



# 3 Ways to Increase Market Share as a Non-captive Lender

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The automotive retail sector has experienced significant volatility since the COVID-19 pandemic, when inventory dropped sharply due to supply constraints, logistics challenges and pandemic-related shutdowns.

During this time, dealerships thrived as limited inventory could not meet consumer demand, which often resulted in consumers purchasing far above the manufacturer's suggested retail price. As inventory levels have rebounded, however, the landscape has shifted. The average vehicle price is now higher than ever and, coupled with higher interest rates, we're seeing a challenging sales environment.

In these conditions, consumer hesitancy has become prevalent. OEMs and lenders are implementing various promotions and incentives strategies to stimulate sales. However, cautious buyers are inclined to explore multiple options to find deals that best suit their budgets and lifestyles.

This shift in consumer behavior provides a unique opportunity for non-captive lenders to come to the forefront of automotive retail. By offering competitive financing solutions and tailored services, non-captive lenders can effectively cater to the needs of discerning customers, thereby enhancing their market presence and driving sales in a challenging environment.

In an environment where consumer purchasing is subdued, flexibility and transparency emerge as key strategies to win over potential buyers. Non-captive lenders are well-positioned to deliver these attributes, offering a diverse range of leasing and purchasing options that resonate with budget-conscious customers.

By providing unconventional term deals, rates and more appealing residual values, these lenders can differentiate themselves from captive lenders. Additionally, non-captive lenders can enhance customer trust by presenting clear and accurate offers throughout the entire purchasing journey, from initial online browsing to finalizing the deal. This approach not only meets the evolving needs of consumers but also fosters stronger relationships, ultimately driving sales in a competitive automotive retail landscape.

Visibility is crucial for non-captive lenders, particularly as they lack the direct connection to inventory that OEMs possess. Their offers are often influenced by OEM production and publicly listed incentives, which can limit their competitive edge.

Typically, consumers prioritize captive lenders to finalize their purchases. However, when faced with affordability challenges, customers are increasingly motivated to examine all their options before making a decision. Awareness of competitors' offerings enables non-captive lenders to remain competitive and provide additional options to customers who may not otherwise purchase.

Read on for three strategies non-captive lenders can use to overcome current automotive sales challenges and win business in a competitive market:

## **1. Offer odd-term leasing and financing options to gain market share.**

Affordability remains a major concern for consumers, who are currently facing elevated vehicle prices. The average MSRP of vehicles in retail advertised inventory reached \$51,384 in July 2024, marking a notable increase from \$49,654 in July 2022, alongside elevated interest rates. As buyers seek the most advantageous deals, lenders have the opportunity to attract customers by providing enhanced flexibility through unconventional leasing and financing options.

Captive lenders typically offer conventional 24- or 36-month leases and 48-, 60- or 72-month finance terms. Non-captive lenders can offer terms somewhere between these timeframes or offer longer terms. This adaptability enables customers to identify financing solutions that better align with their budgets and lifestyles. By tailoring their offerings to meet the diverse needs of consumers, lenders can effectively position themselves as viable alternatives in a competitive market.

Leveraging advanced monitoring technology can also help non-captive lenders effectively track the terms that captive lenders are offering. By analyzing market trends and competitor strategies, non-captive lenders can optimize their offerings, striking a balance between attractiveness to consumers and sustainability for their businesses. This proactive approach positions them to respond swiftly to market changes and consumer demands, ultimately enhancing their competitive stance in the automotive financing landscape.

## **2. Adopt a flexible approach to EV residual value setting.**

Dealerships are struggling to sell electric vehicles due to customers' reservations surrounding range and charging infrastructure. Even with incentives, EVs are sitting on lots, and days' supply is higher for EVs than traditional internal combustion engine vehicles.

Non-captive lenders possess a distinct advantage in this space due to their ability to conduct in-depth risk assessments efficiently. Often, they can adjust residuals based on their own forecast of market conditions to manage their portfolio's risks.

### 3. Look for opportunities in the market to offer deals and incentives where captive lenders are not.

The automotive retail industry has experienced significant fluctuations in recent years. During the COVID-19 pandemic, supply chain disruptions and parts shortages resulted in low inventory levels. This scarcity allowed dealerships to sell above the manufacturer's suggested retail price, as demand far exceeded supply. Consequently, OEMs scaled back on leasing, leading to historic low leasing rates.

Now that inventory has stabilized, dealerships are facing record-low lease returns, which is depleting their used vehicle supplies. They're also running high incentives and changing incentives often to stimulate sales. Without attractive offers, customers are turning to competing brands, prompting OEMs to update their incentives continually.

As these incentives are changing so quickly, non-captive lenders must adapt swiftly as well to fill gaps in financing options. For instance, if an OEM opts not to offer a 24-month finance option for a specific vehicle, a non-captive lender can step in to offer it.

The key to effectively executing these strategies – offering unconventional leasing and financing options, adjusting residuals for EVs and addressing market gaps – is visibility. Non-captive lenders need to invest in technology that delivers comprehensive insights into competitors' strategies, enabling them to identify opportunities for customer acquisitions.

**Market Scan's mGauge solution** can enhance your lending potential by offering real-time visibility into market dynamics. This tool empowers lenders to make informed decisions, ensuring they can effectively position themselves and attract customers in a competitive landscape. By leveraging such technology, non-captive lenders can stay agile and responsive to market changes.