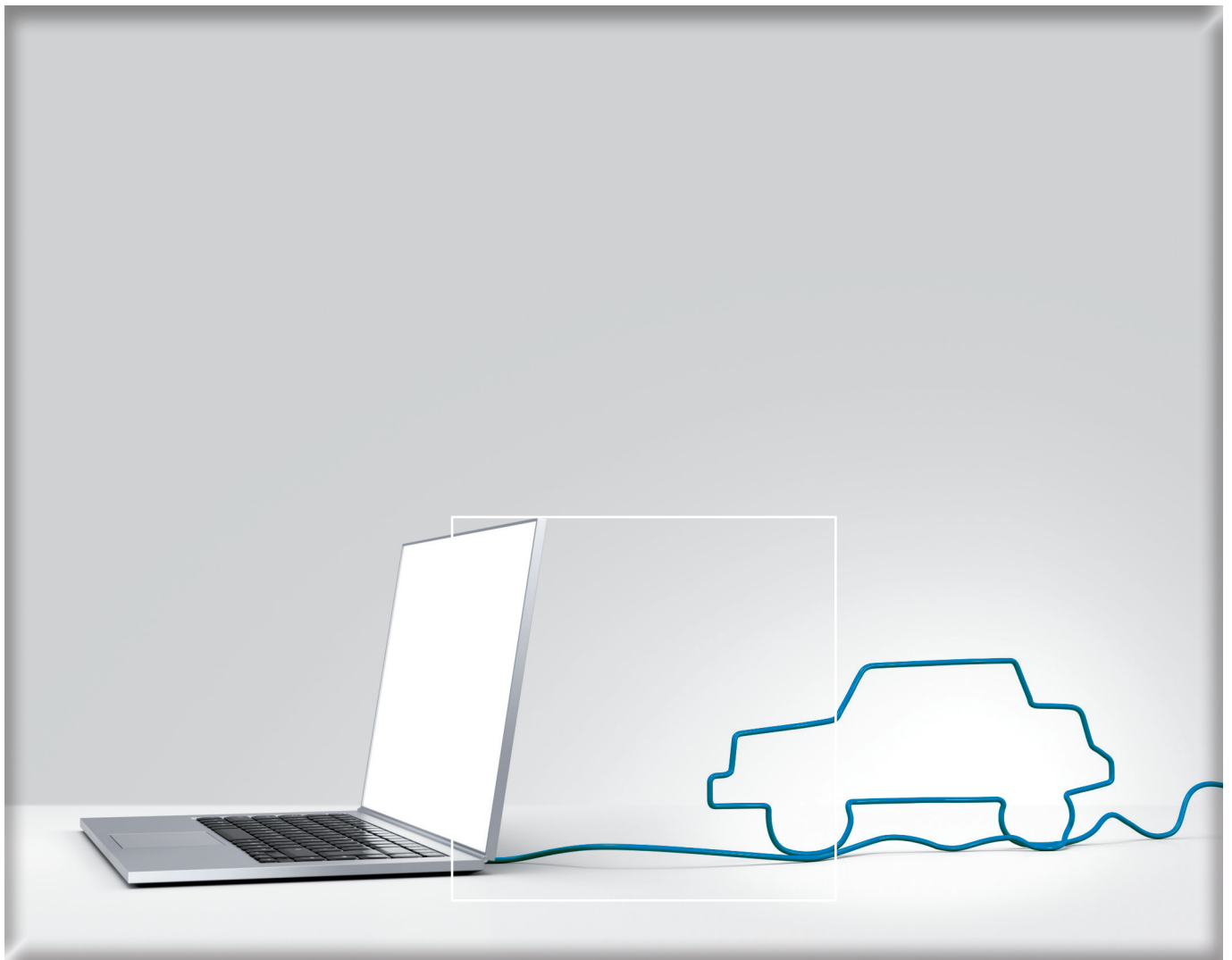


Spinning the Wheel Online

Online Transformation in the Automobile Industry



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Foreword

The internet and online applications are growing at a rapid pace, tangible for all of us in our daily lives. However, the implications for many industries have also achieved enormous momentum and the differences between winning and losing in this environment are not that far apart. Arthur D. Little observes with reflective awareness the growing importance of 'online' and its impact to the automotive industry. It seems that the emotional aspect accompanying the process of choosing and buying a car represents a clear barrier to the acceleration towards 'online.' Nevertheless, many other sectors have successfully taken the step to online transformation and have improved the effectiveness and efficiency of sales and the underlying processes.

Most automotive manufacturers have initiated transformation programs, often using an experimental approach to new marketing tools or new ways of managing different customer touch points. Arthur D. Little has supported several leading manufacturers to find answers to how and when the automotive industry will be significantly affected by the digital transformation of our society and how to cope with it.

The picture we want to give to the market is the importance of the transformation process as a general trend, having specific relevance for the major customer touch points. We think that those who are prepared to abandon the old patterns that have characterized the amazing story of success for the automotive industry of the past century will discover that customers are ready to participate with enthusiasm in new forms of communication and interaction with automotive manufacturers - and dealers.

We would like to thank all those who have accompanied us in the last six months in the preparation of this study and who have helped us to generate this important point of view. We are confident that the automotive industry will benefit from the analysis and details provided within the study to better address its processes of change.

Sincerely,



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Executive Summary

For the past 125 years, the automotive industry has been steadily evolving on a global scale. Yet, in this ever-changing world, automobile manufacturers and dealers are constantly confronted with new and unexpected challenges. In the 21st century, certain mega trends have changed the automotive industry in such a way that the future is less predictable than ever before.

Online transformation is one of these megatrends emerging all over the world; it affects mature economies as well as developing markets. As for retail business, E-commerce's share of total retail will continue to grow at a high pace in mature markets, e.g. 6% CAGR '10 to '20 in the US and it is even accelerating in emerging markets, taking China as an example with an expected CAGR of 31% '10 to '20. Having conducted a study on the online new car sales channel in 2009, Arthur D. Little was keen to obtain more recent views on this topic – especially on how the automotive sector will be affected by the online transformation megatrend.

In this report, we have analyzed how online transformation is affecting customer behavior in purchasing cars and parts, as well as how the automotive industry is coping with the undergoing disruptive changes and opportunities. We have also performed a comprehensive analysis to illustrate the current status and key learnings for the future to enable manufacturers and dealers to take advantage of online transformation and stay ahead of the competition.

How does the online transformation impact the automotive industry today?

The key findings of our study confirm that online transformation has a significant impact for customers and automotive manufacturers (OEMs)/ dealers:

- **The online channel has changed the rules of the game**
Customers are switching between various OEM's own and independent sales channels, expecting seamless integration across touch points and through multiple devices; it is a new challenge for OEMs and dealers to control the customer experience in this context – customers are in the driver's seat.

- **Research happens online and drives offline sales**
 - The research phase has been dramatically shrinking over time: 80% of surveyed customers stated that they performed the whole pre-purchase research within 8 weeks
 - The online channel has potential for being a catalyst for purchase intentions: nearly 70% of surveyed customers spend more time online than offline for pre-purchase information gathering, with a relevant number researching online only. All interviewed customers considered the online channel the preferred way to interact with the brand by landing on the OEM's website, engaging with social media activities or with mobile applications
- **Online transformation is expected to have an impact on the whole value chain**
87% of interviewed OEMs and 66% of dealers expect an evolving scenario for retail formats and the overall network organization.
- **Marketing goes online - but few OEMs are ahead of the learning curve**
Online channels (including mobile) are rapidly taking the lead in marketer's preferences for brand promotion and CRM initiatives at the expense of traditional media.

Which are the evolving trends for online transformation in the industry?

- **OEMs and dealers are not providing the expected dialogue ability: the current approach is not matching the emerging customers' needs**
In our survey, we investigated the dialogue ability in terms of the average response time for customer inquiries and the ability to provide consultation services outside the showroom. Most customers asked for 24/7 realtime response time. In this field, although the dealers are mitigating the gap with an average response time of 9.2 hours – OEMs are still targeting a service level of around 24 hours: this is a relevant mismatch to take into account when

discussing possible ways to improve lead conversion and getting ready for the launch of online sales.

Furthermore, we have learned that more than 70% of customers would appreciate getting advice at a location of their choice. OEMs are still lagging behind customers' needs: only half of them would offer alternative ways of consultation, the majority being premium players.

- **Social media and “user generated content” are still unexploited levers for most OEMs and dealers**

Although social media plays a secondary role in influencing the actual sales conversion, it represents a very important and cost effective way to increase loyalty and actively manage the brand image. As of today most automotive players are just 'taking their first steps' in this field and provide fairly little content.

- **Customers ask for dealers' proximity and express preference for test drive delivery at alternative locations**

60% of customers are not willing to drive more than 20 km to reach dealership showrooms and this evidence seems to support the trend of an increasing number of inner-city showrooms. Customer preferences differ in regional markets (inner-city showrooms are positively rated in China, US, UK and Italy, while rated 'indifferent' by Swedish, German and Japanese customers). When looking at the OEM point of view, it turns out that inner-city showrooms are considered strategically important for premium brands but are not considered a suitable format by the majority of the interviewed volume OEMs.

We also discovered an untapped need for test drive delivery at a location of choice: more than 70% of customers would appreciate this opportunity which is presently not pro-actively pursued by dealers.

- **Online channels need to provide a more realistic and enhanced product experience**

60% of customers repute the configurator to be a key factor in making a new car purchase decision. OEMs are aware of the importance of this tool and that it is considered to be a high impact conversion trigger in the pre-purchase phase.

Therefore the majority of both premium and volume OEMs provide a configurator seamlessly across the online website, social media and mobile applications.

On the other hand, by having a closer look into configurator features favored by customers – we identified a gap: OEMs seem to focus on elements like technical stability and ease of configuration while customers also value a more tangible experience such as a 360° exterior and interior view.

- **Nearly 40 % of customers considering purchasing a car online in the future, expect price advantage and the mitigation of hurdles such as hidden errors or lack of product experience**

Our report shows that the industry does not have an answer on how to cope with the fact that a major motivation for customers to purchase online is the expectation to achieve a price advantage compared to the purchase at a dealer site. Automotive players still consider other factors, like anytime availability, to be the key.

Among the main potential barriers to finalize the purchase online, the majority of customers stated the inability to detect product errors before the purchase (of used cars) and the generic fear to not have direct product experience ahead of final contract. Also in this field the industry seems unaligned with customers' sentiment as OEMs focus on rather advanced hurdles such as limitations for trade-in options or availability of financing plans.

- **The automotive industry is very cautious to enter the online sales market and the actual reluctance allows non-OEM intermediates to gain market share**

OEMs are still hesitating to launch online sales initiatives as it requires a review of overall retail agreements, at least in European markets. In the meantime, non-OEM players are already gaining important brand positions in many markets. In Germany more than 50,000 units are already sold online via these players today – the volume, as well as the number of players is increasing. Also the cross-markets are increasing such as the French player AramisAuto with its European expansion strategy.

- **Mobile is the fastest growing interactive way to reach customers, especially after sales, but there is room to improve applications effectiveness**

OEMs develop mobile applications for two main reasons: to generate leads when launching a new product (especially young people who are more inclined to convert on mobile devices) and to keep the customers engaged after sales. In general, customers most value the post-purchase mobile apps (from navigation to reminders for car check, safety & security, remote diagnostics) but we record a remarkable difference from country to country concerning the actual willingness to download mobile apps. The two extremes are Chinese customers (80% are willing to download) and the French (only 30% would like to stay connected after sales). Another interesting finding is that the likeliness to use after sales mobile apps is higher for affluent customers.

How can OEMs and dealers effectively take the lead in “spinning the wheel online”?

The automotive industry landscape is evolving faster than ever and business opportunities have to be taken proactively by OEMs to stay ahead of the competition. Our conclusion on how to compete in this challenge can be summarized by the following key actions:

1. One voice to the customer

OEMs and dealers need to align marketing and CRM processes to provide a reliable and seamless customer experience across all sales channels and all touch points. In this context, OEM and dealer dialogue ability is essential and has to be improved tremendously.

2. Innovative and new sales formats

The sales approach of the future has to serve customers at a location of their choice – even outside the conventional dealership for example at highly frequented locations.

3. Sustainable price position

Online sales must not accept price competition. Therefore, an OEM’s online product and price strategy has to match sustainably in the multi-channel-concept and has to be aligned with dealers.

4. Connected after sales

Customer loyalty is key for a sustainable revenue stream beyond the initial car purchase. More sophisticated, ‘integrated’ mobile apps and connected vehicle services will deliver value for the customer.

5. Online sales incubator

Complex headquarter structures will hardly be able to keep pace with new internet competition. As it is high time for OEM’s online sales to go-live, the best chance is to start in an incubator mode by trial and error – intermediates are otherwise overtaking fast.

1. Motivation of the study

The increasing pace of innovation cycles, expanded product portfolios, changing legal regulations, pressure from competition, shrinking margins and the resulting consolidation of dealer networks, describes the current challenging landscape of the automobile industry.

Of course, the most important driver of any dealer's or manufacturer's business success is customer demand. But customer expectations and behaviors are dynamic and thanks to a growing desire for personalization they are now more diverse than ever. Customers' perceived lack of time and a growing affinity for technology are driving additional changes in their purchasing behaviors.

These changes are in turn the result of the permanent availability of information through the internet. Since its commercialization, the internet has fundamentally reshaped customer expectations and has become an essential part of people's daily lives. But the internet has not just shaped consumers' expectations. Driven by rising e-commerce shares, it has also altered sales processes in many industries, as the rise of Amazon showed not only for books, but also for packaged-goods. As for automotive, parts are already purchased significantly from sites such as eBay.

New car sales via the internet began some years ago, mainly in mature markets. Major intermediate agent activity is evident in almost all international markets with internet platforms. Plus even though sales volumes are still low, online sales are growing rapidly at two-digit year-to-year growth rates.

Considering the current market activities, and reflecting on general market drivers, we expect that the global market for online car sales will grow from 3% to 6% of total global sales by 2020. No Original Equipment Manufacturer (OEM) or dealer should miss out on this potential. Today, the OEM's online channels are more or less limited to information gathering, with relatively few links to sales. Overcoming this limitation can give brands a competitive edge and improve sales potential in a rapidly shifting and unpredictable market environment.

In order to sharpen future sales models, detailed understanding of the market and customer demand at all touch points is fundamental. We have identified customer preferences and expectations in the surveyed markets as well as regional differences. Moreover, we checked customers' views against the current practices and business models of automotive dealers and manufacturers. The resulting gaps reveal room for business model improvements or adaptations.

We therefore hope this study's unprecedented depth and breadth is particularly helpful for dealers and OEMs wishing to evaluate their current approach to the online channels and discover potential for improvement and optimization.

2. Methodology/ Demographics

This global study evaluates the impacts of the online channel on the automotive industry from the “point of view” of selected automotive OEMs, dealers and customers.

The study is structured in the following two sections:

1. How the “online transformation” is reshaping customer behavior

In this section we analyze how traditional “touch points” along the purchasing process are changing due to the industry’s ongoing “online transformation”. Moreover, we present insights into mobile and social media and how they tie in to customer decision making. The results of this section are analyzed by customer segments based on age, gender and geography along with the pre-purchase, purchase and post-purchase phase.

2. The readiness of the industry to take up the “online transformation” challenge

In the second section we assess the actual readiness of both premium and volume automobile OEMs and dealers to cope with customers’ changing expectations. We consider the perceived importance of the online versus traditional channels by taking a deeper look at the industry’s budget allocation in the fields of marketing and CRM, before exploring the “supply sides” aspect of online sales for automotive products along with the pre-sales, sales and post-sales process.

Beyond that we study the current integration levels of OEMs and dealers concerning key online processes such as after sales campaign execution, customer relationship management and car stock management.

The objective of the final chapter is to elaborate on key conclusions and recommendations. After exploring the industry’s view on this topic, we identify critical gaps between customers’ needs and the actions of OEMs and dealers. Our objective is to highlight improvement areas for OEMs and dealers by meeting customers’ expectations and delivering a stronger integration of enabling processes from the supply side.

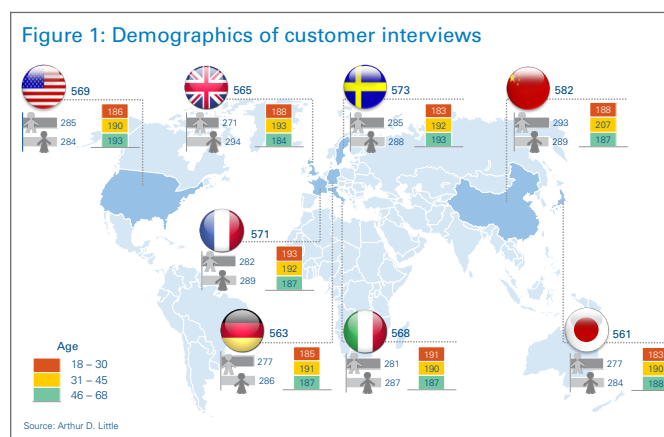
To conduct the study “Spinning the Wheel Online”, Arthur D. Little collaborated with Survey Sampling Germany GmbH (SSI), a premier global provider of world-leading sampling, data collection and data analytic solutions for survey research.

In total, 4552 consumers were surveyed between June 10th and June 25th 2013 by SSI in the following eight countries: Germany, France, Italy, Sweden, United Kingdom, United States, Japan and China.

The consumer sample of each country was based on national sample representatives in terms of age, gender and region (see figure 1). Spending willingness was distributed overall to around 70% to volume cars and the remaining 30% to premium cars.

In the above mentioned countries, Arthur D. Little also interviewed more than 80 OEMs and dealers of 17 brands in both the premium and volume segments. Fieldwork was conducted between April and July 2013.

All analysis and interpretation of data was conducted by Arthur D. Little.



3. How “online transformation” is shaping customers’ behavior

Are you someone who checks your emails on your smartphone over breakfast, reads the news on your PC at work and shops online on your tablet when unwinding in the evening? The answer is “yes” for an increasing number of people globally.

The permanent availability of information through the internet is triggering a change in citizens’ daily lives. Being informed everywhere and at all times is taken for granted and is also reshaping people’s information and purchasing behaviors. These changes do not stop at the door of the automobile industry.

Until recently, the purchase process was strongly shaped by the physical presence of automotive dealerships and the dealers’ sales staff. But the internet is increasingly affecting customer preferences in the car purchase process.

Typically, automobile customers go through a decision process before, during and after a purchase. This is called the automobile purchase process. To simplify, we will summarize the consumers’ automobile purchase process in three major steps:

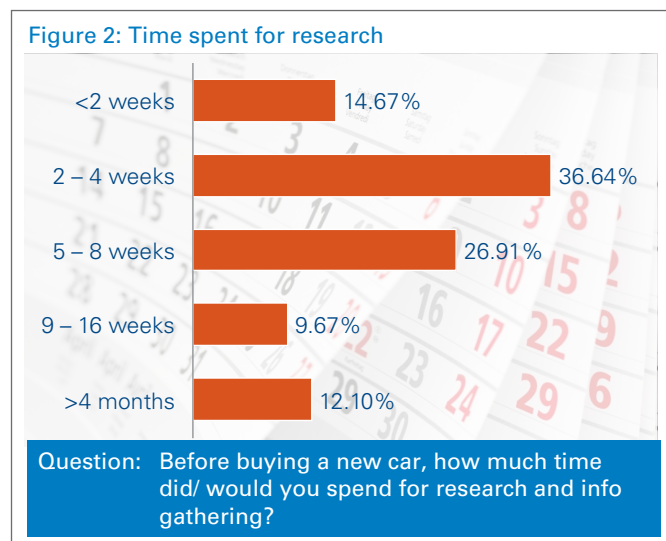
- The **pre-purchase phase** has various steps when a customer looks into an automotive product, such as cars, parts or merchandise. The process usually starts with the customer’s demand for an automotive product. Therefore the pre-purchase phase includes information gathering by customers both online and offline.
- Subsequently, customers enter the **purchase phase**, where they make the final decision to buy or not buy an automotive product. The most complex and comprehensive decision-making process accompanies the purchase of new cars.
- The purchasing process concludes with the **post-purchase phase**. This includes every action taken after the customer has purchased the automotive product. Activities during the post-purchase phase include maintenance activities and customer care initiatives. For automotive manufacturers it is crucial to keep customers loyal during this phase to increase the likelihood of customers buying their products again in the future.

These three steps will be the guiding principle throughout our analysis.

In addition to taking an online perspective, we are also keen to understand the changing importance of the physical Point of Sale (POS) during these processes.

Before the purchase – collecting information

Interestingly, once automobile customers decide they want a car, they do not spend long time gathering information before actually buying it. Only 20% of surveyed customers said they would do research for more than 8 weeks, as depicted in figure 2.

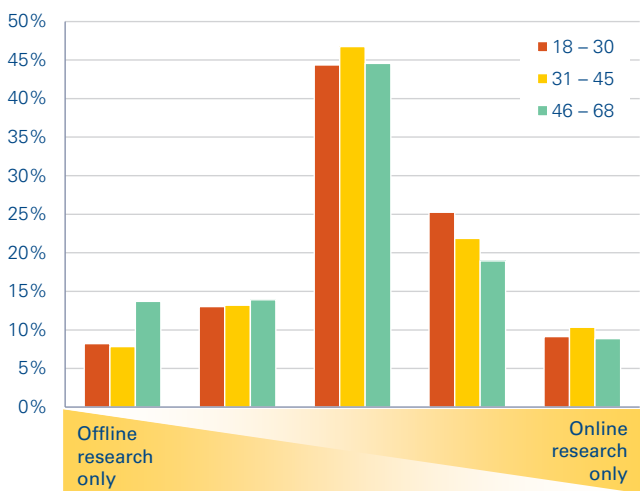


This, in turn, means that 80% of customers spent 8 weeks or fewer on research before taking a purchase decision - however, the more expensive the potential car will be, the more time consumers spend on research.

By age group, younger customers are investing less time in the information phase than older customers.

During this short phase of information gathering, the internet is becoming ever more influential in consumer decisions as a source of information and as a first critical touch point with a brand. The focus of customers is shifting further towards webpages of manufacturers and dealers, blogs, social media portals and websites of online brokers. These are touch points that OEMs need to follow more closely.

Figure 3: Offline versus online research



Question: In your experience/opinion, how would you split your research time between online (internet research) and offline (visit to dealers)?

Currently, almost 70% of surveyed customers spend more time online than offline for information gathering (see figure 3). Younger customers are slightly more inclined to use online sources. Yet, differences between age groups with respect to using online information are negligible. We assume that the

number of those visiting dealerships without having done online research will continue to decline in the future.

The Website

Given that customer information gathering is shifting towards the online channel, it is important for OEMs and dealers to identify the preferred internet source for information.

Our analysis in figure 4 shows that search engines such as Google, webpages of dealers and OEMs, configurators and online magazines are the most important sources for customers to find information or to compare the products.

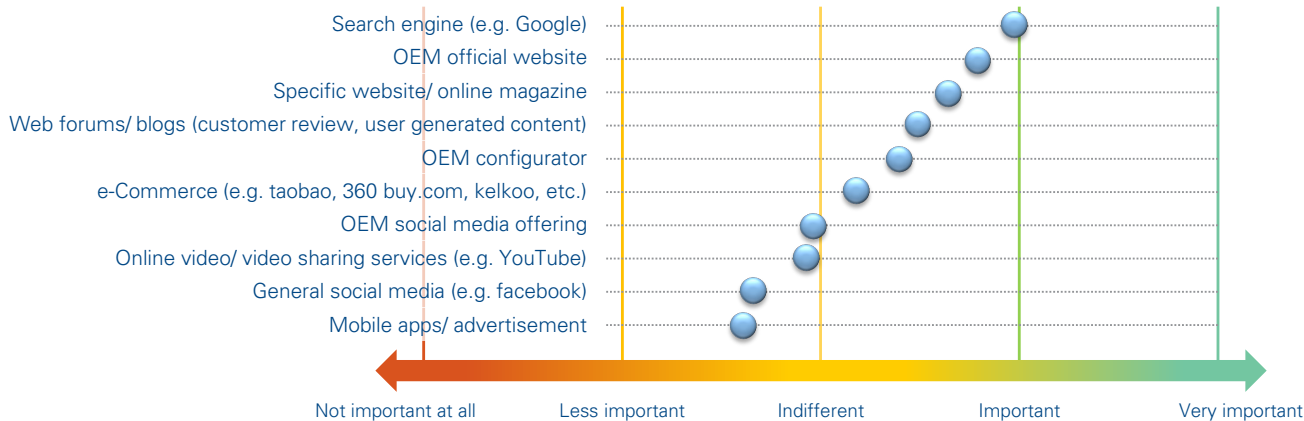
Mobile apps, social media and online videos are less important to customers during the information phase (see figure 4).

As OEM official websites are an important tool for customers in the research process, we took a closer look at important website functions (see figure 5 overleaf).

Across all countries, obtaining price information is the most important feature. Accessing general product information is next, followed by the ability to compare products. The opportunity to locate and contact dealers is also important to customers.

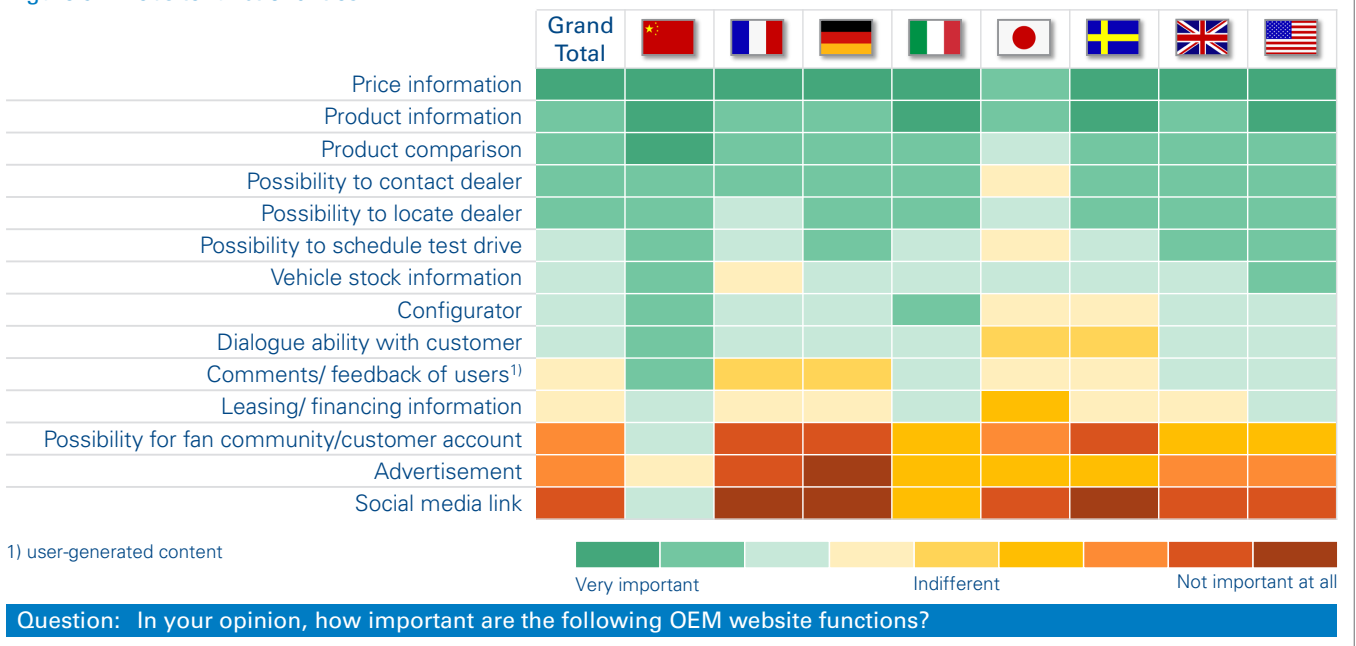
According to the surveyed customers, social media links, customer accounts, and advertisements are less important

Figure 4: Online tools for research



Question: Please assess the following online tools according to their importance/effectiveness to support the first step of your research

Figure 5: Website functionalities



features of manufacturer websites in supporting the first steps of customer research.

This, however, does not imply that customer accounts and social media links are unimportant further down the purchase process. For example, customer accounts may become a requirement due to data protection issues once online sales functionalities (and the subsequent provision of personal data) are established.

Social Media Usage

While the social media offerings of dealers and manufacturers seem relatively unimportant during the information and research process, the customer’s information behavior may still be complemented by the use of social media such as networks, blogs and web portals.

Beyond that, social media allows OEMs and dealers to hear the customer’s voice and to gather their feedback in a cost-effective and efficient way. Customers have a high willingness to share information on the internet. Almost half the study’s respondents across all countries claimed they would share news, information and promotions on social media accounts. But this willingness

strongly depends on age. Although almost 60% of people aged between 18 and 30 are willing to share information and promotions on social media platforms, this percentage drops to 35% among those older than 46.

Moreover, the data illustrates that people with a high spending willingness – regardless of age – are more prone to sharing information through social media. While only 34% of those spending up to €15,000 are willing to share information online, the figure is larger than 70% for people spending more than €45,000.

Taking a look at individual countries, the Chinese are most inclined to use social media for information sharing. Almost 90% stated they would share car-related news, information and promotions with their friends. Perhaps surprisingly, Japanese customers seem to be very conservative in terms of using social media, with 75% stating they would not make use of these tools for information sharing.

The Configurator

Prior to taking the final purchase decision for a new car, customers may want to compare various car configurations between brands. To facilitate comparison based on customers' preferences, manufacturers offer car configurators on their websites.

For 60% of the surveyed customers, the car configurator is (very) important in making a new car purchasing decision. It is highly valued by customers as it is a convenient way of experiencing different compositions of model, color, extra equipment and accessories.

Car configurators are becoming ever more sophisticated, offering customers a broad range of functions. However, the question remains whether customers value all of these functions, for which the manufacturer may have spent a lot of money developing.

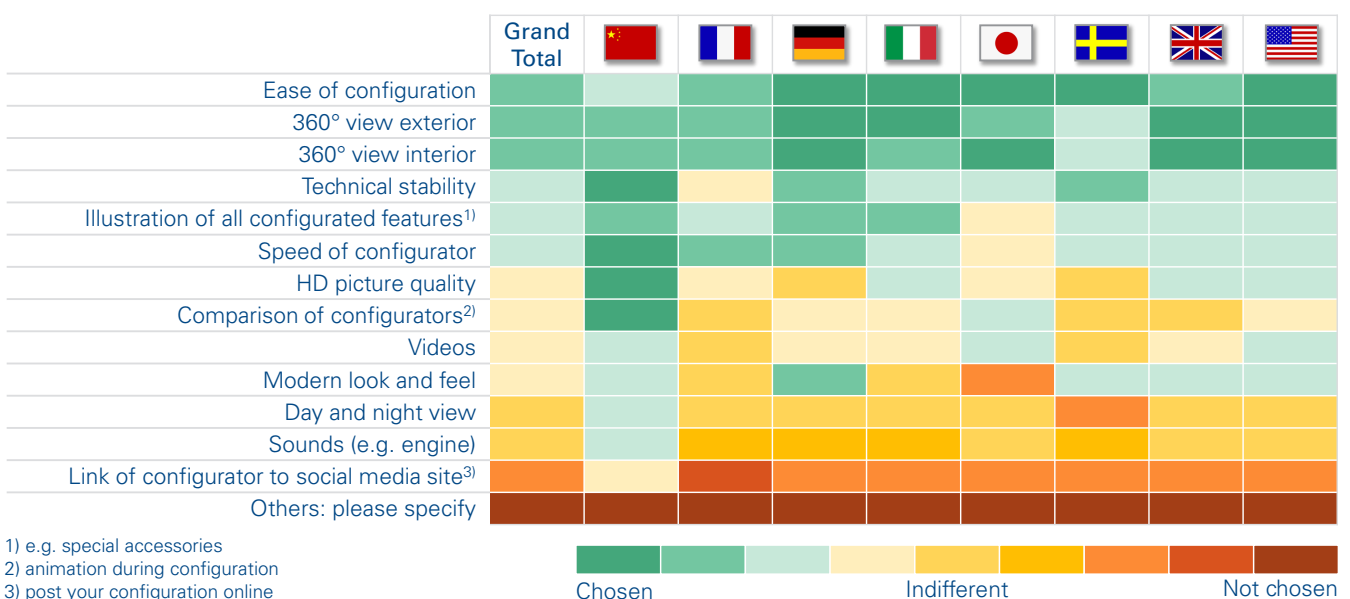
Considering that a general lack of product experience is a major obstacle to online purchasing, a good visual representation of the car online is extremely important. This is confirmed by the

data: for 60 % of surveyed customers, the ease of configuration as well as a 360° inside and outside views of the vehicle are the most expected features of a configurator (see figure 6).

Moreover, the technical stability of the configurator is important and manufacturers will risk losing potential customers if data processing is too slow. Again, the Chinese are discerning clients. Compared to the global average (50%), some 67% of Chinese customers attribute a high importance to the stability and feel particularly annoyed by configuration interruptions or slow data processing. However, in some cases this may not be the fault of an un-optimized manufacturer's website but rather the poor internet connection in certain rural Chinese areas.

In general, people want to access the configurator via the manufacturers' or dealers' websites. Only younger customers would rather make use of a "configurator app" on their smartphone. But as young people are tomorrow's customers, their preferences should be taken into account today.

Figure 6: Features of an online configurator



Question: Which of the following features do you expect from an online car configurator?

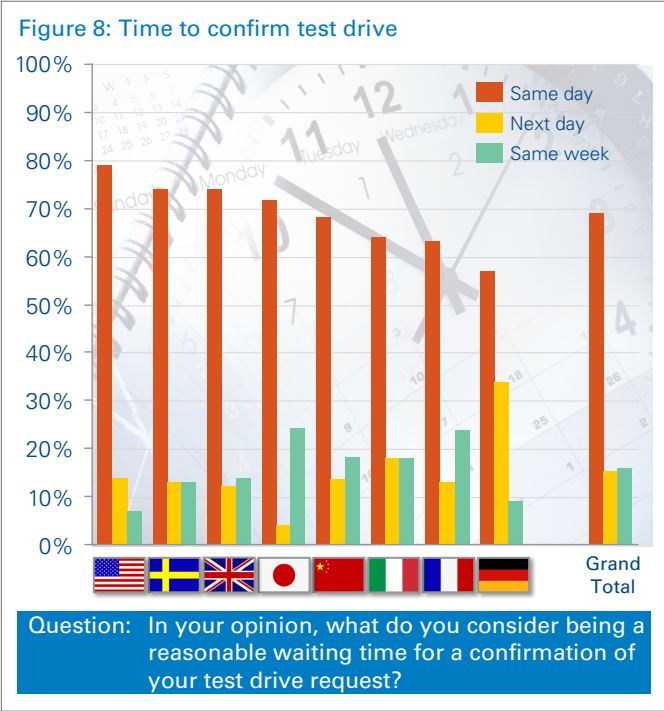
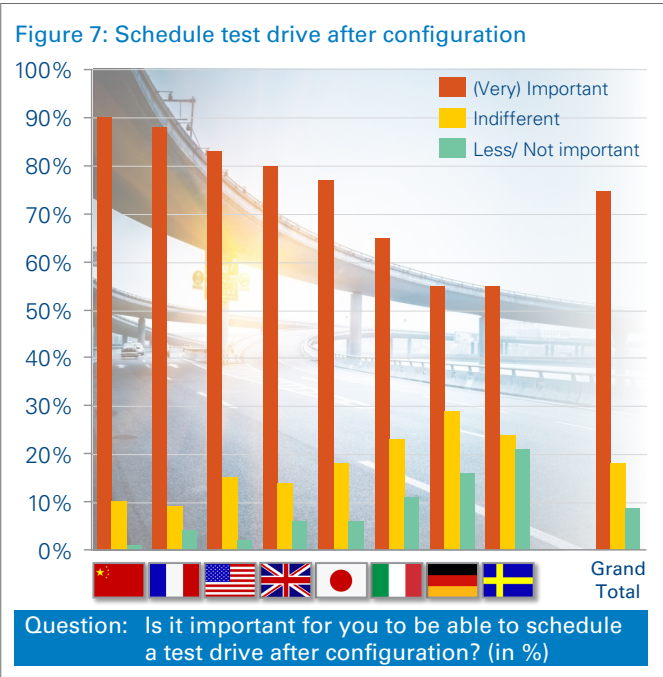
Test Drives

Test drives – as a link between the virtual and physical worlds – are still very important for customers as they are a way of physically experiencing the desired car before the final purchase.

But this link between the online and offline worlds needs to be established by manufacturers. Online inquiries are effective in keeping customers in the purchase process and sales leads are easily lost if dealers or manufacturers do not offer an opportunity to schedule test drives online after configuration.

On average, for 74% of customers it is important or even very important to be able to schedule a direct test drive once they have configured their favorite car. Most demanding are Chinese customers (90%) and French customers (88%) (see figure 7).

The best online scheduling tool is worthless if test drive confirmation times are too long. In all countries, the majority of customers expect confirmation of the test drive request on the day the request was sent. However, the differences between countries are quite high. Whereas 43% of German customers are willing to wait for the confirmation until the next day or longer, this is only true for 21% of US customers (see figure 8).



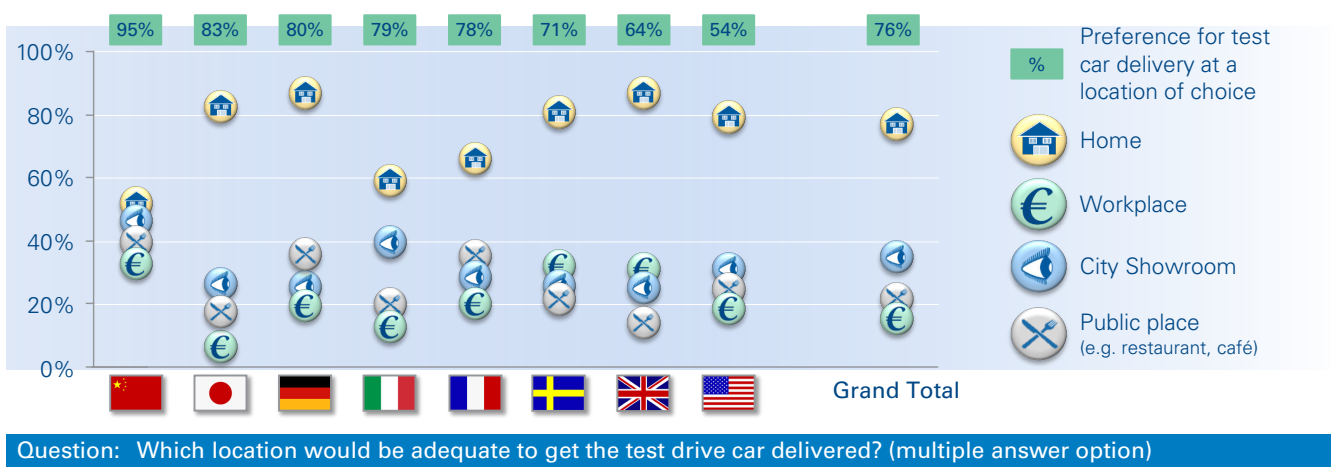
Even in an online purchasing environment, the physical presence of dealers still plays a pivotal role, since for some people it is important to pick up the test drive vehicle at the dealership.

Yet, our results show that preferences for test car collection differ strongly across nations: while 46% of American customers still value visiting the dealer to pick up the test car, 95% of Chinese customers prefer a delivery of the test car to a location of their choice besides the dealership – usually a city showroom or their homes. Therefore, the automobile industry should also consider new ways to provide the test car to the customer once they have scheduled a test drive (see figure 9 overleaf).

Dialogue with the customer

The manner and the time span in which a manufacturer responds to customers’ online enquiries is not only important for test drive scheduling. It is also vital for both customer satisfaction and loyalty.

Figure 9: Test drive car delivery



In all cases, customers have limited patience and prefer fast feedback to online enquiries. 67% of all respondents expect a confirmation within 8 hours after sending the request. 22% can wait 24 hours but only 10% of the interviewed customers consider waiting more than 24 hours for a confirmation acceptable.

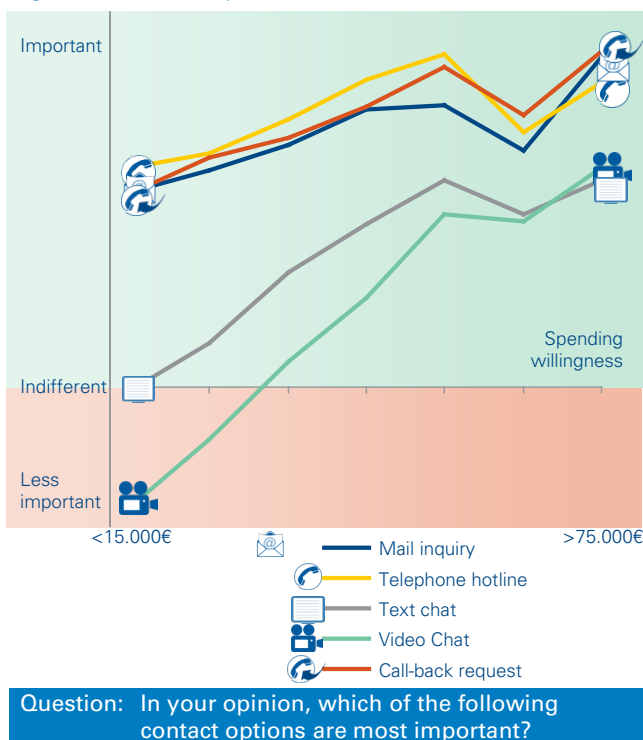
More and more customers look for round-the-clock contact. This includes communication via phone, email, and web chat with sales staff or support personnel when required (see figure 10).

Here again, Chinese customers lead the field with 87% feeling that dialogue options with the OEM are important or even very important. Most of the Chinese customers are first time car buyers. As such they require extra support in the buying process and value various dialogue possibilities. Over 70% of French and Italian customers also value these communication channels.

At the lower end, only 40% of Japanese customers find online dialogue options (very) important, followed by Swedish (47%) and UK customers (55%).

Emails are still ranked as the number one communication tool - but this is changing. The importance of face-to-face interaction via the internet is increasing. Premium customers in particular would make use of text or video chats. More than 60% of

Figure 10: Contact options



customers spending above €45,000 on their next car would prefer to be offered a web chat option.

Purchasing the product – is a shift to real online purchase viable?

Although the internet is currently primarily used as a source of information for customers during the research process, its importance as a sales channel for cars (new and used), parts and accessories will dramatically increase within the next years. New car brokers are already emerging (and in some countries already established since some time) at the initial stage of online sales in all automotive markets.

Customers want the opportunity to purchase online in the future, confirming our 2009 results. 38% of all survey participants (including those currently unsure if they want to purchase a car) would likely or very likely consider purchasing a car online in the future. Customers have also made it clear that they prefer to purchase new cars online. Premium customers, who have a high spending willingness, are especially interested in a coherent online purchase process.

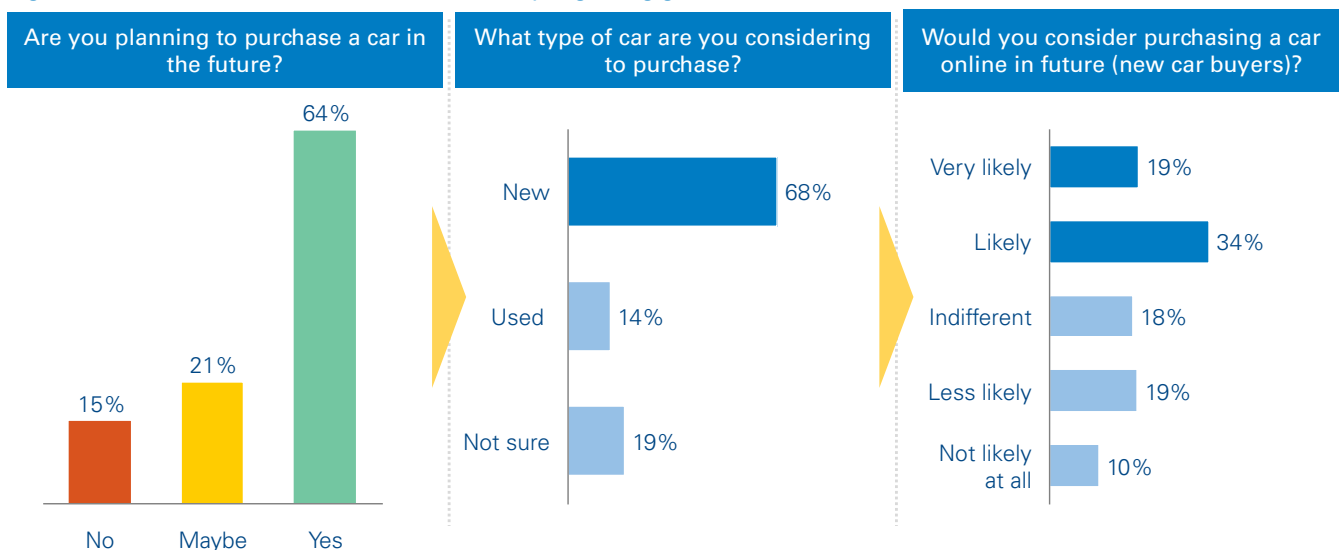
Taking a deeper look at these results, 64% of all respondents are planning to purchase a car in the future, while 21% of respondents are not yet sure about a future purchase. 15% of surveyed customers are not considering a future purchase.

Of those who are planning to purchase a car in the future, 68% are interested in buying a new car, 14% want a used car and 19% of the respondents are not yet sure whether to buy a new or used car (see figure 11).

- Of those planning to purchase a new car in the future, 53% are (very) likely to purchase it online
- Of those planning to purchase a used car in the future, only 36% are (very) likely to purchase it online

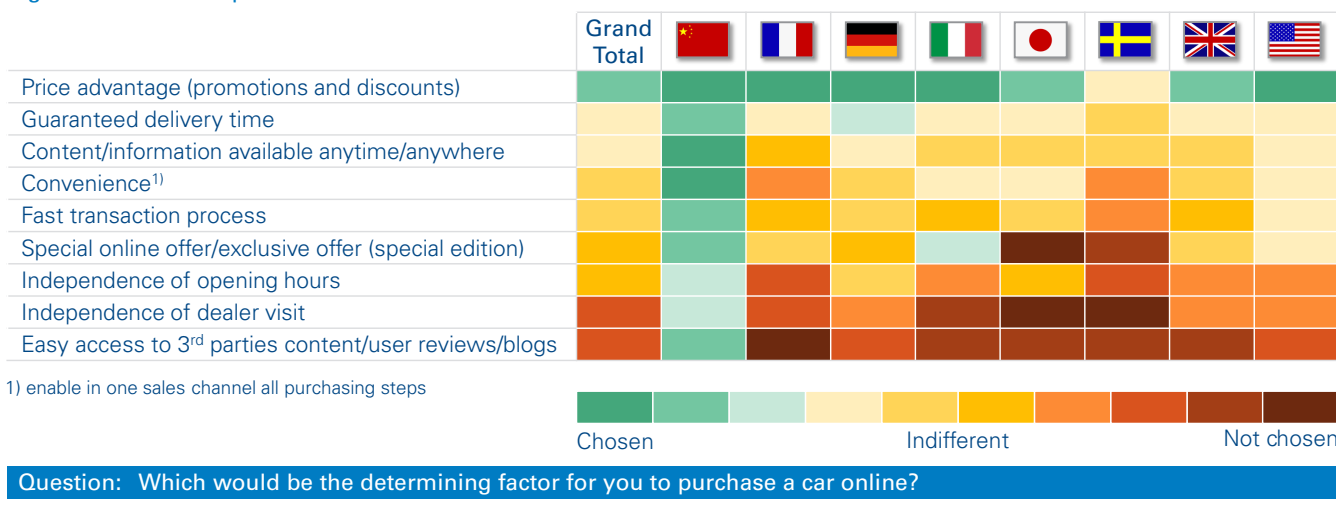
It is interesting that customers with a high spending willingness for their next car are more prone to purchasing the car online. For instance, of the customers with a spending willingness up to 25,000 €, 30% consider purchasing a car online in the future. This share increases to 55% for the people with a spending willingness between 25,001 € and 45,000 €. In the group of people who are willing to spend more than 45,000 € for their next car, 65% are already thinking about purchasing cars online in the future.

Figure 11: Online sales in the automobile industry is gaining ground



Source: "Spinning the Wheel Online" Customer Survey, n = 4552

Figure 12: Drivers to purchase online



When looking at age groups, 43% of people aged between 18 and 30 consider purchasing a car online in the future likely or very likely. But the older the customers are, the less likely they are to consider purchasing a car online – as proven by people aged above 46. Of those, only 28% would consider an online purchase.

Online car purchases are being driven by three main consumer motivations (see figure 12):

1. The expectation of a better price than on the forecourt
2. The promise of guaranteed delivery times
3. A more convenient and efficient purchase process

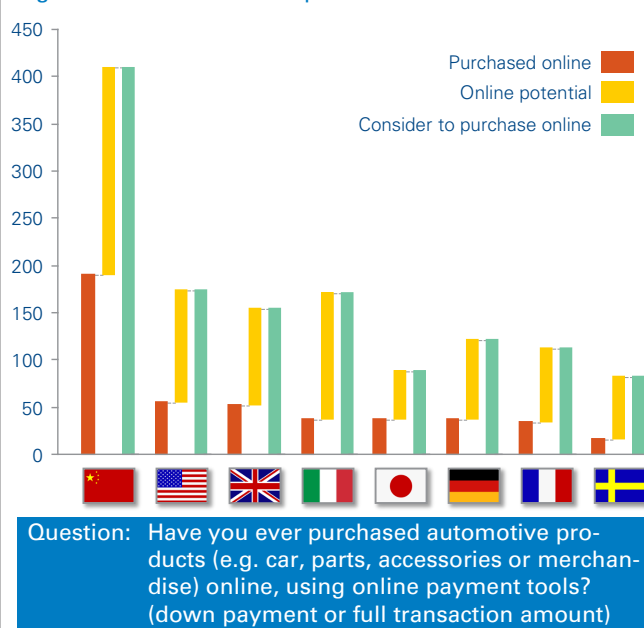
Interestingly, opening hours and interaction with a sales person are less influential factors in an online purchase decision.

For those thinking of purchasing a car online in the future, a high availability of information is a prerequisite.

The demand for online car sales is especially high in China, followed by the US, UK and Italy but on a low scale. In these countries, the gap between customers considering buying a new car online in the future and customers who have already bought a new car online before is especially high. However, these values reflect potential future demands and not current industry experiences (see figure 13).

The data reveals a clear preference for medium sized cars among customers purchasing online. However, both small and large models are still appropriate for the online market (see chapter 4, figure 24).

Figure 13: Potential online purchase



The study also reveals the barriers that prevent the majority of people from taking the final step. These obstacles to online purchasing include the inability to detect product errors before the purchase (which is especially important when buying used cars online) and the general fear surrounding the lack of a physical product experience among customers (see figure 14).

Data protection issues and the lack of a dealer relationship are significant hurdles for Chinese customers. There, 80% consider the “disclosure of personal data online” and “lack of direct contact with an experienced salesperson” a relevant or very relevant obstacle when purchasing a car online – compared to an average of 60% to 70% in all other countries.

Given the increasing e-commerce share of total retail as a key driver, we expect that over time, the willingness to purchase cars via the internet will increase. As customers become more familiar with the online vehicle buying process, their purchasing patterns will change and will likely shift towards the convenient online world. Young customers growing up with the internet today are tomorrow’s car purchasers and their preferences pave the road for new sales models.

Post-purchase phase

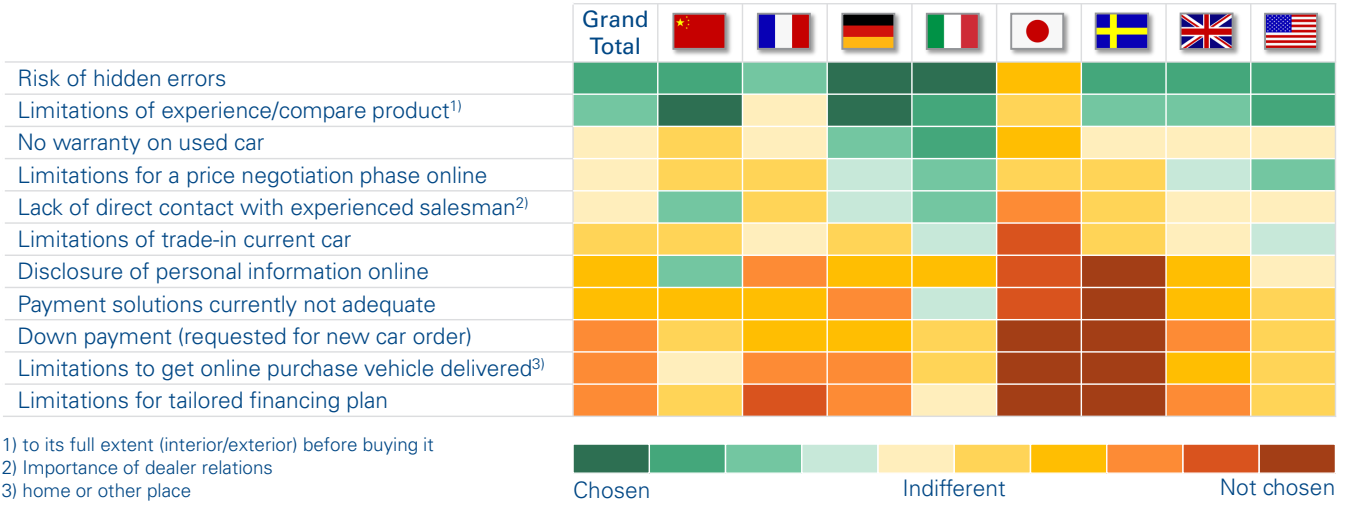
Since the sales processes are shifting more and more into the virtual channels, we wanted to gain a better understanding of trends in the after sales market. This is not only restricted to maintenance services but includes a permanent contact between customer and brand as soon as the car is purchased. Mobile apps and services can be considered a helpful tool for brands to retain customer contact (see figure 15 overleaf).

Service Apps considered most useful by consumers include safety and security apps such as remote door lockers, reminders for periodic car checks as well as remote diagnostic apps.

When asking if people would download mobile apps to receive regular reminders, notifications or campaign alerts, it is obvious that the higher someone’s spending budget, the more likely they are to download these apps (see figure 16 overleaf).








Again, huge differences between countries exist. While China is one of the most smartphone-connected nations, in which more than 80% of customers would download notification apps, only 30% of French customers and 40% of Japanese customers would make use of post-purchase apps.

Figure 14: Obstacles to purchase online



Question: What are the main obstacles when purchasing a car online?

Figure 15: Mobile services/ apps

	Not important at all	Indifferent	Very important
Reminder for planned/ periodical car check			
Safety & security app (e.g. Remote Door Locking)			
Remote diagnostic/ "push" appointment for requirement			
Geo-localization (for services based on tracking of the car)			
Campaign alerts			
New car model launch apps e.g. driving simulator, car configurator			
Entertainment apps related to favorite car brand (games, etc.)			

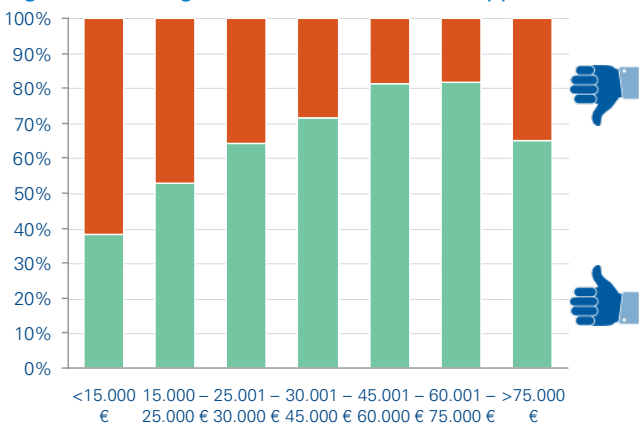
Question: Which of the following car mobile services do/ would you most appreciate of the OEM/ dealer

Overall reminders for planned/ periodical car check, safety & security apps (e.g. remote door locking) and remote diagnostic/ "push" appointment for required maintenance are the most appreciated services an OEM can offer to the customers.

The parts business, capturing more than two third of the OEM aftermarket, is also significantly driven by online transformation. Parts sales – both B2B as well as B2C - via the internet started some years ago, mainly in mature markets. More than half of

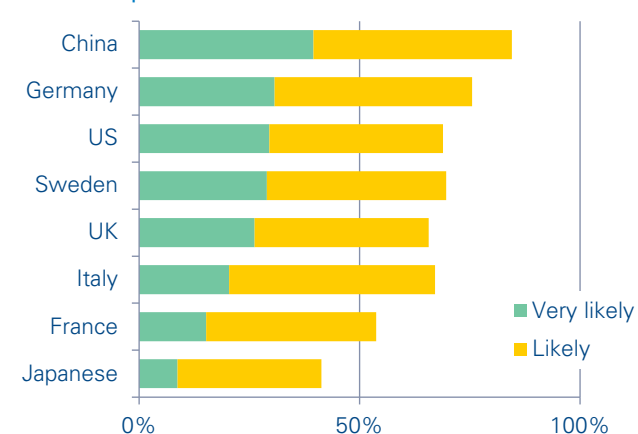
surveyed end customers are already likely or very likely purchase parts/ merchandise/ accessories online. Similar to the motivation for new car sales, key determining factors are the desired price advantage, convenience aspects and delivery. Main potential obstacles are the need to compare and actually see the product before buying it, potential privacy issues of the web and the lack of direct contact with an experienced sales man (see figure 17).

Figure 16: Willingness to download mobile apps



Question: Would you download mobile apps to receive regular reminders, notifications or campaign alerts?

Figure 17: Parts or accessories or merchandise online purchase



Question: Would you consider purchasing parts or accessories or merchandise online?

Importance of the Point of Sale

Finally, with new sales channels emerging, we are also keen to understand the future importance of the Point of Sale (POS) from a customer’s perspective.

Growing model ranges mean complete product portfolios cannot be displayed physically any more. Therefore, digital technologies are required to enable a virtual product experience. This increasing digitalization will impact future retail formats.

Furthermore, retail formats need to be more differentiated depending on location. Customers are no longer willing to travel long distances to dealerships. They want dealers in close proximity to their homes. More than 60% of those who are interested in visiting a dealership are not willing to drive more than 20 kilometers. Market variances are quite pronounced. Only 13% of Chinese and 9% of Japanese customers are willing to drive more than 20 km to the next dealer, whereas more than 50% of German and US customers will consider driving these distances (see figure 18).

As a result, the importance of traditional dealerships in suburban areas is declining in many nations. OEMs and dealers need to be located where the customer is – i.e. in inner-city locations. Chinese, Italian and UK customers would prefer small, inner-city showrooms instead of large suburban dealerships.

However, in city centers, there is fierce competition between brands across a diverse range of industries to catch the customer’s attention. It calls for individual customer experiences and the integration of elements in the inner-city showrooms that are attractive to passersby.

Once potential customers have decided to visit a dealership, be it inner-city or suburban, they prefer certain elements in the showroom. Personnel are considered to be one of the most important factors for an attractive showroom experience (see figure 19 overleaf). Investments in training and different types of sales persons can thus be beneficial.

Beyond having inner-city locations, offering consultation away from the dealerships (suburban or inner-city) is a great opportunity to access a larger customer base. On average, 70% of customers would consider a different location for consultation (see figure 20 overleaf). Taking a deeper look at regional differences, 90% of Chinese customers would prefer getting advice from a sales person at a location of their choice. On the other hand, only 56% of Swedish people would prefer a different location for consultation.

Only 20% of customers consider their place of work an adequate location for consultation, whereas 50% think a city showroom or their home would be appropriate (see figure 20 overleaf).

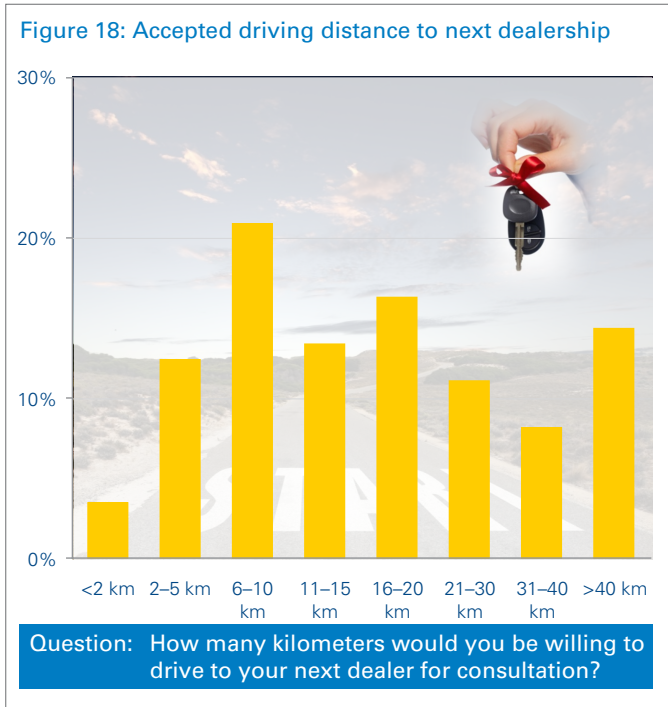
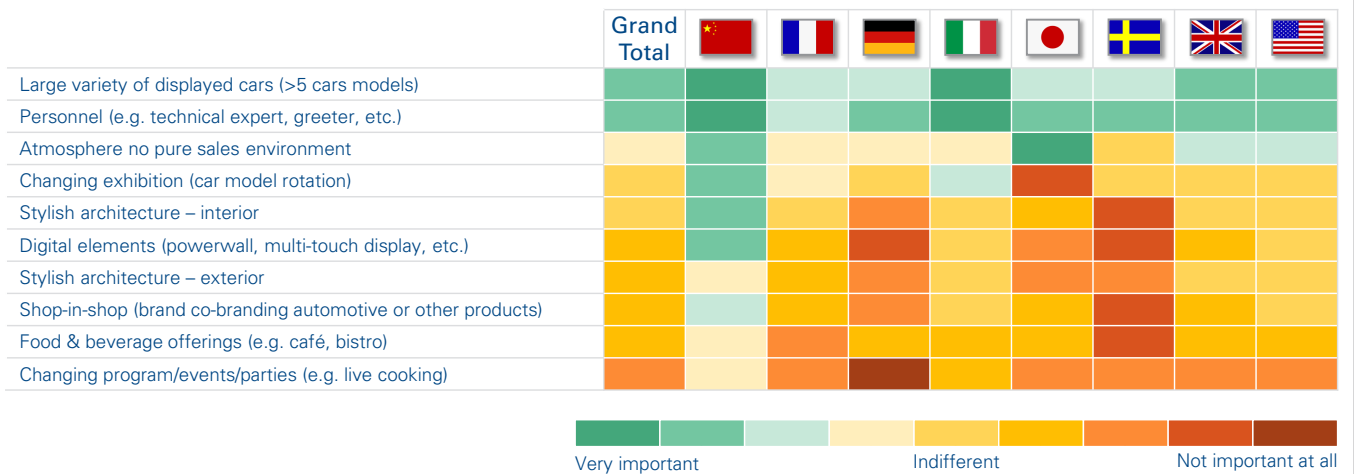
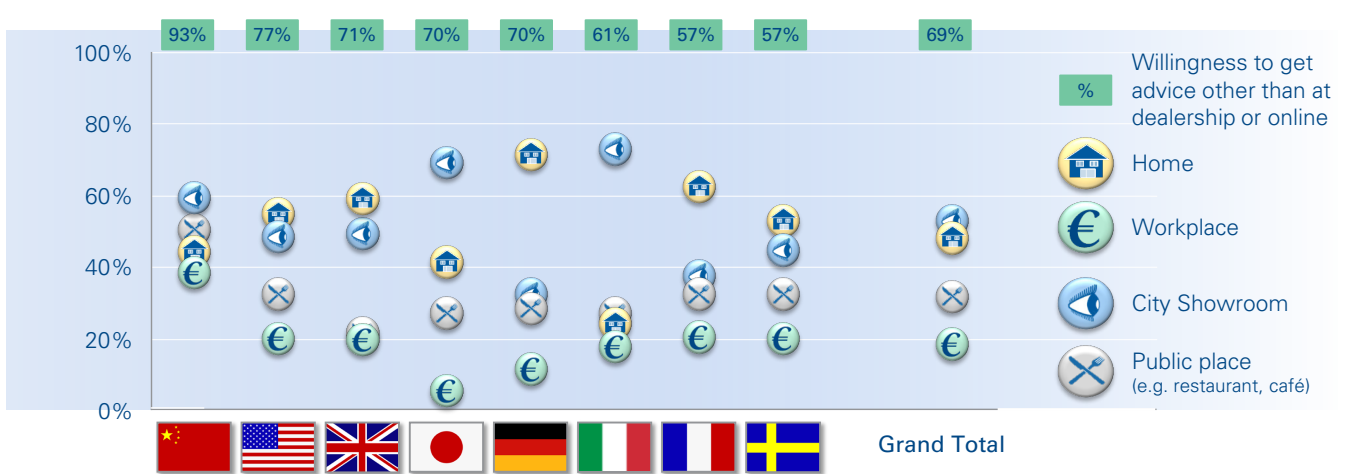


Figure 19: Factors for showroom attractiveness



Question: In your opinion, how important are the following factors regarding showroom attractiveness?

Figure 20: Alternative locations for getting advice



Question: Which location would be adequate for a consultation? (multiple answer option)

Observations on Chinese consumer preferences regarding automotive online channel

China, already the largest car sales market today, will probably be the second largest automotive online sales market by 2020 (behind the US), which is no surprise, since as revealed within this study, more than 70% of Chinese consumers would consider purchasing a car online compared with an average of 39% in the US, 34% in Europe and 19% in Japan (analogue results count for parts, accessories and merchandise). We therefore need to have a closer look at what consumers in this region expect from the online channel and where their preferences differ from the other considered markets.

Chinese customer preference for online channels begins in the information and comparison phase of the automotive sales process. For nearly 60% of Chinese new car buyers, the internet is their initial source of information; by contrast the European average is around 40% at this stage¹. All online tools are valued significantly higher in China than the global average.

It is not surprising that 78% of Chinese consumers rate the use of an online configurator as important or very important. Apart from Italy, all other countries in this report rate this at clearly below 60%.

Furthermore, when considering locations other than the dealership or online for consultation, around 90% of the Chinese (compared to 70% on average) are flexible and prefer city showrooms or public places. The results are similar for the delivery of a test drive car.

When it comes to online purchasing, Chinese consumers are the most experienced in this channel with more than 60% having purchased automotive products (e.g. car, parts, accessories or merchandise) online, using online payment tools. This contrasts with a 35% average in the other considered markets. The most common product types in online purchases in China are cars (new cars, as the used car market is a comparably immature stage) and accessories or parts. The most common purchases by online automobile

buyers in China will be for mid-sized, multi-purpose and sports utility vehicles which in this case show no divergence from the average of the markets. Given that the mid-sized and SUV vehicle categories generate the most sales in China, this suggests significant online sales potential.

In after sales activities the Chinese again are the most open to downloading mobile apps to receive regular reminders, notifications or campaign alerts: nearly 84% would do so, whereas in other countries the willingness to download relevant apps is far lower. The second highest ranking for this category is Sweden with 62%.

Reflecting on these figures, a final thought should be given to both the hurdles and the drivers for online purchases in China. Limitations on online purchasing in general are lack of product experience and risk of hidden errors. Additionally around 80% of Chinese customers rate "disclosure of personal data online" and "lack of direct contact with experienced salespeople" as relevant or very relevant obstacles when purchasing a car online (compared to, on average, 60% and 70% respectively in all other countries). Regarding the drivers for Chinese customers, no specific factor can be identified as the most crucial, since all are rated at least important – the variance of valuation is only 0.27 on a scale between 0 and 2, whereas the customers in the other considered markets show a variance of 0.62 up to 0.96 when assessing the named factors.

¹ The Role of the Internet in New Car Purchases, Google, 10/2011

4. The industry's readiness to take up the challenge of "online transformation"

87% of OEMs and 66% of the interviewed dealers think that the online channel will have a big influence on the overall industry value chain. Service and parts are already involved considerably, and the impact on sales will happen incrementally by integrating the new virtual channel into the traditional sales process.

This is illustrated by perceptions of the interviewed dealers and OEMs:

- *"The new customer journey, triggered by the rising online channel importance, will change current sales processes and the customers' attitudes from pre-sales to dealership experience,"* volume OEM
- *"Integration of online and offline world (multichannel sales) will happen, however the amendment of the sales structures will progress only step-by-step,"* premium OEM
- *"Spur the customer interest and inform the customer will become more important but the purchasing decision will continue to take place at the dealership,"* dealer
- *"We don't have online sales functionalities today but our dealer group thinks that we will see online sales for new cars, parts & accessories and used cars: Customers are already mature today to order parts & accessories online - but few customers are mature enough today to order cars online,"* dealer

In today's decision journey for automotive products, customers get control of the process and actively "pull" specific information and "share" experiences through various channels including online. How do OEMs and dealers consider this development in their marketing and sales strategies?

According to the results of our survey, the average marketing budget share allocated to the online channel is currently around 18% for OEMs and 22% for dealers. On average, OEMs and dealers plan to increase the shares for the online channel of ten percentage points; some are even planning a dramatic shift of more than 20 percentage points. Premium brands tend to invest slightly more in online marketing than volume brands.

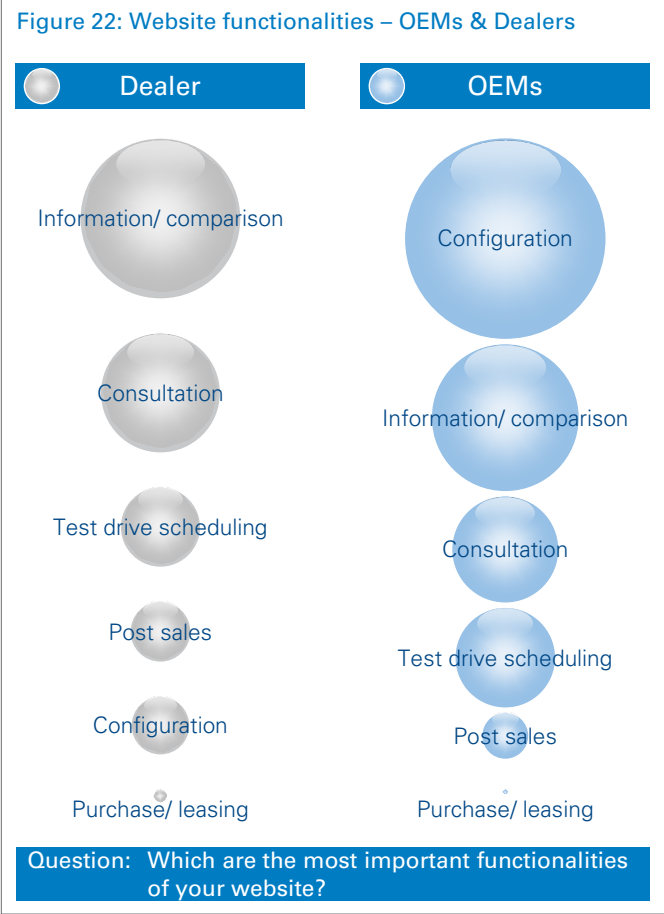
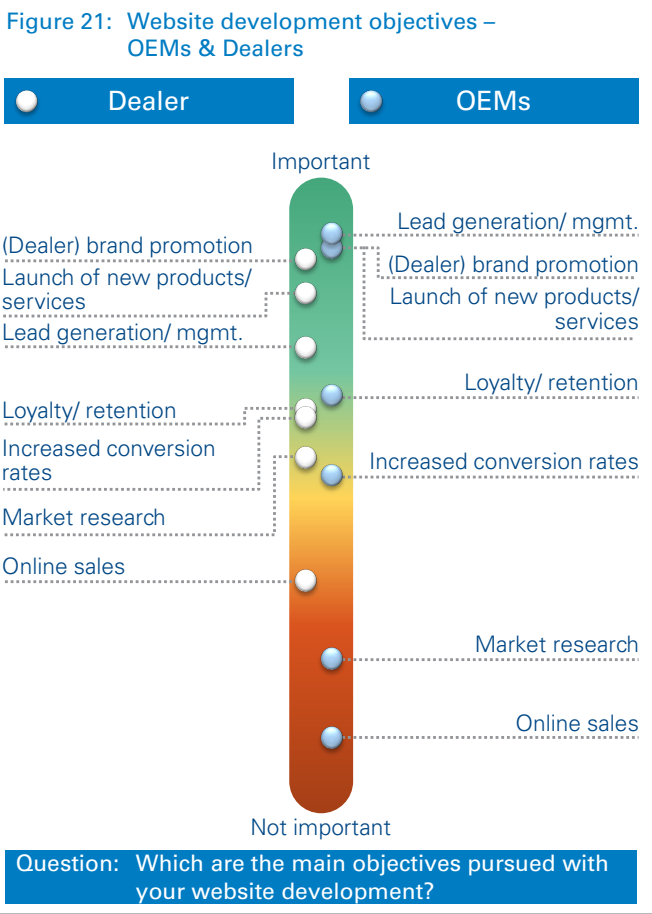
When asked to specify how they split their marketing budget spending, it turns out that OEMs and dealers have the same priorities in targeted areas:

1. Advertisements on third party websites represents the largest investment portion of total online marketing budget spend, accounting for about 43% for OEMs and 40% for dealers
2. Website development takes up to 27% for OEMs and 35% for dealers; this is not that surprising as most dealers have only recently started to understand the online transformation and a significant number of those interviewed have built up their website's basic features with the perspective to increase their functionality further
3. Various social media platforms absorb another 17% of OEMs online budgets; the figure is 15% for dealers
4. Mobile applications are considered a complex but important media tool with OEMs investing about 12% on average of their resources in them. Dealers are rather inactive regarding mobile applications apart from some "forward looking" dealers, typically running a medium to large dealership group, which have started investing in this area and released or planned mobile apps

Pre-sales

We have learned in the evaluation of the customer survey that the preferred source of information in the pre-purchase phase for customers is the website. Therefore we take a closer look at the objectives pursued through the website development of OEMs and dealers (see figure 21 overleaf). The top three objectives are lead generation, brand promotion and launch of new products/ services. Apparently, objectives such as increase of conversion rates or online sales play a less important role going further down the sales process.

The offered website functionalities confirm these objectives. The most important functions are the information/ comparison and test drive scheduling; enabling purchase/ leasing functions are not important neither for OEMs nor for dealers. Interestingly, the ranking of all functionalities shows little difference between OEMs and dealers except the configurator, playing a prominent role for the OEMs' websites (see figure 22 overleaf).



Using social media as a tool for brand promotion is rated very high by dealers as well as OEMs: nearly two thirds of them take the opportunity to directly manage or supervise online network communities with the aim of managing brand values directly. But they should keep in mind that for the customers, social media only plays a minor role for information gathering and product comparison.

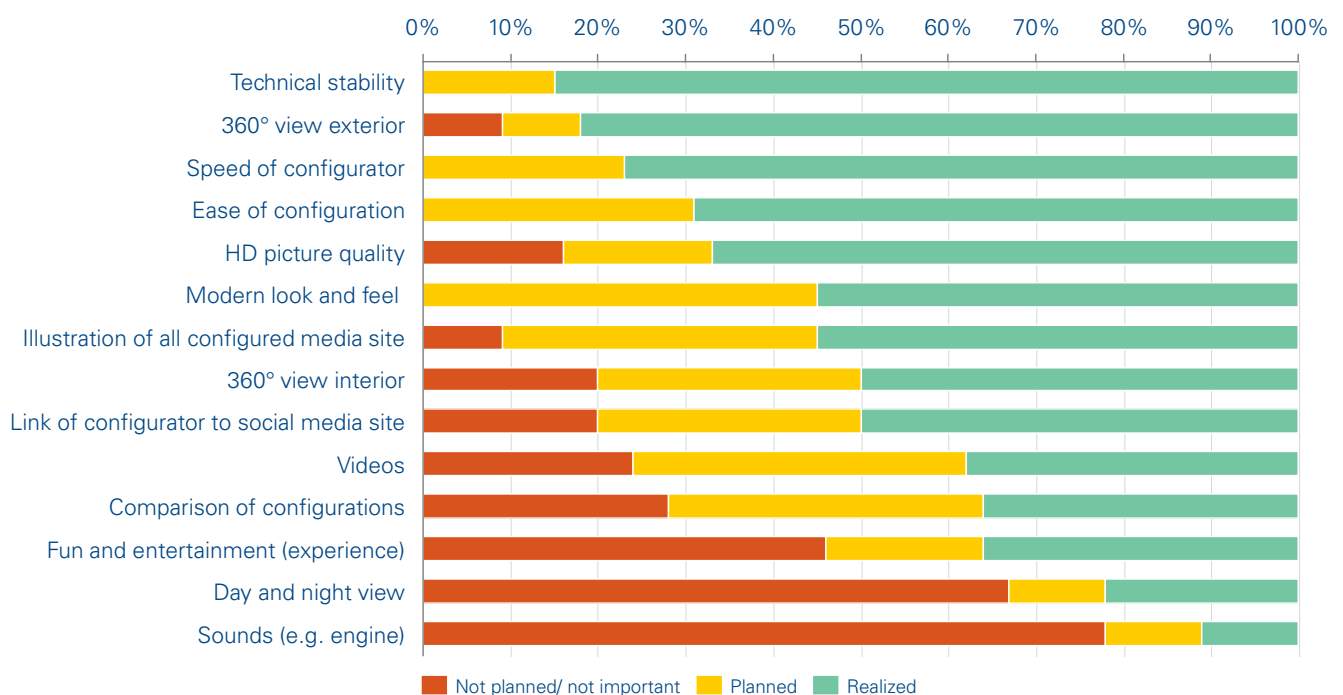
Within the pre-sales phase, mobile apps play an important role from the OEMs and dealers points of view, especially for brand promotion, to increase conversion rates and to launch new products and services.

A major functionality pursued in the pre-purchase phase with the OEMs' websites, as well as social media offerings and

apps development is the vehicle configuration. Premium OEMs consider this a very important tool for a customer's purchasing decision, which is confirmed by the high rate of premium OEMs who offer or plan to offer a configurator app for smartphones or tablets. Only very few configurators features are not in the scope of OEMs for realization such as day and night view or sound simulation (see figure 23 overleaf).

When using the online channel for marketing and CRM, OEMs and dealers need to sufficiently track the effectiveness of the online channel. Of all the surveyed OEMs, 86% can track customer behavior in their online channel and 60% can even measure the Return on Investment in their online channel. On the dealers' side, these figures are 64% and 37% respectively.

Figure 23: Implementation of configurator features by the OEMs



Question: Which of these (configurator features) have you implemented/ are you planning to implement?

The ability to track and measure customer behavior is a key requirement and input parameter to track the return on investment for each of the channels and ultimately, to measure the performance of interactive/ online marketing.

Within the online sales process the first physical touch point between the customer and the car is the test drive. Although this can be scheduled online, OEMs and dealers realize that this functionality can be arranged seamlessly within their online platforms and rate it as important/ very important for their websites (73%), mobile apps (67%) and social media (41%).

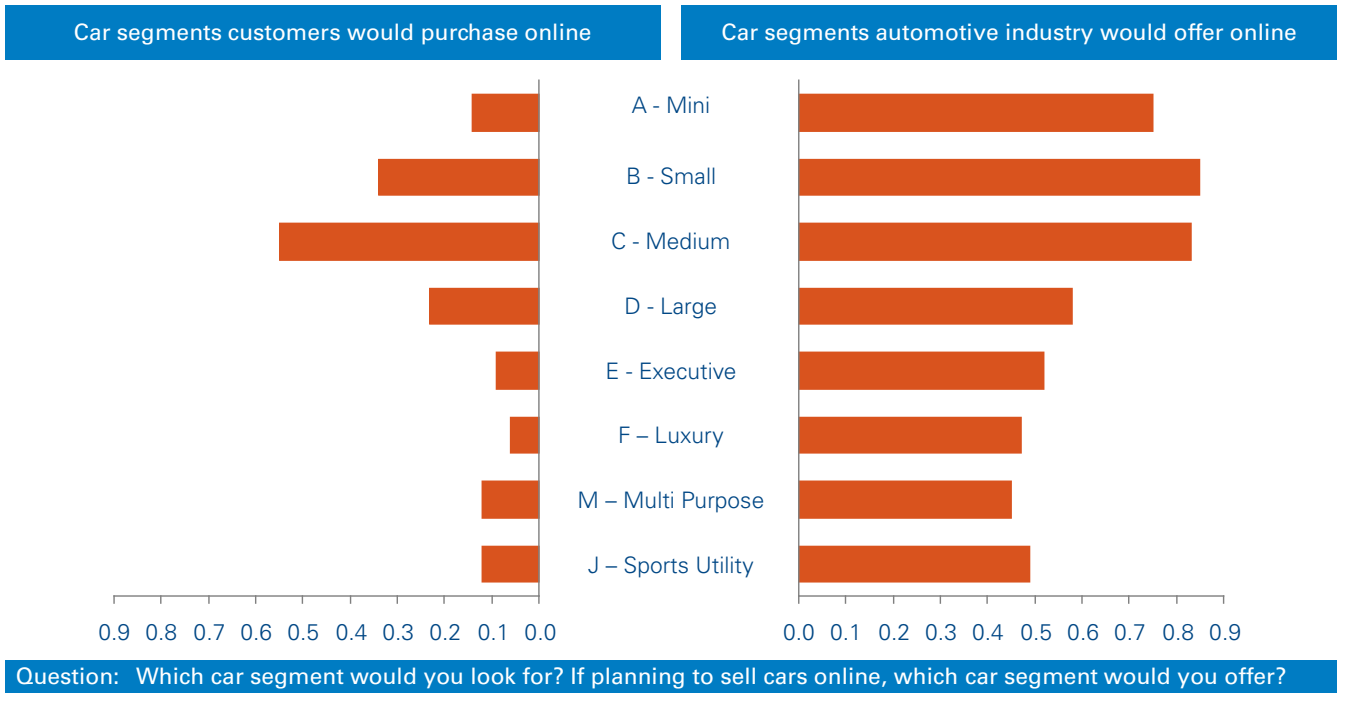
Regarding the delivery of the car for a test drive, OEMs are the most innovative: nearly 60% would consider alternative locations for delivery – whereas independent dealers are less flexible: only 30% would deliver the test car at a location other than their dealership.

Sales

When asked to specify which automotive product categories will benefit from online channel development in terms of sales, all OEMs and dealers agreed it will be beneficial for all categories with the highest growth potential for cars (new and used), followed by parts & accessories and then merchandise. The online market for the latter already achieved a notable level in most markets.

Based on the benefit assessment we had a deeper look to find out who is actually planning to sell which product category online. Overall, few premium OEMs actually plan to sell cars online. With regards to the product category, a slight preference is for stock models and online special editions – for the time being only a single premium OEM quoted to plan built-to-order online sales. This insight is generally confirmed by the dealer responses.

Figure 24: Envisaged segments for online sales – Customer vs. OEMs/ Dealers



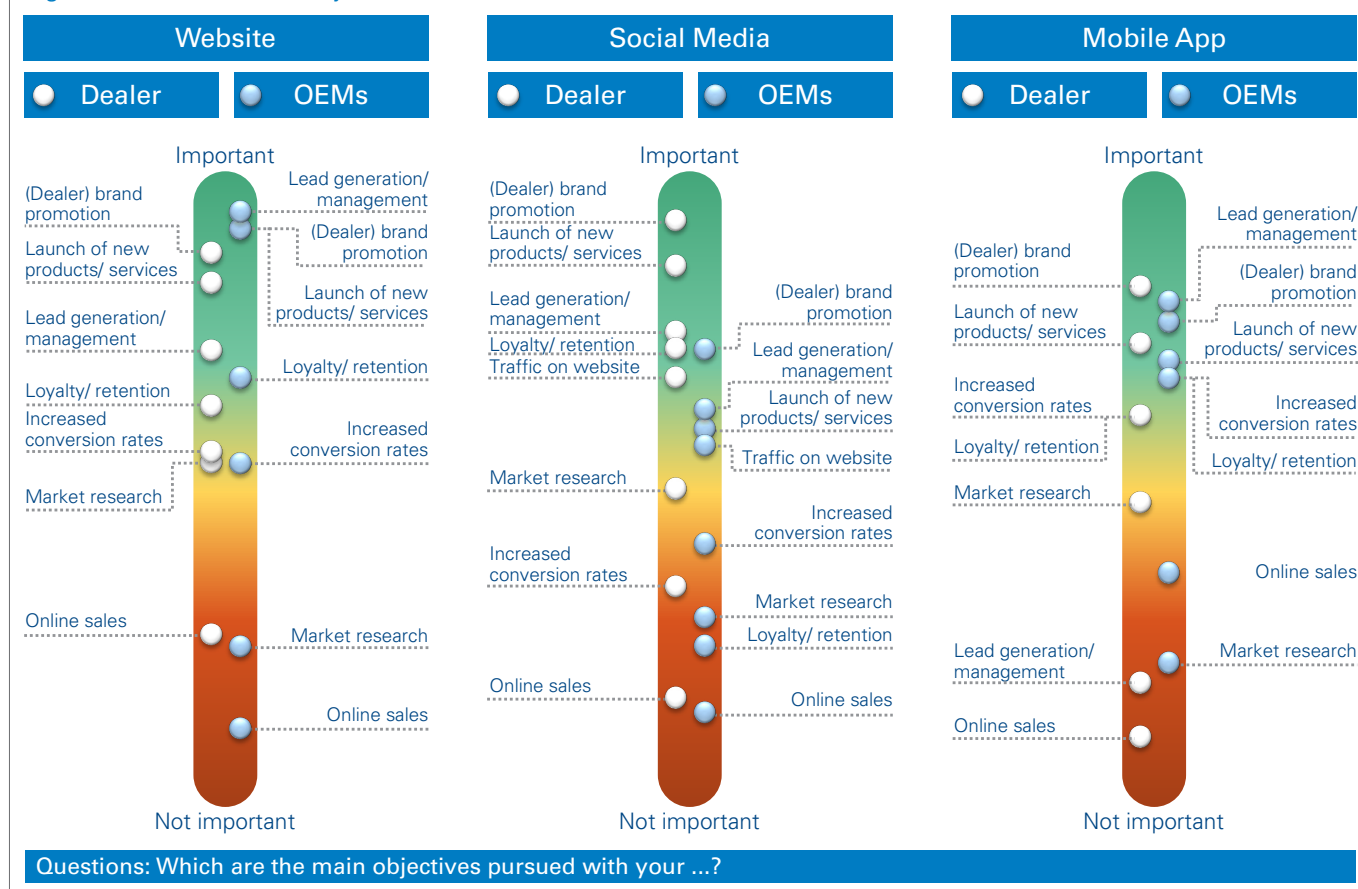
More than 50% of customers would purchase a medium segment car (e.g. VW Golf or Ford Focus) online. About 34% would look for a small segment car (e.g. VW Polo, Peugeot 207), followed by 23% for large segments (Mercedes E-class or BMW 3 series) and only about 15% targeting mini segment. Interestingly this ranking is independent of the age of the customer respondents (see figure 24).

On the other hand, the OEMs and dealers who plan to enter online sales, state that they would rather focus on mini segments, followed by small and medium categories. The interviewed dealers confirmed the same perspective. Our experience shows that the focus on the small segments is driven by the assumption that high spending is considered to be a barrier for online purchasing (see figure 24).

Neither the objective nor the offered functionalities to enable real online purchase were assigned a high importance by OEMs and dealers (see figure 25 overleaf).

Currently the majority of both OEMs and dealers would not offer car delivery besides traditional delivery in a dealership. However, premium OEMs seem to consider alternative delivery locations as a premium customer service aspect, as almost 50% of them quoted to offer this service.

Figure 25: Online sales as objective of online tools – OEMs & Dealers



Post-sales

Continuing down the sales process, the online channel regains importance in the after sales business for both OEMs and dealers, rating customer retention and loyalty as important objectives. The preferred online tools applied by the OEMs for the post-sales services are mobile apps, followed by the website – for dealers the ranking is the other way around. Interestingly social media only plays a minor role for both groups.

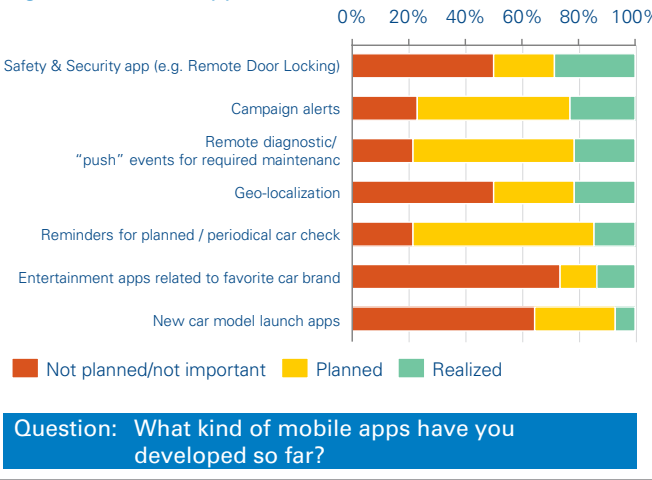
From our project experience we expect the trend of mobile apps to grow further due to increasing connectivity of the car itself and the evolution of the “digital world.” However, the implementation and offering of mobile apps seem to play a minor role for dealers, less than 25% answered this question

and out of those who did, nearly 70% do not plan to install apps. The picture for OEMs differs completely: reminders for car checks, remote diagnostics or campaign alerts are the most realized applications (see figure 26 overleaf).

Importance of the Point of Sales

After understanding the role of new sales channels from the customer’s perspective – we’d like to assess how far these trends have already impacted the manufacturer’s distribution model, in particular the physical channel. How will the role of the POS evolve?

Figure 26: Mobile apps OEMs



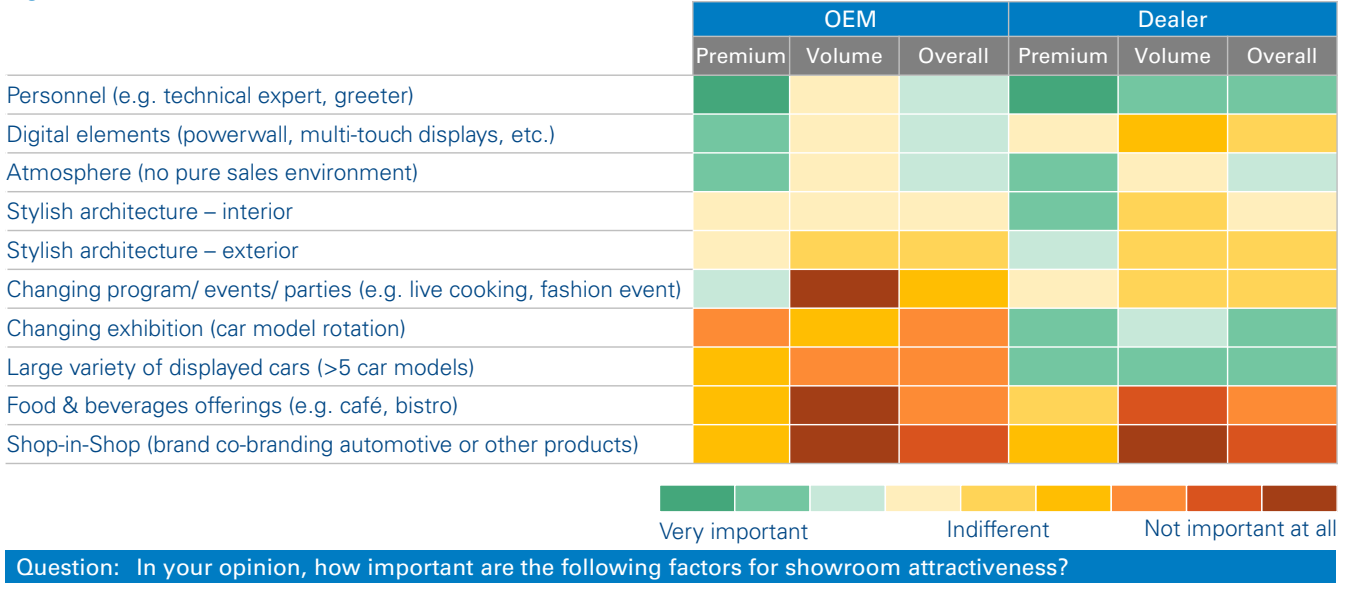
More than half of the OEMs and dealers would offer alternative ways of consultation to customers (e.g. mobile salesperson, video chat). This will be the key to meet customer’s evolving consultation preferences. The breakdown by segment further confirms that these alternatives are rather premium features – premium OEMs as well as premium dealers showed a higher share.

Furthermore, premium players are more prone to come closer to the customers living and working environment. Almost all are planning new, inner-city showrooms additionally to their current dealerships.

When it comes to overall showroom attractiveness including new, inner-city showrooms as well as established dealerships clear differences between OEMs and dealers can be identified.

For all survey participants, the most important factor is personnel (see figure 27). Taking a deeper look at distribution levels one needs to consider that on the one hand, OEMs provide and define the showroom standards and on the other hand the dealers are closer to the customers and competition and potentially can better assess trends and customer preferences regarding the showroom attractiveness.

Figure 27: Showroom attractiveness

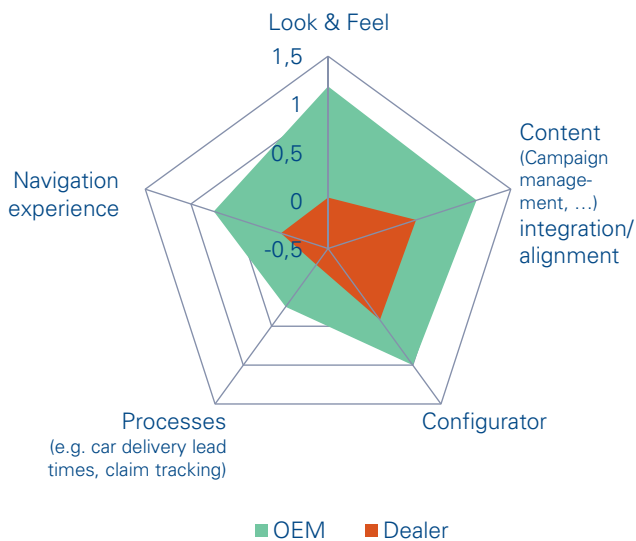


Dealer and OEM levels of integration

Website integration

In general the survey results show that OEMs and dealers perceive a satisfying level of integration in all areas except for “processes” where improvement potential is identified (see figure 28). However, achieving full website integration with respect to processes between OEMs and dealers requires large investments in IT infrastructure and governance. It is worth it as an integrated website is a springboard for various topics: test-drives can be scheduled centrally, used car wholesale stock can be made transparent for all dealers, the dealer’s website can benefit from a central live chat function by central back office service staff, or service appointments can even be booked centrally.

Figure 28: Website integration - OEMs & Dealers



Question: Which is your current integration with your OEM's respectively dealers website?

Integrated lead and contact management – feeding the sales funnel

To proactively “feed” the sales funnel with new leads, integrated lead management should be on top of the agenda for every OEM and dealer. As dealers have the chance to physically interact with customers, they can collect very detailed customer data, including contact information, visit records, purchase data and vehicle service history. But the

collected data is not shared within the dealership systems or with the OEM. Furthermore, homegrown stand-alone CRM systems are unable to support a comprehensive view of the customer to derive tailored follow-up activities. Effective lead management requires an integrated cross-functional process with an overall leader “calling the shots.”

The ultimate objectives for lead management integration are:

- Collect and consolidate all leads generated by OEMs and dealers across different channels in the overall “customer database”. This is the starting point of any insight into customers.
- Achieve a near-real time sharing of centrally generated leads across the network, with clear rules that mitigate the competitive concerns limiting the flow of information.
- Monitor lead management effectiveness through a centralized performance management process that keeps track of the number of leads generated and conversion rates across all involved elements of the business.

The maturity level of the industry with regard to the integration of the lead management system seems to be very high yet differs on the type of integration (uni-directional or bi-directional):

- 100% of premium OEMs claim to have an integrated lead management process in place. Specifically, 83% have “one way” integration with their dealers where leads are managed centrally and assigned top-down by the OEM. About 17% state to have implemented a “bi-directional” system where dealers are also providing their own leads to OEMs and helping to keep the customer base updated. However, implementing a “bi-directional” lead management process is difficult as dealers are concerned about losing ownership of their customer base to the advantage of their brand-internal competitors.
- 88% of volume OEMs indicate to have an integrated lead management process in place. Among these: 63% implemented a “uni-directional process” and 25% adopted a “bi-directional” one. Not having any lead management at all is a major weakness for the remaining 12% of the surveyed volume OEMs.

OEMs must implement an end-to-end lead management process, both inbound and outbound, by investing in system integration and supporting dealers with rules and guidelines for customer management and sales procedures. The same

counts for contact management as all customer contacts should be managed effectively, timely and coordinated skillfully between OEMs and dealers to avoid misalignments and failures.

With regard to effectiveness of current contact management processes, in total more than 80% of the surveyed OEMs have an integrated contact management:

- 29% of OEMs have a centrally managed integration (top-down)
- 43% of OEMs are able to perform a distinct tracking of events in the shared agenda (display of two separate action plans)
- 14% have implemented a single integrated action plan where all initiatives to clients are shared and calendared.

Integrated after sales campaign management

In after sales services, dealers manage all contacts with customers including reservation of inspection, car reception, diagnosis and follow-up. Campaign management in after sales covers a wide scope of activities, from targeting the recall of a specified car model to promoting a service package sale for parts and accessories. It is a tool that automotive operators increasingly use to attract new leads retain existing customers.

Typically dealers must carry out campaigns that are set up and managed by the OEM centrally. But the pressure to create “touch points” with customers and the challenge of sales targets are pushing dealers to launch their own campaign initiatives alongside the official brand events. This situation can be harmful for customer relations: if not correctly managed these concurrent initiatives could target the same customer simultaneously.

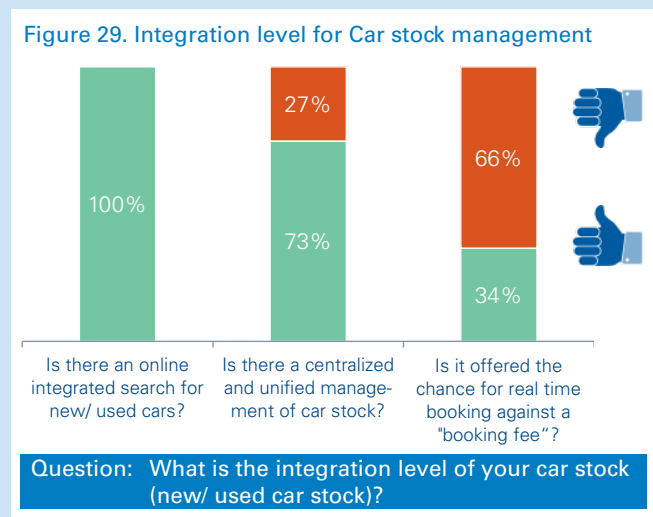
Only a third of the participating OEMs replied that after sales campaigns and recalls management is integrated. What often happens is that customers receive notifications by email or text message publicizing the need to return their car model for a technical matter within a due date, while also providing the contact details and opening hours of the closest dealer. In this way the “push events” reach thousands of customers in a specified region but the dealers cannot adequately schedule their own workload because they lack information on when and how the customers may come.

OEMs globally show a high need for integrated after sales campaigns in order to enable efficient work management at the dealer’s site. Otherwise, a major risk of upsetting customers or losing ‘hot leads’ to the benefit of independent after sales chains remains.

Integrated new car and used car stock management

Customers appreciate web search functionality on the OEM’s or dealer’s website to check availability of a desired car model. OEMs that provide this feature are able to process real time inquiries about inventory stock, giving them a competitive advantage. On the other hand it could be a very upsetting customer experience to call the dealer for a certain car model only to find out it was sold two days ago, despite still being listed online.

In order to better understand the current situation and strategies of OEMs, we analyzed the integration level of car stock between the OEM and the dealer network (see figure 29). A general integrated search for stock should already be in place. Looking into the breakdown by type of dealer, it has been confirmed that own retail dealers primarily have integrated stocks, whereas contracted dealers are rarely connected.



5. Five key lessons for OEMs and dealers

Throughout this survey, we have observed five key lessons for leveraging OEM's and dealers performance with regard to the emerging online channel for automotive sales, as well as the associated changes of the "physical world."

We are convinced that in general, the dealer network should have the best picture of the customer today, thanks to daily and close direct interaction. Conducting these interviews, it became clear that something has to happen now. Dealers are confronted with well-informed customers, with some putting a highly discounted offer from an internet intermediary on the table for negotiations. There is no consistent way this situation is being tackled which gives the customer a hurtful inconsistent view on the sales format. To put it in a nutshell, the automotive sales landscape is evolving faster than ever and every single lead should be addressed in a perfect manner by OEMs to be ahead of the competition.

Our key findings on how to compete in this environment can be summarized in the following actions:

1. One voice to the customer

OEMs and dealers need to align Marketing & CRM processes to provide a reliable and seamless customer experience across all sales channels and all touch points. In this context, OEM and dealer dialogue ability is essential and has to be improved tremendously.

2. Innovative and new sales formats

Sales approach of the future has to serve customers at a location of their choice – even outside the conventional dealership e.g. highly frequented locations.

3. Sustainable price position

Online sales must not accept price competition. Therefore, OEM's online product and price strategy has to match sustainably in the multi-channel-concept and has to be aligned with dealers.

4. Connected after sales

Customer loyalty is key for a sustainable revenue stream beyond the initial car purchase. More sophisticated, "integrated" mobile apps and connected vehicle services will deliver value for the customer.

5. Online sales incubator

Complex headquarter structures will hardly be able to keep the pace with new internet competition. For OEM's online sales to go-live, the best chance is to start in an incubator mode by trial and error – intermediates are otherwise overtaking fast.

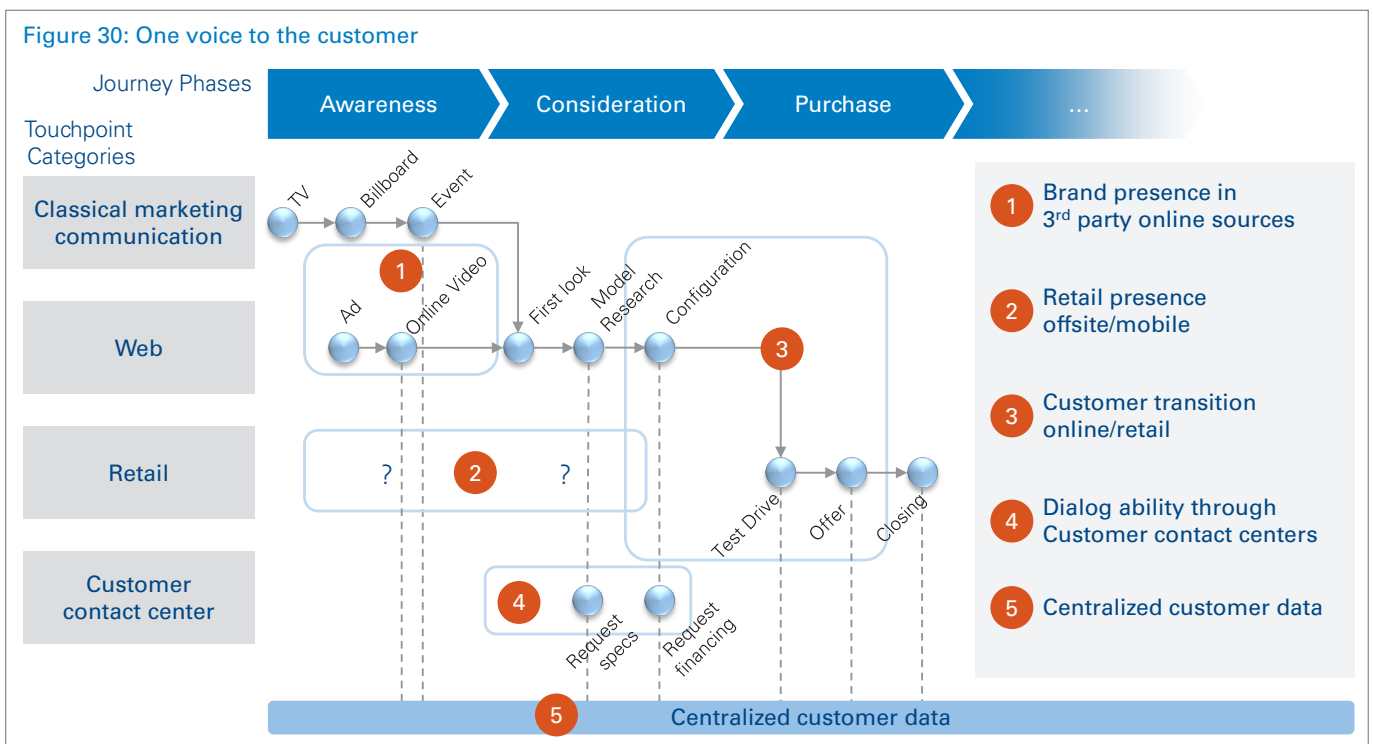
One voice to the customer

In recent years, OEMs achieved high results in POS improvement by retail integration of sales, after sales and financial service processes. The next level is to ensure a seamless customer experience across all sales channels and touch points (see figure 30 overleaf).

A touch point used by most customers today is the online car configurator. The logical next step would be to experience the configured car; however this option is not directly linked to the event of a configuration. As a result, the contact between the brand and customer is lost for some time until the customer decides to visit a dealership. Linking these two events and maintaining close contact with customers is crucial in managing the customer journey.

The automotive industry, like most mature industries, is experiencing the trend of a growing "ROPO" effect (Research Online Purchase Offline) and this phenomenon suggests that providing smooth customer transition across online/ offline touch points is an imperative to drive sales conversion.

Customers should therefore be presented with the option of a visit, test drive, an offer or other answers to their questions right away to bridge the move between different channels and to keep them moving forward within their journey. As a main enabler for the aforementioned issues, we see the need for aligned CRM and marketing processes as well as the need for centralized customer data, which is a veritable paradigm shift. The former exclusive privilege of customer data ownership for retailers cannot be the model for the future and excellent customer service. By providing these prerequisites, the sales prospective phase will improve and more leads can be converted - not lost.



Customers expect individualized consultation and immediate reaction to difficulties or questions, pushing OEMs to install dialogue abilities at all touch points. Customers need to have a partner that is available for example during configuration, for booking test drives or arranging retail appointments. It needs to be a real and trustful “contact” instead of just an arbitrary “call” center.

It becomes essential that a variety of channels must be provided such as voice, E-Mail, online blogs, website contact form, letter, social networks or other widely used alternatives. OEMs have to actively manage their presence and discussions in online communities. Prerequisite for the high performance and successful dialogue ability is again the centralized customer relation data.

Innovative and new sales formats

With online sales models emerging, the interrelation to the traditional physical sales models will also have to adjust. With

our survey we highlight a trend of virtualization for different dealership features spanning from the “look & feel” renewal of existing showrooms (i.e. interactive wall-displays in showroom, advanced configurator tools on site, etc.) to arrive to brand new “service delivery processes” where customers can express their preferences online on how to get their service provided.

In particular we find that there is an untapped preference for customers to get advice or to get their car delivered at a location of their choice – even outside the traditional dealer site. Retailers are still too hesitant to meet customers outside their stores. Dealership locations are often considered too far outside city centers by customers. Therefore retailers have to approach customers in e.g. leisure locations. By providing a “soft” sales environment they can improve their visibility and meet customers without directly pushing them into a sales discussion. This innovative approach should also be planned and implemented systematically within standard net development planning at OEM headquarters, aligned with wholesale level.

Innovative sales formats seem to remain a clear premium feature: According to our survey results, inner-city sales formats are implemented or planned mainly by premium brands while volume players' strategy seem to stick to traditional formats.

Sustainable price position

Our survey confirmed a key fear of OEMs: Online car as well as parts purchases are being driven by a main motivation, the expectation of a better price than on the forecourt. The current activities by intermediates prove this assumption. Intermediates do not offer a seamless customer experience, yet offer discounts up to 35%. Also at the dealership, customers have the opportunity to negotiate prices; 5-10% is always negotiable. So which price should the OEM state in their online offering? Should they just state the list price?

It becomes clear, that the online price position and the associated margin management is dependent of the overall framework, in particular the OEM's multi-channel-approach. Sticking with today's profit margin and bonus remuneration only valid for the physical channel of the dealers, multi-channel pricing is a real challenge. Instead, OEMs have to improve the overall remuneration system to avoid individual discounts and prices per channel. The price for the vehicle should be identical in all channels, including independent channels. If the current remuneration scheme will be adjusted radically in this way, the predominant sourcing channel of the independent brokers will immediately dry out: Currently, broker's source with one dealer at low prices thus the dealer obtains the bonus thanks to achieved volume targets from the OEM. Therefore, dealer remuneration and contracts have to be reconditioned. The overall goal becomes clear: Each participant of the new sales concept should benefit for the part they contributed to the lead conversion – it does not matter where the customer finally places the order.

As the legal frameworks with regard to current dealer agreements are rigid, some other options can be tested. Product strategy is an essential determination for the pricing strategy. Offering special internet exclusive models online will blur the price transparency and direct comparability.

However for offering general build-to-stock or even built-to order models, the price position in the multi-channel-environment has to be defined sustainably. Customers can make a purchase in multiple ways, ordering from the web shop, placing a phone order, signing the contract with a sales person or buying in person at a dealership. Each of those customers has different needs and the cost of serving those channels varies for the OEM's business. One solution would be to now vary the price by channel. This approach is successfully implemented e.g. in the insurance industry.

Another option currently tested for new car online sales would be a product bundle that is attractively priced (e.g. list price of the vehicle) and available only via internet ordering. By product bundling (i.e. adding insurance packages, financing, remote feature activation, goodies, after sales services), a system can be designed that meets different customers' needs: from "bargainers" to value buyers. For all of these options, appropriate margin management by the OEM needs to be differentiated by segment.

Customers' preferences on price advantage in shopping online will be bridged with the OEMs goal to prevent price transparency and subsequently a "price spiral". The real sustainable price position will only be reached if OEM's margin management is improved, by renewing the current profit margin and bonus systems for dealers.

Connected after sales

Complexity of the OEM after sales system will not decrease in the context of online transformation - unfortunately, it will become rather more complex. Top-line growth and optimization of the cost position will remain at the top of the agenda of every after sales director. Yet, the online channel already brings a significant contribution to customer satisfaction and retention, which secures future growth.

The development of customer experience relevant services, to e.g. prevent lost after sales revenues, brand loyalty and thus a differentiation from competition can be supported by mobile apps and connected vehicle services. Customers already

appreciate those services in post-purchase phase; however, the services need to deliver real value.

Furthermore, after sales services provide very specific data of the customer base (car status and usage profile, customer preferences, claims history, etc.) that represent a valuable asset impossible to get elsewhere for automakers. Ultimately, there should be a strong focus of OEMs and dealers in addressing additional business opportunities and operational excellence for after sales services in order to boost business in two ways:

1. Ensuring dealers consistency with “corporate driven” customer satisfaction initiatives and retention targets, by launching regional and international programs to disseminate best practices across the dealers’ network to standardize processes and ensure consistency with brand values
2. Developing a “stay connected” strategy using the virtual channel to ensure a lifecycle link through the launch of specific “mobile applications” or even the release of whole “connected cars” models

In comparison to the independent after market, OEMs host much more complicated after sales systems and are losing service market share at the same time. A less complex system allows faster adjustment to an emerging sales channel like online sales. In all surveyed markets, virtual parts sales channels – both B2B and B2C – are emerging. In more mature market segments, like e.g. tires, independent aftermarket players have already established a well-accepted multi-channel-approach: customers order the tires online and get them changed at a dedicated partner-workshop. This is only one single characteristic of e-commerce in parts distribution, as other part categories will definitely follow shortly this example.

In order to master the complexity in both worlds for the OEM, clearly defined and properly modularized market offerings for parts and services often are the basis for success, as a transparent offering will help customers to better identify their own needs.

Online sales incubator

Global headquarters of OEMs find themselves in increasing hyper-competition, not only with other OEMs and mobility service providers, now also with agile, start-up intermediates. To be able to be ahead of this new competition, OEMs have to dedicate a - possibly external - team to run pilots and develop their offering and strategy in “trial and error” mode. It is important that this dedicated team should not be closely managed and steered by the global sales department – it requires certain degrees of freedom to do whatever they think is opportune. Just in the way the internet competition is acting, OEMs need to pave the way and prepare the prerequisite by installing an incubator.

For the incubator, learning fields have to be defined. Learning fields on customer segments, roles and business partners and proposition of offering will be crucial. In particular the price position and margin should be tested for the different target customer segments. Among the major parameters are the general look and feel of the online store, functionality and user specific services as well as the product offering (e.g. older models).

The survey further shows that there are interestingly no seeded car models from a customer’s point of view. OEMs should therefore start right away; with for example, the general top selling offerings of the respective market, and prospectively the full product offering – and not start conservatively, reluctantly only with mini or small car segments. Independent brokers also don’t.

Overcoming barriers

We also investigate the potential barriers that would prevent the majority of customers to take the final purchasing step online. Among the main obstacles, the respondents stated the inability to detect product errors before the purchase and in general, the fear related with the lack of a physical product experience.

These obstacles could be easily tackled by introducing customer-orientated purchase terms and additional guarantees, backed by insurances. Currently, OEMs mainly focus on options for trade-in. In particular, volume players rated this factor as the most important one. Other options like tailored financing plan are on premium OEMs top agenda. The survey make it clear – OEMs have to start right away, ideally in a lean incubator mode, as advanced sales options can still be added at a later stage or may be even revolutionized in the course of further developments.

Threat potential – competitive landscape

Finally, it is important for automotive players to become aware that the competition arena for online sales is going to be intense, with non-OEM players already gaining important brand position in all covered markets.

In Germany about 50,000 units are already sold online via those players today.

Our experience shows, that those players start from a small nucleus and already cover most of the gaps identified for OEMs. If there is no route to their goals, they find one. Intermediates are agile, have short go-to-market-times and a favorable cost position. Intermediate's emergence is far from over: we are still in the beginning, not the end, of a trend. With this competitive landscape, the online channel is the hottest battle ground for today's competition.

Outlook

The emerging digital channel is not a revolution – it is an evolution based on changing customer requirements. The fundamental task for manufacturers and dealers is now to recognize consumer trends and preferences and dynamically adapt to them. This report examines the nature of this new channel, how it differs across regions and illustrates why this channel is a sizeable opportunity.

For manufacturers to fully exploit the potential of the online channel, a paradigm shift is necessary. Holistic multi-channel concepts have to be delivered and tested, including the full online-offline perspective. This way, a perfect initiation of the sales process can be created to capture the full market potential.

On top of that, the role and the business focus of the traditional dealership will change. Since customers shifted a great deal of their purchasing journey online, dealers have been struggling to meet business goals because they have lost the chance to support and influence the customers decision making from the early stages. However, future core roles for all physical touch points can be centered on e.g. direct product experience, trade-ins or price negotiations – depending on customer's needs.

The game is on, and the pace is picking up. Spin the wheel online – that is the automotive industry's chance to win the online battle.

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