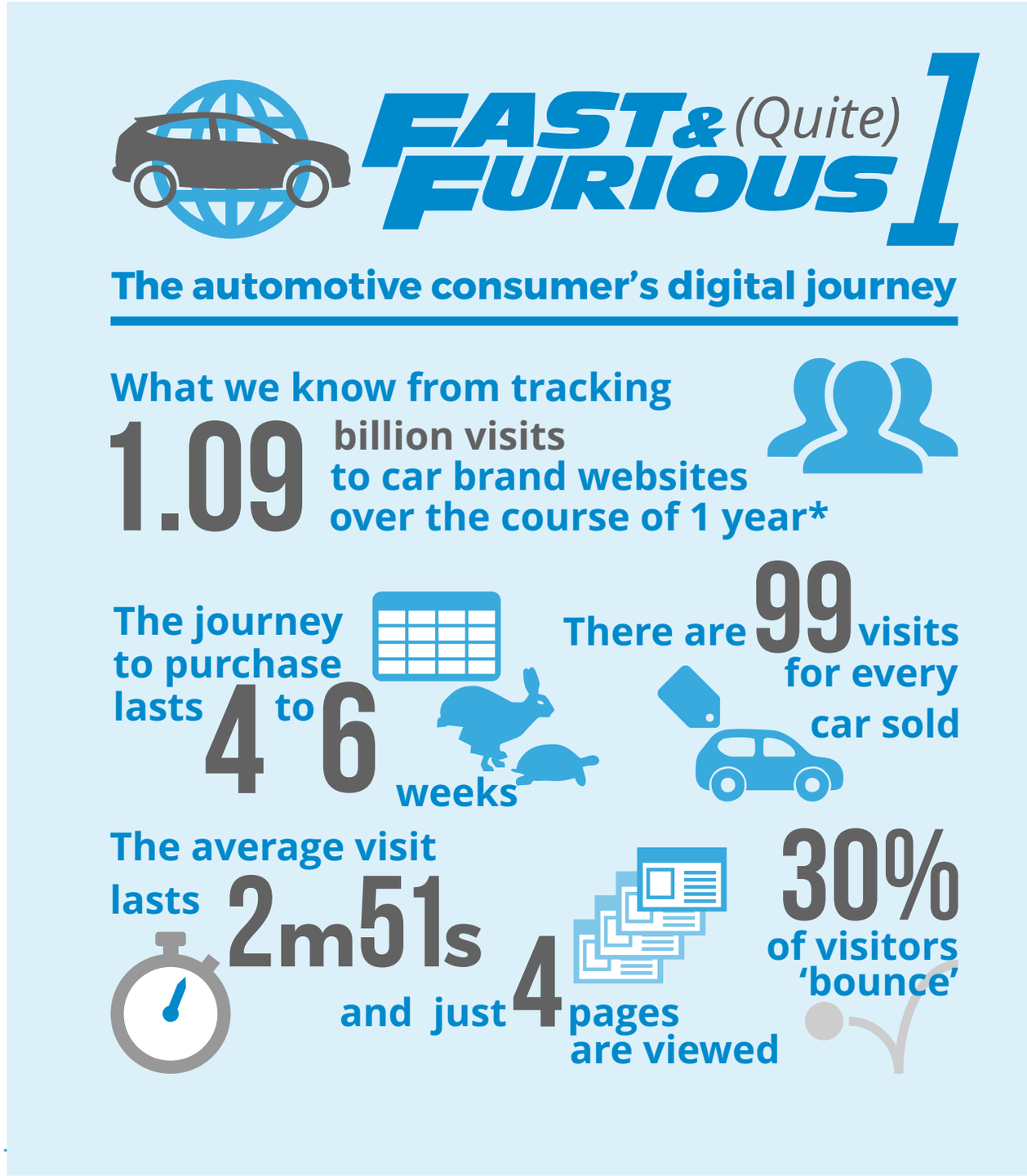
The 'surfer-researcher' is hungry for information and impatient to receive it. The average duration of a site visit is 2m 51sec, and just 4 pages of content are reviewed on each visit. More than a third of visitors 'bounce', i.e. leave the website immediately after viewing just a single page.

Only 21% of visitors ever return to that same car brand site within 90 days, meaning that more than ¾ of visitors do not return within the span of the average purchase cycle.

The online consumer's primary interest is in product information. 52% of all site visits go to model pages describing the brand's cars and their characteristics. 21% of visitors will look at a vehicle configurator – online functionality that allows them to choose equipment, colour, and trim combinations for an individual vehicle ready to be ordered.

It is worth noting that the online consumer's preference for when and how they carry out research is completely out of sync with the 'shop hours' model of most car dealerships. Nine o'clock in the evening is when the digital audience peaks. Weekends are when people are most 'engaged' – they spend longer on sites and mine more information on a Sunday than they do at other times of the week.

One last and critical point about consumer preferences. The majority of visits to car brands' digital platforms now take place on a mobile device, either a cellphone or tablet. In some markets, notably the UK, Italy, and Spain, only 40% of visitors view content via a 'conventional' desktop or laptop PC. Information and interaction needs to 'work' within small screen real estate – that which does not is quickly rejected by the visitor.



Car brands get digital

After briefly toying with the idea that their websites could be generalist 'infotainment' platforms, engaging with a broader audience, repeatedly over a long period of time, car brands have now 'gotten real'. Automotive companies have pared down their sites, seeking to meet the visibly unsentimental demands of the online consumer. Every detail is honed to decrease friction and avoid attrition, and each site is mapped and monitored so as to increase the efficiency of engagement touch points to maximise interaction and, ultimately, the generation of sales leads.

So within this well worn online journey – how does finance fit in? As we have seen, the finance 'offer' is now a key factor determining which car a buyer will ultimately choose. How well is that critical finance information integrated within all the other information consumers are interested in? In many cases the answer is 'not well'. This essential function appears to be peripheral to the way many brand's present themselves.

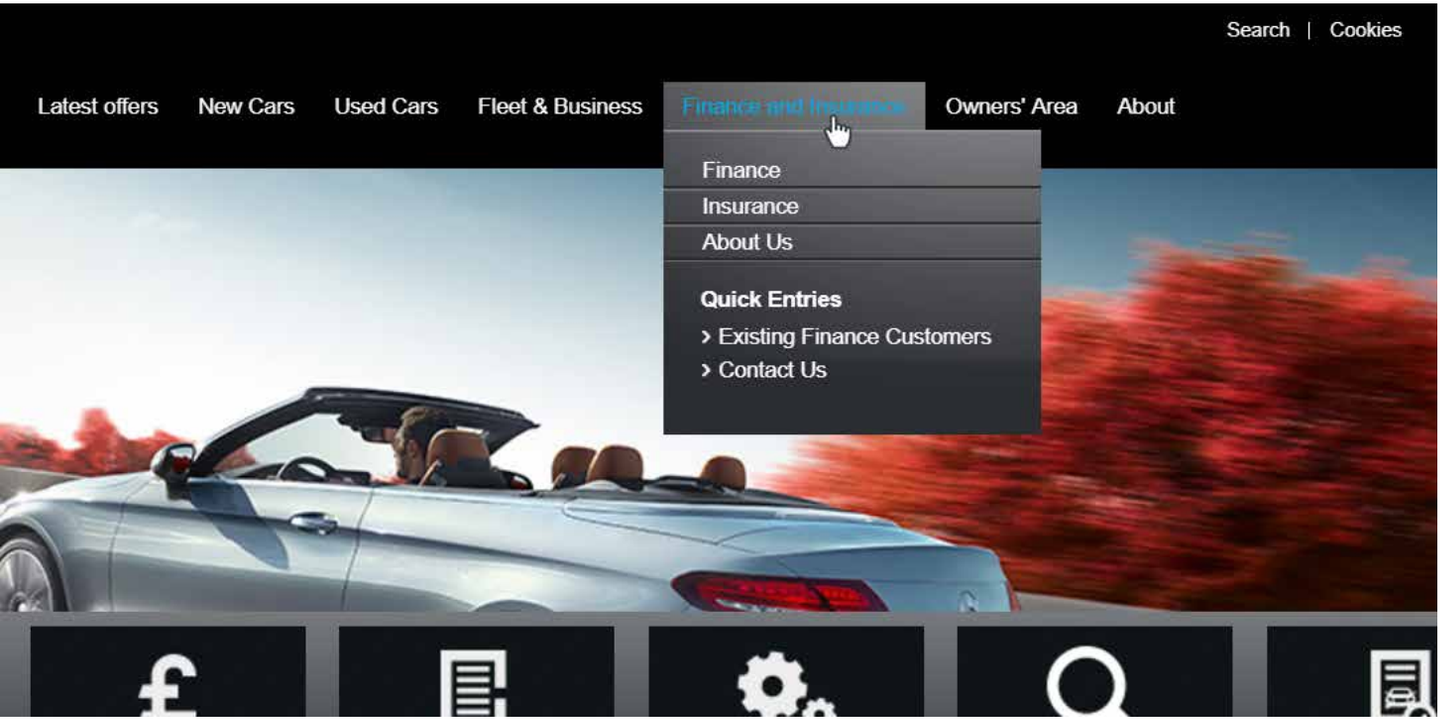
But looking at many automotive websites, 'finance' seems to be an afterthought, assigned to the 'fifth tab along' in the site's navigation and therefore placed firmly in the background. There are probably two reasons for this. Firstly, because the question of how a buyer finances their car has always been seen as a second stage of the car purchase process which follows, sequentially, the all important purchase choice. In the showroom, the finance question 'comes later'.

Secondly, this is compounded by the operational separation of sales and finance functions within the automotive OEMS, which makes integration of information from separate sources more difficult.

Whatever the reasons, the shift to finance-driven sales means that 'the deal' (as in the monthly payments) may now be the first consideration of the consumer, or certainly one they will want to understand early in their consideration. So integration of product and finance information across digital is vitally important to make sales.

When we look at what is already happening, even when finance information is not readily displayed or easily accessible, we find that users drawn to it are clearly more likely to be 'in market' for a car, and constitute that tiny part of the huge online audience which car brands should be most eager to identify and interact with.

sophus3



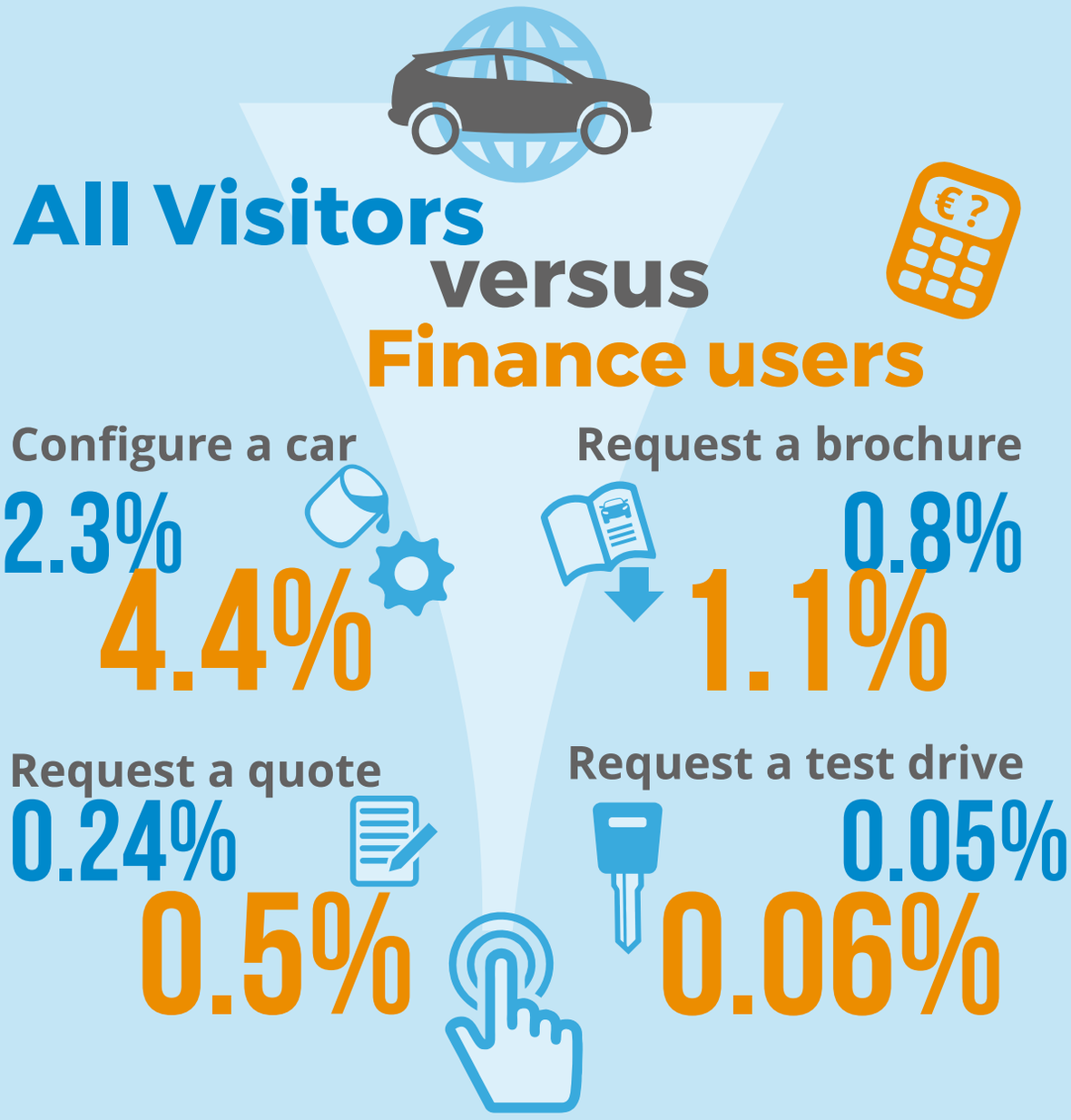
Study shows increased engagement amongst 'finance' visitors

A brief eDX study carried out earlier this year of online journeys on car sites looked specifically at the outcomes when visitors went to finance related content compared to those who did not. The outcomes that we measured were the 'completion' of key engagement actions such as: fully configuring a car, downloading a brochure, searching for a dealer, or – the holy grail in the eyes of most car salespeople – requesting a test drive appointment.

The percentages of online consumers carrying out any of these actions on a car manufacturer's site are, as would be expected, very small indeed. For example, a miniscule .05% of all site visitors in the UK will actually complete and submit a request for a test drive. (This is not surprising, given that there are nearly 100 visits per car purchase in the UK, and that people are visiting multiple sites and, simple probability tells us, that in the majority of cases they will go elsewhere).

However, these 'engagement completions' rise significantly amongst those who have accessed finance information – whether that is through a general 'offers' page, a model-specific finance example, or a fully functional finance calculator. The study, which was conducted in the UK market during January – a period of relatively high auto consumer activity in advance of the March

Completions on Car Brand Websites



registration peak – showed a rise in the number of completions in key areas, as the infographic shows.

The study supports the view that finance information is important to the 'serious' visitor – those who are taking time and care over their review of information, and accessing other content that suggests a higher propensity to purchase in the near future. It confirms also that finance information is of integral interest within the consumer journey, and that it is actively retrieved throughout that journey, not postponed to some later stage.

Crucially for car brands, visitors to finance information can be understood as a self-identifying subset of visitors who are more likely to be in-market, and who should therefore be prioritised within personalisation strategies

Part 4

Finance pages survey - are they ‘fit for purpose’?

Introduction

So far in this whitepaper we have examined how the finance offer around a car has become an important, if not the central factor, in guiding a consumer's purchase decision. We have also reiterated some familiar facts about the use of online within the consumer's journey. Generally, that journey can be characterised as short, unsentimental, almost brutal.

In this section we want to review in more detail how finance information is presented on car brand websites given its new found importance. Is finance information given prominence, can it be easily understood, is it accessible at any point along the customer journey? Can the site visitor interact with the brand to more fully understand their options, can they personalise their choices according to their own budgets and preferences?

Method

To find out, Sophus3 conducted an audit of 40 car brand websites across the 'Big 5' European markets: Germany, the UK, France, Italy and Spain. We chose a selection of budget, volume and premium brands to review and rate the experience of someone visiting with the purpose of buying and financing a car. The review was carried out in September 2017. The survey was conducted on each site by a member of the eDataXchange team, who could be classified as an 'experienced' online visitor. Through their work in the automotive sector, they are familiar with the content and structure of these sites. Even so, a time limit for the survey visit of one hour maximum per site was set. This means that in some cases if information the survey was seeking could not be found by our researcher it was adjudged to be 'missing'. However we accept that on occasion the information may have been hard to locate rather than totally absent from the site.

The survey looked at four key areas. Firstly it assessed the prominence and accessibility of finance information. Then it examined whether there were tools to calculate and adjust the terms of different finance offers, to personalise them. Thirdly it looked at the supporting information to see how well the complexities of financial information were explained through glossaries, FAQs and other subsidiary information. Lastly the survey assessed the capability of the site to allow the visitor to interact directly with the brand to ask finance specific questions.

The findings are discussed below and the result for each question expressed as an average across the 'Big 5' markets. A more detailed version of the findings containing a breakdown by individual markets will be made available to eDataXchange members in the near future.

1. Prominence and Accessibility

a. Are finance terms given prominence over price on the site homepage?

If a car brand is going to take on its competitors through offering attractive finance terms then you would expect these to be given prominence from the first moment of consumer contact. Yet surprisingly the survey found many examples where even 'budget brands' – with an exceedingly good story to tell about the affordability of their products – appear reticent to broadcast this fact. Most brands feature the car that they have most recently launched, or is currently the subject of their most intensive campaign activity on their homepage, but some still appear coy about making a clear and simple presentation of the available monthly terms. They either make no mention of money at all, or show the total MSRP which is only relevant to a small and declining number of cash buyers.

Of the the sites we reviewed, 50% showed the 'offer' price of their cars on the front page rather than just the retail price or no price information.

b. Are there links to 'finance' in the site's top-level navigation which are obvious and persistent?

Including 'finance' or 'offers' in the main navigation menu of a site makes one-click access to this information possible from any page on the site, assigning the subject clear importance, and also maximising click-throughs to financial information. Since visiting the finance or finance pages are one of the most obvious ways consumer identify themselves as engaged, all car brand sites would benefit making it easier for their visitors to do so.

The majority of websites, 58%, that we looked at did include 'finance' or 'offers' links – sometimes even both – in their top level navigation.

c. Does the site retain all of its functionality on a mobile device?

Across the Big 5 European markets 60% of visits to car sites are now made on a mobile device, the huge majority of these are on a cellphone with just a few percent of visitors making use of larger, tablet type devices. It is therefore vital that the content of websites is legible on these smaller screen devices and that any critical functionality, such as calculators and configurators, transfers to the different browsers and operating system of these devices. Our survey of car brand's finance pages included loading and viewing these pages on a mobile device and checking legibility and key functionality.

Nearly a quarter of the sites tested – 22% – did not work correctly on a mobile device.

2. Finance Calculator and personalisation

a. Can you personalise finance options through a finance calculator?

We see a finance calculator as crucial functionality to offer to prospective car buyers as it allows them to completely personalise that offer to their own needs. A calculator, as opposed to a page that collates a series of representative offers, allows the user to look at the individual vehicle derivative they have in mind, enter their deposit, likely mileage and the period of use they want to cover and see the resultant outcome in terms of the payments they will need to make. A true finance calculator is effectively generating a personalised finance quote on the fly, subject of course to final verification through a credit check.

80% of sites surveyed offered a fully functional calculator for visitors to produce a personalised finance example.

b. Can you calculate from 'budget' as well as from 'price'?

For the consumer a more vital question than "what does it cost?" is often, "what can I afford?". Does the finance calculator allow the user to begin from their own budget so as to filter the options available to them in terms of vehicle model, deposit, monthly payments etc.?

Only a small minority of sites, just 30%, offered some kind of 'set my budget' functionality within their finance calculator.

c. Is the finance calculator accessible within the product configurator?

As we noted in the previous section, the finance terms available on a car are a key driver in the purchase decision and consumers now want to explore product and finance information simultaneously. As the buyer refines their choice can they step easily between exploring and understanding the features of the car they would like and the finance package that could make acquisition possible? We looked at how many sites offered a direct link between the product configurator and finance information.

A credible 69% of sites allowed the visitor to access a finance calculator from within their product configurator.

3. Consumer Information & FAQs

a. Are there supporting explanations of how finance works - FAQs, glossary of finance terms, buying guides etc.?

Cars are relatively complex products with a host of technical features that can be difficult to understand. Most brands have become skilled at providing clear and helpful explanations of the features of their cars in the form of glossary type documents or short, instructional videos and animations. Finance information is perhaps just as complex but also a subject for which people have little enthusiasm. Yet it is imperative that brands ensure that finance terms – and the consumer's consequent liabilities – are spelt out clearly to avoid a later accusation of misselling. We tested the sites to see if there was specific help/documentation offered from the finance pages and looked specifically if common finance related acronyms were explained.

On average 61% of sites had direct links to financial 'help' information. However we found huge variation by geography. In Italy for example only 40% of sites offered adequate documentation of finance terms. In many cases the information offered was barely satisfactory with explanations of different terms often in dense, legalistic language.

b. Does the site explain what a PCP is?

Personal contract purchase (PCP) is currently one of the main 'vehicles' consumers are using to obtain a new car. It differs from previous and perhaps more familiar methods of financing a car in that at the end of the contracted period ownership of the car does not automatically pass to the customer unless they make what can be a large final 'balloon' payment. We examined each site to see if an explanation and differentiation of PCPs was available.

Under half of the sites surveyed (42%) offered an explicit definition or explanation of what a PCP is.

c. Does the site explain what APR means?

The Annual Percentage Rate (APR) is the annual cost of borrowing money from a lender. The APR takes into account all the costs of the loan including interest and administrative fees. APR therefore expresses the 'real' cost of borrowing money and the way it is calculated is, in most markets, clearly stipulated through legislation and monitored by financial authorities so that consumers can compare finance offers in a like-for-like way.

Despite the display of the APR on a loan being required in at least the 'small print' of a car finance offer, less than a third of all sites (30%) actually clearly explained to their visitor what it means or how this is calculated.

d. Do finance offers carry a 'HEALTH WARNING'?!

Again, given concerns about how finance is sold and the need to make clear to the customer their responsibilities to meet payments, it would seem sensible for published finance offers to include a clear statement of the liabilities of the loanee.

Whilst most brands do include a summary of, or link to, the terms and conditions surrounding a loan below any explicit finance offer, these are often, quite literally, in 'small print' and, again, many utilise opaque legal language. Only 33% of brands include what might be termed a clear health warning alongside finance offers on their sites.

4. Interaction with the customer

a. Is there a 'Request a quote' feature?

Asking for a quote to buy a car is a clear, positive action on the prospective buyer's part. We reviewed each site to check if the brand explicitly offered to provide visitors with a personalised quote on request.

Surprisingly perhaps, only 51% of the sites reviewed had a 'request a quote' link where a prospective buyer could state their interest/requirement and leave their contact details.

b. Is there 'Live chat' access to finance expertise in real time (a 'genius' function)?

The 'product genius' – a trained expert who can be contacted in real time for advice and assistance – is a concept that has spread from Apple computer stores into car retailing. Most recently those OEMs offering 'Click to Buy' on their websites now rely heavily on the use of live chat with a product specialist to reduce the impediments within the online purchase process. Our survey looked to see if live chat – one-to-one text or call interaction between a brand representative and an individual customer – was offered on finance pages. (Declaration of interest: Sophus3, the publisher of this paper, offers live chat as part of our portfolio of digital services to automotive brands.)

Currently 39% of the sites reviewed here offer some form of live chat within the finance area.

c. Are there other 'Call to Actions' from the finance pages?

To work effectively as a sales funnel it is important that a car brand's website does not create dead ends where a visitor's engagement is allowed to peter out. We looked specifically at finance pages to see if, once a finance offer was made to, or calculated by, the visitor that they were encouraged to engage further with the brand and its products. Such 'calls to action' (CTAs) can include the offer of a brochure download, encouragement to find a local dealer, or the offer of a test drive appointment.

The survey found a high percentage of brands (87%) wisely included further CTAs on their finance pages.

d. Can you apply for finance online through to approval of credit?

Helping online consumers understand their finance options is one thing, actually enabling them to apply for finance online, or at least commence the process, is a very different undertaking. The small number of brands that currently offer 'Click to Buy' car purchase – a group which includes BMW, Hyundai, Jaguar Land Rover and Peugeot-Citroen – of necessity have to be able to conduct the whole finance application/approval process online. Selling the brand's finance to a customer not only provides more 'lock in' to a vehicle purchase from that brand, but it also generates additional value from the sale of the finance product itself.

As yet, few brands are offering end-to-end finance applications online – only 15% of the sites we looked at enabled customers to do this.

Finance pages some conclusions and best practice

With Finance increasingly at the start of the consumer's online buying journey, the presentation of finance information needs to catch up with that of product information on car brand sites:

- Improved accessibility, visibility and user experience with linkage from the home and product pages to 'finance'
- Better usability on mobile devices (which deliver the majority of visits)
- Seamless integration within the main brand site (no diversion to, or split between, domains or brands)

Consumers expect a finance calculator that allows complete personalisation:

- Integrated within both the finance and product funnels
- Flexible so that they can start from their own budget or price points
- Designed so that their options can be compared, saved and shared

Brands need to remember at all times that consumers' attention spans are low, expectations high and the barriers to switch brand or site minimal:

- Guide customers through the site to maximise the chance of journey completion (a call-to-action or finance application)
- Highlight key information and explain options and risks along the way
- Offer human interaction to ease the path whether via call centres or Live Chat

A starting point for car brands' digital managers should be to review their own site against the checklist of questions our survey asked and also to begin benchmarking their capabilities against those of their competitors.

Brands should look at where their failings can be simply fixed through better content and design dlievery, or whether there are organisational 'Chinese walls' which hamper the delivery of integrated product and finance information.

www.sophus3.com

Sophus3 is at the forefront of designing and applying technology and processes that monitor consumer behavior in the online sector.

Our key strength lies in our ability to identify and gather the right data and information, combined with advanced and objective analysis. We provide expert services and support to companies in areas where they don't always have in-house expertise.

eDataXchange (eDX) is a strategic sector and country collaborative project that monitors consumer behaviour across websites. It acts as a digital GPS of a car brand's position in the market place and enables participants to set targets, determine which digital investments are changing their market position and how.

If you have any questions or comments we would be happy to respond if you email:
contact.en@sophus3.com