



CDK Digital Marketing: Addressing Channel Conflict with Data Analytics

Melissa McCann, director of strategic marketing for CDK Digital,¹ had never been anxious about a professional presentation in her life, but she was legitimately nervous on July 14, 2011, four days before she would present in CDK Digital's Seattle headquarters. The cause of her concern was not the number of attendees—other than her CDK Digital colleagues, there would be only seven people in the room—but their identities and the stakes of the outcome.

On July 18 McCann would present CDK Digital's justification for renewing its contract to manage the websites and online advertising of over 4,000 General Motors (GM) automobile dealers. CDK Digital had been the sole provider of these services since 2007 and was facing renewal of its contract at the end of 2012. McCann knew that renewing the sole-provider contract was crucial because GM was CDK Digital's most significant customer. Losing the contract would be a serious blow.

McCann would be representing the chief marketing officer, Chris Reed, when she presented to seven members of the customer relationship management (CRM) subcommittee of the Chevrolet dealer council. (The eighth member was so negative about CDK Digital that he refused to attend the meeting.) Although GM dealers, like all auto dealers in the United States, were independent franchisees, GM saw the decision of whether to renew CDK Digital's exclusive contract as a collaborative decision with its dealers.

McCann and a team from development, marketing, and sales had already spent many hours in soul-searching sessions trying to come up with a proposed program that would, in McCann's words, "make the renewal a non-event."² So far they had discussed multiple concepts, but none of them provided a clear solution to the key problem they were facing.

CDK Digital's original value proposition to GM was greater control of dealer websites to ensure that all brands and models were presented and marketed consistently. CDK Digital's solution clearly delivered on this promise, but dealers felt the solution was inflexible and less responsive to their needs.

McCann and Reed recognized that CDK Digital was caught squarely in the channel conflict between GM and its dealers. Was there a CDK Digital offering that would simultaneously satisfy

¹ Prior to August 2014 CDK Digital was named "Cobalt." This case refers to the company as CDK Digital throughout.

² Melissa McCann, in interview with the authors, November 25, 2013.

dealers' push for autonomy and GM's desire for a coordinated solution? They had to find a solution that was acceptable to both parties. As Reed said, "GM hired CDK Digital, but its dealers can fire us."³

Automobile Retailing in the United States

U.S. manufacturers sold their automobiles through franchised dealers that were authorized to sell and repair a specific brand of car in a defined geographic area. The franchise approach not only leveraged the capital of local owners to build a nationwide network of retailers, it also created local owners that had first-hand knowledge of local markets. Although their franchise agreements set minimum sales and service levels, auto dealers were quite autonomous from their franchisors compared with other franchised businesses, such as McDonald's.

In 1949 the number of dealerships in the United States was 49,200, but as the country became more urbanized the number of dealerships declined significantly (see **Table 1**). By 2011, dealers frequently sold multiple brands of cars.

Table 1: Dealerships by Manufacturer, 2011

Manufacturer	Number of Dealerships
General Motors	4,250
Ford	3,456
Chrysler	2,317
Toyota	1,233
Honda	1,034
Nissan	1,057
Other	6,600
<i>Total</i>	19,947

Source: Fellowes Research Group, Inc., "Dealer Count by Franchise Chart," 2011, http://www.fellowesresearch.com/Charts&Diagrams/oem_x_dlr_cnt.html.

Selling and servicing cars was a capital-intensive, low-margin business (see **Exhibit 1**). It remained highly fragmented even after decades of consolidation: the largest dealer group in the country, AutoNation, accounted for only 1.5 percent of all auto retail outlets. Dealer locations varied in size from small businesses that sold two or three cars per month to large operations that sold hundreds.

Likewise, there was a wide range of management sophistication. A top-tier dealership such as Sewell in Texas, one of the largest Lexus dealers in the country, was run like a Fortune 500 company and boasted a brand that was as important as the Lexus brand itself in its local market. A small rural dealer, on the other hand, might not be managed to maximize profit, but rather to be prominent in the local business and political community.

³ Chris Reed, in interview with the authors, November 25, 2013.

Marketing and Advertising

Auto industry advertising in the United States generally fell into three distinct tiers based on the entity that was advertising: Tier 1 comprised the manufacturers, Tier 2 the regional dealer groups (such as Chicagoland GMC dealers), and Tier 3 the individual dealers.

Auto manufacturers (i.e., original equipment manufacturers, or OEMs) traditionally were responsible for creating awareness. In 2011 OEMs spent over \$8 billion in direct advertising and financed over \$4 billion in co-op advertising with dealers.⁴ According to Ed Vogt, who oversaw GM's marketing databases and dealer systems as well as Internet, metrics, and analytics teams, the dealer's role in marketing was to "drive the customer the last mile—why buy today and why buy from me?"⁵ In total, dealers spent nearly \$10 billion on advertising (excluding co-op) in 2011.

An average dealer in 2011 spent over \$30,000 per month in advertising (see **Table 2**). Spending varied considerably depending on dealer size, but on average dealers spent approximately 1 percent of their total sales on advertising. Dealers' advertising spending was driven by their own objectives, not all of which were aligned with manufacturer advertising and promotions.

Table 2: Estimated Annual Advertising Expenses per Dealership in 2011 (\$)

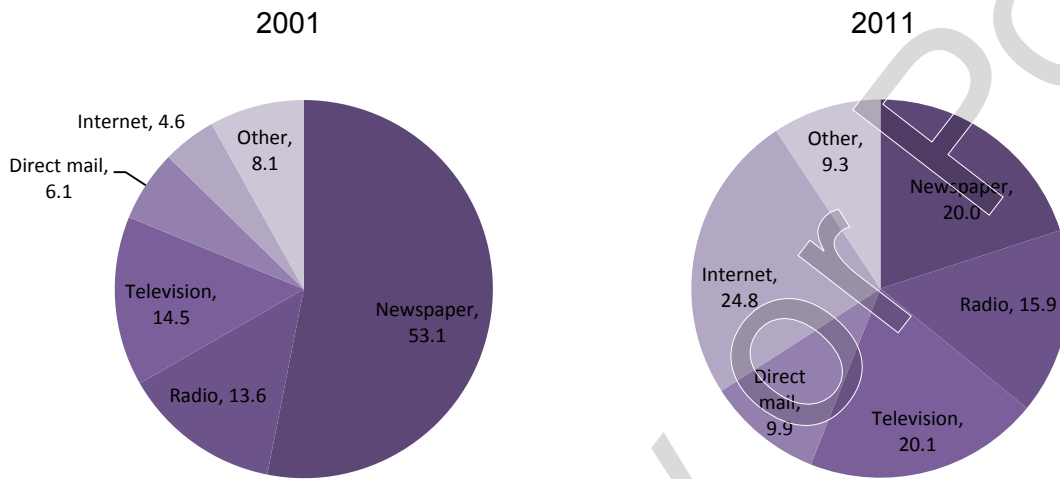
Medium	Average of All Dealerships	Dealerships by Number of New Cars Sold			
		1–149	150–399	400–749	750 or more
Newspapers	72,599	29,232	38,622	61,989	102,932
Radio	57,670	21,051	24,990	52,133	116,362
TV	72,974	7,572	34,875	81,747	167,307
Direct mail	36,042	7,646	17,171	38,824	75,586
Internet	90,106	23,430	45,105	96,826	164,377
Other	33,775	8,618	16,139	31,774	72,989
<i>Total advertising</i>	363,168	97,548	176,902	363,292	699,553
<i>Total advertising per new car sold</i>	628	788	608	505	418
<i>Total advertising as % of total sales</i>	1.05%	1.07%	1.04%	1.00%	0.95%

Source: NADA Industry Analysis Division, NADA Data 2012.

Total dealer advertising per new car sold was sharply higher in 2011 compared to 2001, but spending had dropped since 2008. What had changed most dramatically since 2001, however, was the advertising media: newspapers had dropped from dealers' top advertising medium to number three, behind Internet and television (see **Figure 1**).

⁴ In co-op advertising, the local dealer purchased advertising that was financed by OEM credits for future purchases, provided the dealer followed rules for ad content.

⁵ Ed Vogt, in interview with the authors, February 24, 2014.

Figure 1: Dealer Advertising Expenditures by Medium

Source: NADA Industry Analysis Division, NADA Data 2012.

Despite the fact that marketing was the dealers' largest discretionary expense after labor and that media consumption patterns were changing dramatically in the Digital Age, less than 20 percent of dealers had a full-time marketing person on staff. With little marketing training or internal expertise, many dealers made marketing and advertising decisions based on traditional "rules of thumb" rather than up-to-date data.

Consumer Behavior

The consumer behavior model traditionally accepted in the auto industry was as follows: first, manufacturer advertising created consumer awareness of a car model, which placed the model in consumers' consideration set. Next, consumers selected a dealer that helped them develop their model preference, provided price and inventory information, and finalized the purchase. In other words, manufacturers were responsible for making sure consumers knew about their cars, and dealers were responsible for selling them.

However, newer research showed that this clean separation between the roles of manufacturer and dealer was a myth; consumers did not follow a traditional purchase funnel in which the manufacturer dominated the top and the dealer dominated the bottom. A Google study showed that although manufacturer marketing succeeded in getting 63 percent of auto buyers to start their buying journey with a specific make (or brand, e.g., Honda) or model (e.g., Accord) in mind, less than one-fourth of these shoppers ultimately bought that make or model.⁶ Consumers relied heavily on web-based research, and competing manufacturers and a large industry of independent research and lead-generation sites aggressively used online advertising to direct consumers to other brands and models.

⁶ Millward Brown Digital/Google, "Vehicle Shopper Path to Purchase," September 2013.

As a result, in 2011 both manufacturers and dealers were concerned with reducing online brand defection during the buying process. Data from CDK Digital and Google suggested that the best approach to achieving this was to coordinate digital marketing across advertising tiers because it increased the effectiveness of both the manufacturer and dealer's marketing spending. The reality was that local and regional dealership advertising and website content was rarely aligned with OEM messages due to conflicting goals and a lack of coordination.

Dealer Websites

Manufacturers initially considered dealer websites to be part of franchisee brand compliance programs, much like store signage and facility design. Dealers were penalized for not using manufacturer-provided websites or offered financial incentives to encourage their adoption. However, the dealer had ultimate control: although a manufacturer could force a dealer to have a website, it could not force the dealer to use it as the dealer's primary web presence. As a result, many dealers had multiple websites, some provided by manufacturers and others that were purchased and managed independently by the dealership. When CDK Digital was tapped to run GM's dealer websites in 2007, only 43 percent of dealers used the GM-supplied website as their primary online presence.

Auto manufacturers used several approaches when providing websites for their U.S. dealers. The simplest was a compliance program, which Toyota used. Under a compliance program, a manufacturer created brand standards and required its dealers to conform to those standards when creating their own websites. However, dealers were free to choose their own website designers and operators. OEMs regularly audited websites and fined dealers if they were out of compliance.

A manufacturer could also opt for a "single-platform" model in which it engaged a company to provide a common dealer website platform. (Other vendors could offer complementary solutions.) CDK Digital and Dealer.com were the main providers under the single-platform model. CDK Digital had sole-vendor agreements with all four GM brands (Chevrolet, Buick, GMC, Cadillac), Volkswagen, and Hyundai. Subaru and Audi used Dealer.com. Some manufacturers, including Lexus, BMW, Kia, and Ford, authorized two or three platform providers rather than one.

Finally, an OEM could subcontract the entire program to an integrator that managed the relationships with dealers and all approved vendors. Chrysler used this approach (with Shift Digital), as did Ford (with its semi-autonomous Ford Direct unit).

General Motors

Founded in 1908, GM had been a major manufacturer of automobiles and automotive and non-automotive components for over a century. From its inception, the company sold automobiles under different nameplates (or brands), each of which was targeted to a specific demographic and socioeconomic market segment. The brands—Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac—shared corporate management and some components in order to create economies of scale, but each developed unique styling and technology. This "ladder of success" was designed to meet the needs of entry-level buyers with Chevrolet vehicles and then entice them to move up successively to Pontiac, Oldsmobile, Buick, and ultimately to Cadillac.

Between 2000 and 2008, GM significantly improved the quality, productivity, and fuel economy of its cars, and built a profitable business in China, the world's biggest potential car market. The company also improved its cost position by reducing its workforce by 143,000 employees and negotiating a historic agreement with the United Auto Workers union that reduced pay for new employees and benefits for retirees. However, when the worldwide economic crisis hit in 2008, GM suffered more than most of its competitors: it posted a loss of \$30.9 billion in 2008. On June 1, 2009, GM filed for reorganization under Chapter 11 of U.S. bankruptcy law; it exited bankruptcy proceedings within forty days with the U.S. government owning 60 percent of the company in return for a \$50 billion investment.

Because of its age and scope, GM had a large, unwieldy dealer network. In 2007 it had over 6,000 dealers, which resulted in higher costs for GM and more price competition for dealers. By comparison, Toyota, which entered the U.S. market in the late 1950s, generated sales in 2011 that were nearly equal to GM's with less than one-third the number of dealer franchises. GM tried to disfranchise several hundred dealers during its 2009 bankruptcy, but court decisions prevented the manufacturer from paring its network. Later entrants such as Mini and Lexus were able to build leaner networks with tighter brand standards and more profitable dealers.

CDK Digital

CDK Digital was formed in 1995 as The Cobalt Group by John Holt and Geof Barker, who believed the Internet would be more efficient than classified advertising at connecting buyers and sellers of cars. Other Internet start-ups at the time were creating business models that bypassed the traditional dealer, but Cobalt focused on connecting dealers with both shoppers and manufacturers.

The next year the company won the endorsement of Lexus to deliver websites for its entire dealer network. Another year brought additional endorsements from Mitsubishi, Acura, Nissan, and Volkswagen. In 1999 Cobalt went public but went private again in 2001 during the dot-com crash after a major investment by investment firm Warburg Pincus. In 2004 GM selected Cobalt to replace an internally developed web system, and in 2007 awarded Cobalt a five-year single-platform contract to provide websites to its national network of dealers. ADP Dealer Services acquired Cobalt in 2010 for approximately \$400 million. In 2014 ADP Dealer Services was spun off from ADP and Cobalt was renamed CDK Digital.

Advertising

Although CDK Digital began as a website company, it had developed sophisticated capabilities in online advertising. CDK Digital's key advantage for online advertising was its ability to track a significant part of a car shopper's online journey using digital tags (or cookies) across all CDK Digital dealer websites, all OEM websites provided by CDK Digital, and third-party websites that allowed CDK Digital to add its digital tags. This allowed it to track, for example, car brands and models researched, dealer websites visited, ads clicked on, and models viewed on affiliated third-party automotive information sites. In fact, CDK Digital could even track which cars a consumer had looked at in a dealer's inventory. "Our strength with

manufacturers,” Reed explained, “is that we get closer to answering the question ‘What sells cars?’ than anyone else.”⁷

To put this information to use, CDK Digital acquired a company called AdMission in 2008. AdMission had developed technology that could dynamically (i.e., in real time) show ads to each shopper based on his or her unique online car-buying journey. For example, if a consumer browsed a Chevy Cruze on Chevrolet.com, the consumer would see a Chevy Cruze ad during the next visit to a site where CDK Digital placed ads. By combining data about car shoppers’ online journey with local dealer content and inventory, CDK Digital could ensure that ads not only reflected consumer interests but also current dealer needs.

CDK Digital’s capability to target ads enabled it to create a new line of business—placing OEM and dealer advertising on participating automotive sites. In addition, driven by the insight that coordinating digital marketing across advertising tiers increased the effectiveness of both the manufacturer and dealer’s marketing spend, CDK Digital also began coordinating OEM and dealer bidding on search engine keywords. This ensured that, for example, Cadillac and its dealers did not increase the cost of the Google keyword “Escalade” by bidding against each other.

Overall, CDK Digital built a sophisticated advertising platform that used analytics to customize content to individual consumers in real time based on their specific online car-buying journey. CDK Digital had develop true “big data” capabilities, handling user interaction with over 20 million website visits and 1 billion ad impressions a month across hundreds of thousands of unique, creative executions. Reed put it simply: “No other company in the automotive space has this capability.”⁸

CDK Digital’s 2007 Offering to GM Dealers

In 2007 dealer websites were “the Wild West,” according to GM’s Vogt. “We saw a growing trend of consumers moving from third-party and OEM sites looking for dealer tie-in in the digital space, and the media mix was not in congruence with customer behavior. General Motors made a decision to amplify its brand’s message by having an integrated dealer presence that tied with the marketing messages of the brand.”⁹

GM selected CDK Digital as its sole provider of digital marketing services after carefully analyzing its capabilities and those of its competitors. When it launched its dealer website program in 2007, GM paid CDK Digital to provide each dealer with a basic website, SEO,¹⁰ and, crucially, a relatively high level of telephone-based digital marketing agency services (web design, content updates, promotional execution, etc.), to ensure that all its dealers, regardless of their internal marketing capabilities, would deliver a quality experience to online shoppers.

⁷ Chris Reed, in interview with the authors, November 25, 2013.

⁸ Ibid.

⁹ Ed Vogt, in interview with the authors, February 24, 2014.

¹⁰ SEO (search engine optimization) is the process of maximizing the prominence of a website in the unpaid (or organic) results of search engines in order to increase the number of visitors it received. This is accomplished by editing the content and coding of a website in relation to the search algorithm, the terms users search for, and the search engines that target audiences prefer.

GM offered the package to dealers as an optional service, but the vast majority of them used it. However, many dealers still had their own websites in addition to the GM-provided site—only 43 percent used the GM-provided site as their primary website. According to Vogt, “They all wanted to be unique, and rightfully so—the dealer’s brand is important. They need to be able to express that brand.”¹¹ The result was confusion among consumers as well as inefficiency in advertising; the GM sites and dealer sites were often bidding for the same advertising keywords, which drove up costs for both.

The marketing program powered by CDK Digital received a lot of publicity and resources from GM, but most of the resources disappeared after the automaker filed for Chapter 11 bankruptcy protection in June 2009. Thereafter most of the marketing and communication with GM dealers was carried out with a few staff members, most of whom were paid by CDK Digital. GM and CDK Digital measured the program’s success by the percentage of dealers that used the CDK Digital website as their primary website: from 2007 to 2011, half the dealers using non-GM websites cancelled them, increasing that percentage to over 70 percent.

Nonetheless, some GM dealers were dissatisfied with the program; a few vocal dealers airing complaints—and showing little support for CDK Digital—dominated dealer council meetings. There were a number of reasons for the dissatisfaction. One was that dealers had a perception (created by CDK Digital’s competitors) that they were not getting high-quality SEO services. Another reason was the GM-mandated rules that restricted dealer control of their online presence. Dealers wanted to make changes to the appearance of their sites so they could differentiate themselves from other same-brand dealers in their markets. From their perspective, their personal branding and message was not adequately reflected in the websites created by CDK Digital, which competitors derided as “cookie cutter.”

CDK Digital’s analysis showed that 30 to 50 percent of visits to dealer websites were made by “brand intenders,” or consumers who visited in response to GM-paid brand advertising. The remaining traffic had many sources but was frequently generated by the dealer’s own marketing spend.

Recontracting with GM

Between 2007 and 2011, the CDK Digital solution for GM had morphed from a website solution to an Internet media solution, and from a brand compliance program to one focused on providing sales opportunities for the dealers. Vogt described it as follows:

At the end of the day it was much broader than a website solution—it was a huge platform to drive traffic to our dealers online. We could actually coordinate media spend between us, our dealers, and each individual dealer to optimize our presence for our consumers.¹²

When it was time to recontract with CDK Digital, Vogt, who oversaw GM’s marketing databases and dealer systems as well as Internet, metrics, and analytics teams, was implementing

¹¹ Ed Vogt, in interview with the authors, February 24, 2014.

¹² Ibid.

a new technology strategy that was “trying to drive informed choice with our dealers.”¹³ Dubbed the Dealer Technology Assistance Program (DTAP), the approach focused on interfacing with dealer-chosen technologies rather than providing GM-specific tools. “The dealers’ approach was ‘Let me be independent, I want a solution for myself,’ so we provided choice by certifying multiple providers of solutions, such as CRM, dealer management systems, and so on.”¹⁴ Offering choice in website and Internet media providers would have been consistent with the DTAP approach.

However, Vogt saw some major benefits in the sole-supplier arrangement with CDK Digital:

*Because we had a coordinated system we were able to drive huge conversion by bringing the right message to the consumer across the Internet. For example, we could retarget VIN-level customer searches across search and all the ad networks we did business with, as well as endemic sites like KBB and Edmonds. We delivered millions of leads and phone calls to our dealers per year.*¹⁵

There was just one problem: not all of those benefits were visible to dealers, who were much more likely to be aware of weaknesses in the current CDK Digital solution. First, the website template was too restrictive and did not allow the dealers to “be themselves.” Second, the tools for website administrators were weak. Finally, the solution GM had purchased from CDK Digital included SEO only for the dealer home page; CDK Digital offered more advanced SEO to dealers as an optional product, but few had spent the extra money to “plus up” their digital marketing services.

Ultimately GM decided to work with its dealer councils to evaluate multiple prospective suppliers based on the following four criteria:

- Ability to manage a complex advertising model
- Analytics capability
- Core website functionality
- Ability to consult with dealers to help them optimize their sites

According to Vogt, if the dealer councils said no, CDK Digital’s contract would not be renewed.

Finding a Solution

Within the next four days, Melissa McCann needed to develop a compelling concept that would not only garner the support of the seven dealers she would present to, but also be attractive to GM. That meant the concept had to address the dealers’ need for autonomy and GM’s need for a consistent brand experience and analytics visibility into its network to help GM retail sales.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

Balancing those competing needs was challenging enough, but the concept also had to be something that only CDK Digital could deliver to justify a sole-supplier arrangement. Reed issued a challenge to McCann and her team: “Find a way for us to use our expertise in real-time content customization and analytics to solve this age-old conflict between dealers and OEMs.”

McCann turned to her team members, picked up a marker, and walked back to the whiteboard. “Let’s try another approach,” she said.

Exhibit 1: Average Dealership Financial Profile (\$)

	Jan–Oct 2011	Jan–Oct 2010	% Change
Total sales	28,739,459	25,282,693	13.7
Total gross margin	4,192,674	3,731,935	12.3
<i>As % of total sales</i>	14.6%	14.8%	
Total expense	3,471,159	3,138,526	10.6
<i>As % of total sales</i>	12.1%	12.4%	
Net profit before tax	721,515	593,409	21.6
<i>As % of total sales</i>	2.5%	2.3%	
New vehicle dept. sales	15,482,494	13,222,223	17.1
<i>As % of total sales</i>	53.9%	52.3%	
Used vehicle dept. sales	9,427,957	8,506,922	10.8
<i>As % of total sales</i>	32.8%	33.6%	
Service and parts depts. sales	3,829,008	3,553,549	7.8
<i>As % of total sales</i>	13.3%	14.1%	
Advertising expense	298,823	270,239	10.6
<i>As % of total sales</i>	1.04%	1.07%	
<i>Per new vehicle retailed</i>	\$627	\$654	-4.2
Rent & equivalent	335,560	314,212	6.8
<i>As % of total sales</i>	1.17%	1.24%	
<i>Per new vehicle retailed</i>	\$704	\$760	-7.5
Floor plan interest	(20,461)	(17,335)	18.0
<i>As % of total sales</i>	-0.07%	-0.07%	
<i>Per new vehicle retailed</i>	(\$43)	(\$42)	2.3
New vehicle selling price (retail)	\$30,401	\$29,547	2.9
<i>Gross as % of selling price</i>	4.62%	4.58%	
<i>Retail gross profit</i>	\$1,406	\$1,352	4.0
Used vehicle selling price (retail)	\$17,176	\$16,371	4.9
<i>Gross as % of selling price</i>	12.76%	13.71%	
<i>Retail gross profit</i>	\$2,191	\$2,245	-2.4

Source: NADA Industry Analysis, http://www.nada.org/Publications/NADADATA/dealership_profile.