



COMMERCIAL PLAYBOOK

MOBILITY BY THE NUMBERS: IDENTIFYING DEALER OPPORTUNITY

CHAPTER 1

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MOBILITY BY THE NUMBERS:

IDENTIFYING DEALER OPPORTUNITY



OPPORTUNITIES

A review of sales data from 2022 reveals many dealers continue to make significant profits despite persistent inventory challenges. However, with so many factors in play, such as rising interest rates, high gas prices, EV stimulus credits, costs mandated by OEMs to “play” in their EV lineups, and the potential recession looming, it’s also critical to a dealership’s future success to formulate plans and recognize that the winds of change are blowing.



Regularly updated as the market evolves

That means that savvy dealers are looking ahead and seeking out new revenue opportunities. Some of these opportunities may include additional inventory types or customer types to whom they can sell, or ways to bolster the markets they already serve. Local and regional business customers are one avenue to aid with continued growth because they offer so many different revenue streams.



Commercial vehicles are used by industries large and small, supporting approximately 80% of the GDP.

Commercial/fleet sales are a profit multiplier for your bottom line. However, commercial business differs from the retail business in many positive ways. Consider these impact points:



Upfit vehicles [those customized with specific configurations needed for different businesses, such as a plumber's truck or a refrigerated van] traditionally **sell at much higher prices than retail vehicles.**



Business shoppers differ from retail shoppers in an important way - they aren't looking for a vehicle simply because they want one. Rather, they are looking to purchase a vehicle for their business because **they need it; their livelihood depends on it.** As a result, when you prove your ability to help them, the likelihood of gaining a loyal customer is significant (commercial customers are up to 5X more loyal than a non-business buyer).



Those same business customers also have personal vehicles, along with employees, family, and friends with vehicle needs. As you can see, the odds for ancillary sales are in your favor.



There are **many additional revenue streams** - and that list is growing - for your dealership when you're part of the commercial vehicle space. For example, small businesses typically don't have their own fleet servicing team, which means your service department can fill this role, which contributes mightily to your profits. Additionally, commercial departments can provide a pathway to expansion into the EV market and autonomous vehicles, along with mobility and telematic solutions.

And when considering these additional revenue streams, it's important to note that OEMs are also developing ways to help dealers grow their revenue opportunities in the commercial vehicle market. Current areas with new product and service offerings include:

Service: specialty maintenance, fleet warranty and mobile service.

Software: telematics/vehicle insights, safety and security.

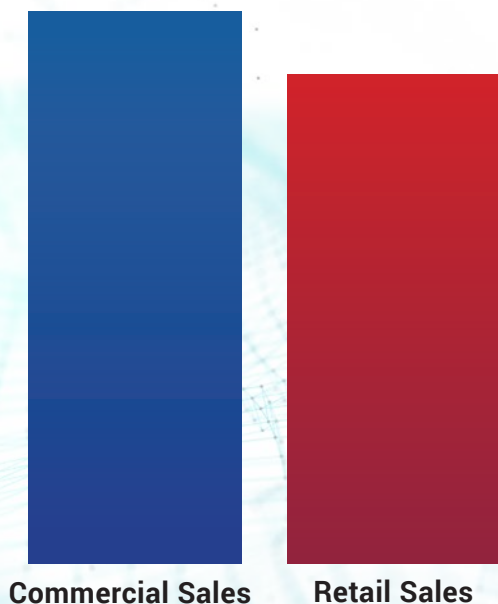
Finance: commercial lines of credit, lease programs and repair/fuel cost controls.

Charging: depots and home-based.

The key takeaway? If you aren't in the commercial space today, you should dive deeper and look at the possibilities. And if you are already selling to businesses, when was the last time you reviewed your strategic plan to ensure you were capturing all the market share and business available?

As the saying goes, "Hope is not a strategy." Instead, researching data points and incorporating those into your plan is the way to

go. [And, as you read on in this and subsequent chapters, you'll see we offer numerous data points, as well as recommendations for where to find information to assist you.] Not only does data show historical performance, it helps you establish a baseline, from which you can launch your plan for growth. And don't forget to factor in industry specific experience (both your own and that of trusted advisors), as well as specifics related to your particular market.



We're seeing numerous dealership customers with commercial department performance outpacing retail sales results.

UNIQUE INSIGHTS

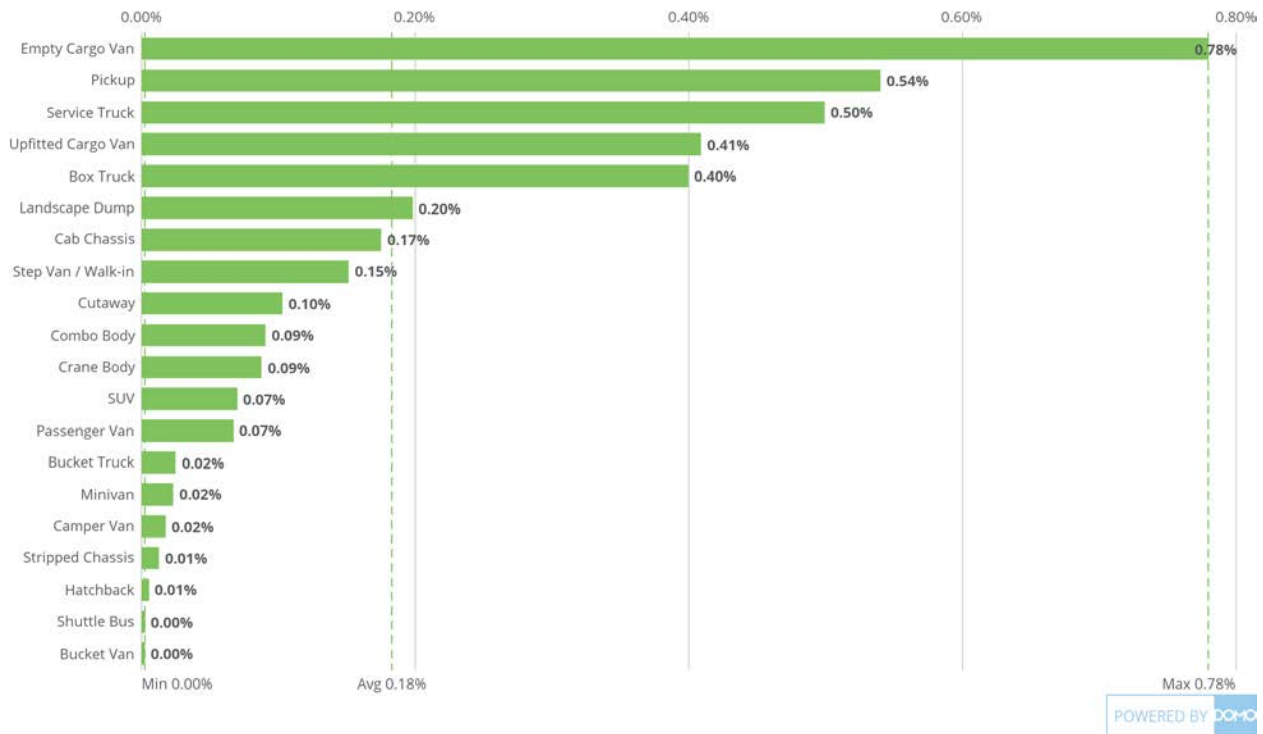
As the only company that collects the data that offers national visibility into commercial vehicles, especially those customized after the chassis or van is manufactured by an OEM, Work Truck Solutions® has a unique insight into industry growth, business trends and evolving opportunities, all of which affect a dealer's profitable sales of these vehicles. With more than 10 years specifically dedicated to providing solutions for the commercial vehicle industry, our history and data enable us to track industry growth, trends and evolving opportunities. These metrics and knowledge enable Work Truck Solutions to offer insights that impact a dealership's commercial vehicle department success.

Even though commercial vehicle inventory numbers through the first three quarters of 2022 mirrored much of the overall automotive vehicle industry, we've tracked some revealing trends.

Average prices for new commercial vehicles have remained relatively steady through Q3 of 2022, showing only a 0.2% increase from Q2 and a 1.5% increase YoY. But, they are still much higher than pre-pandemic levels; over 20% higher with an average price of \$51,573. A proliferation of final-mile delivery service businesses have however caused prices for certain new commercial vehicle segments to spike dramatically. For example, the average price for upfitted cargo vans showed a 5.6% increase compared to this same time in 2021. This means that those dealerships who are poised to capitalize on these metrics and prepared to help customers navigate today's pre-sales environment, can grow their commercial base, and their bottom line.

Despite economic fears, commercial demand is expected to continue. For example, even when new housing starts slow down, people still need home repairs completed, which means the businesses/trades that deliver these services need work trucks and vans to complete the job.

VEHICLE SEARCHES



When looking at search trends, the numbers confirm that the final-mile business is impacting the entire commercial vehicle industry, and the overall statistics support rapid growth. Empty cargo vans and upfitted cargo vans held two of the top four spots when comparing search metrics from Q3 2021 to Q3 2022. And when looking at the top 10 changes in body type searches, we see other commercial vehicles that can also be used in last mile deliveries showing increased activity.

As customers became more and more accustomed to ordering online during the pandemic - from household goods to groceries - the need for final-mile delivery vehicles grew. And, coming out of the pandemic, this trend is expected to continue. This means those dealers who can source new and used final-mile delivery vehicles for their B2B shoppers are the ones who will win the business.



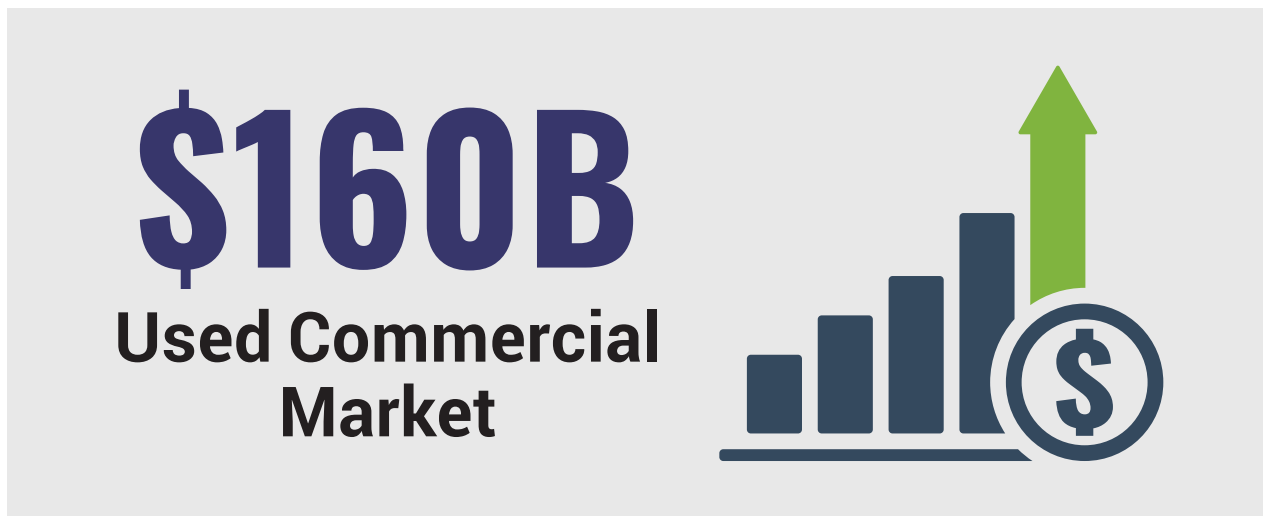
On demand is the norm. For example, I was ordering some stuff on Amazon and the message at checkout said 'If you click this button in the next 53 minutes, this shipment will be at your door between 7 and 10am'. This is incredible for me, but a nightmare for a company.

Gregory Skinner, VP of Strategic Insights, Escalent

INVENTORY CHALLENGES

Although persistent manufacturing obstacles have continued to restrain new commercial vehicle inventory per dealer, there was an uptick in inventory of almost four more vehicles per dealer in Q3 2022 compared to the previous quarter. The good news here is that this builds on the increase of two vehicles per dealer in Q2, which indicates inventory levels are improving.


As for used work trucks and vans, Work Truck Solutions' dealers saw inventory improvements in many truck and van segments. For example, Used Cutaway Vans have been on an upward trend over the last three quarters, rising by 36% during the timeframe; Empty Cargo Vans are above where they were at the end of last year, up more than 37%; and used pickups have stayed well above their Q1 2022 levels, increasing by almost 15%.




It's important to ensure commercial customers can find the vehicles they need during supply chain difficulties. This means employing a two pronged approach that covers both new and used vehicles.

You know customers look online for the work trucks and vans they need. But what happens when they're searching for new commercial vehicles and you don't have them in stock? If you're like most dealers, these shoppers see a page that says something like, "Sorry, we don't have what you're looking for today." A much better approach is to **show inventory possibilities** of what these same internet searchers **could purchase via an order process**, so you don't lose them to a competitor. By doing so, you get them into your pre-order sales funnel and secure their business.

And what about those who can't wait for a work truck or van - the ones who need it ASAP? The needs of these customers can be met with used inventory, which means you need sources for these remarketed vehicles. The challenge here is cultivating relationships with these sources - auctions, fleets, rental companies, etc. - or finding other avenues to acquire this type of inventory. But, no matter how you go about it, your business customers will thank you for it by awarding you their business.



Have a strategy that supports offering “bridge vehicles” to your B2B buyers. A “bridge vehicle” is one that, although it may not check every box for a commercial buyer, it does meet/exceed their minimum requirements and it enables them to continue to stay in business. With this strategy, you may be able to help your customers **meet their needs with a used vehicle today**, while also **moving them into the pre-order process for needs down the road.**



MARKET SPECIFICS

Each dealer's market offers unique opportunities; like the gold rush, the first to find and stake a claim will profit the most. For example, the snow removal business, which is applicable only in specific markets, has significant dollar figures associated with it. Per IBISWorld market data, the snowplowing services industry has a 2022 U.S. market size of \$20.8B as measured by revenue. Additionally, it has shown a 4.3% annual growth rate between 2017 and 2022.

Or, another specific but also growing market, is the cannabis industry. With more than 35 states legalizing cannabis, the demand for 'secure transport' vehicles is strong, and also expected to grow. According to Grand View Research, the cannabis market size was valued at \$10.8B in 2021, and is expected to expand at a staggering compound annual growth rate of 14.9% from 2022 to 2030. With very specific requirements for these secure transport vehicles based on the laws in place, finding vehicles that meet their needs is essential for businesses in this industry.

No matter the specific commercial enterprise, the bottom line is this: dealers who can assist businesses in meeting vehicle demand in industries specific to their market are the ones who will capitalize on these opportunities. As such, it's important to do your research and get to know your commercial vehicle market. There are many avenues for this type of research, including (obviously) the internet, but don't discount additional sources, such as local/regional trade associations, expos, data research firms and state associations. All of these can help you understand the nuances of your commercial opportunity.



WHERE DO YOU GO FROM HERE?

Coming out of the Covid pandemic, there are many trends that will remain part of our business and consumer landscape. One such example are mobile maintenance services that saw a boom over the last couple years. This type of mobile maintenance includes services provided to car owners at their residence, and also to company fleets out in the field, offering everything from oil changes and tune ups, to tire changes and fueling, to brake jobs and no-starts. The one thing all of these mobile services have in common? The vehicles needed to provide these services are very specialized, which means the ability for these growing mobile service providers to locate and purchase these vehicles is critical to their success. It also means the dealerships who can help the mobile service providers have significant opportunities.

Beyond the specific mobile maintenance example, there are many paths to additional revenue for dealerships in the commercial vehicle environment. In a recent presentation, Steve Greenfield of Automotive Ventures, LLC, summed up several opportunities with this slide:

VEHICLES	MAINTENANCE	SERVICES
<p>OEMs will focus on commercial vehicles due to demand and simpler configurations</p> <p>Completely new customers, focused on dealer's unique market opportunity</p>	<p>Commercial maintenance offers better margins, deeper loyalty, more consistent higher average transactions</p>	<p>OEMs offer significant new opportunities of SMBs:</p> <ul style="list-style-type: none">- Telematics- Gas Cards- Fleet Management- Warranties

As you can see, he believes the possibilities for growth are out there for those dealerships who are poised to capitalize. And he's not alone in his thinking. From contract maintenance to insurance, the products and services commercial dealers can offer their customers continue to grow.

And the best way to turn these opportunities into reality? Build a strategic plan that incorporates data, along with finding partners who can help you navigate the road to commercial success.

Work Truck Solutions is ready to help you along your commercial vehicle path, no matter if you're just starting out or if you've been in this business for many years. We have the knowledge, tools and data to help you succeed. Let us know when you're ready.