

Automotive News

March 15, 2021

DMS disrupted? Not just 2 giants now

The decades-old duopoly of CDK and Reynolds may be cracking, as new entrants and smaller providers steal market share.

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For at least a decade, dealer Katie Bowman Coleman searched for a dealership management system as easy as point and click.

Her store, Bowman Chevrolet, in the Detroit suburb of Clarkston, has used systems from Reynolds and Reynolds, CDK Global and Cox Automotive's Dealertrack. In her view, they're all fine products but have limitations — expensive pricing, "antiquated" technology, extra fees or hurdles to connect software tools developed by outside vendors.

Last year, Bowman Chevrolet switched DMS providers again. Coleman, the store's owner, chose a startup called Tekion, which promises an Amazon-like experience and has the backing of General Motors.

"It's just what we've been wanting for decades," Coleman said. "This isn't a new desire on the part of dealers. This is just a time when I think some disrupters are going to come in and force that change on the industry."

Tekion is signing up dealers at a time when the overall market for DMS software is in flux, giving dealers more choices for a platform that fits their stores' needs. New entrants and smaller players are vying for share in a segment long dominated by CDK and Reynolds, both of which are in the process of reinventing their businesses.

Their decades-old duopoly may be cracking. Today, while CDK still is believed to be the clear market leader in number of dealership customers, it's less certain which company holds the No. 2 spot. Cox Automotive asserts that its Dealertrack platform is close to overtaking Reynolds and Reynolds, a claim that a dealership consultant with the Gillrie Institute, which advises dealerships looking to switch DMS providers, said is possible. Comprehensive market share data is not publicly available.

Experts say the shuffling is good news for dealers, who for years have been asking for better DMS pricing and contract terms along

with improved technology and flexibility. The DMS is a dealership's central operating system and data repository. Changing systems is one of the most arduous processes a dealer can undertake and often likened to a heart transplant for its complexity.

Dealers aren't necessarily changing providers more frequently, but they have more leverage to shop additional vendors and negotiate better contract terms than in the past, according to Matthew Gillrie, owner of the Gillrie Institute. That's partly a result of smaller companies that have developed more robust products and are better able to compete with larger rivals.

Twenty years ago, dealerships generally considered two DMS vendors — their existing provider and one other, but today the norm is three to four, Gillrie said.

"We're in a market where every renewal is a potential system change, and so the vendors have to stay on their toes," he said. "They can't just assume that they're going to be safe because there's nowhere for the dealer to go."

True disruption?

Whether that change — while still a work in progress — is a response to true disruption or simply part of an evolution is a matter of interpretation.

Auto retailers have been embracing e-commerce, and what had been a slow shift online began to accelerate a year ago when the coronavirus pandemic forced the closure of dealership showrooms across the country. Dealership technology is becoming more powerful, with a focus on creating a seamless customer experience; Coleman said DMS platforms now have to be "extremely flexible" to respond to changing digital preferences.

Tekion entered the market against this backdrop, generating buzz for what the company calls its cloud-native system and an easy-to-use experience. Its founder, Jay Vijayan, is a former chief information officer at Tesla Inc. who says his product was built for



Katie Bowman Coleman said Tekion's DMS is what her store has been "wanting for decades."

frictionless dealership workflow.

The company has raised more than \$200 million from venture capital, dealers and automakers, including GM and BMW i Ventures.

Vijayan has not disclosed the number of brands certified on Tekion's DMS to date, though he said most integrations are expected to be finished by the second quarter. He also would not disclose the number of dealerships on its system.

"Everyone we work with, mainly dealers who are our customers, they are openly calling it a disruption," Vijayan told Automotive News last month. "We're thrilled about it."

Dealers who have switched to Tekion say the conversion process was less painful than past DMS changes.

"It's a heart-lung transplant that's been reduced to pulling a Band-Aid off," said Todd Ingersoll, CEO of three-store Ingersoll Auto-

WHAT DEALERS WANT IN A DMS

Among the features dealers say they want in a dealership management system:

- More flexible contract terms, including length
- Better ability to work with 3rd-party software vendors
- Lower prices
- Intuitive and easy-to-use presentation
- Modern and updated technology

motive of Danbury, Conn., who switched to Tekion more than a year ago from CDK.

The product is as intuitive as an Apple iPhone, Ingersoll said.

GM does not require its dealers to use Tekion, but a GM spokesman said the brand's dealers receive preferred pricing. The automaker has declined to disclose how much it invested in the company.

With Tekion, GM saw an opportunity to help dealers manage the costs of a DMS system, typically their biggest outside expense, by leaning on the buying power of 4,000 dealerships to negotiate favorable deals with vendors, Steve Hill, then-vice president of U.S. sales, service and marketing for GM, said at the 2020 NADA Show. Hill is now vice president of Chevrolet.

The automaker plans to roll out a digital retailing tool for electric vehicles, to be powered by Tekion.

Dealers are excited about Tekion because the market doesn't often see new entrants, Gillrie said. Still, he said he doesn't believe Tekion is the force driving its competitors to improve their technology as much as it is the beneficiary of a market already moving in that direction.

"It is very exciting, but I think you'd be misrepresenting the marketplace if you said Tekion is changing everything and Tekion is revolutionizing it and forcing the market to add these new features," Gillrie said.

He added: "They're catching the wave just at the right time."

CDK, Reynolds adapt

On a CDK earnings call last fall, an analyst asked CEO Brian Krzanich whether he had begun to run across Tekion when bidding for dealerships' business.

"They're a competitor, like several of the others. Nothing unique," Krzanich said in response.

"We take them all serious, by the way," he added. "We work hard to win every single customer, I don't care what size they are. And we will beat our competition through our technology and our customer support."

CDK declined to be interviewed for this story. Since taking the CEO job in 2018, Krzanich has said CDK would simplify its invoices, improve its customer service and phase out some fees to integrate third-party software products. Dealers have complained about CDK's and Reynolds' locked-down approaches to data access. The strategy's days may be numbered, however, as experts have said they think market pressures ultimately will force out integration fees.

CDK is building its Fortellis open network development platform to allow third-party software developers to create applications for dealerships regardless of whether they use CDK's systems.

Reynolds and Reynolds executives said last month the company is examining its business strategy under a new CEO who took over after Bob Brockman was charged with federal tax fraud and stepped down last fall. Reynolds leaders said it's premature to discuss details but indicated they may be evaluating changes in areas such as contract terms and flexibility.

"We're taking a critical look at our business," said Kasi Edwards, Reynolds' senior vice president of marketing. "Just as you would expect with leadership change, it gives us a great opportunity to take a look at everything that we do and decide how we can improve it."

Dealertrack No. 2?

CDK had nearly \$2 billion in revenue in the fiscal year that ended in June and powered DMS sites at nearly 9,000 North American dealerships as of December. Reynolds does not disclose financial or dealership customer data. Court filings from 2017 in a federal antitrust lawsuit against CDK and Reynolds offered a clue, noting that Reynolds' market share had fallen at some prior point from roughly 40 percent to closer to 30 percent.

Edwards declined to discuss the effect Brockman's case has had on dealership retention, other than to say it hasn't affected the company's level of support and services.

Gillrie said he has noticed in recent months that Reynolds appears to have stepped up its approach to winning over dealerships: "We're seeing them go more rounds than they did before and put up better deals than they did before."

At the same time, Cox Automotive leaders say Dealertrack is close on Reynolds' heels, with rapid growth over the past five years.

"Just looking mathematically, our prediction is that we'll tie or surpass the No. 2 provider in the not-too-distant future. And so we're excited about that," Keith Jezek, president of Cox Automotive's retail solutions group, said in a January interview.

A privately held company, Cox would not provide details of its dealership customer count or recent growth percentages. Automotive News could not independently verify the claim.

Increasingly, dealers have more places to go.

A year ago, dealership technology company DealerSocket acquired DMS provider

Auto/Mate. CEO Sejal Pietrzak said the company aims to provide dealerships "a one-stop shop" across all of its products. Other companies also have their sights on growth: Dominion DMS is rolling out its Vue platform, which company President Sharon Kitman said is cloud-native and underpinned by Microsoft's Azure. And DealerBuilt CEO Mike Trasatti said the company recently finished an infrastructure and integration overhaul that now allows the company to invest in developing new products.

The number of U.S. franchised dealerships has held fairly steady at roughly 18,000, so winning DMS business generally means poaching retailers from competitors. Particularly for larger groups, a DMS provider must work with multiple automakers to be considered.



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Vijayan: Tekion's DMS is built for frictionless dealership workflow.

"It's a lot of work to be a DMS system," said Abigail Kampmann, CEO of Principle Auto in San Antonio, with eight dealerships in three states. "You have to have a lot of relationships with the manufacturer, and you have to have a lot of integration with them. So if somebody wants to go down that path, they have a big investment to take."

Principle Auto last year switched from CDK to Dealertrack as it sought the ability to integrate its own data tools and dashboards, as well as better pricing and customer service, Kampmann said. The group looked at four vendors.

Casey Coffey, COO of Greenway Automotive Group of Orlando, said the 46-store group switched to CDK in 2020 after nearly 30 years with Reynolds and its predecessor. Greenway was looking for better integration with third-party software vendors, which Coffey said is the most important feature any DMS provider can offer today.

"The more that a DMS provider can make that available to a dealer or dealer group," he said, "the easier it is going to be to create conversion and adoption."

Hannah Lutz contributed to this report.