

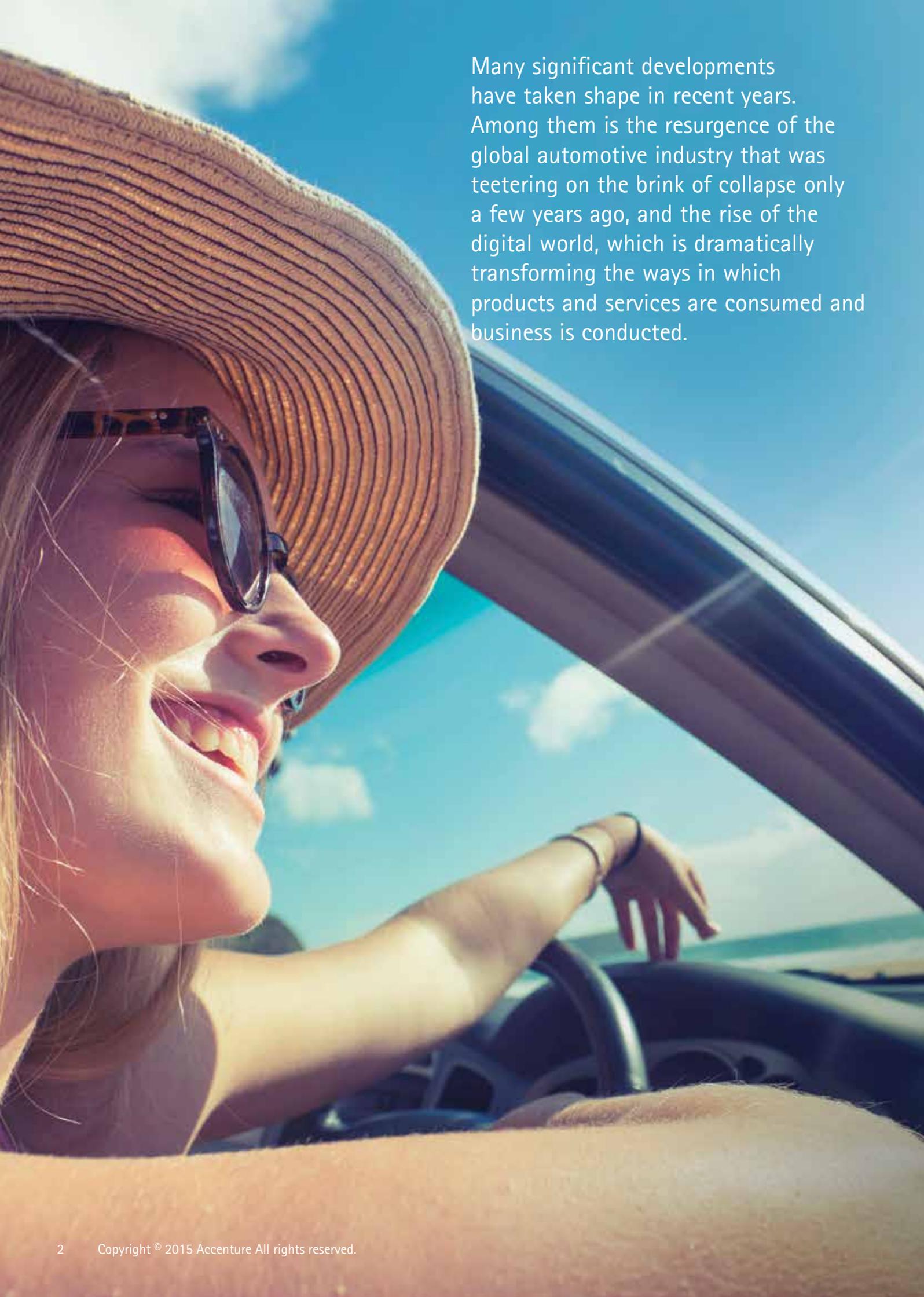


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Driving Automotive Growth
through Opportunities in the
Digital World

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Many significant developments have taken shape in recent years. Among them is the resurgence of the global automotive industry that was teetering on the brink of collapse only a few years ago, and the rise of the digital world, which is dramatically transforming the ways in which products and services are consumed and business is conducted.

Since the economic crisis of 2008, the auto sector in large part has made steady progress, particularly in the U.S. market, where automotive original equipment manufacturers (OEMs) and auto dealers have maintained strong performances, fueled by high demand. In 2014, sales reached an annualized 6.2 million units based on a compound annual growth rate of 9.2 percent,¹ which was an improvement over the 15.6 million cars and light trucks sold in 2013.² Improved economic conditions; increasing consumer confidence, moderate fuel prices, and greater credit availability were among the key factors contributing to the market's rise in sales.

At the same time, the explosive growth of digital technology and its pervasive use by consumers around the world in their daily lives is having a profound impact on the business world, including OEMs and dealers. According to a new Accenture global survey of 10,000 consumers in Brazil, China, France, Germany,

India, Italy, Japan, and the U.S., an overwhelming 93 percent of all surveyed drivers seeking to purchase a new vehicle are using some form of digital process to research their buying preferences, while nearly two-thirds (62 percent) of them are initiating the process online, including consulting social media, before entering a dealer showroom.

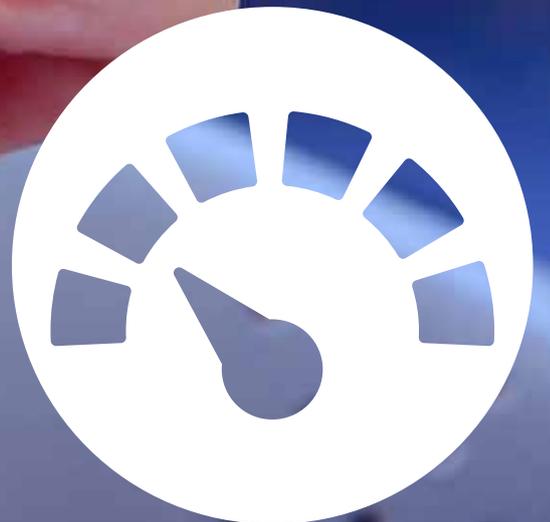
Moreover, the study shows that more than half (54 percent) want personalized, tailored information made available via industry online channels to make researching for a new vehicle easier. Such an improvement is of particular interest to 62 percent of respondents in China, and 60 percent of those surveyed in India and the U.S. market. Seventy percent of India's respondents also would value more comparison sites and 69 percent of Chinese consumers would welcome an augmented reality feature.³

With the increasing use of social media and mobile technology, consumers also

are much more in touch with each other, brand owners and retailers. As a result, such ubiquitous communication is making it necessary for OEMs and dealers to react faster to car-buying needs to remain competitive. And, while they are doing so in large part — responding to rising consumer demand in areas like in-car technologies — the digital revolution has only just begun and will affect the global auto market that is once again on a course toward change.

Accenture has identified six key trends that will challenge the ability of OEMs and dealers to succeed in the future. These trends involve a shift in market conditions, and a transformation of today's business environment that is moving inexorably toward a digital business model. It is a shift that will disrupt the competitive landscape, including auto retailing. As a consequence, it will be important that auto companies take these trends under consideration in preparation for future growth.





Six Key Trends in the Automotive and Digital Space

1. Sales wars will escalate

Although global auto sales have increased since the downturn, there is still a degree of uncertainty regarding the market's progress long-term. As western Europe's recovery, for instance, continues to be fragile, overall sales in Japan

are slowing due to population decline, and economic growth in many of the emerging markets is slowing.⁴

In addition, the dramatic sales gains generated in U.S. market may be counterintuitive, as the market is expected to remain at 16.4 unit levels through 2021.⁵

Global market uncertainty and constrained U.S. sales have the potential to result in fewer traditional growth opportunities and intensified competition throughout the global market.

2. Profit margins will be under more pressure

In such a business environment, OEM and dealer margins will be under greater pressure, as spending on incentive programs will increase to capture sales. In response to the downturn, OEMs from Asia, Europe, North America and other regions implemented creative marketing strategies to entice reluctant consumers as most experienced double-digit percentage declines in sales.⁶ But, the trade off for implementing such initiatives typically adds to margin erosion, and results in tighter markets. In the U.S. market, for example, incentive spending in the midsize car segment, the largest and most competitive of the product segments, has increased significantly, impacting margins.

The average incentive spend rose from \$2,536 on Fusion, Camry, Altima and Accord models in August 2013 to \$3,251 a year later – an increase in spending of nearly \$800.⁷

In addition, the emergence of third-party lead websites like True Car, which are focused on providing increased pricing transparency, present the potential for further erosion of dealer margins. For instance, average street prices for the Fusion, Accord and Altima compared to True Car prices on the same models were lower by an average of \$800 to \$1,000.⁸

In such a scenario, OEMs and dealers will have to accelerate lead generation and lead conversion efforts rather than engage in an incentive war that will only reduce profits.

3.

Loyalty programs will grow in importance

Sales and service customer satisfaction will continue to be critical to boosting sales and increasing service and re-purchase retention, especially more challenging.

According to Accenture research, the top performing dealers retain less than 70 percent of consumers that have purchased a vehicle from them and plan to return for service.⁹

Today, as part of their retention strategy, OEMs typically only mail a welcome package or send an email to customers after a purchase. Furthermore, very few OEMs and dealers communicate with the customer throughout the ownership cycle, while most re-purchase loyalty programs only equate to about \$1,000 in bonus cash.¹⁰ This may not be a strong enough incentive for significant repeat business. The first brands, whether in developed or emerging markets, to create a sustained customer engagement model will increase service and re-purchase loyalty that will help drive a sustainable competitive advantage.

4.

Car-buyers will increase mobile use for shopping

The wireless industry has observed that mobile subscribers are using their digital devices less for speaking with each other and more to consume more data services to browse, download content, and perform other self-serve activities.

With respect to auto shoppers, connected devices are driving greater research activity.

As the use of mobile technology increases with a focus on research and comparison shopping, not only will car shoppers become more knowledgeable about products of interest, but more accustomed to using mobile channels to shop compared to face-to-face showroom interaction alone. This means that OEMs and dealers will need to focus more on enabling customer interactions across the mobile space that does not require direct customer service contact.

5.

Digital services will expand customer options

Digital technology is providing an increasing level of interconnectivity between smart devices and a growing array of digital services that run the gamut from health and wellness to information and product needs.

It is creating an entirely new generation of connected customers, who want to consume on multiple platforms, interacting with the device of their choice, at their convenience, and on their terms. These consumers are even willing to pay a premium for such flexibility.

Innovators are focusing on this trend toward digital services rather than

traditional point-to-point single channel interactions to capitalize on a marketplace transitioning to digital.

OEMs should consider re-directing inertia and aggressive investment away from traditional collateral materials and one-size-fits-all websites and focus on providing interactive, state-of-the-art digital services that are more relevant to car shoppers.

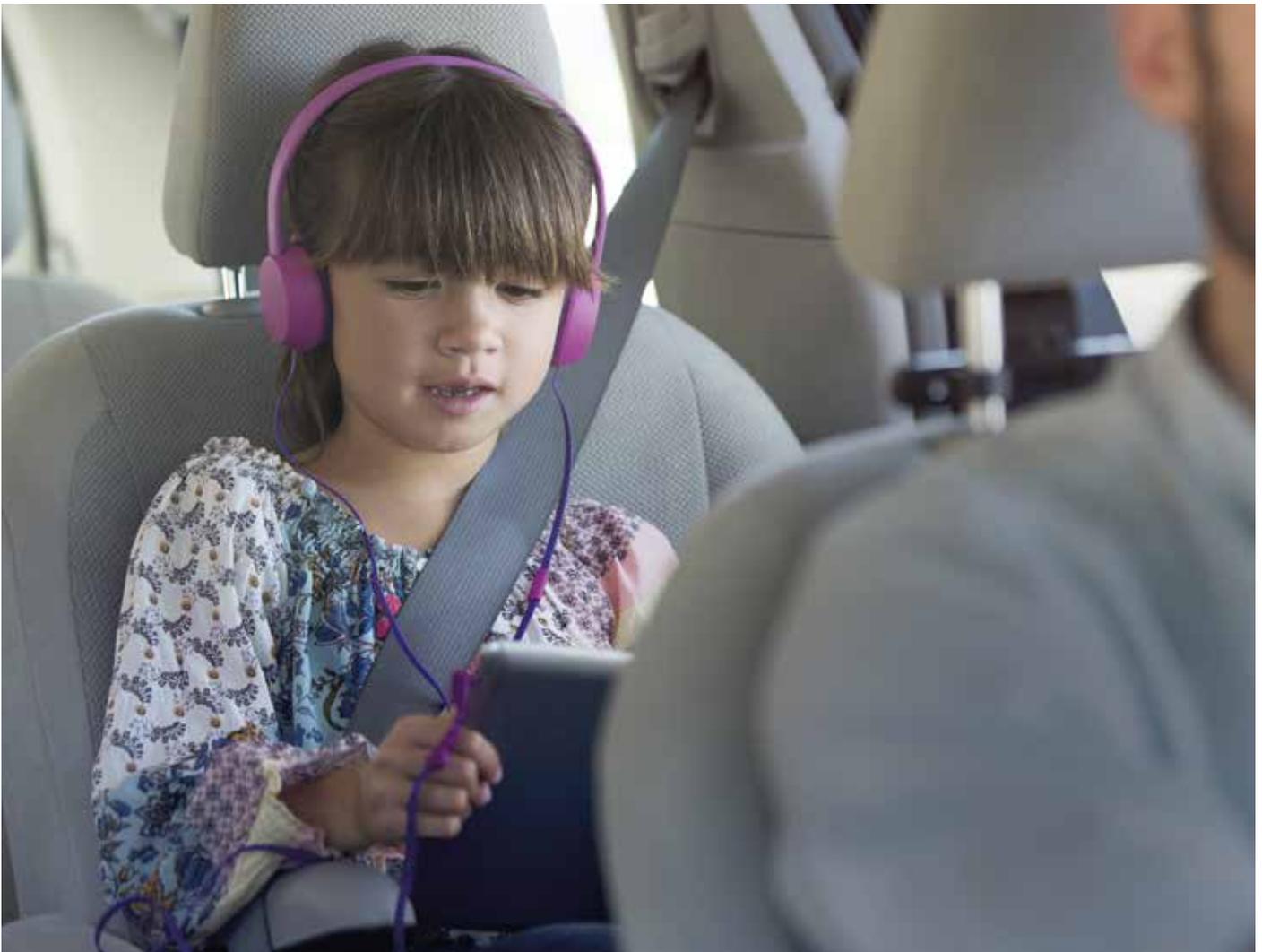
6.

Consumers will seek more control over outcomes

Increasingly, consumers want more control, whether it is having the ability to purchase online via their mobile or other digital devices at anytime or anywhere; being able to better manage outcomes from their fundraising support; or securing the best financing options as a result of their own efforts. New entrants to the digital space like Puddle, LevelUp and Square recognize this need for more control and are developing services that shift more of it to users.

Their open platform approach to serving users will enable such third-party providers that are closest to customers to develop and integrate the products and services into their business model that appeal most to users. This strategy is challenging and disrupting other industries like banking in terms of relationship-building and meeting the needs of today's changing customer.

The future levers of control will reside with customers and key influencing institutions and intermediary enterprises. To succeed in this environment, OEMs will have to satisfy the expectations of consumers that are being created by innovators in other industries, which begs the question, which OEMs and dealers will become the disrupters of the automotive industry?



Disruption will be Key to Succeeding in the Global Auto Market



Disruption in the auto industry is not new. Many have taken place in different areas of the sector over the years. Not so long ago, the traditional used-car buying experience was upended by the "one price, no hassle" concept introduced to the market and executed by big box auto stores.

Moreover, our survey suggests that more disruption may lie ahead, as 75 percent of all respondents say that they would consider conducting the entire car purchase online, including financing, price negotiation, back office paperwork, and home delivery. Two-thirds say they have either bought or would consider conducting the car purchase online. Fifty-three percent of Chinese consumers alone state they would definitely buy a car online. And, apart from Japan, France and Germany, more than 20 percent of respondents in the other surveyed countries definitely welcome being able to buy, finance and have their purchased vehicle delivered to their home via online interaction.

The findings also reveal that consumers are open to using emerging online channels for purchases, as nearly two-thirds (63 percent) of all surveyed would be interested in buying a new car through online auctions. In China, 90 percent of drivers would entertain such an option, while 78 percent in India and 75 percent of Brazilian drivers would be interested.¹¹

Given that many, particularly in emerging markets, would consider a total online vehicle purchase and new online options underscores the need for OEMs and dealers to not only focus on in-showroom sales, but be prepared to pursue an aggressive digital online strategy to create a seamless, integrated experience that accommodates all customer needs.

Those companies that are first to aggressively serve the connected customer will be the digital disrupters in the auto sector – an important step toward succeeding in today's business environment.



How to become an automotive digital disrupter

There are a wide range of disruptive opportunities that auto companies can capitalize on by re-engineering their focus on igniting sales, re-energizing aftersales, and exploring new revenue streams. Below are some of the key questions OEMs and dealers should ask themselves regarding engaging today's customers to capitalize on disruptive opportunities:



IGNITING SALES

- Why does a young family view the same web page as a retired grandmother?
- Why does a search for a vehicle lease result in a page presented with only inventory listings and a message that reads "call for pricing."
- Why can't a shopper, who did not make a purchase, but is still in the market, receive a personalized campaign to re-engage their interest within hours?



LEVERAGING AFTERSALES

- Why can't customers be engaged in the first three months of their purchase with the right accessories?
- Can service customers be engaged more effectively with push notifications and radically changed service?
- Can customer relationships be sustained throughout the ownership lifecycle in a more meaningful way?



TAPPING NEW REVENUE STREAMS

- Can the merchandizing of commercial services and products be expanded by marketing them through vehicle handsets or in-vehicle dashboard displays?
- What partnerships should be formed to succeed in the digital space?

Increasing sales through digital disruption

OEMs and dealers are more likely to boost sales by using digital channels to convert and attract shoppers to the showroom. They also should communicate through digital channels as an aid to creating a sense of intimacy during the purchase process, conveying to the customer that there is strong interest in selling them the vehicle that they want. It will be equally important to provide information on their websites that are relevant to the particular user viewing it.

For example, today when consumers are interested in leasing a vehicle, they will first search for leasing information on the model of their choice on the Web. Often what they will see listed on web

page are vehicles that are not aligned with their intent; national lease offers instead of local offers in the area where they reside; or poor page design that does not drive a conversation toward the vehicle of interest.

Advertising copy also is typically not relevant to a consumer's situation. This includes advertising copy that is not keyed to their geographic location or that will elicit a call to action. Web pages should be interactive, displaying one physical page that offers, for instance, 5000 or more variations of information for each model that consumers can access. This relevant approach will be compelling to web visitors, and greatly help convert them to customers.

Creating loyalty through aftersales and more

The dealer service process has remained relatively unchanged in recent years, making it a strong candidate for revitalization that will help achieve customer loyalty. In fact, the survey found that the weakest areas of the buying process in terms of digital experiences were aftersales and the online availability of pricing and extra add-on options. Twenty percent and 17 percent, respectively, of all surveyed feel that these areas need the most improvement. Twenty-eight percent of Japanese consumers, 24 percent of French respondents, and 21 percent of drivers in Germany and Brazil agree that aftersales is the weakest, while 22 percent of Italian and 20 percent of Indian consumers believe online information about pricing and extra options is another weak area.

By creating a wave of strategic online communications to aftersales customers, tying incentives to them, and promoting convenience, OEMs and dealers can establish enduring loyalty. For example, when asked which special offers or valued customer services those surveyed would like to receive after completing a new-car purchase, 65 percent of all respondents cite car insurance discounts, while 62 percent would welcome discounts on fuel. Forty-one percent want mobile phone reminders for annual service maintenance check-ups.¹²

Companies also can begin to lay the foundation for a true loyalty program by benchmarking the recommended practices of hotels, airlines and other loyalty program leaders. Ways in which today's customer loyalty programs can be more effective, for example, include sending a customer welcome packet and email to a customer with a young family a 10-question survey with an offer for a \$25 dollar iTunes card or complimentary oil change if the survey is completed, and promoting such initiatives through digital channels. Also, in the first three months, the customer could receive an email, highlighting popular accessories for their vehicle with a 25 percent discount retail offer. This might trigger additional needs, such as all-weather floor mats or cross rails for the vehicle's roof if the customer is an avid skier. The result would be an additional visit to the dealer for the purchase and rails installation, further contributing to the customer relationship.

Ongoing communication also should include sending periodic "thank you" correspondence to customers' digital devices as part of a push notification campaign based on visits to the dealer for service. Acknowledgements of birthdays, and offers based on the frequency in which the customer returns to the store for service also should be communicated in the same way to help build loyalty.

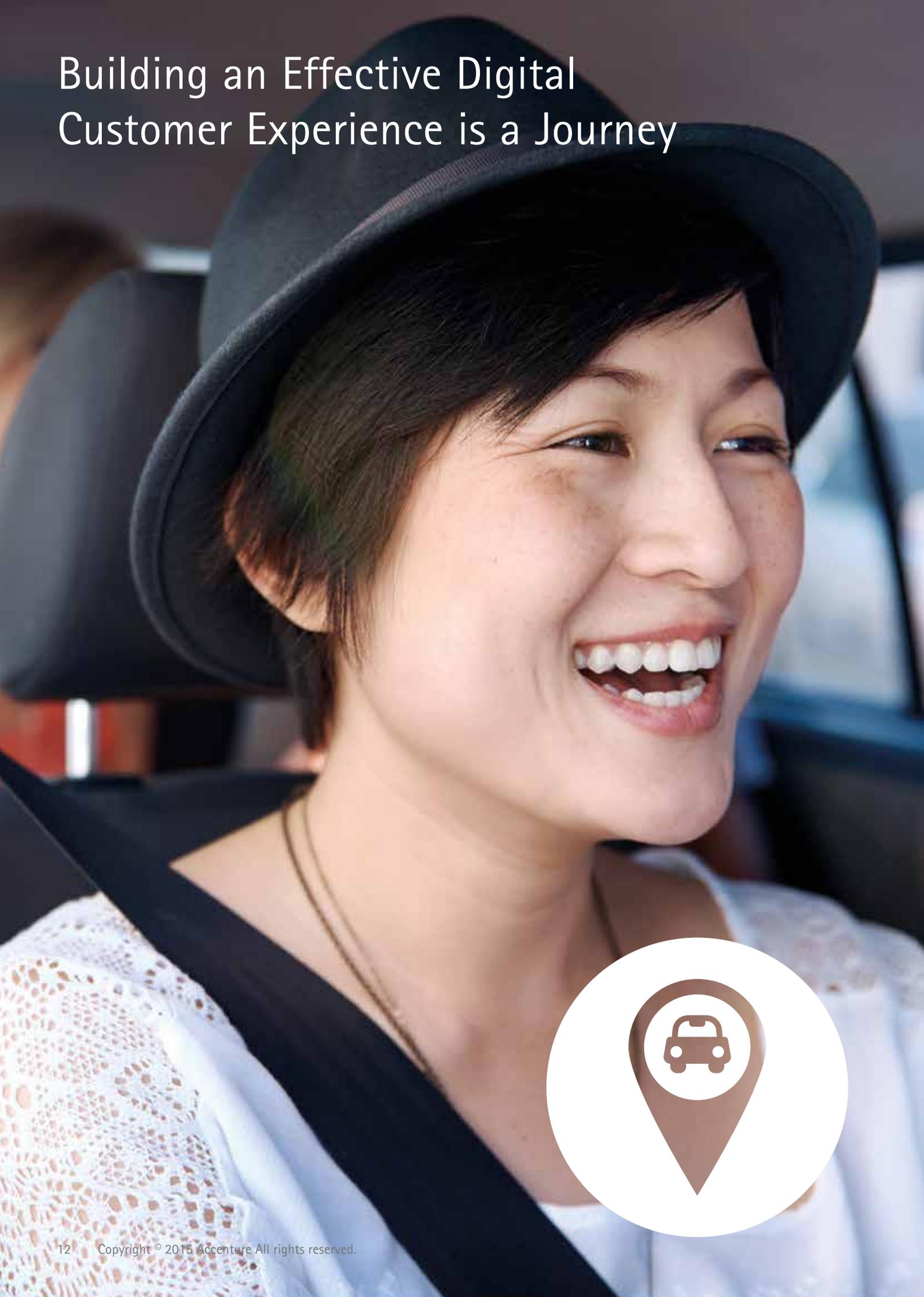
Establishing new revenue streams

The surging popularity of the connected vehicle has opened a wealth of opportunities for OEMs, telecommunications companies, and handset makers. While companies in each industry are vying to become dominant players in the marketplace, perhaps the true winners will be those companies that collaborate with each other across industry lines to create new sources of revenue.

In the case of OEMs and dealers, they have an opportunity to monetize their companies by applying application programming interface technology (APIs)

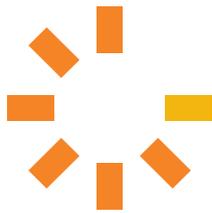
in the vehicle to promote a broad range of commercial services and products – from entertainment, food and lodging to tolling – using in-vehicle infotainment headsets (IVI) and/or IVI dashboard displays. By adopting this approach, auto companies can enhance their profitability, working with various cross-industry collaborators to create shared merchandising packages of interest to consumers. This approach also will offer new avenues for reaching potential customers and foster relationships via the digital space.

Building an Effective Digital Customer Experience is a Journey



Establishing a compelling digital customer experience today is made more challenging by the fact that OEMs and dealers must keep pace with the changing needs of the connected customer. It is a journey that will involve constantly improving the digital customer experience focusing on continuous improvement in three distinct stages of the journey that include pre-sales and sales, ownership and re-purchase.

PRE-SALES AND SALES PROCESS: START OFF RIGHT



Critical digital touch points during this stage should be fully exploited to create awareness, consideration and the purchase of a vehicle. This includes tapping into social media and providing relevant information through mini-sites, and online advertisements. In the case of relevant information, the survey found that when asked which kind of customized services would influence buying or leasing a new vehicle, 68 percent of all polled say free oil changes and maintenance options. And more than half (54 percent) want access to free manufacturer partner membership services.

U.S. drivers were most interested in receiving free oil changes and maintenance options, followed by China, Italy, India, and Germany. Sixty-three percent of Indian and 57 percent of Brazilian respondents had the highest interest in receiving free manufacturing partnership memberships, while Italian consumers at 37 percent valued it the least.¹³ Using analytics as part of digital initiatives can help companies gain insights into such preferences and determine what relevant promotions should be pursued via the various digital touch points. Key shopping tools like dealer conferencing and dealer locators also should be readily available to website visitors.

Moreover, sales staff should be knowledgeable regarding information featured on the website for continuity when making first contact with shoppers visiting the showroom who have viewed the site.

OWNERSHIP: MANAGE CUSTOMER INTERACTION



One of the major goals during the ownership stage is to ensure customer satisfaction. This includes providing online customer satisfaction surveys and aggressively promoting aftersales accessories and service discount campaigns through all digital channels to communicate the benefits of such initiatives to owners. In addition, technical and safety campaign information should be featured as part of enhancing customer relationship building through digital channels.

RE-PURCHASE: EXECUTE WELL AND BE REWARDED



Ensuring that every online touch point throughout the customer experience is executed well, including providing the right message through the appropriate digital channel at the right moment, will help generate significant customer loyalty. Moreover this will aid in pre-disposing customers to re-purchase, particularly during the period when their lease is up for renewal. And it will contribute to executing effective re-purchase programs, which should include engaging all re-purchase touch points online to grow the activity.



Conclusion

Despite continuous growth in the years since the economic downturn greater challenges for the global auto industry may be looming. With market uncertainty in some emerging economies, a recovering Europe, slowing sales overall in Japan and a U.S. market that is anticipated to stay around 16.4 million unit sales levels through 2021,¹⁴ companies could face the very real prospect of increasing competition and tighter auto markets in the coming years.

In addition, generating growth through traditional car-buying methods will become increasingly more challenging, as consumers influenced by the wide array of advances in consumer technology – from ever-more sophisticated smart phones to wearable technology – will gravitate more toward consuming products and services through digital means.

To sustain success in this changing business environment, OEMs and dealers will have to focus more on engaging this rising "connected" customer. This will mean establishing a pervasive digital presence, engaging customers through all available digital channels with car-buying information that will take into consideration customer sensitivity and be relevant to their particular car-buying needs.

The growing use of digital technology by consumers around the globe is driving a profound change in the world of business that will impact every enterprise, including OEM and auto retail businesses. Indeed, the digital business model is on the verge of becoming the new engine for growth in key economies, both emerging and developed. OEMs and dealers who are innovative, aggressive in pursuing digital strategies that engage the connected customer, and proficient in communicating the right message through the appropriate digital channels at the right time, will become automotive disrupters that can sustain growth in the global automotive market into the future.



