

# Customer Relationship Management Solutions for Vehicle Captive Finance

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# Customer Relationship Management Solutions for Vehicle Captive Finance

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## **EXECUTIVE OVERVIEW**

The captive finance subsidiaries of global vehicle companies face unprecedented challenges from traditional and emerging market forces. In addition to the traditional challenge of qualifying willing buyers while generating increasing revenues, captive finance subsidiaries face many complex challenges.

- Cash consumption by the parent vehicle company is increasing, adversely impacting captive balance sheets and the borrowing ability necessary to lend at competitive rates.
- The prevalence of low- or zero-percent financing, in addition to, or instead of, manufacturer cash back is shifting passenger car buying patterns from lease to purchase, toward new rather than used. While attractive rates have enabled captive finance companies (captives) to increase their market share from 48 to 72 percent of new car finance transactions, millions of vehicles leased over the past few years are being returned, depressing used car values, and causing losses on disposal due to residual values significantly below expectations.
- In the passenger car market, competition for more profitable business remains strong, as evidenced by direct connections to competing financing sources in the dealer showroom.
- Emerging financial application network companies are providing attractive alternative channels to dealers, minimizing the advantages that captives provide.
- As part of a growth strategy, many captives own, partner with, or are becoming, chartered banking enterprises, offering a broader range of services including credit cards and mortgages. To profitably expand their portfolio of offerings, captives need business processes that leverage best practices from the financial services industry while recognizing the unique attributes of their vehicle-centric customer relationship.

**Oracle's Siebel Automotive Captive Finance Solution Set delivers packaged applications addressing specific business areas within captive finance. These solutions, organized around sets of business processes, are optimized for modular deployment, effective implementation, and maximum ROI.**

Oracle's Siebel Automotive Captive Finance Solution Set helps organizations address these complex challenges. Including solutions for Credit and Account Management, Leasing, Collections, and End-of-Term Remarketing, among others, this solution set reflects the expertise gained from nearly a decade of working with retail financial services and automotive customers. These business solutions, combined with the Siebel Automotive Captive Finance platform, help captive finance companies obtain a comprehensive understanding of customer needs, profitability, and risk exposure. With this knowledge, they can drive high-quality revenue while minimizing credit losses, and maximizing dealer and customer satisfaction. This solution set was designed to recognize the dealer's key role in the financing process, and respect the unique role that captive finance companies perform.

## **INTRODUCTION**

Current trends in the automotive finance market lead to a host of challenges for captive finance companies.

### **Aggressive Incentives Cause Balance Sheet Pressures**

Particularly in the passenger car market, subvented lease and loan rates are squeezing traditional captive finance margins and cash flow. The margin equation should be simple—acquire funds at a rate more favorable than that offered to the customer, subtract operating expenses, and pocket the difference. Unfortunately, many vehicle loans and leases are offered at rates below the cost of funds. Although the captive is reimbursed for the cost of funds, the overall expense still impacts the parent company. In addition, automakers have cash requirements for funding product investment, capital expenditures, and pension obligations that draw cash from the captive and increase borrowing requirements—these requirements jeopardize the prime ratings that enable captives to acquire capital at preferred rates.

### **Traditional Competitors Threaten to Take Control of Dealer Channel**

Given the use of financing as an incentive, it is no surprise that captive finance companies are consistently winning the customers who qualify for low rates. The higher-margin subprime and credit-challenged business continues to be highly competitive, however, with dealers selecting financing companies based primarily on the ease of customer approval. Although all captives have dealer portals, the emergence of strong competitors such as CMSI/DealerTrack, backed by a broad portfolio of lenders, is siphoning away captive business. To succeed, captive finance companies must aggressively defend their value to the dealer and ensure that, from a relationship and transactional standpoint, they remain the dealer's best partner.

### **Cost Factors Drive End-of-Lease Process**

Managing the return of leased vehicles to the market is currently driven by cost and not viewed as a significant revenue opportunity. As in other aspects of the

relationship with the customer and the dealer, captive finance companies serve multiple masters in this process. The need to ensure customer goodwill and build loyalty causes pressure to forgive minor— but costly—damage to returned vehicles, while the need to dispose of large quantities of nearly new vehicles drives down both new and used vehicle values. In addition, because of the increasing trend to offer early termination to generate more new car sales, many leased vehicles reach the used market early. The challenge is clear. Captive finance companies must do more than just send vehicles off to public auction; they must manage all aspects of off-lease vehicles—product, pricing, promotion, and placement.

### **“Floorplan” Financing Impacts Captive Finance Margins**

In addition to financing customer vehicle purchases, captive finance companies do a large volume of business directly with dealers, providing “floorplan” financing for the dealer’s inventory. Floorplan financing enables the dealer to carry a large stock of vehicles, with payment due at time of sale. However, inefficient systems often enable dealers to sell a vehicle, receive cash from the captive finance company for the sale, and only later satisfy the floorplan obligation. Allowing this float has a potentially significant impact on captive finance margins.

### **GAIN COMPETITIVE ADVANTAGES THROUGH BEST PRACTICE IMPLEMENTATION**

Oracle’s Siebel Automotive Captive Finance Solution Set delivers packaged applications addressing specific business areas within captive finance. These solutions, organized around sets of business processes, are optimized for modular deployment, effective implementation, and maximum ROI.

### **Expand Market Opportunities with Product and Services Marketing Solution**

Although the majority of a captive’s business is typically sourced through dealers, this does not in any way diminish the captive’s need to aggressively market products and services. In fact, because captives are serving multiple clients, expanding into a greater breadth of financial services products, and working collaboratively with the vehicle brand, effective marketing is vital to success. The Siebel Product and Services Marketing Solution provides captive finance companies the tools to analyze, understand, and act on marketing opportunities. Incorporating comprehensive analytics to aid in segmentation through integrated multistage marketing program management and response tracking, Siebel’s marketing solutions provide a comprehensive suite to support all dimensions of the captive’s marketing strategy.

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Marketing campaigns can be designed and executed across all channels, including telephone, field sales, direct mail, email, and the Web. This multichannel approach enables marketers to reach their prospects—both retail and dealer—by the most effective and preferred channel. The single data model also facilitates easy coordination of marketing efforts among organizations, so the customer experiences a consistent, well-informed marketing approach.

The marketing process is completed by capturing campaign response information across channels in the single data model. With the benefit of comprehensive customer knowledge, organizations not only can develop relationship-based marketing strategies, but also maximize the lifetime value of each customer.

### **Increase Satisfaction and Decrease Costs with Customer and Account Service Solution**

**The Siebel Customer and Account Service Solution delivers contact center and field personnel tools for understanding customer lifetime value, rapidly accessing the customer information necessary for service, and optimizing processes to ensure timely resolution.**

Effectively servicing customers over the lifetime of a vehicle lease or loan is the core of a captive's relationship with the customer. This service relationship begins when the retail customer's account is funded by the captive; the captive becomes engaged in a broad set of business processes that reinforce the customer's choice of vehicle and financing, as well as build customer satisfaction and loyalty that drive future purchase and financing decisions. Ensuring that customer and account services are delivered efficiently and effectively is a key driver of the captive's success.

The Siebel Customer and Account Service Solution delivers contact center and field personnel tools for understanding customer lifetime value, rapidly accessing the customer information necessary for service, and optimizing processes to ensure timely resolution. Leveraging the Universal Application Network integration architecture, the Siebel Customer and Account Service Solution interacts with relevant back-office systems to provide personnel with up-to-date information on customer accounts, payments, and history. By seamlessly spanning multiple legacy applications, this solution allows captives to maintain their investment in legacy receivables and account management applications, while providing customer service personnel the tools they need for superior performance.

The Siebel Customer and Account Service Solution supports many of the key processes that captives need to effectively manage wholesale and retail accounts.

- **Wholesale Account Management.** Captives interact with dealers to drive retail market share and secure wholesale finance business. The Siebel solution includes comprehensive tools for managing relationships and business opportunities with the dealers. By detailing specific agreements, such as floorplan vehicles, field personnel have the information necessary to maximize productivity. The same information set is available to service personnel in the call center, ensuring seamless support across channels and driving increased dealer satisfaction.

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- **Retail Account Services.** The Siebel Customer and Account Service Solution includes a host of specific service transaction types for capturing customer input to initiate account service activities. These transaction templates streamline the capture of necessary information for initiating approval and update processes that interact with back-office applications.
- **Title Management.** Since both loans and leases are collateralized instruments, captive finance companies must spend considerable time and energy managing paper titles and the association of titles with relevant drivers, vehicles, dealers, and loans or leases. Once captured, titles need to be moved and tracked at key events such as damage or loss of vehicle, payoff, sale, and repossession. The Siebel Customer and Account Service Solution provides title management capabilities tied to the customer, the vehicle, and the financial account to maximize the efficiency of this process across the life cycle of the vehicle.
- **Credit Origination.** While most credit approval is automated, captives must occasionally manage deals that cannot be automatically approved, but rather require review and consideration before approval. Supporting dealers by facilitating deal closure is an important part of the captive's value. Siebel solutions ensure that deals not automatically approved are immediately routed to a credit analyst with full information about customers, their value to the enterprise, and the dealer working on the current deal. Through review of customer data and interaction with the dealer, the analyst can make an informed decision on accepting, restructuring, or rejecting the deal.
- **Collections Management.** It is an unfortunate reality in the industry that some leases and loans become delinquent, or worse. Effectively applying business intelligence to payment patterns and customer behavior to target accounts for collections activity can reduce the captive's exposure to losses. However, managing collections is not just about minimizing losses. Unlike a commercial bank, captives must also keep in mind their relationship with the dealer, and the broader enterprise's relationship with the customer. Thus, while the objective of collections is still to ensure that customers are current on their account and past due balances are received, it is imperative that the collections process be approached with full knowledge of customers and their value. Such an approach ensures a respectful, value-driven process that works with customers to achieve collections goals, while strengthening relationships with good customers whose delinquency is only a temporary circumstance.
- **End-of-Term Management.** A significant portion of a captive's portfolio today is represented by leases, particularly for higher-end vehicles. Lease financing imposes a broad set of additional requirements on the captive to manage inventories, logistics, consignment, and sale of off-lease vehicles. The Siebel Customer and Account Service Solution supports processes for proactive and reactive contact as a vehicle approaches lease end; collaboration with the vehicle brand and dealer to ensure consistent, value-based messaging; and

management of the transactional processes associated with vehicle inspection, turn-in, consignment, and sale.

**The Siebel Dealer Management Solution reinforces the partnership relationship between the captive and the dealer by supporting dealer marketing, sales, and service activities across multiple channels.**

### **Maximize Revenue and Market Share with Dealer Management Solution**

Competition for a captive finance company thrives in the showroom. By virtue of the brand relationship, the captive has an entrée to the dealerships, but must still earn the dealer's business by offering timely approvals, competitive rates, and outstanding service for both retail and wholesale financing relationships.

The Siebel Dealer Management Solution reinforces the partnership relationship between the captive and the dealer by supporting dealer marketing, sales, and service activities across multiple channels. The marketing component supports dealer targeting, in order to capture wholesale business or grow retail. It also enables management incentives or rewards for performance, such as dealer events. The sales component manages opportunities to place additional products and services with the dealer and tracks dealer applications for additional credit products. Sales also supports field personnel calling on dealers with contact management, activity planning, and certification/audit processes. The service component enables self-service or agent-assisted service for both dealer and customer issues (where dealer involvement is required for resolution). The end result is a comprehensive view of the dealer and its business relationships with the captive, a view that drives improved dealer performance, increased revenues, and a tighter partnership.

To be effective in winning dealer business and trust, captives must continually demonstrate their superior performance, against both short-term and long-term metrics, when compared to independent financing providers. Short-term issues are transactional, including approval practices, and the spread between the buy rate offered and what the dealer can place with the customer. By enabling consistent execution of best business practices and automatically escalating applications requiring review, the Siebel Dealer Management Solution supports a stronger collaborative relationship.

For the long term, the solution helps strengthen the fundamental business relationship between the captive and the dealer. By focusing captive personnel on dealer sales and service, the Siebel Dealer Management Solution enables processes that deliver improved dealer satisfaction and greater share. Equally important, support for collaborative processes such as end-of-lease marketing reinforces the captive's role as a partner interested in the dealers' and the brand's success.

### **Enhance Performance with Analytics Everywhere**

Siebel Automotive Captive Finance includes integrated business intelligence analytics that enable measurement of key performance indicators captured within Siebel applications, and in legacy systems, to ensure that the captive can monitor performance, identify opportunities for improvement, and consistently optimize performance.

## **Integrate Legacy and External Applications with Universal Application Network**

The customer- and dealer-facing processes enabled by Siebel Automotive Captive Finance cannot drive value without process-based integration with multiple back-office and external applications. Universal Application Network delivers a standards-based integration architecture, enabling cost- and time-effective integration with key legacy applications that act upon or provide information to interactions supported by the Siebel application suite.

**Success in this highly competitive environment requires an information technology foundation that understands the complexities of the captive environment and can facilitate collaboration among the vehicle enterprise, the captive, and the dealer community to serve their mutual customers.**

## **CONCLUSION**

In a highly dynamic, competitive environment, vehicle captive finance companies need tools that deploy best practices across their operating domains and empower their employees and partners to work together toward consistent delivery of outstanding customer service and profitability. Success requires an information technology foundation that understands the complexities of the captive environment and can facilitate collaboration among the vehicle enterprise, the captive, and the dealer community to serve their mutual customers. The Siebel Automotive Captive Finance Solution Set is unique to the industry because it offers a fully integrated suite of applications, enabling best practices to drive competitive advantage for world-class captive finance organizations.

By adopting the Oracle's Siebel Automotive Captive Finance Solution Set, captive finance companies can utilize best-practice business processes to gain competitive advantage in an increasingly competitive marketplace. Embedded processes for marketing, customer service, credit management, collections, title management, and dealer integration allow captive finance companies to handle increased volumes of business while controlling costs. These processes also help captive finance companies understand the value of the customers they share with the vehicle brand, delivering service that builds brand image and loyalty for both the captive finance and vehicles businesses.



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