

# The future of Automotive Retail – A scenario based approach



PRESENTATION FOR EUROPEAN CAR DEALERS DAY 2016  
September 22nd



# Executive Summary

## The nature of retail is changing

## Disruptions will have significant impact on dealers role and business viability

## The way ahead

- **Digital** and new focus on **customer centricity** affects virtually **all industries**
  - Some of them **already** underwent **massive transformations**, e.g., **travel**, consumer goods (**furniture**) and automotive retail will be next
  - Overall, a “**battle for owning the customer**” has started with dealers being challenged from OEMs and new entrants
  - In a **shrinking market** where **consumer preferences change**, "asset free" and customer-centric **3<sup>rd</sup> parties** emerge **along** the automotive **retail value chain** and OEMs discover the power of "big data" (customer and car data), **dealers** have to **re-define their role**
- 
- A **set of disruptions** will shape the way automotive retail is done in the future, namely *digitalization, 3<sup>rd</sup> party entrants, direct sales, customer connectivity, changing mobility preferences and increasing fleet professionalization*
  - To assess **implications of these disruptions**, we **modeled** the effect for an **exemplary region**, somewhere in **Europe**
  - While the **combination of disruptions will differ** by brand and country, each disruption itself already would have **massive implications on dealer economics**
  - If dealers would not react, **dealer RoS could drop by >8ppt vs. today** to a massively negative return
  - However, if **dealers** take the right steps to **counter disruptions** and optimize sales and service operations, while tightly managing fix & variable costs, **RoS could rebound** to old levels or even increase further
- 
- Dealers need to **sharpen their value proposition** – for the customer & for the OEM
  - **Owning the customer** & generating a high **customer experience** at any time will be crucial for success
  - A **professionalization of shops, processes** and **dealer groups** will be required to seize **scale economies**, lower costs and being able to **invest into new digital** offerings
  - A **fact-based simulation of how disruptions might impact** dealers and dealer networks will help to define required counter measures

The nature of retail is changing

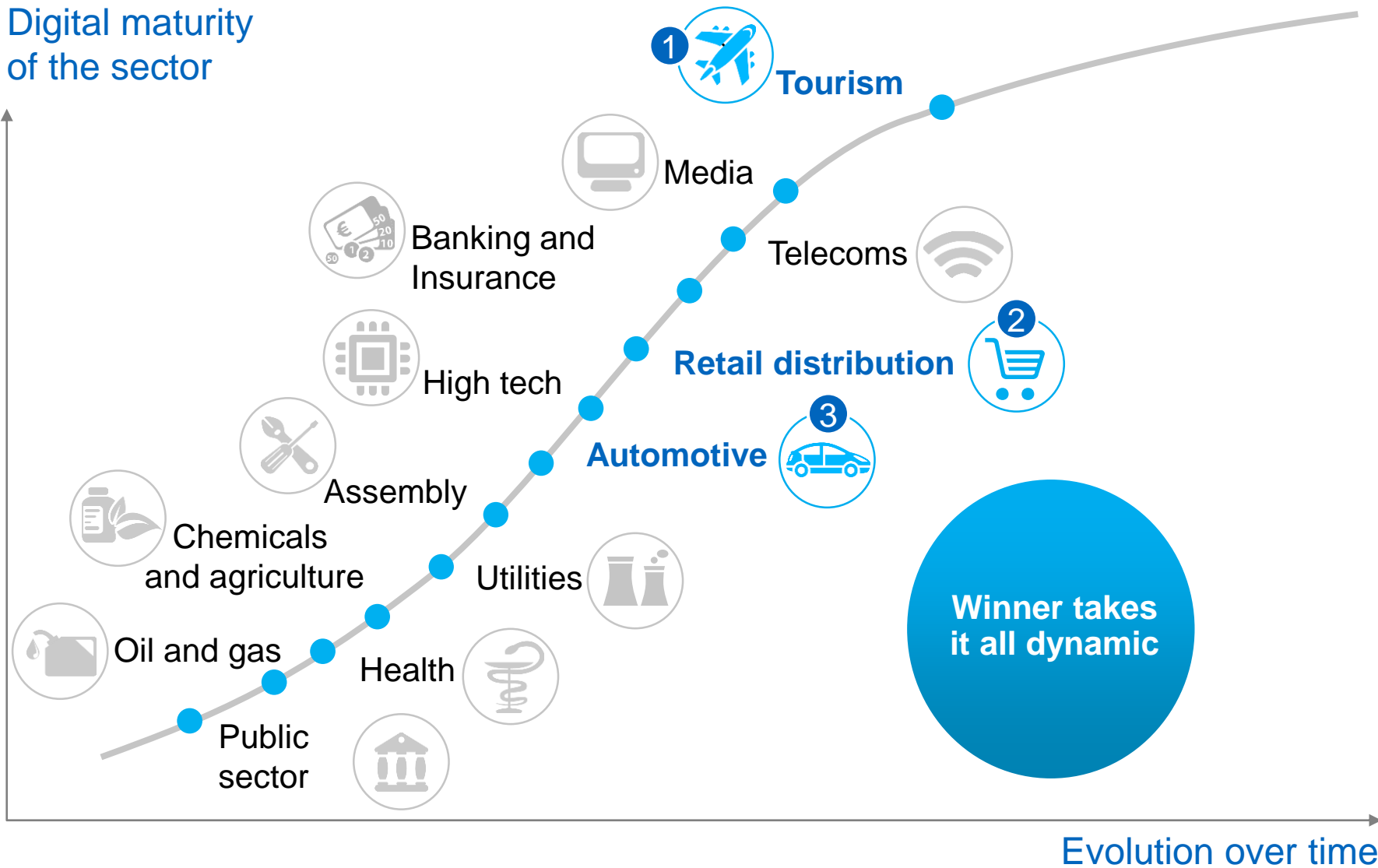
Disruptions will have significant impact on dealers' role and business viability

The way ahead

# Digital and new customer centricity is fundamentally affecting all industries – with varying speed and scope

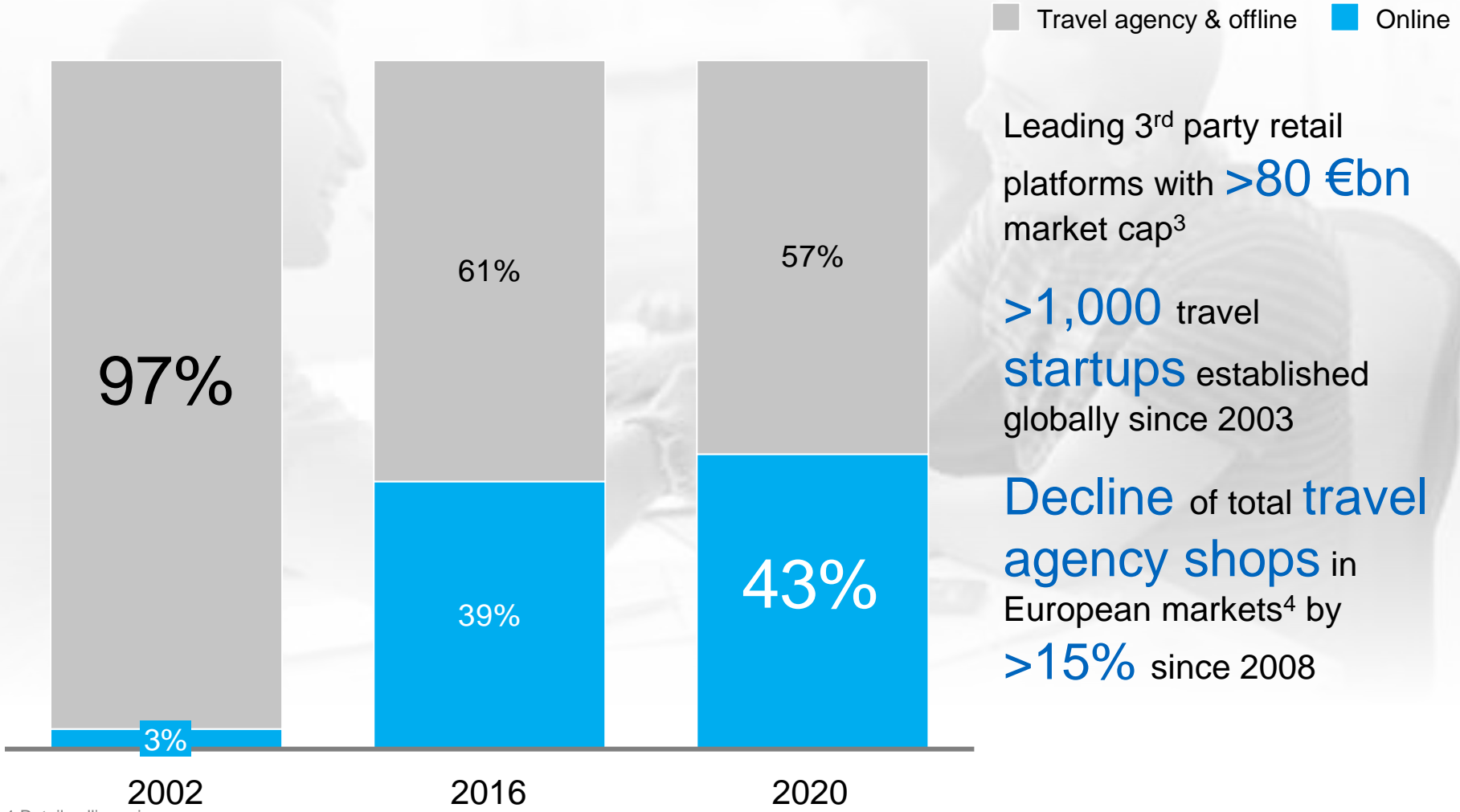
○ Exemplary case studies

Digital maturity of the sector



# 1 Other sectors already underwent a major disruption and can give a good indication of what to expect in Automotive Retail – Example Travel

Hotel booking revenue market share<sup>1</sup> in major European markets<sup>2</sup> by channel



Leading 3<sup>rd</sup> party retail platforms with **>80 €bn** market cap<sup>3</sup>

**>1,000** travel startups established globally since 2003

**Decline** of total **travel agency shops** in European markets<sup>4</sup> by **>15%** since 2008

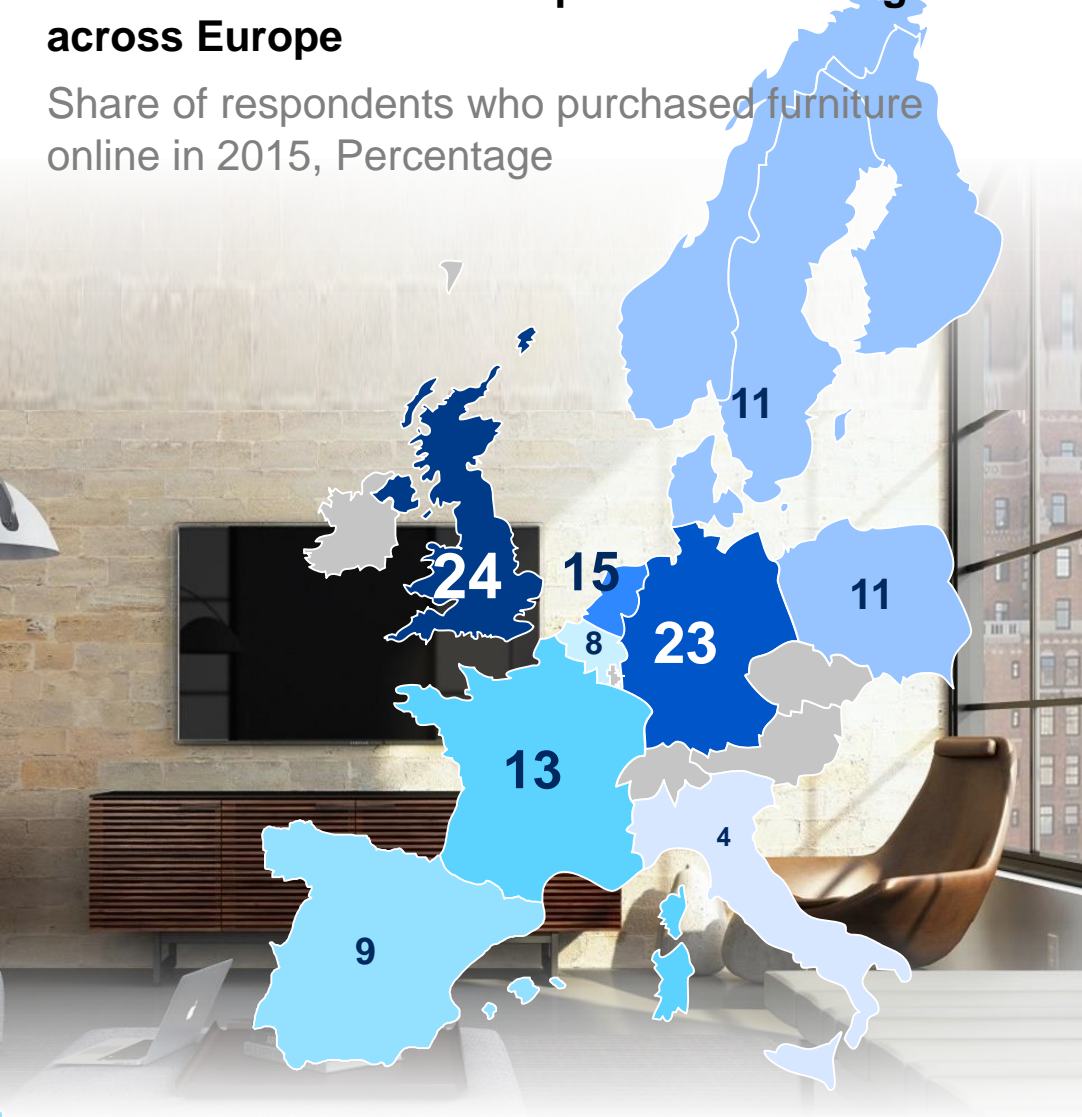
<sup>1</sup> Retail selling price  
<sup>2</sup> Major European Markets: Belgium, France, Germany, Italy, Spain, U.K., Switzerland  
<sup>3</sup> Expedia with 17 USDbn, The Priceline (e.g., booking.com, agoda.com, Kayak) 71 USDbn, as of September 2016  
<sup>4</sup> Belgium, France, Germany, Italy, Switzerland, partially extrapolated



## 2 Other sectors already underwent a major disruption and can give a good indication of what to expect in Automotive Retail – Example Furniture

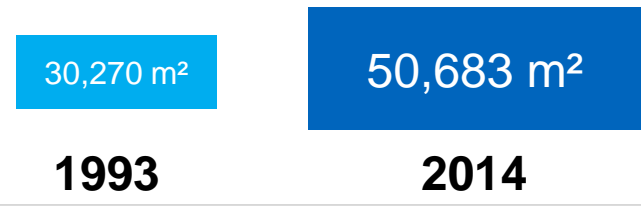
### Share of online furniture purchasers is high across Europe

Share of respondents who purchased furniture online in 2015, Percentage



### Remaining physical shops are getting bigger

Average shop floor m<sup>2</sup> of Top 30 German furniture stores



Increased collaboration in procurement & marketing across central Europe



SOURCE: Statista, Möbelkultur, XXXL Group

### 3 Major OEMs and third parties throughout Europe are planning to change way of working with dealer networks to adapt to new trends



“The **dealer** is still very much at the **heart of our relationship with the customer**. However, we want to **steer the system**, because we are developing an overview of the entire **customer journey**.”

– Ian Robertson, BMW

“The aim was to deliver a thoroughly modern customer experience, which **brought together** the worlds of **digital commerce** and **Volvo’s existing** manufacturing facilities and **dealership network**.”

– Klas Bendrik, Volvo Cars



“**94%** of new car sales **involve the internet**. Taking this into account, we are considering to **start to offer direct sales and financing** through our websites.”

– Linda Jackson, Citroen

“**Digitization** will **fundamentally change** sales. The key point is that we **must own the direct interface** with the customer. **No 3<sup>rd</sup> party provider** should get in between.”

– Dieter Zetsche, Daimler



“LeasePlan takes over the complete **organization** of **service, repairs and maintenance** providing **pick-up and delivery** service for your car and replacement vehicle.”

–LeasePlan website

### 3 Overall, a “battle for the customer” is expected in automotive retail

● Further detailed

- A** Increased threat of new entrants
- 3<sup>rd</sup> parties entering used car, new car and service business
  - Lower cost position ("asset free") given focused offering vs. fully fledged dealer
  - Strong focus on customer experience

- D** Increasingly flexible mobility services
- Shared mobility concepts get digitally enabled (e.g., Car2Go, DriveNow)
  - New convenient offerings (e.g., UBER)

- C** Dealer business under pressure
- Need to heavily invest into existing dealership infrastructure
  - More rigid requirements and steering by OEMs
  - Need to justify customer ownership towards OEMs

- B** Changed customer expectations and behavior
- New customer multi-touch journeys
  - Cross-industrial benchmarking of customer experience
  - Trend towards fleet accounts and professional fleet management reduces dealers' value-add potential



- E** OEMs
- OEMs are building direct sales channels
  - OEMs aspire to own the customer; connected cars will be a key enabler

Meanwhile **total market** size is **declining**



# A New players have emerged along entire spectrum of Auto Retail

■ Detailed next



- Discounts on new cars of up to 60%
- Passing on SIXT's rental conditions to consumers
- Home delivery



- Number of new cars offered on platform doubled in one year
- Plans to add C2B functionality



- Advertise ~75% of all used cars in UK
- 80% of UK dealers use AutoTrader to offer their cars online



- C2C trading platform for used cars
- Delivers vehicles to customers



- Buys used cars from private customers (C2B)
- Market value of 1bnUSD and active in >20 countries



- Dutch-based C2B broker platform for used cars
- Business model comparable to Auto1



- Europe's largest online tire player (>550m€)
- Operates 245 online shops in 45 countries



- US-based online used car dealer
- Positioned as efficient alternative to dealers

**A** Carspring is a C2C trading platform for used cars and acts as a direct matchmaker between two private customers



**Carspring sends inspector**

- Car condition check
- Set the fair car price



**Customer finds the car he wants on carspring**

- Detailed review of condition check
- Trust in Carspring's inspectors



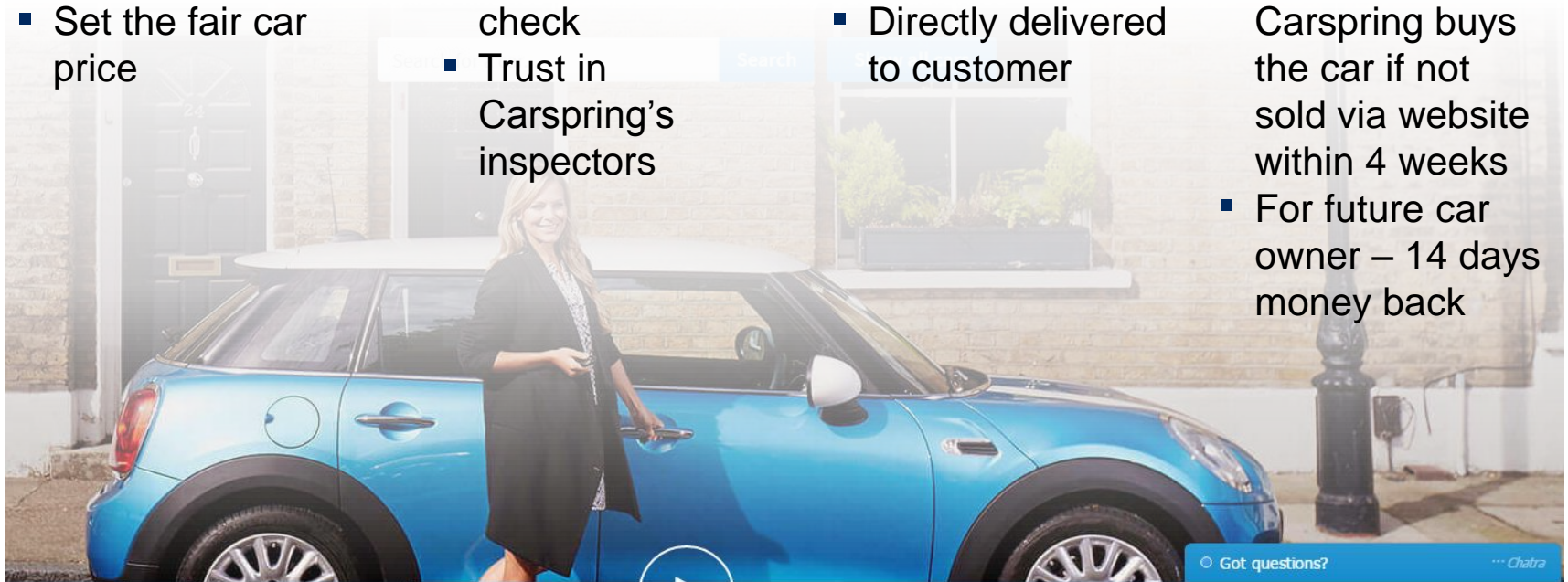
**Purchase & Delivery**

- Car is purchased online
- Directly delivered to customer



**Guarantee**

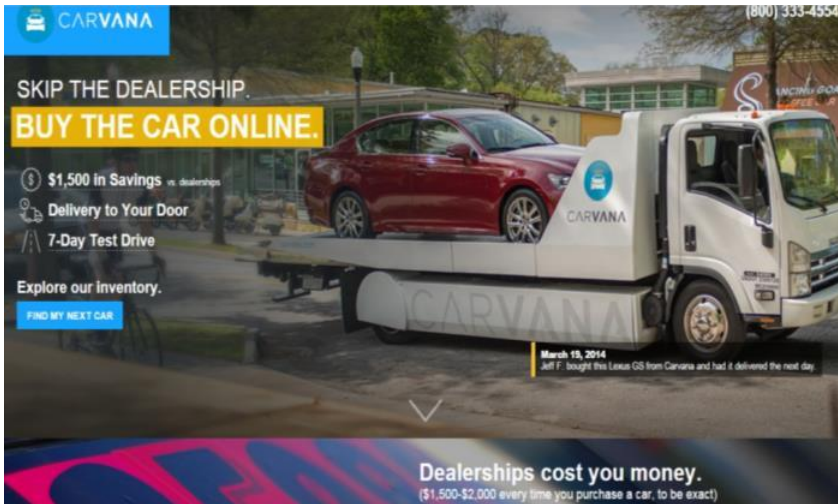
- For current car owner – Carspring buys the car if not sold via website within 4 weeks
- For future car owner – 14 days money back



Got questions?

Chatra

# A Online direct sales with positioning of dealers as "cost factor" require clear perspective on value add of physical touchpoints



**SKIP THE DEALERSHIP.**  
**BUY THE CAR ONLINE.**

- \$1,500 in Savings vs. dealerships
- Delivery to Your Door
- 7-Day Test Drive

Explore our inventory.  
[FIND MY NEXT CAR](#)

March 19, 2014  
Jeff F. bought this Lexus GS from Carvana and had it delivered the next day.

**Dealerships cost you money.**  
(\$1,500-\$2,000 every time you purchase a car, to be exact)



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Dealership		
When you buy from a dealership, here's what you're also paying for.		
<b>Dealership Overhead</b>	Real estate, rent, sales staff, balloon animals, etc.	<b>+\$1,500</b>
<b>Extra (Hidden) Fees</b>	Dealer fee, documentation fee, administration fee, etc.	<b>+\$500</b>

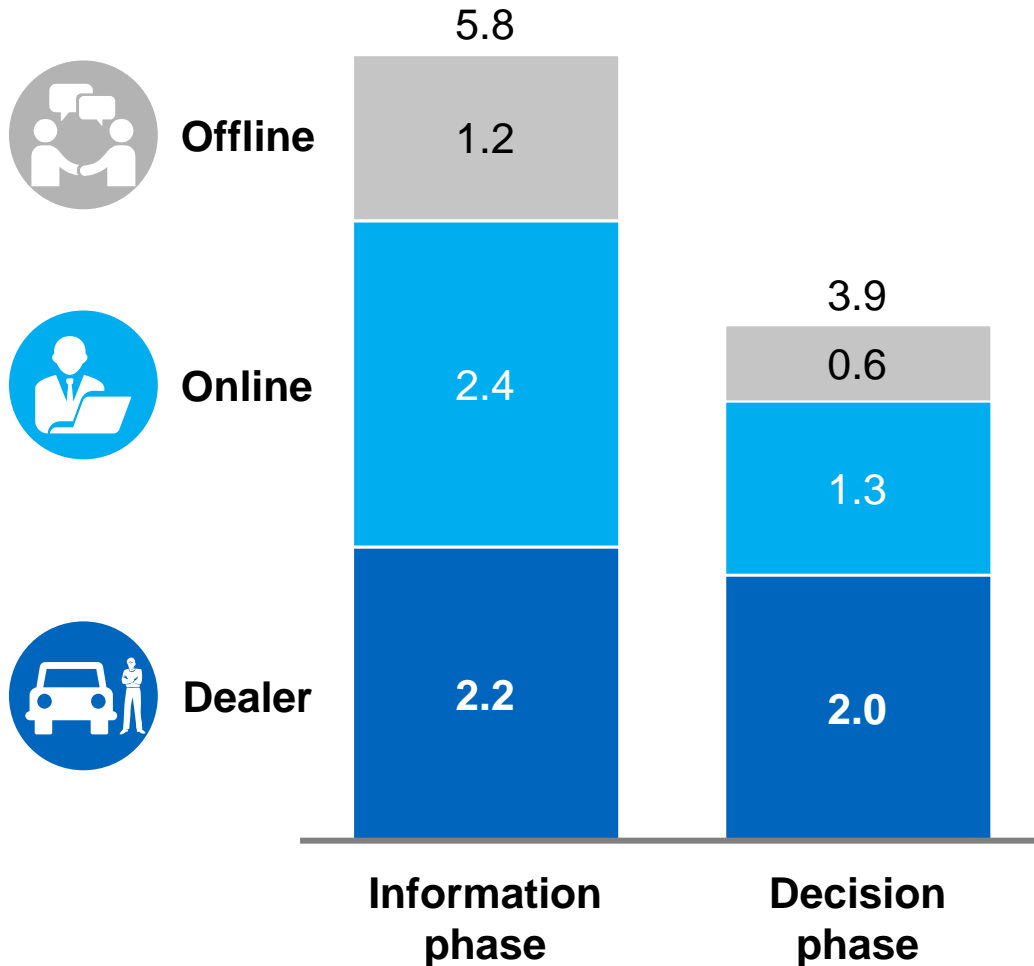
Carvana		
We replaced the dealership with <b>technology</b> , eliminating the \$1,500-\$2,000 in extra cost to you. What do you get instead?		
<b>Free Delivery</b>	or pick up from our car vending machine	<b>Included</b> <a href="#">details</a>
<b>7-Day Test Drive</b>	No-questions-asked return policy	<b>Included</b> <a href="#">details</a>
<b>Thousands in Savings</b>	vs. Kelley Blue Book's Suggested Retail Price	<b>\$1,500-\$2,000</b> <a href="#">details</a>





## B Online is the leading source of information for car purchase – Online price comparison on-site at dealer are already reality

Average number of touch points used/experienced per category



**>60%** of research during information phase is not made at a dealer

**63%** of U.S. car shoppers are engaging in online research *during* the dealer visit ("showrooming")

**What will happen in Europe?**

## C Telematics technology is becoming part of standard OEM auto models

OEMs create value add out of customer data ownership – What can you offer?



- Connected Drive system with automatic emergency calls
- Factory fitted telematics for usage-based insurance
- Remote control via smartphone



- Location-based point of interest features
- Traffic data and warnings sent to smart watch
- Vehicle location, health check, etc. shown on mobile device



- Digital assistant suggests restaurants and shows opening hours of buildings
- Cars connect to each other to exchange traffic information



- Coordination of vehicle recharging and household energy consumption to reduce electricity costs
- Remote diagnostics



“By 2017, more than 60% of the world’s new cars will be connected; it will exceed 80% in the US and Western Europe as new cars get pumped full of smarter technology”

– ABI



# C OEMs are developing differentiated formats and re-designing their networks

## Physical formats

### Lexus Intersect



### Land Rover Experience Center



### Volvo Pop-up Store



### BMW City Store



## Digital formats

### FIAT live store



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The way ahead

# Summary: We see 6 building blocks for defining future scenarios of Automotive Retail

Digitalization 1



4 Customer Connectivity



3rd party players 2



5 Mobility concepts



Direct sales 3



6 Fleet professionalization



We will see a combination of these trends – with differences by country and brand

# Each building block has specific implications on the dealer operating model – which developments do you believe will have the biggest impact?

PRINT ONLY

- 1 Digitalization**
  - Radical **digitalization of sales and service**
  - Customers inform, **configure and order online**
  - Customers book **service appointment online with home delivery**



- 4 Customer Connectivity**
  - OEM connectivity**
    - OEMs **leverage car & customer data**
    - OEMs will **direct customer to service appointments**
  - Dealer connectivity**
    - **Dealers exchange customer and car data** amongst them across a broader geography (and potentially across different brands)
    - Dealers generate **action recommendations** out of "big data"



- 2 3rd party players**
  - **Rental companies, leasing companies, online start-ups and car platforms** enter the multichannel automotive retailing
  - **Dealer loses exclusive sales right**
  - **Price transparency remains limited** given heterogeneous actors



- 5 Mobility concepts**
  - **Change in customer preferences:** new mobility concepts reduce demand for cars
  - In addition, **increasing sophistication of new mobility concepts** surge usage of car sharing



- 3 Direct sales**
  - OEMs sell **significant volume direct to customers**
  - **OEMs pay dealers service fee** for performing test drive activities
  - OEMs pay dealers a fixed **handling fee for car hand-over**



- 6 Fleet professionalization**
  - **Increased professionalization of fleet users:** Large fleet customers will become more sophisticated in purchasing & servicing fleets – reducing price & volume for dealers new car & service business
  - Alternatively, **outsourcing fleet management** to specialized vendors could lead to the same effect

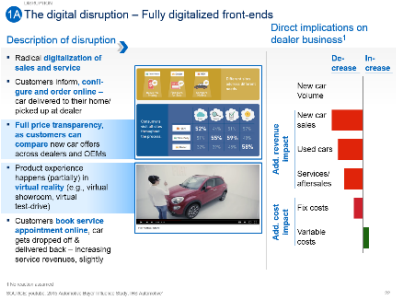




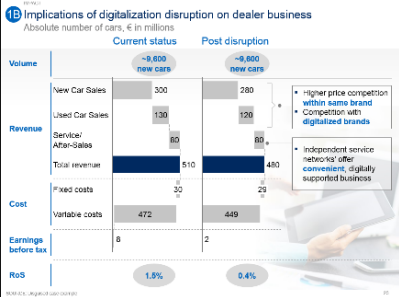
# For each building block the disruption potential and impact on dealer economics was modeled

## How the simulation was run

### A Disruption assessment



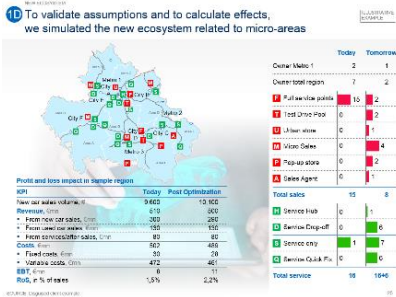
### B Impact on dealer economics



### C Implications for new dealer role



### D Implications for new ecosystem



- Evidence for disruption
- Impact on new car, used car, service and costs

- Impact on dealer economics in exemplary European region, if dealers would not react

- Response levers how dealers could counter the disruption
- New dealer role post disruption

- Post optimization state for dealer economics
- Differentiated shop formats & new dealer landscape



# Result of simulation: Impact on dealer RoS in exemplary European region

Change in RoS, in percentage points

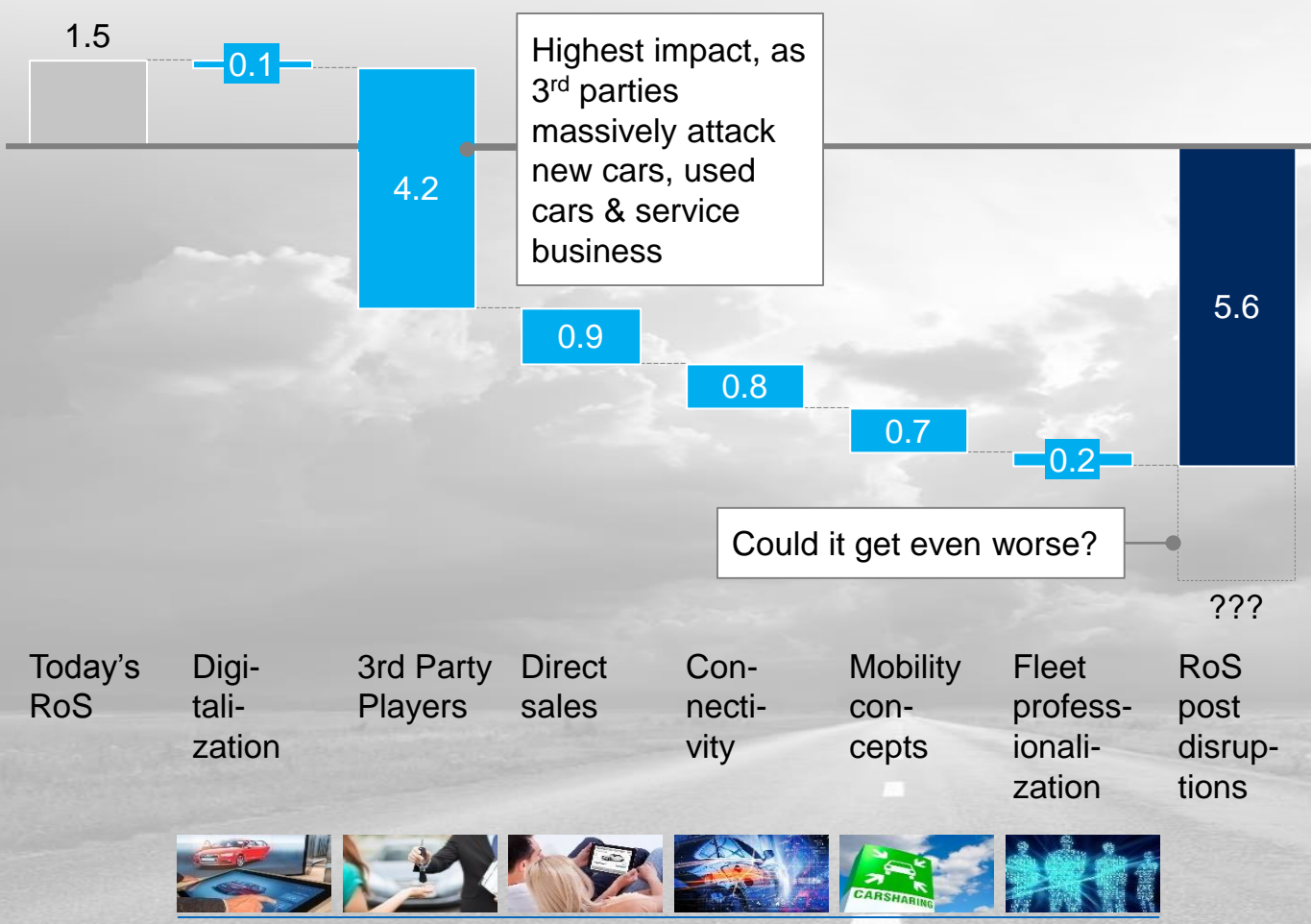
■ Post disruption ■ Post optimization



How to achieve optimization state?

# In a moderate scenario dealers' RoS will be influenced negatively, most heavily by third parties entering service, new and used car business

Dealer RoS in exemplary region, in %



## Hypotheses:

- **New car sales volume -20%** due to OEM direct sales & 3<sup>rd</sup> parties
- **Used car revenues -5%** driven by 3<sup>rd</sup> party offerings and changed shopping behavior
- **Service revenues -3%** as private & professional customers prefer garages who offer digitally enabled pick-up service
- **Average price for new cars -2-3%** as price pressure within dealer group increases, induced by direct sales, lower volume and 3<sup>rd</sup> parties
- **Customers' willingness to pay for used cars - 2%** given better mobility alternatives

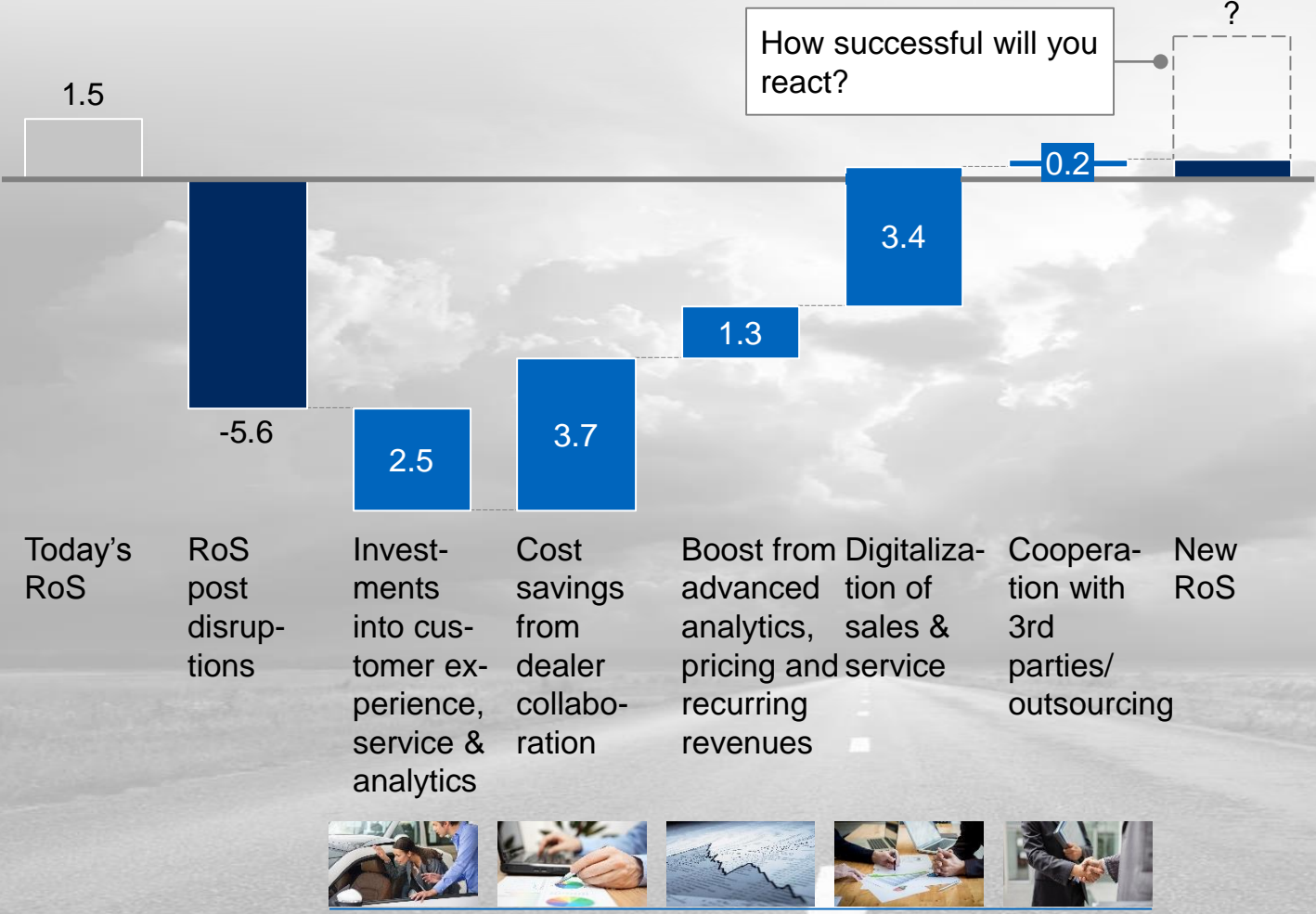
Today

Disruptions

Note: Buildings blocks partially become reality & affect only dealer revenues, not directly cost structure, Later response uses many improvement opportunities with ~50% success rate. Excluding overlaps on pro rata basis.

# In a moderate scenario dealers' post optimization economics heavily depend on successful implementation of improvement leavers

Dealer RoS in exemplary region, in %



### Optimization levers

- **E-commerce** sales will increase new car volume by **3-5%**
- **Dealer consolidation** reduces fixed costs by **~2%**
- **New lean shop format** save **2-3%** of annual fixed costs
- **Pooling back-office and data analytics** across dealer groups saves **2%** of fix costs, additional increase in revenue from data analytics of **+4%**
- **Replace showroom cars** with virtual inventory and offer **virtual test drives** to save **~ 1%** of variable costs



Optimization leavers

Note: Buildings blocks partially become reality & affect only dealer revenues, not directly cost structure, Later response uses many improvement opportunities with ~50% success rate. Excluding overlaps on pro rata basis.

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The way ahead

# The different scenarios share a few recommendations for dealers

- ✓ **Build a new value proposition, making it sharper and more specialized!**
  - What can you offer to professional & private customers that no other channel can do?
  - What's your value proposition for the OEM? Why should you continue to own customer data?

## Pilot & test new ideas in an agile way

- ✓ **Own your customers and strengthen the dialogue with them – embrace customer centricity by shifting from transactional to translational model!**
  - Apply **data analytics** to identify patterns in your already existent customer data
  - Ensure that every customers gets **high-class experience**. Anytime.
  - Focus on **recurring revenues** rather than one-off deals

- ✓ **Professionalize your processes and become more creative about making money!**
  - Professionalize your back-office business
  - Change mindset and enhance dealer staff and management capabilities
  - Ensure that sales people find sufficient time for selling cars & **upselling options/accessories**

- ✓ **Use digital to your advantage and transform into a wide service provider!**
  - Use digital to create better customer experience:
    - Communication with **customer via app** („your car is now in repair“, „make a test drive appointment online“, „when shall we pick up your car for service?“)
    - Create customized offerings out of **big data** and use during sales process („other customers who have comparable cars also purchased this option and were highly satisfied“)
  - Use digital to develop and test **new/flexible mobility concepts** – don't be afraid to fail
  - Use digital to **reduce costs basis** and become **“asset light, tech heavy”**:
    - Offer virtual test drives
    - Increase workflow process times

- ✓ **Team-up & scale-up to increase your firepower!**
  - Large investments into data analytics require financial strength
  - Build purchasing conglomerates as other industries did



To drive the journey towards these targets, CECRA proposes the following initiatives

## 1 Dealer driven customer interaction initiative

- Assess feasibility of strengthening customer ownership and dialogue through a cooperation between dealers and dealer organizations
- Develop a specific concept and the required technical solution
- Pilot approach within selected dealer organizations

## 2 Positioning paper: Future value proposition of the dealer

- Detail out the future value proposition of an Automotive dealer (potentially along different archetypes)
- Support transformation discussions within local dealer organizations
- Leverage developed perspective in discussions with OEMs and political/ regulatory authorities

## 3 Scenario modelling and benchmarking for set of dealers / dealer organizations

- Identify dealers / dealer organizations and collect required data
- Apply developed scenario simulation model to specific data set
- Jointly review results and derive implications for dealers / dealer network in scope

Initiatives to be detailed out over next months by CECRA together with country associations

We are affected by the same macro trends – cross-cutting brands and countries!

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September 2016

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