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**Lien Solutions**

# Financing the future of car buying

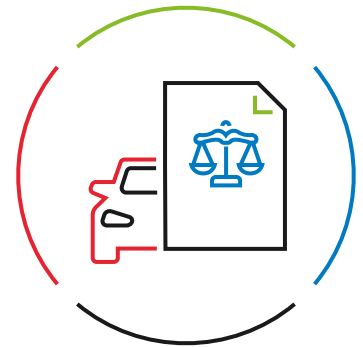
**Millennials and Generation Z are paving a new way**



***By Travis Ellis, Product Owner, Motor Vehicle***

**“Youth is wasted on the young.”**

While that statement may not always be true, one of the things that is definitely not wasted on by the young, is innovation. To wit, car buyers in their 20s and 30s, millennials and Gen Z for those wondering how to label those age groups, are transforming the methodology of shopping for, and financing, a car. From the use of smart tech to a disinterest in face-to-face car haggling, these age groups, the “technology generations”, are changing the face of the industry. And it’s up to the rest of us to keep pace.





Indeed, today's younger generations are driving fascinating trends in the vehicle purchase and usage life-cycle. But to best understand the new buying process, the ownership experience, and financing process, as well as how to address these shifts to succeed in the evolving environment, we first need to understand who these new generations are.

The definition of what specific time frames go with each generation is a bit debatable, however, a fair boundary is to say that millennials and Generation Z consist of people born between 1980 and 2009. But a 30-year range is quite vast, and there is nuance within that framework.

Millennials are defined as those born between 1980 and 1994, and are currently the largest living generation in the United States. There are 73 million millennials in the U.S., which represents 50 percent of the U.S. workforce, and also the largest generational car-buying segment.

In the 1980s and 1990s, millennials typically had some kind of a computer at home, grew up during a positive economic cycle, then witnessed the dot-com boom and bust. They are the true mobile communication pioneers and prefer brands that share their values. Social media came of age at the same time they did, and so millennials spend a considerable amount of time online and with their smartphones.

Generation Z is slightly younger, with members having been born between 1995 - 2009. Unlike millennials, Gen Z has never experienced a world without useful technology. Whether at home or in classrooms, technology has always been a major influence in their development. They have always had the Internet, and for those in their 20s, can't fathom a world without complete connectivity.

Older Gen Z-ers' formative years were in the housing crisis of the late 2000s and many are now entering the workforce with those events shaping their thinking. They tend to be more pragmatic than millennials, and are focused on saving money. There is a preference of brands that feel "authentic", and they are mobile natives.

Regardless of the minor difference in timeline, both groups have been exposed to more combined media than boomers and Generation X ever have. So it shouldn't be surprising that they share different views of how to shop for, and buy, a vehicle.

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## Millennials

born between 1980 - 1994

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## Generation Z

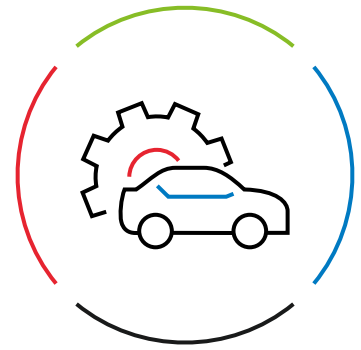
born between 1995 - 2009

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# “The good old days weren’t always good and tomorrow ain’t as bad as it seems.”



For the better part of 50 years, the process of purchasing a new or used car stayed the same. One would typically peruse the automotive section of the local newspaper to learn more about available cars and special pricing, then head to the dealership. The dealership of choice was usually the same one that your family had been going to for years, and you may have been there to buy the newest model that your co-worker just bought, or that family car you had been seeing in those newspaper ads and TV commercials.

When you got to the dealership, the experience was anything but enjoyable. Car salesmen were often pushy and aggressive, yet there was somehow satisfaction in knowing you were part of the active negotiation to get yourself a good deal. That process is no longer the default.

Instead of newspaper ads, tech-savvy millennials and Gen Z-ers read up on vehicle specs and customer reviews on manufacturers’ websites. They also rely on social media input to further inform their decision-making process, whether it’s what’s trending on Twitter, a friend’s negative post on Facebook, or dealership reviews on Yelp.

By the time customers show up at a dealership (if they show up at all), they know exactly the make, model, color, and features of the car they want to buy.

And when it comes time to finally begin the purchase process itself, data suggests that the last thing younger generations want to deal with is the haggling process. Fifty-six percent of millennials say they’d rather clean their homes<sup>1</sup> than negotiate with a dealer. They’d rather not even talk to a dealer if they can avoid it. It’s definitely not your parents’ way of buying a car.

## A completely different mindset

Younger people today are just not as motivated to buy a car as people were a few decades ago. Only 69 percent of 19-year-olds had a driver’s license in 2010, down from 87 percent in 1983<sup>2</sup>.

Some statistics about millennials, who comprise the largest living generation in the United States right now, further paint the picture of a segment in flux:



Millennials spend an average of 17 hours researching a vehicle before purchasing it.



Eighty-two percent of millennials polled cite third-party sites as the top source driving their purchase decision.



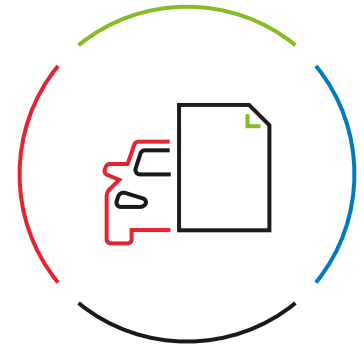
Research shows that they will drive up to two hours just for a positive buying process<sup>3</sup>.

# Mobility is necessary, owning a car is not

The overall requirement to own a car for basic tasks is less than it has been in a very long time. Cars are expensive propositions and the technology generation knows it. Monthly payments, insurance, fuel, and basic maintenance add up quickly. Considering that the average 30-year-old earns less than \$4,000 a month, a vehicle can account for almost a quarter of their monthly expenses.

What's more, many millennials and Gen Z-ers need to drive less than those of the same age in decades past. It is becoming more and more possible to work from home and have basic staples delivered.

Transportation Network Companies (TNCs) are quickly becoming a viable solution to owning a vehicle. These include ride-sharing services like Uber and Lyft, and car sharing through services like Car2go, Zipcar, and Turo. There are even car subscriptions where, for a monthly fee, you can pay to have a vehicle from a company that you can change out whenever you want. This allows users to exchange a sedan for an SUV if they are planning a road trip, or switch to a truck if they are relocating.



# The early adapters are succeeding

In spite of all the new ways to get from Point A to Point B, there is still a perfectly fertile group of car buyers who want to leverage the tools they have at hand to get the best car, at the best price, with the least amount of stress. But they are going to take much longer than generations past to actually buy a vehicle. They will spend as much as four months deciding to move forward, and then even more time debating which vehicle to buy<sup>4</sup>. This drawn-out process can make for a new set of challenges for vehicle finance companies, but patience with these buyers will pay off in the long run.

Today's car buyers are seeking more direct interactions that allow them to have more control of the lending/borrowing process. Direct lending, online, and mobile interaction models are one way of doing that work, and aggregator platforms are another channel that lets these generations shop around to find the best deal before they complete their purchase. This flips the model on its head so that the visit to the dealership is the very last step in the process instead of the first.

One thing that transcends generations is great customer service. It just might have to be done in a different way. The boiler room sales pitch is not going to be as effective as it was in the 90s and 00s. Increasingly, dealerships and online marketplaces are offering haggle-free policies, and in some scenarios, customers can conduct the entire transaction, start to finish, online, and end up with a new car without ever having stepped foot in a dealership.

They may even opt to have the car delivered right to their door, although this does not mean the human touch is no longer necessary. Careful consideration of the right components to include in an app, website, or another digital tool will help resonate with today's younger customer, but they still need to come from an honest human perspective to be effective.



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# Embracing the digital reality

While the “new normal” of working with generations of customers weaned on smartphones can seem a bit daunting for more traditional auto lenders and retailers, there are some solutions that can sharpen the appeal of financing an automobile for these buyers.

The power of social media is real, especially for millennials and Gen Z-ers. A single tweet from the right person can make or break a business. If you’re looking to attract more prospective buyers, it pays to make your social media presence strong. Investing in savvy human capital that speaks the language of the digital generations can make a stale identity fresh and exciting.

Another way to achieve visibility is with the right website. Over 80 percent of people own a smartphone, with 27 percent using it for all their Internet access. Almost half of all Internet traffic is done through mobile devices. In order to reach these buyers, it is especially important for a car retailer or lender to have a mobile-responsive website. If a site can’t be maximized for viewing on a phone or tablet, 50 percent of the potential market will not find you. Partnerships are still another way to address millennials and Gen Z-ers. Lenders and dealers might consider partnerships that bridge the gap between the act of finding a car and of financing it. These kinds of partnerships can be effective in bringing the primary players together to help each other adapt to industry trends for mutual benefit. In the case of digitization, specialty lenders are often of greater assistance due to higher budgets and deep expertise with regulatory compliance. They also often have more experience in the digital space and can share insights and experience with dealer partners regarding the return on investment. The result of this kind of synergy can be a much smoother and simpler process in the eyes of the buyer.

The common thread that can be pulled through the automobile buying process is adaptability. The digital transformation that’s remaking the auto buying and lending segments is just another way that customers do what they have always done; shop. However, no matter where someone buys a car or how they secure financing, dealers and lenders still need to meet a customer where they feel comfortable. Whether it’s in a car lot or on Twitter, it still comes down to building the right relationship.





## About Lien Solutions

The life-cycle of a loan is complicated, highly technical, and fraught with fluctuating levels of risk. Financial professionals are entrusted with the enormous task of vetting, executing, and managing lien portfolios on a daily basis.

In the face of often overwhelming complexity, Wolters Kluwer's Lien Solutions delivers, answers with power and simplicity.

We are the nation's leading lien services partner. For over 30 years, we have delivered expert lien counsel, recording services, and life-of-loan solutions.

Our goal is to be an indispensable resource to every client, by helping them efficiently and effectively navigate lien perfection and risk reduction every day. Financial professionals look to us as the industry-leading expert in every jurisdiction in the United States. We provide authoritative content, a service-oriented culture, and the easy-to-use iLien suite of products, addressing solutions for asset-backed loans, real-estate, and vehicle title processing and management.

Wolters Kluwer's Lien Solutions makes profound improvements to our clients' business processes and delivers positive, measurable impact on their business performance. We give them confidence in their lending decisions throughout the life-cycle of every loan.

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### About the author



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## About Wolters Kluwer Governance, Risk & Compliance

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