



THE FUTURE OF
AUTOMOTIVE SALES

DIRECT.

**A NEW WAY FOR OEMS
AND DEALERS TO THRIVE
IN TIMES OF DISRUPTION.**



Contents

| | |
|---|-----------|
| SUMMARY | 4 |
| OUR APPROACH | 6 |
| 1. The Tipping Point: Monumental Change in the Automotive Industry | 9 |
| 2. Outdated Sales Strategy for the Customer: A Model Past its Prime | 12 |
| 3. Sales Model Transformation: A Requirement for the Dealers of Tomorrow | 15 |
| 4. Pushed to the Limit: The Time for Small Changes is Over | 18 |
| 5. Beyond an Online Store: What it Takes to Empower Online Sales | 19 |
| 6. Third-Party Cooperation: Where They Shine and Where They Fail for OEMs | 20 |
| 7. The Agent Model: A Solution for the Future | 23 |
| 7.1. Creating Customer Centricity and Insights | 29 |
| 7.2. Leveraging the Dealer Network | 31 |
| 7.3. Transforming the Core to Sell in the New | 34 |
| 8. Conclusion | 38 |
| CONTRIBUTORS | 39 |



Summary

In brief

- The automotive industry is at a **tipping point**. With **sales growth declining worldwide**, new players with different business and sales models are gaining momentum. A wave of **technological megatrends** is redefining the business and requires massive investments.
- **Customer demands are changing**. As environmental concerns grow and cars lose their role as status symbols, the conventional sales method for vehicles is **becoming obsolete**. Established automotive players need to **reimagine their sales models** to maintain their position at the forefront of the industry.
- Even as some established OEMs **partner with third-party providers** to disrupt automotive sales, many are still struggling to acquire the necessary **technological competencies**. Therefore, they struggle to transform their sales structures.
- By placing the **consumer at the core of their business** and simultaneously preserving existing dealer assets, OEMs can adopt the **agent model** which provides a compelling vision for the **future of automotive** sales.
- Our estimates suggest that the agent model has the potential to **reduce the cost of retail by up to 4 percent**, generating more **than \$1 billion of annual savings** in a mid-sized region. By moving to an agent model, OEMs can thrive as their industry transforms at a rapid pace.

OEMs and their automotive dealers are facing turbulent times. The world economy is slowing. Worldwide, automotive sales declined by half a percent in 2018 for the first time since the financial crisis in 2009. In the first quarter of 2019, new car sales declined by more than 3.0 percent in Europe and the US, compared to the first quarter of 2018. In China, the automotive market slumped by a remarkable 14.4 percent. Simultaneously, policymakers around the globe are pushing the industry to reduce carbon emissions – at a time when some established OEMs are still struggling with huge settlement costs after actual or suspected misconduct concerning diesel engine exhaust controls. As if this were not enough, four megatrends are revolutionizing the automotive business: electrification, autonomous driving, connectivity and the sharing economy. Every single one of these trends is powerful, but their combination is profoundly disruptive for the automotive industry. Advancements in electrification and autonomous technologies require enormous investments while ridesharing and other shared mobility concepts threaten to reduce overall turnover for OEMs.

In this time of change, the automotive sales model is also facing pressure. Tomorrow's automotive customers are researching, buying, and using vehicles completely differently than today. Accustomed to the customer-centric business models of firms such as Netflix or Amazon, more and more people are demanding a convenient sales journey and higher service standard in the automotive industry as well. Our research reveals that an alarming one out of five young customers are deeply dissatisfied with the way that cars are currently being sold. While they are used to transparent pricing, seamless online and offline sales journeys, and fast delivery, buying a vehicle all too often entails cumbersome price negotiations, several visits to physical dealerships, and long waiting times for the vehicle to be delivered.

Established OEMs and dealers have been slow to react and are having a hard time meeting the changing customer demands. Even though virtually all OEMs and 85 percent of dealers agree that the traditional automotive sales model needs to be changed, 60 percent of dealers report they either do not have the means to invest in digitization or do not see the need to do so. At the same time, greenfield OEMs (e.g. Tesla, Byton, NIO) and third-party providers (e.g. Sixt, Carwow, Rockar) address the changing customer expectations with new, digital-enabled sales approaches that promise hassle-free, enjoyable experiences for customers. Their rapid gains in market share indicate success with this approach.

Established OEMs have identified the need to transform sales journeys from a customer perspective, and they know they need to significantly lower the cost of retail (on average, 20-30 percent of the local list price of a vehicle can be linked back to the cost of retail). As a result, they are now scrambling to rework and optimize their sales models. OEMs are pursuing various strategies, including consolidating dealer networks, investing in online stores or opening popup stores in inner cities. In an effort to participate in the growing online business, many dealers are not only sacrificing a part of their margins, they are also giving up their direct access to customers by selling their vehicles via third-party platforms.

But launching online stores and piloting innovative digital sales formats is only the first step in the much more radical transformation that is needed. To compete with new market players, OEMs and dealers must adopt a sales structure that enables them to satisfy the demands of tomorrow's customers – price transparency, seamless customer journeys, and fast delivery – while preserving their vast regional presence that gives them a true competitive advantage. The sales structure that combines both is the agent model.

In the agent model, OEMs sell directly to end customers via all available channels. Dealers remain the most important sales channel but act as agents instead of independent entrepreneurs. This sales model offers several advantages, including the ability to connect online and offline sales channels, the ability to control prices across all sales channels and direct access to valuable customer and market insights. As our business case shows, a large-scale regional roll-out of the agent model can reduce the costs of retail by up to 4 percent, potentially generating more than \$1 billion of annual savings for an established OEM in a mid-sized region, with investments breaking even within two to four years.

But the transformation to an agent model also comes with significant financial and market risk. It requires large upfront investment and annual operating costs of up to \$130 million, as well as a transformation of the OEM's core business. Thus, established OEMs are hesitant and rely on small-scale pilots with selected models or in selected markets. In time, these pilots will show if the agent model offers a viable answer to the challenges of the future. We believe it will.

As the industry continues its transformation, OEMs must decide the future direction of their sales strategy: Should they fight to maintain the traditional (indirect) sales model? Should they team up with greenfield OEMs and third-party providers? Or should they risk the transformation of their sales model from an indirect to an agent model? Likely, we will see various approaches in the future as the industry continues its transformation. But one thing is certain: It's time for the industry to revolutionize the customer interface.

Are you ready?

Our Approach

For this study on the future of automotive sales, we combined three distinct sources of insights. They are from:



1. CUSTOMERS

We surveyed thousands of car buyers in Germany, France, and the UK to learn about their experience with the current customer journey and what they expect of automotive sales in the future. Based on what we learned, we identified three unique customer segments (see Figure 1).

Figure 1: Automotive customer segments in Germany, France and the UK

| CHANGERS | BOOMERS | TRADITIONALISTS |
|---|---|---|
| <30 years | 30–50 years | >50 years |
| 53% live in big cities, 37% in medium-sized cities, 10% in rural areas. | 41% live in big cities, 40% in medium-sized cities, and 19% in rural areas | 23% live in big cities, 47% in medium-sized cities, and 30% in rural areas. |
| 26% earn less than 2,500€ per month, 61% between 2,500€– 7,500€, 13% above 7,500€ | 19% earn less than 2,500€ per month; 67% between 2,500€– 7,500€, 14% above 7,500€ | 28% earn less than 2,500€ per month, 60% between 2,500€– 7,500€, 12% above 7,500€ |
| 58% drive non-premium and 42% drive premium cars | 45% drive non-premium and 55% drive premium cars | 85% drive non-premium and 15% drive premium cars |



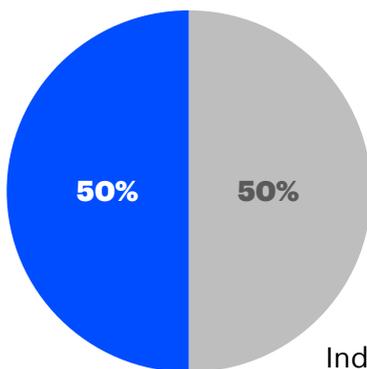
2. DEALERS

Further, we surveyed hundreds of dealers in Germany, France, and the UK to understand how they are preparing for the future. Our sample provides a representative overview of automotive dealerships (see Figure 2).

Figure 2: Overview of dealers surveyed in Germany, France and the UK

Dealer status

Contracted car dealer: bound to a manufacturer/official branch



Independent car dealer

Outlet location

Big city

48%

Medium to small town

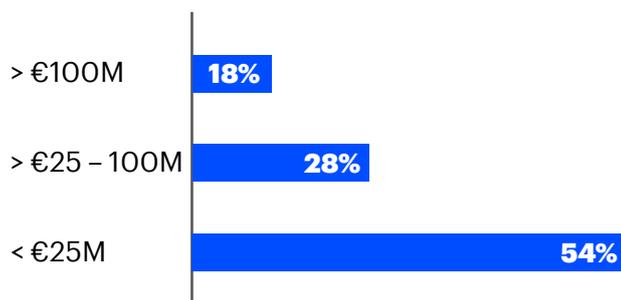
45%

Rural area

7%



Annual turnover



Dealer focus

Mainly B2C sales

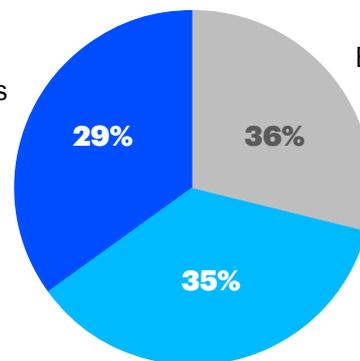
29%

Both B2B and B2C sales

36%

Mainly B2B sales

35%



June 2019 // France, UK & Germany
Source: Accenture Research



3. THE C-SUITE

To augment our view, we talked to numerous top-executives of established OEMs, new market players, third-party platform providers, and technology giants about disruptions in the automotive industry (see Figure 3).

Figure 3: Industry experts interviewed for this study



Dr. Carsten Breitfeld
CEO
Faraday Future Inc.
Former CEO at Iconiq, CEO at Byton and Head of Engineering BMW i8



Stefan Krause
Member of the Advisory Board at Canoo Inc.
Former Board Member for Marketing & Sales at BMW Group, Chairman at Deutsche Postbank and CFO at Deutsche Bank



Marcus Breitschwerdt
Head of Mercedes-Benz Vans
Daimler AG



Pascal Schmitt
VP Global Customer, Network & Importers
Renault SAS



Simon Dixon
Founder and CEO
Rockar Ltd.



Matthias Schrader
CEO, SinnerSchrader/
Managing Director and ASG Lead, Accenture Interactive



Joachim Franz
Head of Customer Experience Management
Volkswagen AG



Alexander Sixt
CAO and Member of the Management Board
SIXT SE



Horst Hanschur
Head of Retail Business Development, Customer Services
Audi AG



Ludwig Willisch
Head of Region Americas (retired)
BMW Group



Achyut Jajoo
Vice President and Chief Solutions Officer
Salesforce Inc.



Antje Woltermann
Executive Director
ZDK e.V.



Gerald Krainer
Managing Director & Go-to-Market Europe
Byton Ltd.



Dealer Group Executives
Several large national and international dealer groups



Ulrich Kranz
Interim CEO and In Charge of Technology at Canoo Inc.
Responsible for the development of the BMW i3 and BMW i8 as former Senior Vice President at BMW Group

1. The Tipping Point: Monumental Change in the Automotive Industry

The times in which European and American OEMs defined the rules of the game in the automotive industry, while breaking one sales record after another, are over: The world economy is slowing, global automotive sales are declining, and new technologies mean tremendous investments must be made. At the same time, new players are emerging to battle established OEMs for market share. Every single one of these trends is powerful. Taken together, they are profoundly disruptive and are transforming the entire automotive industry.

Growth of the world economy has slowed to 3.3 percent in 2019, after 3.6 percent growth in 2018. And the downward trend looks likely to continue. Even China, known as one of the world's fastest growing markets, is expecting declines in economic growth for the coming years. While the economy is slowing, the automotive industry is being hit especially hard. In the US, new car sales declined by 3.1 percent in the first quarter of 2019 compared to the previous year. In Europe, car sales were down 3.2 percent, and the Chinese market declined by a remarkable 14.4 percent.

14.4% decline

in car sales in China in the first quarter of 2019

This is not the only economic outlook that is of concern: OEMs face significant additional expenditures in the years to come. The diesel affair in 2015 has led to even more investment into the reduction of carbon emissions, and it raised consumers interest in more eco-friendly mobility. Even though demand for electric vehicles is still low, OEMs are investing billions into their development. Furthermore, emerging industry trends such as autonomous driving, connectivity and car sharing require OEMs to take action. Responding to these trends requires large investments, and they are leading to changes overall for the industry.

Any company that refuses to participate in shaping the automotive future is doing so at its own risk, as OEMs might be left behind by new players that are emerging in various segments of the automotive value chain.

140+ new automakers

have launched in China in the past few years

Fueled by the success of Tesla, new OEMs are developing battery-electric vehicles and Byton, NIO, and Lynk & Co are just a few examples of those that are currently aiming for an orchestrated global launch. In the past few years, more than 140 new automakers were founded in China alone. Some of these newcomers seek to wow customers with futuristic designs, great driving specs, or affordable prices. Others, such as Iconiq Motors, are already banking on a driverless future and seek to revolutionize mobility altogether. But while many new players have already succeeded in designing concept vehicles, setting up mass production and orchestrating global logistics is tougher. Time will tell if and how these newcomers catch up with their more established rivals.



Stefan Krause,
Member of the Advisory Board
at Canoo Inc.



We cannot sell the car of tomorrow via the channels of yesterday. That is why we are investing heavily to develop not only a new product but also pioneer a new sales model. By providing the best customer experience possible, we will transform the industry. The traditional way of buying and owning cars is obsolete.



Other startups have stepped up to revolutionize the way that vehicles are being sold. Their sales methods include online platforms (e.g. Carwow or mobile.de), where dealers, OEMs and private customers can sell or auction their vehicles. Plus, digitally-enabled showrooms, for instance as offered by Rockar, are looking to enhance the shopping experience in partnership with OEMs and dealers. Another model is the subscription model, which is becoming more popular.

Here, customers pay a recurring (e.g. monthly or quarterly) fee to get access to one or several models which they do not own but still have at their permanent disposal. While some OEMs and dealerships see it as a way to complement their existing portfolio to win new customers, many new players are exclusively offering subscription.

According to Stefan Krause, Member of the Advisory Board at Canoo, the car of tomorrow cannot be sold via the channels of yesterday, because “the traditional way of buying and owning cars is obsolete.” Canoo, an electric vehicle startup, is planning to offer its new battery-electric cars for members only.

Figure 4: The subscription model explained

Characteristics



Players

| | Established OEMs | Greenfield OEMs | Dealerships | Car Rentals | Third Parties |
|---------------------------|----------------------------------|--|------------------------------------|------------------------|-----------------------------|
| Selected offerings | Porche Passport Care by Volvo | Canoo Membership | Drive Revolve Drive Flow | Avis Flex Sixt Flat | Fair Cluno |
| Main USP | Brand positioning | Novel product offering | Existing customer base | Geographic coverage | Vehicle choice |
| Main Motive | Winning new customers | Continuous revenues & low purchase barrier | Monetization of existing inventory | Diversification | Access to mobility industry |

A third group, mobility providers, are looking to end the need to buy a car entirely. These companies use everything from ride hailing (Uber, FREE NOW), to ride sharing (BlaBlaCar, Lyft) and pay-as-you-go car sharing models (e.g. SHARE NOW, Flinkster). A uniquely comprehensive offering has been designed by Germany-based mobility service provider Sixt, which combines car rental, car sharing, and ride hailing in a single app.

What all these players have in common is that they approach their customers in a new, innovative way. With the digital sphere in mind, they offer attractive solutions and tightly control the customer experience. There are two reasons for this: First, these newcomers do not have the financial resources to set up the wide physical retail network that established OEMs have and therefore utilize more cost-efficient sales channels. Second, newcomers have realized that customers are dissatisfied with the traditional automotive sales model and are aiming to create superior experiences. As Alexander Sixt, Chief Administrative Officer and Member of the Management Board at Sixt SE, puts it: "Whoever meets these [customer] demands best will sell the mobility of the future."



**Alexander Sixt,
CAO and Member of the
Management Board, SIXT SE**



Customers are demanding smarter, more flexible and more convenient mobility solutions. In times of platform economics, they seek a one-stop shop. Whoever meets these demands best will sell the mobility of the future.



2. Outdated Sales Strategy for the Customer: A Model Past its Prime

Customers are no longer satisfied with the status quo of automotive sales. Digital giants such as Amazon or Netflix are setting new standards in terms of shopping and brand experience: At Amazon, customers can choose from a seemingly endless product catalogue, buy with one click and have it delivered to their home in hours.

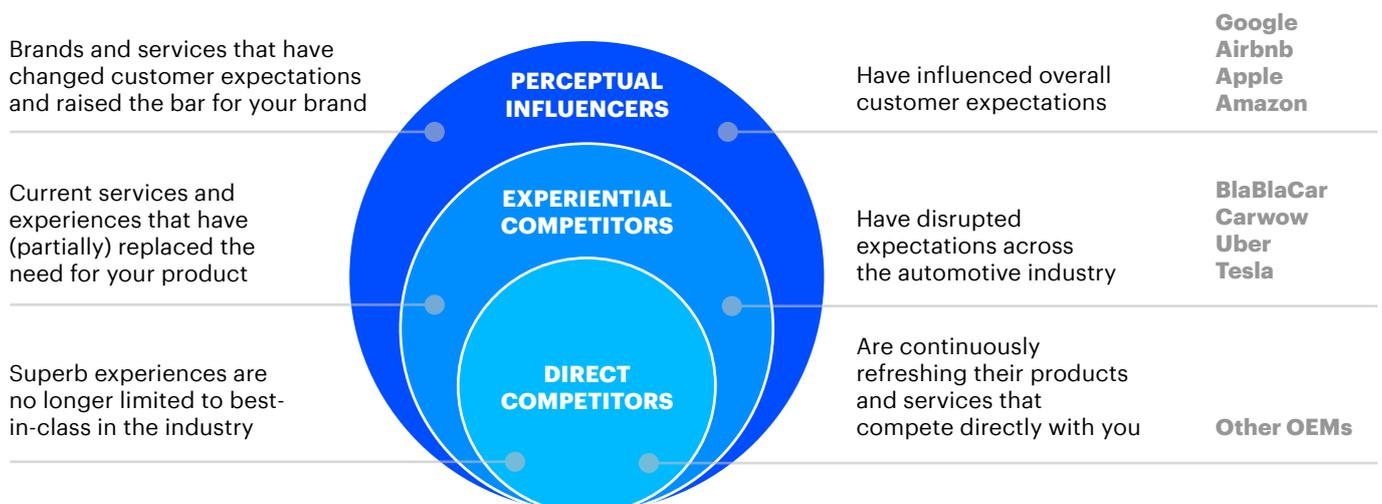
On Netflix, customers can choose between three simple subscriptions to access millions of movies and, should they opt to cancel their subscription, they can do so within one month. Across industries, seamless omni-channel retail and consistent end-to-end experiences are becoming the new norm.

In comparison, the process of buying a car seems outdated. Simon Dixon, Founder and CEO of Rockar, said: "Customers have voted on traditional dealerships. They want to buy online, but some still enjoy physical touchpoints for products in an attractive environment. It is key to combine all of these elements into one seamless customer journey." In a similar fashion, Achyut Jajoo, Vice President and Chief Solutions Officer at Salesforce, said: "The car buying process, in-car, and car ownership experiences are inconsistent and lag behind other consumer services. In addition, outdated and siloed technology systems are hindering automakers and their dealers' ability to provide the right customer experiences."

40% millennials

By 2020, millennials will make up 40% of all automotive customers

Figure 5: Different levels of competition for OEMs



Already today, 49 percent of customers do all or most of their pre-purchase research online. But more often than not, this involves navigating complicated OEM websites to learn more about the product range. Receiving a price quote can be challenging. Because OEMs sell most or all of their vehicles via independent dealers, customers must contact the dealers to receive a price quote. In many cases, this requires a visit to a large showroom at the outskirts of a city – something that younger customers in particular find cumbersome and sometimes intimidating. Once there, customers rely on staff members who are measured by sales performance to guide them through the process of configuring their vehicle. Determining the final price then usually involves lengthy negotiations. Once settled, the customer must decide between complex financing options. Then they discover that the car is only available in three to six months.

Particularly for Changers, who are used to the transparent and convenient sales journeys that Amazon and Netflix offer, negotiating the price of a car and then waiting for months to receive it seems a thing of the past. The major sources of customer dissatisfaction are the need to negotiate prices (23 percent), inability to buy online (15 percent), difficult financing processes (14 percent), cumbersome delivery processes (10 percent), and complicated configuration options (9 percent). Not surprisingly, 53 percent of customers rely heavily on third-party online portals for purchasing, and 58 percent use third-party online pricing services to compare offers and avoid cumbersome negotiation processes.

For the new generation of tech-savvy customers, however, innovation in automotive sales does not end with access to online stores. Our survey finds that nearly three quarters of respondents would like to see end-to-end online purchase options with fixed prices and home delivery. This is especially relevant for young customers: Our study finds that up to 47 percent of Changers are planning to buy their next car online. And 77 percent of Changers can imagine soon having access to virtual reality (VR) technologies to complement or even replace the showroom experience at a dealer.



Achyut Jajoo, Vice President and Chief Solutions Officer, Salesforce Inc.



Today's consumers are empowered, connected and demand personalized engagement. They enjoy technology and digital-driven convenience in every aspect of their lives. New types of technologies are changing the way people interact with the world around them, and people are beginning to expect similar experiences while both driving and shopping for their cars. That said, the car buying process, in-car, and car ownership experiences are inconsistent and lag behind other consumer services. In addition, outdated and siloed technology systems are hindering automakers and their dealers' ability to provide the right customer experiences.



CUSTOMER SURVEY RESULTS

Many of tomorrow's customers desire a different sales model



CHANGERS
1 in 5

are dissatisfied with the current way of buying cars



BOOMERS
1 in 12

are dissatisfied with the current way of buying cars



TRADITIONALISTS
1 in 22

are dissatisfied with the current way of buying cars



Top 5 factors leading to dissatisfaction, as seen by changers

Need to negotiate prices

23%

Inability to buy online

15%

Difficult financing options

14%

Cumbersome delivery process (waiting time, handover, etc.)

10%

Configuration options

9%

53%

use online portals and websites prior to purchase

69%

are interested in home delivery

58%

use third-party services to compare prices

77%

are interested in VR technology

73%

prefer fixed prices

Preferred channel for next purchase



Advantages of buying online, as seen by changers

Ease of comparison

23%

Lower prices

20%

Larger selection

20%

Around the clock availability

19%

Time saving

18%

3. Sales Model Transformation: A Requirement for the Dealers of Tomorrow

Dealers run independent businesses and see themselves as the backbone of the automotive industry. They generate the bulk of new-car sales revenues for OEMs by purchasing vehicles from the manufacturer and reselling them to the end customer. They take pride in their central role in pricing, marketing and sales. Due to recent consolidation among dealerships, many dealer groups are now fully professionalized mid-size companies with significant bargaining power. For example, in Germany, the five largest dealer groups account for 13 percent of total new car sales volume across all major car brands.

Dealerships have invested billions in recent years to modernize their showrooms and optimize their processes. Dealers are fulfilling complex logistics to make sure that products from OEMs are available in all markets and that customers' orders are carried out. Traditionally, the dealer has been the sole point of contact for the customer. Dealers do not just sell the OEM's products but also help customers with a variety of other things: finding the product which is right for them, helping with administrative tasks (e.g. vehicle registration), taking care of vehicle maintenance and repairs and offering all kinds of other services. In many cases, dealers maintain a close and friendly relationship with their customers.

Given that they are in constant interaction with their customers, dealers are aware of the gap between their offering and their customers' expectations. In our survey, dealers accurately assessed the areas in which their sales processes need improvement: online offerings (52 percent), fixed, transparent prices (36 percent) and product digitalization (36 percent). And even though we see many large dealer groups running highly efficient operations with state-of-the-art digital processes, other dealers still have a long way to go to satisfy the demands of tomorrow's customers. Out of all dealers surveyed, only 21 percent operate their own online store, while 22 percent do not even operate a website. Moreover, many dealers are currently unable to offer basic online services such as customer appointments (58 percent) or bookings for test drives (57 percent). Despite these missing capabilities, 60 percent of dealers are reporting that they do not have the means to invest in the digitalization of their back office or their online presence anytime soon.



3/5 dealers do not have the means to invest in digitalization



85% of dealers

say that their sales model needs to change

But dealers know that their sales models need to adapt. In fact, only 15 percent of dealers that we surveyed consider their current sales model to be fit for the digital age. As new players enter the automotive market, they feel competition flaring up and see their margins suffering. This competitive pressure is likely to further speed up consolidation among dealerships. According to the National Automobile Dealers Association (NADA), the number of dealerships in the US will decline 8 percent, from 18,000 in 2017 to 16,500 in 2025, while the number of store owners (e.g. dealer groups) will decline more sharply by 19 percent, from 8,000 today to only 6,500 in 2025. With consolidation progressing, many small dealers will be forced out of business. Dealers are well aware of this trend. The dealers that we surveyed expect their business (87 percent) as well as the overall dealer network (52 percent) to decline significantly within the next five years.



The financial impact of the changes that are to come will be large. Driven by environmental considerations and political incentives, 39 percent of the consumers that we surveyed are considering buying a battery-electric vehicle (EV) in the near future. As EVs are much less service-intensive than fossil-fuel powered cars, dealers risk losing between 20-30 percent of aftersales and service revenues. In the long term, a breakthrough for autonomous driving will also greatly impact dealers because autonomous driving has the potential to tremendously reduce collisions and hence repair revenues for dealers. In our opinion, dealerships must transition to a leaner, more customer-centric sales concept. Even though they will likely remain an important sales channel for year to come, dealers must start investing in new sales concepts now in order to keep the customers of tomorrow engaged.

Pascal Schmitt, VP Global Customer, Network & Importers at Renault, shares this opinion. He says: “Together with our dealers, we will accelerate customer-centricity and offer a seamless omni-channel experience. Full data sharing between all online and offline channels is a prerequisite for this transformation”



Pascal Schmitt,
VP Global Customer,
Network & Importers,
Renault SAS

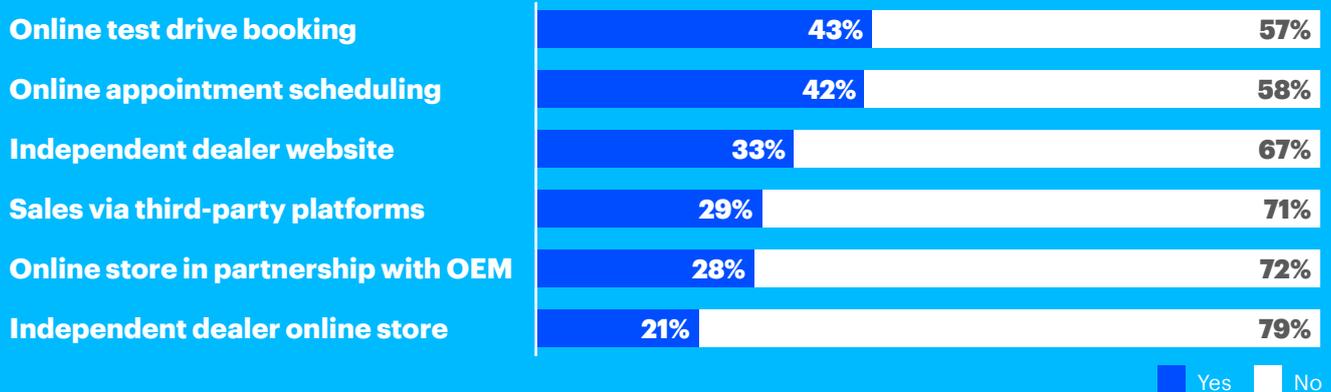


We see great potential in new sales formats, welcome digital tools and aim at 25% online sales by 2030. At the same time, our physical retail will always remain a cornerstone of our sales model. Together with our dealers, we will accelerate customer-centricity and offer a seamless omni-channel experience. Full data sharing between all online and offline channels is a prerequisite for this transformation.

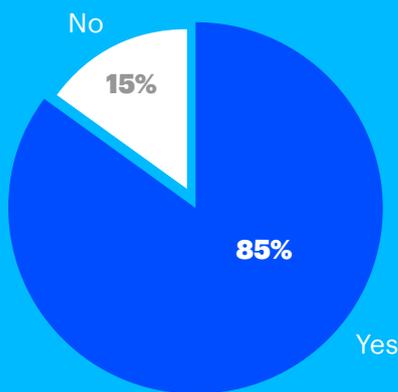


DEALER SURVEY RESULTS

What online capabilities do dealers currently have?



Do you agree that dealers' current business models have to change in order to remain competitive?

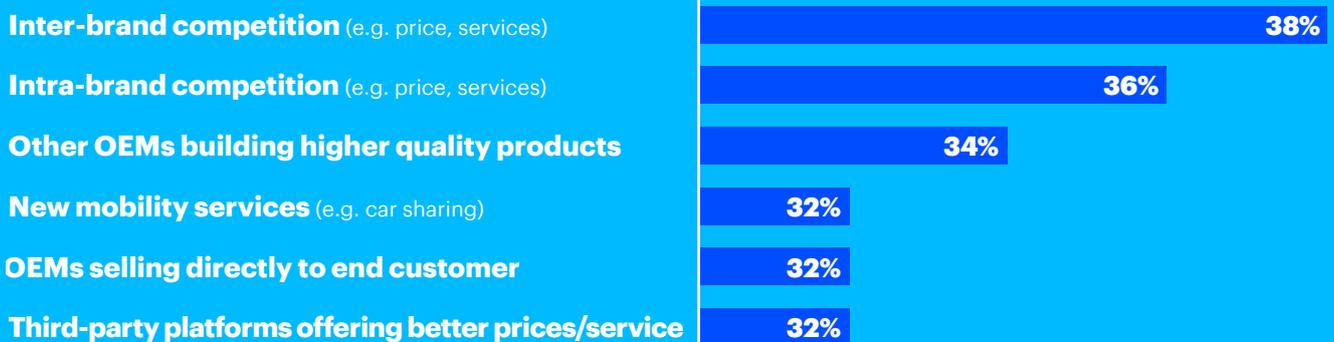


1/5 dealers do not have their own website

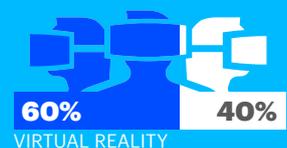


3/5 dealers do not plan to invest in digitalization anytime soon

What are the biggest threats to your current business model as a new car dealer?



Will new technologies have a negative impact on your business?



June 2019 // France, UK & Germany
Source: Accenture Research

■ Yes ■ No

4. Pushed to the Limit: The Time for Small Changes is Over

As the automotive industry reaches a tipping point, the traditional sales model of OEMs is increasingly pushed to the limit. We have identified three major weaknesses:

- 1. Difficulty creating a superior customer journey.** Because many different entities with their own legacy systems are involved, there are inconsistencies and breaks in the customer journey which lead to a cumbersome purchase experience. Particularly the lack of online-offline integration is perceived by customers as a significant shortcoming of the traditional sales model.
- 2. Insufficient price coherence.** Inconsistent pricing confuses customers who want simple and transparent prices. Missing pricing guidance encourages competition between dealers of the same brand (e.g. discounts granted to end customers to beat other dealers selling the same brand) and reduces dealers' profit margin by 1-3 percent. Our survey shows that 36 percent of dealers consider intra-brand competition a major threat to their current business model.
- 3. Limited direct interaction between OEMs and customers.** OEMs have few to no direct touchpoints with private customers and only limited abilities to collect customer information. In a world where business models will be based on data-driven analytics, the lack of data about customers is a "no go."



Horst Hanschur, Head of Retail Business Development, Customer Services, Audi AG



The Audi sales strategy aims in two directions. We want to realize business potential for our dealers and for ourselves. At the same time, we also want to keep system leadership over the sales and aftersales value chain. Digital infrastructure will enable us to get into direct contact with our customers. That means that together with our dealers, we will steer the customer journey in the offline and online world.



As established OEMs watch new competitors enter the market and gain market share, they see that they are starting to fall behind in innovative digital sales formats. But established OEMs have one important asset that their new competitors lack: vast physical retail networks. As long as their products need frequent maintenance and service, this creates a competitive advantage. Not surprisingly, established OEMs and their dealers around the globe are working feverishly to devise a smart shift to the new while preserving the assets of today. As Horst Hanschur, Head of Business Development and Customer Services at Audi, stresses, two things are needed to ensure future success: a superior digital infrastructure that ensures system leadership and a combined effort by OEMs and dealers to realize new business potential.

There are three different approaches that OEMs currently pursue to update their sales models for the future:

Chapter 5



Chapter 6



Chapter 7



Next, we will analyze these approaches in detail.

5. Beyond an Online store: What it Takes to Empower Online Sales

Several OEMs have begun experimenting with online sales to provide a better online experience for their customers, including greater price transparency, the ease of shopping from home, and a digital payment process. And their aspirations are high: Volkswagen is combining the launch of its new range of electric vehicles with the roll-out of a new IT infrastructure that will enable online sales on a large scale. PSA Group CEO Carlos Tavares told investors in February 2019 that he aims to increase online sales by more than 1,500 percent from 6,000 units in 2018 to 100,000 in 2021. Similarly, Britta Seeger, the responsible member of the board for marketing and sales at Daimler, announced in June 2019 that the OEM would sell 25 percent of its vehicles online by 2025. And across Europe, automakers such as Hyundai, Volvo, Alpine, Jaguar Land Rover, Mitsubishi, BMW, Dacia and Mini are piloting online sales in selected markets.

However, adoption of these online stores remains low and the customer experience they offer needs improvement. Audi and Hyundai, for example, only make a small range of models available online. Many others either do not provide a trade-in option or limit purchase options to new cars. And most OEMs still require customers to get into contact with dealers at some point. Why is this the case? According to Matthias Schrader, CEO of the agency SinnerSchrader and ASG lead for Accenture Interactive, OEMs tend to digitize their traditional offline processes instead of creating new solutions.



**Matthias Schrader, CEO,
SinnerSchrader / Managing
Director and ASG Lead,
Accenture Interactive**



OEMs tend to only digitize their traditional processes. But that's not enough. The expectations of customers today are incredibly high and calibrated to the user experiences of Amazon and Alibaba. Without a radically customer-centric approach and an experience-driven strategy, many e-commerce initiatives will fail.



By 2021, PSA Group plans to increase online sales by

1,500%

In his opinion, this, this is not nearly enough to satisfy the changing customer demand. Without a radically customer-centric approach and an experience-driven strategy, Schrader believes that many e-commerce initiatives will fail. Nevertheless, the reasons may be even more complex. Our research indicates three aspects that are critical for e-commerce success:

- 1. Commitment:** Many OEMs lack the commitment to break with traditional processes and instead build half-hearted online solutions that merely digitize existing processes. To be successful, OEMs need to go beyond building a digital frontend around their traditional sales model.
- 2. Pricing:** To prevent losing lucrative aftersales business to OEMs or other dealers and garages, dealers may undercut the prices offered by OEMs in online stores. On average, they do it by 12 percent. The success of online sales therefore requires large-scale pricing agreements with dealers.
- 3. Customer experience:** Given the long-established status quo of dealers handling all customer interactions, OEMs struggle to provide a cohesive and convenient sales experience to their customers. To be successful, OEMs need to listen to digital leaders across various industries and their own dealerships and learn from customer interaction.

It is not easy for an OEM to embrace a new identity as a technology company, given that OEMs take pride in their self-image as automakers and have always built their success on a strong foundation in mechanical engineering. But they must do so. Adopting new, innovative sales models is the only way to shield OEMs from impending digital disruptions. Will OEMs succeed in establishing online stores? With the right mindset, tools and expertise, they can.

6. Third-Party Cooperation: Where They Shine and Where They Fail for OEMs

Many possible third-party cooperation partners exist or have recently emerged in the market. Technology firms (e.g. Google) offer plugin IT which supports essential marketing and sales activities such as lead tracking and analytics. Vendors (e.g. Sixt) aim to create entirely new mobility solutions for customers. For OEMs and dealers seeking to acquire digital sales know-how, however, two other types of third-party cooperation partners are of primary interest: online marketplaces and brokers (e.g. Autoscout24, Germany; Carwow, UK), and providers of sales-as-a-service (e.g. Roackar, UK). Having identified the weak spots of traditional, indirect sales, these providers specialize in certain areas of the automotive sales process. But is cooperation with them a curse or a blessing for OEMs and dealers? The industry is divided: While one third of dealers see third-party providers in a largely positive light, another third considers them a major threat to their business. The remaining dealers are uncertain.

Online marketplaces and brokers

Third-party online marketplaces offer a platform for private sellers and professional dealers to market their vehicles (new and used) to a large online audience. Customers can conveniently browse the available offerings and have quick and convenient access to product information and prices. Sellers can pay the marketplace to advertise their product. For each transaction that takes place via the online platform, they pay a fee to the marketplace.

Online brokers such as Carwow operate in a similar fashion: They connect car buyers and sellers via their online platform. However, unlike online marketplaces, customers do not browse from a list of published offers. Instead, they choose their preferred car model and then receive customized offers from partnering dealerships that pay the broker to sell cars via the platform. This reverse auction model removes the need for customers to negotiate prices with the seller.

1/3

of dealers are already cooperating with third-party providers

Our survey shows that one third of dealers already cooperate with online marketplaces and brokers to compensate for their lack of online sales know-how and gain a cost-effective way to reach a wide customer base. If woven into the existing sales processes, it also enables OEMs and dealers to quickly improve the sales experience for their customers. But there are severe downsides. First, advertising and sales fees may significantly cut into dealers' already low sales margins. Moreover, in some markets, we are seeing the first indications of online monopolies forming that would be able to create lock-in effects and significantly raise prices. With approximately 75,000 cars predicted to be purchased through Carwow in 2019, the platform will account for more than 5 percent of UK new car sales. In Germany, the market for automotive online sales is dominated by two players, Mobile.de and Autoscout24. In the past five years, fees were raised by €10 for private customers, and large dealerships are now being forced to pay 300 to 400 percent more. Even more importantly, however, third-party providers are disrupting the direct interface with the customer that dealers and OEMs have. When customers only interact with a third party, OEMs can no longer aggregate customer information and collect market insights. In today's data-driven economy, this is a significant disadvantage for OEMs and dealers.

> 5%

Carwow already accounts more than 5 percent of new car sales in the UK

Sales-as-a-service providers

Sales-as-a-service providers are taking a more collaborative approach in transforming car sales. Partnering with OEMs (e.g. Jaguar Land Rover, Ford, Mitsubishi, Hyundai) as well as with select dealer groups, they are opening small digitally-enabled showrooms in highly frequented shopping areas that are seamlessly integrated with online stores and vice versa. Using sophisticated analytics to learn from customer interaction and relying on sales personnel that are rewarded for customer interaction, not for sales, these firms are actively changing the way that customers buy cars.

For OEMs and dealers, partnering with sales-as-a-service providers can provide several benefits. First, decoupled from their legacy systems, they can quickly setup customer-centric sales processes that provide the simple and consistent experience that today's tech-savvy customers desire.

According to Simon Dixon, Founder and CEO of Rockar, it is important to discard the tightly managed processes of today and empower the customer. Second, by bringing automotive sales to shopping centers and customers' homes, OEMs are able to better access new, younger, and female customers. For OEMs that are collaborating with sales-as-a-service providers, more than 80 percent of the customers acquired are new to the brand. Their average age is around 40, and the share of female customers is roughly 50 percent. Last, the interconnected nature between online and offline channels created by sales-as-a-service providers, enables them to generate valuable insights on customer preferences and shopping behavior, while allowing OEMs and dealers to enhance customer experience further. As Simon Dixon notes, Rockar offers the customer an empowered journey, whether they are in the store or at home, whether they want to buy now or check-out later. It is all a digital experience whatever, wherever and whenever the customer prefers.

All these advantages are reflected in increasing sales numbers for those OEMs and dealers partnering with sales-as-a-service providers. However, a certain level of skepticism among OEMs and dealers persists. After all, one important question remains: Should OEMs and dealers rely on third-party players to provide the future of automotive sales? Or should they aim to transform their own sales network to withstand the impending digital disruptions and prepare for the challenges of the future?



Simon Dixon, Founder and CEO, Rockar Ltd.



Some OEMs think all they need to do is create a website. They do not realize that the change needs to be structural. At Rockar, we free ourselves from the tightly managed processes of today to empower our customers with omni-channel retail. We give our customers what they want, when they want it.



CATEGORIZATION OF THIRD-PARTY PROVIDERS

| CATEGORY | SALES AS A SERVICE PROVIDER | IT PLUG-IN TOOLS | MARKETPLACE / PLATFORM | MATCHMAKER/ BROKER | VENDOR |
|----------------------------------|---|---|---|---|---|
| EXAMPLE | Rockar | Google | Autoscout24 | Carwow | Sixt |
| INTEGRATION IN SALES JOURNEY | Pre-sales ✓ Sales ✓ Aftersales ✓ | Not applicable | Pre-sales ✓ Sales Aftersales | Pre-sales ✓ Sales Aftersales | Pre-sales ✓ Sales ✓ Aftersales ✓ |
| MONETIZATION MODEL | Commission | License fee | Fees, advertising | Commission | Resell/leasing |
| ONLINE | ✓ | ✓ | ✓ | ✓ | ✓ |
| OFFLINE | ✓ | ✗ | ✗ | ✗ | ✓ |
| LEVEL OF DEALER INTEGRATION |  |  |  |  |  |
| CONTRACT PARTNER FOR CUSTOMER | OEM | Not applicable | Dealer | Dealer | Vendor |
| LEVEL OF CUSTOMER SUPPORT/ADVICE |  | Not applicable |  |  |  |

 High
  Medium
  Low

7. The Agent Model: A Solution for the Future

Players in other industries and new automotive OEMs have all demonstrated the importance of establishing control over sales channels and enabling omni-channel sales journeys. Before Steve Jobs opened the first Apple Store in 2001, the company relied almost exclusively on independent retailers to sell its products. Together with the online store, Apple stores today generate major revenues and help the company to drive brand awareness and customer loyalty. In the automotive industry, disruptive new OEMs such as Tesla and Byton are following a similar path by operating their own online stores and showrooms in exclusive inner-city locations where they are selling directly to end customers. Gerald Krainer, Managing Director & Go-to-Market Europe at Byton, explains: “Direct sales allows us to ensure customer access for all stakeholders and make sure customers truly experience the possibilities that our product will offer.”

For established OEMs and their vast networks of independent dealers, the functional equivalent to enable direct sales to end customers lies in the agent model.

The agent model explained

In an agent model, the role of dealers is transformed to that of agents who act on behalf of the OEM. Different sales channels (both online and offline) are combined to offer customers a consistent end-to-end experience. While it looks easy to do on paper, the effort needed to transform the business and the complexities involved are enormous. But the agent model offers OEMs the chance to regain control over sales channels, gain direct customer access, control prices and increase sales efficiency. The potential is huge. Several OEMs are testing the model with pilots with their core brands or by creating spin-offs (see Figure 6).



Gerald Krainer, Managing Director & Go-to-Market Europe, Byton Ltd.



Consumers want to be connected with their digital devices / ecosystem while driving. They demand a seamless integration of car software and their favorite apps. Direct sales allows us to ensure customer access for all stakeholders and make sure customers truly experience the possibilities that our product will offer.



Figure 6: Overview of OEMs adopting an agent model

| | Established OEM's | | | Spinoffs | | | Disruptors | | | |
|--|-------------------|--------------|------------|---------------------|----------|-----------|------------------------------|----------|----------|------------------------------|
| | TOYOTA | DAIMER | DAIMLER | BMW ¹ | GENESIS | LYNK & CO | POLESTAR | TESLA | NIO | BYTON |
| Geographical scope | Australia | South Africa | Sweden | Europe Japan | Canada | China | Europe USA China | Global | China | Global |
| Go-live | Apr 2018 | Dec 2017 | April 2019 | Oct 2013 – Sep 2018 | May 2017 | Nov 2017 | Planned late 2019/early 2020 | Jun 2012 | Jun 2016 | Planned late 2019/early 2020 |
| Online | | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Stationary | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Additional channels² | | | ● | ● | | | | | | |

● Piloting or already using model ¹ Refers to period 2013–2018 ² Including e.g. Customer Call Service

For OEMs, the agent model holds five major benefits:

- 1 Access to valuable customer data which is currently only available to dealers.**
- 2 Full control over online and offline channels, allowing them to build seamless omni-channel customer journeys with a consistent experience.**
- 3 Ability to set a single price across all sales channel to eliminate intra-brand competition.**
- 4 Effective steering of sales activities, enabling OEMs to push digital services and new offerings into the market.**
- 5 Increased transparency about market performance at the single showroom level, allowing OEMs to continuously optimize the sales network.**



**Marcus Breitschwerdt,
Head of Mercedes-Benz Vans,
Daimler AG**



Selling directly to our customers can be a key for the future success of Mercedes-Benz. Together with our dealers, we will transform our sales model to enable a truly customer-centric sales experience.

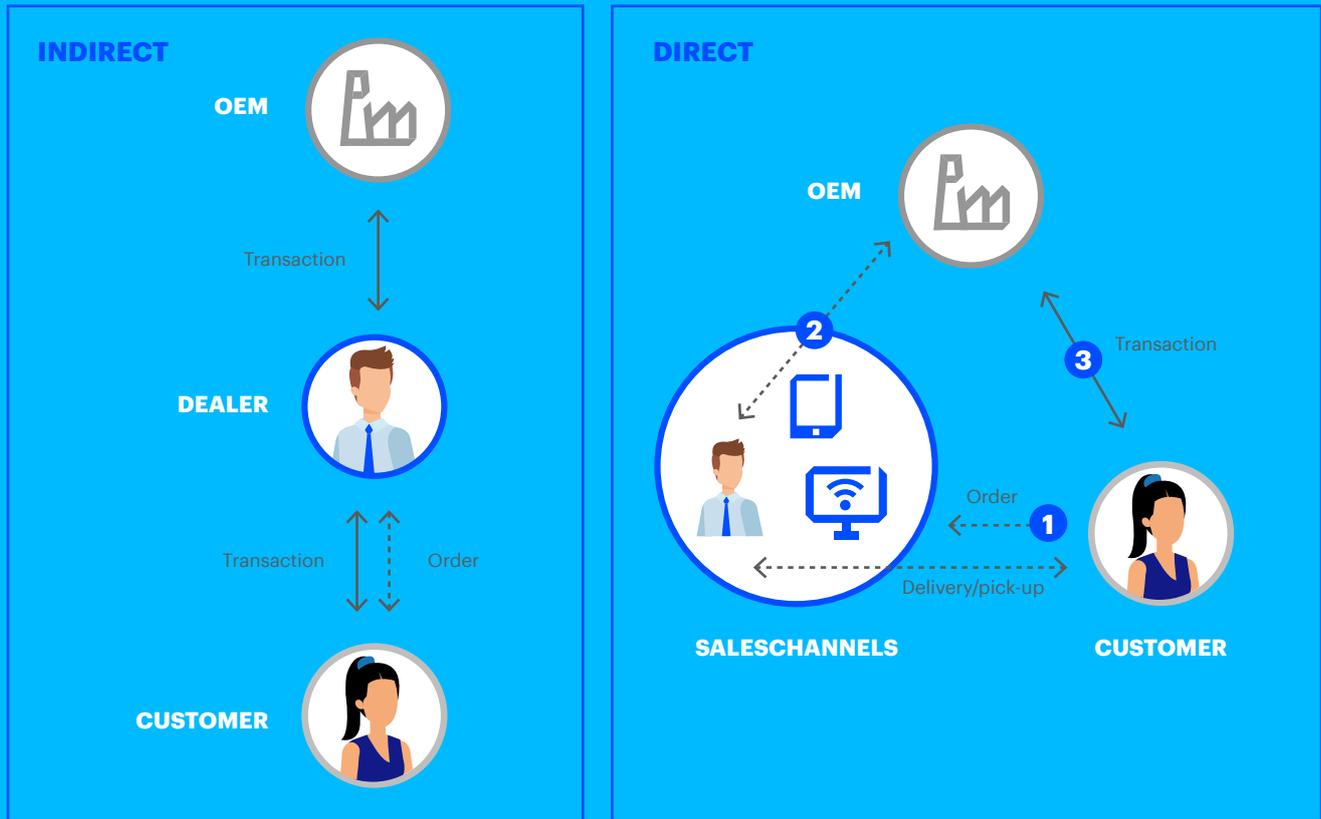


Mercedes-Benz seems to have recognized the vast potential of the agent model. According to Marcus Breitschwerdt, Head of Mercedes-Benz Vans at Daimler, “selling directly to [...] customers can be a key for the future success of Mercedes-Benz.”

Nevertheless, the direct sales model also comes at a cost for OEMs and dealers. For OEMs, financial risk increases because vehicles remain on their balance sheets until they are sold to the end customer. In addition, taking over important sales functions (pricing, order and stock management, marketing, customer service, etc.) requires OEMs to invest in new know-how and increase headcount. For dealers, the agent model essentially means trading entrepreneurial freedom for economic benefits.



INDIRECT AND DIRECT SALES AT A GLANCE



In a direct sales model, OEMs orchestrate different distribution channels where dealers act as agents instead of entrepreneurs. Car sales are organized as follows: First, the agent receives an order from a customer and forwards it to the OEM (1). The car is delivered to the selected delivery location, e.g. agent showroom (2). The transaction, however, happens between customer and OEM (3), whereby the agent receives a commission.

| | INDIRECT SALES | DIRECT SALES (AGENT MODEL) |
|-------------------------------------|--|---|
| Dealer role | Acts as independent entrepreneurs | Acts as agents on behalf of OEM |
| Dealer autonomy | High | Low |
| Dealer compensation model | Margin per vehicle sold (incl. potential dealer discount to end customers) | Commission per vehicle sold (without additional margin for discounts) |
| Business risk | Distributed among OEM and dealers | Centralized at OEM |
| Asset ownership | Dealer owns assets | OEM owns assets, causes extension of balance sheet |
| Accessible stock | Low (locally owned vehicles) | High (national pool) |
| Pricing | Variable prices, set independently by dealers | One fixed price across all sales channels, set by OEM |
| Cross- & upselling | Sales of new services and offerings dependent on individual dealer support | OEM can easily push new services and offerings into the market |
| Billing & payment | Handled by dealers individually | Handled by OEM for the entire market |
| Market and customer insights | Low (data distributed among dealer) | High (data centralized at OEM) |
| Marketing campaigns | OEM with large national campaigns, dealers with local, independent campaigns | OEM steers national and local marketing campaigns, dealers execute local events |

Financial implications

Transitioning from indirect sales to an agent model is currently the largest area of transformation besides the introduction of battery-electric vehicles and the development of self-driving technology. Huge investments are required to transform both IT and the organization. But these investments will likely pay off financially and are a must if OEMs want to satisfy the demands of tomorrow’s customers.

1–2 years

from C-level decision to MVP launch

In our experience, we have found that OEMs should start with a carefully selected market to pilot the agent model before rolling it out to a larger region. Pilot markets can be evaluated based on local dealer and market characteristics (see Figure 7). We have seen that projects take between one and two years from C-level decision to minimum viable product (MVP) launch. Systems and processes with a scalable structure are then set up for the pilot market, which allows for the MVP to be simultaneously refined and scaled up across a larger region.

8–15%

reduction in overall selling costs

In our experience, launching an MVP in the pilot market requires investments of between \$45–80 million, depending on the project team, business and IT support, central IT infrastructure, and additional FTEs at the national sales entity (see also Section 7.3). As the MVP is scaled up across markets, roll out costs can be divided into one-time investments and annual run costs. Each new market then requires investments of \$14–35 million, depending on the maturity of systems and processes. This means that the costs for each additional market decrease over time as systems and processes are refined and fewer market-specific adaptations are needed.

\$45–80 million

investment for an MVP launch in a pilot market

Figure 7: Criteria for selecting a pilot market for introducing the agent model

| LOCAL DEALERS | MARKET |
|---|---|
| ✓ Low dealer fragmentation / volume concentration | ✓ High market growth |
| ✓ High dealer transition support | ✓ Low regulatory complexity |
| ✓ Low online sales activities | ✓ Low customer price negotiation affinity |
| ✓ High built-to-stock share | ✓ High customer e-commerce openness |
| ✓ High average dealer discount | ✓ Low online sales competition |
| ✓ High IT readiness | ✓ High profitability / return on sales |
| ✓ High process maturity | ✓ High leasing and financing penetration |

DIRECT SALES BUSINESS CASE

OEM CHARACTERISTICS

| | Market share | Average price per vehicle |
|------------------|--------------|---------------------------|
| Est. premium OEM | 6% | \$40k |
| Est. volume OEM | 10% | \$21k |

MARKET ASSUMPTIONS

| | Population size | Vehicles sold per year |
|----------------------------|-----------------|------------------------|
| Pilot market | 15m | 500k |
| Region (15 single markets) | 500m | 12m |

MVP LAUNCH IN PILOT MARKET

PREMIUM OEM

| | | |
|-----------------------------------|--|--------------------------------|
| | | |
| Total Cost: \$45m-\$65m | CoR-Reduction ¹ : 2.0%-2.5% | Savings: \$24m-\$30m |

VOLUME OEM

| | | |
|-----------------------------------|--|--------------------------------|
| | | |
| Total Cost: \$58m-\$80m | CoR-Reduction ¹ : 1.5%-2.0% | Savings: \$16m-\$21m |

COST BREAKDOWN²

| One Time invest | + | Yearly Operating Costs |
|--------------------------------|---|------------------------------------|
| Central IT Infrastructure -25% | | Central IT Systems -10% |
| Market IT Support -5% | | Market IT Support -15% |
| Project Team Extension -20% | | NSE ³ FTE Increase -45% |
| Add. Business Support -30% | | Additional Marketing -15% |
| Testing & Training -20% | | Add. Business Support -15% |

² Depending on maturity and complexity of systems, process readiness, market characteristics, network structure, regulatory complexity, number of showrooms, etc.

³ NSE = National Sales Entity

REGIONAL SCALING ACROSS 15 SINGLE MARKETS

PREMIUM OEM

Roll-out costs by market size⁴

| | Small Market | Medium Market | Large Market |
|----------------------------|--------------|---------------|--------------|
| Avg. Investment | \$14m-\$17m | \$23m-\$28m | \$27m-\$33m |
| Avg. Operating Cost | \$5m-\$6m | \$7m-\$9m | \$10m-\$12m |

BREAK EVEN | **2-3 Years** (aggressive 5-year roll-out)
3-4 Years (slow 10-year roll-out)

VOLUME OEM

Roll-out costs by market size⁴

| | Small Market | Medium Market | Large Market |
|----------------------------|--------------|---------------|--------------|
| Avg. Investment | \$15m-\$18m | \$25m-\$30m | \$29m-\$35m |
| Avg. Operating Cost | \$6m-\$8m | \$9m-\$11m | \$13m-\$16m |

BREAK EVEN | **3-4 Years** (aggressive 5-year roll-out)
4-6 Years (slow 10-year roll-out)

⁴ Investment depending on system maturity and timing of market roll-out

STEADY STATE

PREMIUM OEM

| | | |
|--|--|---|
| | | |
| Operating Cost p.a.: \$108m-\$132m | CoR-Reduction ¹ : 3.5%-4.0% | Savings p.a.: \$1.0bn-\$1.2bn |

VOLUME OEM

| | | |
|--|--|---------------------------------------|
| | | |
| Operating Cost p.a.: \$137m-\$168m | CoR-Reduction ¹ : 2.5%-3.0% | Savings p.a.: \$360m-\$756m |

¹ CoR reduction based on local list-price

OEMs implementing an agent model can realize

- up to 4.0% reduction in costs of retail
- more than \$1 billion of potential annual savings
- payoff after 2 – 4 years

At the same time, the agent model helps lower the cost of retail (CoR) in three ways: First, price controls limit intra-brand competition and price arbitrage between markets. Second, a higher online sales share can lead to lower spend on remuneration. Third, the centralization of back-office processes in shared service-centers creates substantial synergies and can potentially reduce overall headcount. "In sum, we estimate a potential CoR reduction of 2.5 to 4.0 percentage points, which translates into 8 to 15 percent reduction in overall selling costs. In a mid-sized region, this can generate more than \$1 billion of annual savings."

Given the huge savings potential, transitioning from indirect sales to an agent model can pay off in as little as two years.

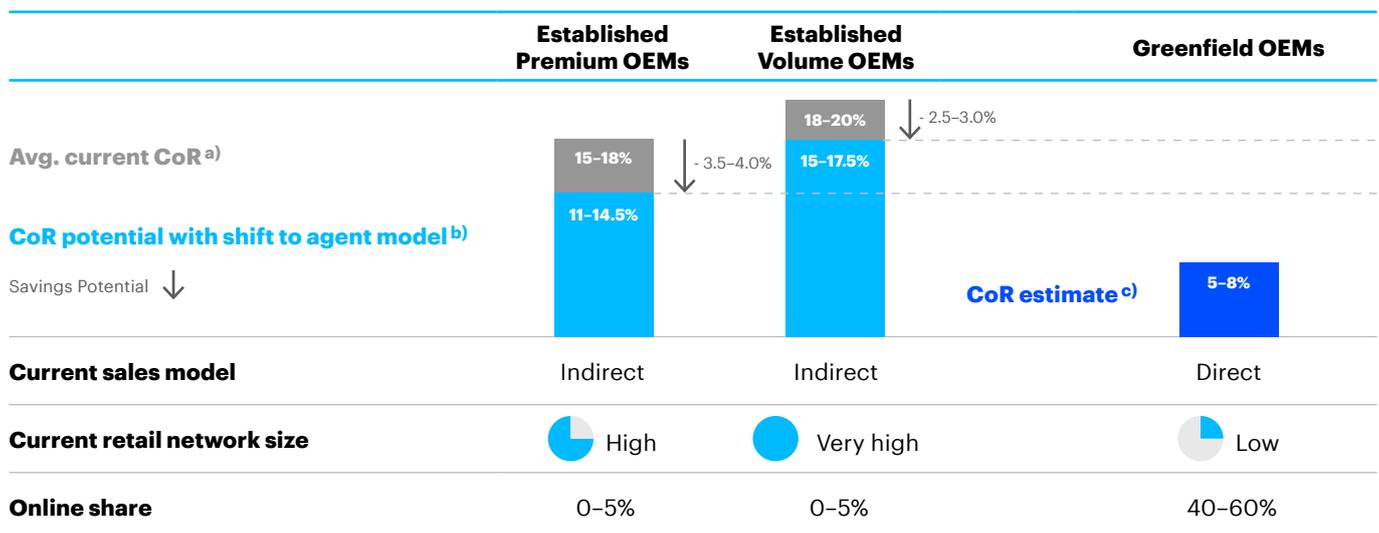
According to our estimations, the agent model can help established OEMs bring their CoR to a level that is much closer to that of greenfield OEMs, such as

Tesla, Byton and Lync & Co (see Figure 8). Given that they have much larger physical retail networks, this creates a substantial advantage.

Ultimately, however, transitioning from indirect sales to an agent model requires much more than just setting up and scaling the right systems and processes. At its heart, it requires OEMs to re-invent their sales attitude: Instead of simply offloading their cars at independent dealerships, they need to acquire customer-oriented sales capabilities. We have identified three key success factors for direct sales:



Figure 8: Comparison of Cost of Retail (CoR) between established and greenfield OEMs



a) Not including current costs of wholesale. Depending on recognition of residual value risk
 b) CoR reduction based on local list price. Not including annual agent model operating costs of \$108m – \$132m for established premium OEMs and \$137m – \$168m for established volume OEMs
 c) Estimate based on publicly available information and considering planned retail network size and structure for selected greenfield OEMs

7.1. Creating Customer Centricity and Insights

Even though most organizations claim to be customer-centric, only few truly are. The shift to an agent model requires OEMs to really put the customer at the center of their operations, requiring not only technological innovations but also changes to organization, processes and mindset: OEMs need to become retailers. This is what Joachim Franz, Head of Customer Experience Management at Volkswagen, points out: “In Volkswagen’s transformation from a product-centric automobile manufacturer towards a customer-centric mobility provider, we will change the way we engage with our customers fundamentally.”



Joachim Franz,
Head of Customer Experience
Management, Volkswagen AG



In Volkswagen’s transformation from a product-centric automobile manufacturer towards a customer-centric mobility provider, we will change the way we engage with our customers fundamentally. In this transformation, our dealers – the strongest and closest connections to our customers – will continue to play a crucial part in creating customer-centric sales experiences in a multi-channel environment.



In short, for OEMs becoming retailers means they must transform from mechanical engineering-driven companies into engineering-driven technology firms. Former BMW CEO Harald Krüger has stressed that BMW is “in a technology war about who controls the customer interface” and needs to take technology seriously to avoid being overtaken by the coming disruption.

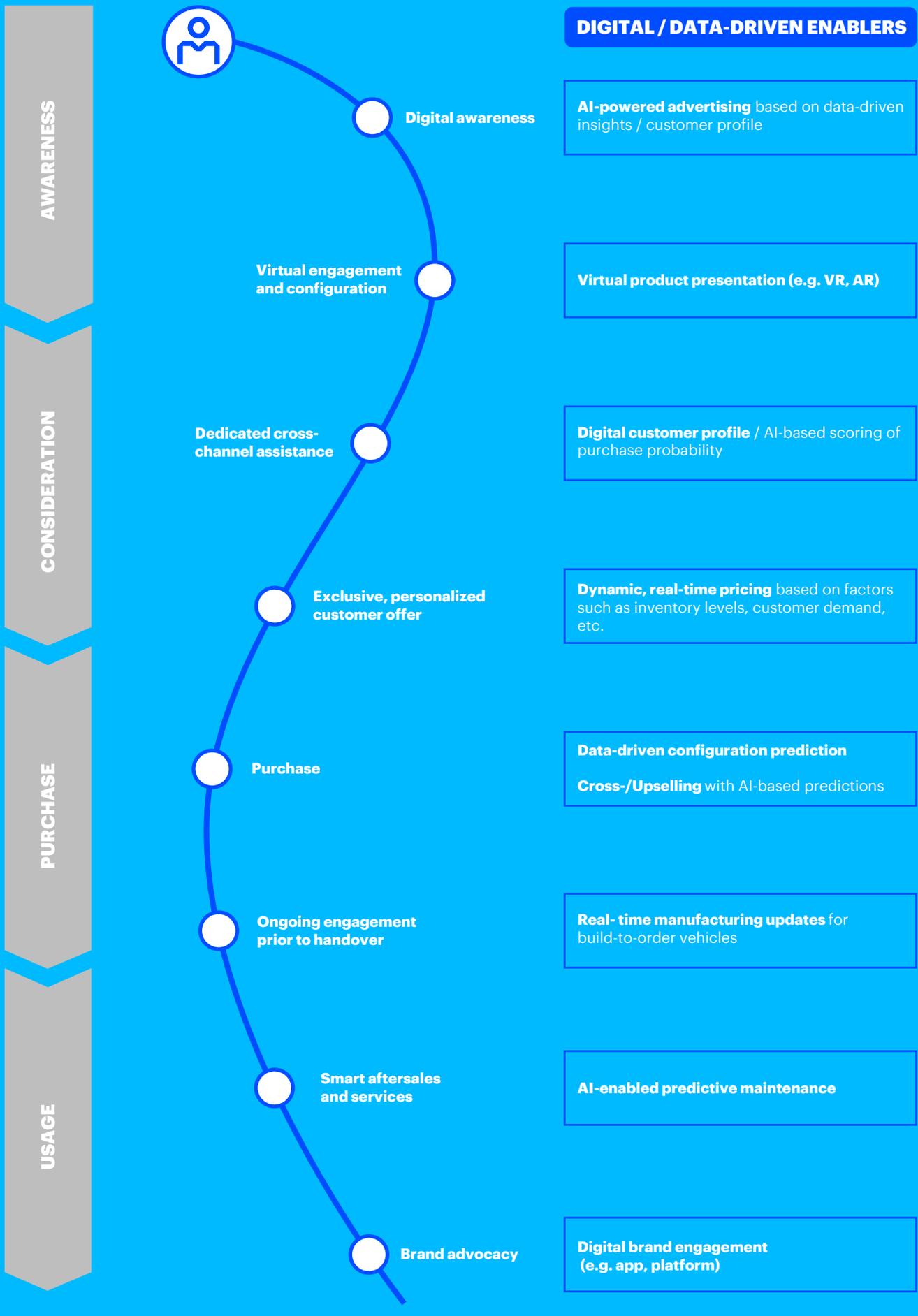
The backbone of a customer centric business model is a holistic CRM system which collects and analyzes customer data across channels and sources, providing valuable insights to the OEM and dealers to manage their sales pipeline. However, many OEMs still rely on customer data that is spread across different systems managed by different departments. As Simon Dixon, Founder and CEO of Rockar, notes: “OEMs are

generating massive numbers of leads but do not know how to convert them into sales.” This disjointed technological infrastructure is the first issue that OEMs need to tackle by building a centralized customer data pool. There are technical solutions that can help, such as those for analyzing data from a multitude of sources: digital channels, the car, dealer systems and internal systems. Salesforce, for example, not only provides OEMs and dealers with a powerful technology platform, but partners with them in all stages of their digital transformation to apply analytics that generate, qualify, score, nurture, and prioritize sales leads that result in actual sales, as Achyut Jajoo, Vice President and Chief Solutions Officer at Salesforce, stresses. Similarly, Rockar strives to learn from every data interaction, which allows the company to disrupt the customer journey with relevancy and boost sales. For established OEMs with legacy systems and high interdependencies, however, this technological transformation is one of immense complexity.

By tightly integrating dealerships with other sales and marketing channels managed by the OEM (e.g. online, telephone, etc.), the agent model provides a way to collect, merge, analyze, and share customer insights between OEM and dealers. The resulting 360° view of the customer is the basis for successfully orchestrating customer journeys across channels and converting more leads into sales.

Several pilots show how data analytics can be used to improve the marketing and sales process. By employing Google’s AI-powered dynamic bidding and buying algorithm, Nissan is able to target online advertising exactly towards those customers that are actually interested in buying a car, thereby maximizing advertising budget efficiency. The Japanese OEM reported a 33 percent reduction in cost-per-qualified-visit and an impressive 67 percent increase in its sales conversion rate compared to what was possible with simpler targeting for online advertising. Equally noteworthy, Skoda used Google’s Programmatic Advertising tool to increase conversion rates by 53 percent with a campaign that was 89 percent cheaper than comparable, traditional campaigns.

DATA-DRIVEN CUSTOMER JOURNEY



7.2. Leveraging the Dealer Network

Most dealers that we surveyed (70 percent) said that they had at least some information about OEMs' direct sales initiatives. But only 34 percent of those had received specific information from their OEMs. It is no wonder then that many dealers are very skeptical of the agent model and what it would mean for them.

Our survey unveils three major areas of concern:

1. **Becoming obsolete:** Dealers are wary that OEMs might devour large parts of their everyday business. Some 32 percent of dealers surveyed fear that OEMs aim to take over sales completely and eliminate dealers' business.
2. **Increasing competition:** 38 percent of dealers fear that a direct sales model will mean that OEMs invest heavily in online sales, increasing competition for dealers and reducing dealer sales and turnover.
3. **Losing independence:** 50 percent of dealers surveyed believe that OEMs will set prices too high, making sales more difficult. A further 33 percent of dealers fear that the commission-based compensation in an agent model will cause their sales staff to lose the "drive to sell." 31 percent of dealers are very doubtful that OEMs will be capable of running smooth sales processes and operations, causing the bottom-line of their business to suffer.

Clearly, OEMs aiming to transform from indirect sales to an agent model should take dealers' concerns seriously and communicate valid arguments to counter dealers' fears: First, personal customer service will be indispensable for the foreseeable future, meaning that dealerships will not become obsolete anytime soon. Our study reveals that customers see major value in "touching and feeling" the vehicle (24 percent), doing a test drive (23 percent), and interacting personally with a sales consultant (15 percent) – and these steps of the customer journey are not easily replicable online.

Second, while online sales from a desktop and sales via mobile handsets may compete with the dealers' business, these channels only make up less than 1 percent of the whole sales volume. Furthermore, even if vehicles are sold via other channels, the dealer is still needed for personal services, such as test drives and handovers.

< 1%

For most established OEMs, the online sales share still remains low

Third, the overall transformation of the automotive industry, and specifically the changing customer behavior and market entry of new players, will likely increase price pressure. Without the agent model, dealers may soon be forced to sell at a negative margin. Already today, 97 percent of dealers report that their customers are frequently demanding a second offer with a lower price after having visited competing dealerships. Fixed prices and commission-based remuneration models provide a way to reduce intra-brand competition and financial risk for dealers.

In short, OEMs need to make sure dealers understand the full implications of the current industry developments and what precisely a shift to direct sales entails. Only then can they convince their dealers and create involvement along the conceptualization and implementation phases. A collaborative approach is key, which means that profits and costs need to be shared. Antje Woltermann, executive director of the German dealer association ZDK, notes: "OEMs' direct sales activities may be an option that is worth discussing. The prerequisite, however, is that the OEMs then also shoulder part of the investments in stationary retail." With transparency and openness, OEMs should be able to secure support from dealers. In our survey, only 12 percent of dealers reported being strongly opposed to an agent model. The large majority (90 percent) expects at least some positive effects on their business (see Figure 9).



Antje Woltermann,
Executive Director, ZDK e.V.



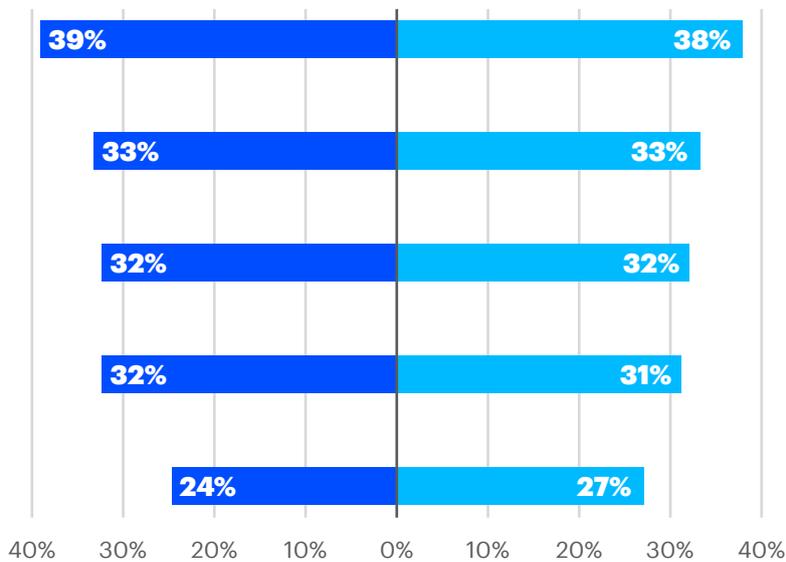
Even with online sales growing, traditional dealerships will remain the backbone of automotive sales for many years to come. Concerning online sales, OEMs' direct sales activities may be an option that is worth discussing. The prerequisite, however, is that the OEMs also shoulder part of the investments in stationary retail.



Figure 9: Dealers' perception of direct sales

Advantages

- Reduction in expenses and financial risk
- National stock/number of available cars is higher
- Lower intra-brand competition
- OEM bears costs for IT and organizational transformation
- More time to focus on customers' needs



Concerns

- Significantly lower sales
- Decreased motivation of sales consultants
- Direct sales model will replace my stationary offering
- OEM does not have necessary know-how
- Higher dependence on the OEM

June 2019 // France, UK & Germany
Source: Accenture Research

**So how should OEMs approach the transformation of their sales model?
In our experience, a well-defined strategy rests on four central cornerstones:**



COMMUNICATION

As with any large-scale change initiative, early communication is important for establishing trust and fostering a willingness to change. For a direct sales model, the financial and operational benefits need to be clearly communicated and the alternatives discussed openly. In our experience, it is imperative to involve the national sales entities (NSEs) to identify high-stake dealerships and to better understand the politics and decision-making processes within the relevant dealer associations.



REWARDS

Naturally, sales and profitability are key topics for winning dealer support. We therefore advise OEMs to start negotiations concerning the future margin and remuneration model early in the transition process. OEMs will also need a detailed conceptual understanding of market- and business-related changes and their financial implications.



STRUCTURE

With decades of sales experience, dealers usually have a detailed understanding of the sales process, including important administrative tasks such as proposal creation, vehicle accessory management, financing, tax and registration processes. As OEMs need to take over many of these roles in an agent model, it is critical that they learn from dealers' experience. We therefore advise setting up committees that act as platforms for information exchange between dealers and the OEM.



SUPPORT

For an agent model, IT systems and the process landscape will most likely need to change drastically. Dealers will need extensive training on the new sales process and tools. This also involves clarification of roles and responsibilities. OEMs should continue active support well into the launch of the new sales model to secure the transformation's success.

7.3. Transforming the Core to Sell in the New

The agent model presupposes a shift in responsibilities and costs from dealers to OEMs and requires a change in mindset throughout the whole organization, affecting dealers, NSEs and the OEM. All actors need to be ready to reimagine the way they operate their business. Particularly at the OEM, management will have to take a bold approach and resist the urge to implement small changes. Instead, they need to transform the company's organizational core and culture so that it can embrace the new. Ulrich Kranz, who was responsible for developing the BMW i3 and i8 as Head of BMW Project i and who is now In charge of Technology at Canoo, stresses that for today's customers, flexibility and sustainability are paramount.

Organizational transformation

In an agent model, central sales-related tasks and responsibilities shift from dealers to the OEM, reducing costs for the dealership. As OEMs become the new owners of all customer touchpoints, they gain access to previously non-accessible customer insights and transactional data. To turn this data into valuable market insights for economic growth, OEMs need new functions and an operating model that enables data analysis and a data-driven decision-making process (e.g. around pricing, production volumes and stock configuration planning). Hence, new roles will emerge at headquarters and national sales entities for data engineers and data scientists. This means that OEMs need to attract new external talent.

To guarantee a successful transition from indirect sales to an agent model, OEMs and NSEs need to hire more staff for customer-facing functions, such as for call centers, customer care and online stores. But OEMs and NSEs also need to excel at internal capabilities (e.g. pricing, ordering and logistics processing, stock steering and inventory management). As roles and responsibilities shift from dealers to NSEs and OEMs, resources will become available at the dealer level. Experience from pilot markets shows that a transition to direct sales included a reduction of overall FTE numbers (combining NSE and dealers) by 3 to 7 percent.



Ulrich Kranz,
Interim CEO and In Charge
of Technology at Canoo Inc.



Today's customers demand flexibility and sustainability. A Canoo membership provides both. All that customers need to think about is where their next adventure will take them.

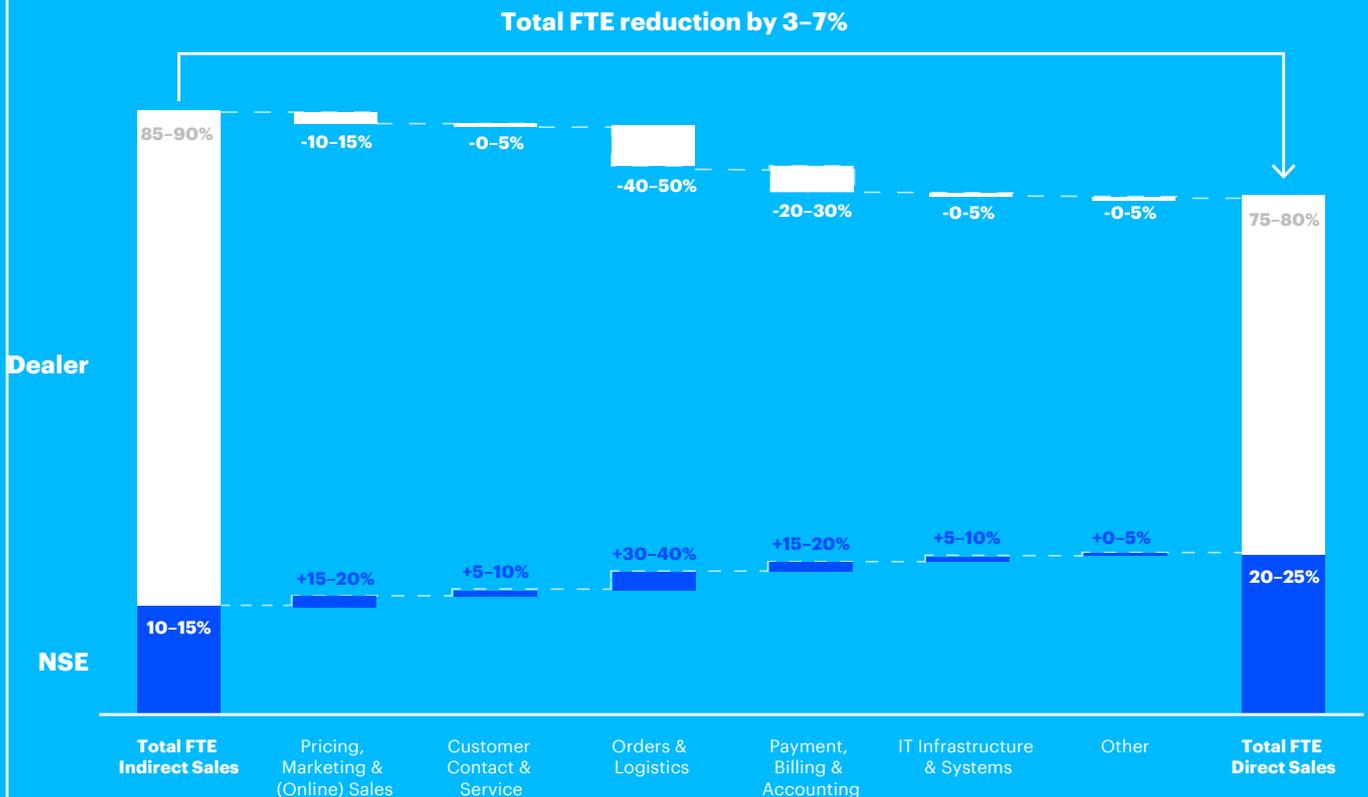


Cultural transformation

Besides organizational change, transitioning from indirect sales to an agent model requires substantial cultural change. As the middleman between OEM and dealers, NSEs have for decades been striving to excel at moving large quantities of vehicles as smoothly as possible. Customer interaction and customer satisfaction have historically not been the focus of NSEs. In a direct sales model, however, NSEs will now need to acquire a retailer's mindset. This means that new questions become relevant: What are optimal discount levels? How can additional sales be triggered towards the end of the accounting period to reach targets? How can stock and logistics processes be optimized? In this new position, NSEs must take full ownership of sales targets, customer satisfaction and dealer buy-in.

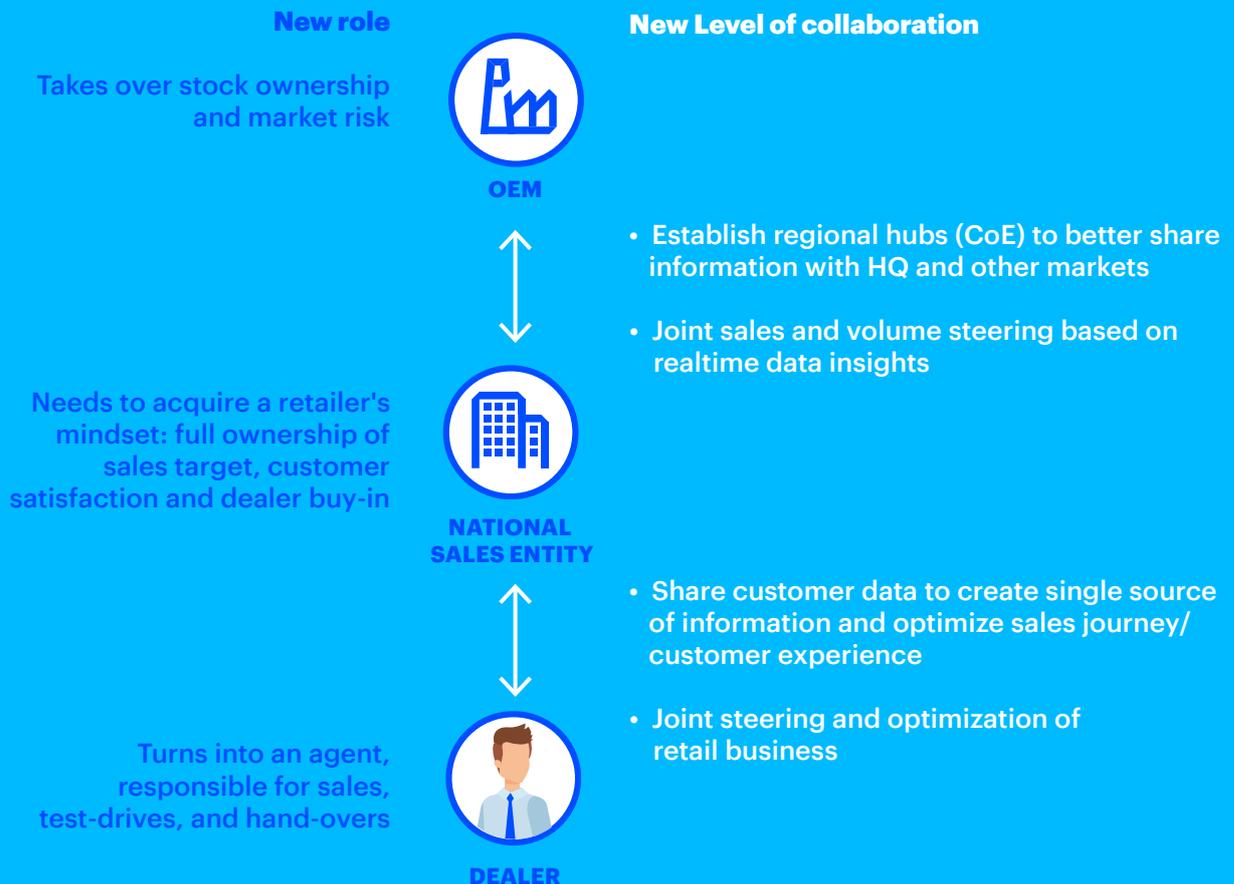
And this cultural change needs to take hold at headquarters as well. OEMs, too, must become more agile. With stock ownership and hence market risk shifting back to the OEMs, oversupplying vehicles to dealers to meet volume targets is no longer an efficient strategy. Instead, OEMs need to take responsibility for the entire end-to-end sales process and adopt a customer-centric mindset. Moreover, with direct sales KPIs differing from wholesale KPIs (e.g. discount to dealer vs. discount to end customer, delivery time to dealer vs. delivery time to end customer, etc.), the established controlling processes need rethinking. To succeed in direct sales, OEMs need to track sales at the market level even closer to become more flexible with planning and operations, since demand can change quickly.

EXEMPLARY CHANGES IN FTE NUMBERS AT NSE AND DEALER LEVEL AT TRANSITION FROM INDIRECT TO DIRECT SALES IN ONE SELECTED MARKET



Indicative

NEW ROLES AND LEVELS OF COLLABORATION BETWEEN OEM, NSE AND DEALERS



Business model transformation

Considering the continued transformation of the automotive industry, established OEMs will need to change their business model from being a vehicle manufacturer to becoming a mobility provider. The agent model represents the first step for OEMs on this much larger transformation. This is important due to two reasons:

1. With competitive pressures rising, sales margins are prone to decline even further in the future, eroding revenues from traditional car sales.
2. With urbanization progressing, soon more than 50 percent of car rides will take place in metropolitan areas, where new mobility concepts, such as car sharing and ride hailing, are already booming.

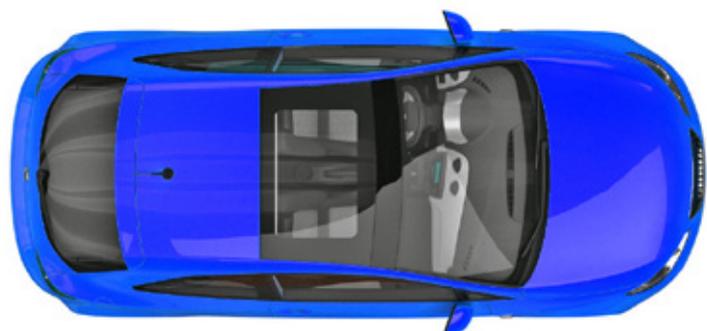
As traditional volume sales decrease in relevance, subscription models, connectivity services, and shared mobility provide lucrative new revenue pools for OEMs and are rapidly gaining importance. New market players are counting on this. Canoo, for example, is not selling its new battery-electric car but is planning to offer mobility in exchange for a membership fee (subscription model). And other players are already anticipating a driverless future. Dr. Carsten Breitfeld, CEO at Faraday Future and former Head of Engineering BMW i8, explains that he is striving to re-define the customer-centric approach in building a vehicle. With breakthroughs in new technologies just around the corner, he aims to design not only avant-garde electric vehicles but an interconnected mobility platform that creates new revenue streams.



Dr. Carsten Breitfeld,
CEO, Faraday Future Inc.



We are building smart, interconnected passenger vehicles prepared for the era of shared mobility. And we will provide the digital ecosystem for a revolutionary and unique customer-centric in-car experience.



In order to succeed under these new conditions, direct customer access and multi-channel orchestration are essential. It is evident that the traditional indirect sales model is reaching its limits. Already today, dealers are oftentimes reluctant to support new services and offerings because they require high effort while generating comparatively little returns for the dealer or even cannibalizing the dealers' business.

The agent model, however, grants OEMs full control over all sales channels and thereby provides the ability to push new services and offerings into the market. OEMs can use online sales channels to promote new services and offerings and can simultaneously shape dealer remuneration so that it provides incentives for dealers to support the OEMs' efforts.

Figure 10: Business transformations for OEMs



Conclusion

Given the changes underway, as well as the tremendous disruptions ahead, the automotive industry is at a tipping point. After decades of relatively stable growth, the current economic downturn and the market entry of hundreds of new, disruptive players, the automotive industry is transforming at an unprecedented pace. In order to keep up with the drastic technological advances in electrification, digitalization and the sharing- and service-economy, hundreds of billions of dollars need to be invested.

At the same time, customer demands are changing and the status quo of car sales is quickly becoming obsolete. The fact that one out of five young customers is deeply dissatisfied with the traditional sales model is a clear signal to established OEMs. The time for experimenting with small-scale adaptations is over. Only a bold transformation of the sales model towards true customer centricity will help OEMs thrive in the future.

The agent model is a smart way for OEMs to fight off new competitors while integrating existing dealer assets to provide a superior omni-channel customer experience. Moving to the agent model is, however, a large and highly complex endeavor. Taking over assets and risks, OEMs need to be fully committed to adopt sales responsibility and customer centricity. Not all OEMs will be willing to venture on this journey, and different regions will require different solutions. The US, for example, seems likely to be among the last markets to feature direct sales approaches, due to strict legislation (differing across states), strong dealer associations, and lifelong dealer contracts. Ludwig Willisch, the former Head of Region Americas at BMW, however, is convinced that “a direct sales approach will also be the future for the US.” The market forces at hand will eventually enable a fast, global scaling of the direct sales model, unleashing significant economic potential. We have calculated that for a mid-sized region, the agent model has the potential to reduce cost of retail by up to 4 percent, generating more than \$1 billion of annual savings in a mid-sized region and paying off after only two to four years.



Ludwig Willisch, Head of Region Americas (retired), BMW Group



Despite strict regulations with respect to direct sales and the resulting protection of local automotive dealerships, a direct sales approach will also be the future for the US.



But one size does not fit all, and we are likely to see alternative sales models in the future. Some OEMs will operate online stores for fast selling that will enable them to do without a transformation of their large physical retail networks. For others, it may be the right step to focus on manufacturing low-cost vehicles and partnering with disruptive third-party providers for marketing and sales.

Given their strong brands and vast sales networks, established OEMs are in a good starting position. But the change from product sales to provider of customer-centric mobility services is inevitable. Only those who foresee the upcoming disruption and transform their sales model accordingly will continue to thrive. The OEMs that fail to revolutionize the customer interface now will not only lose sales, but they also risk losing their position at the forefront of the automotive industry.

It's time to change. Now.

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