Future of automotive retail

Shifting from transactional to customer-centric

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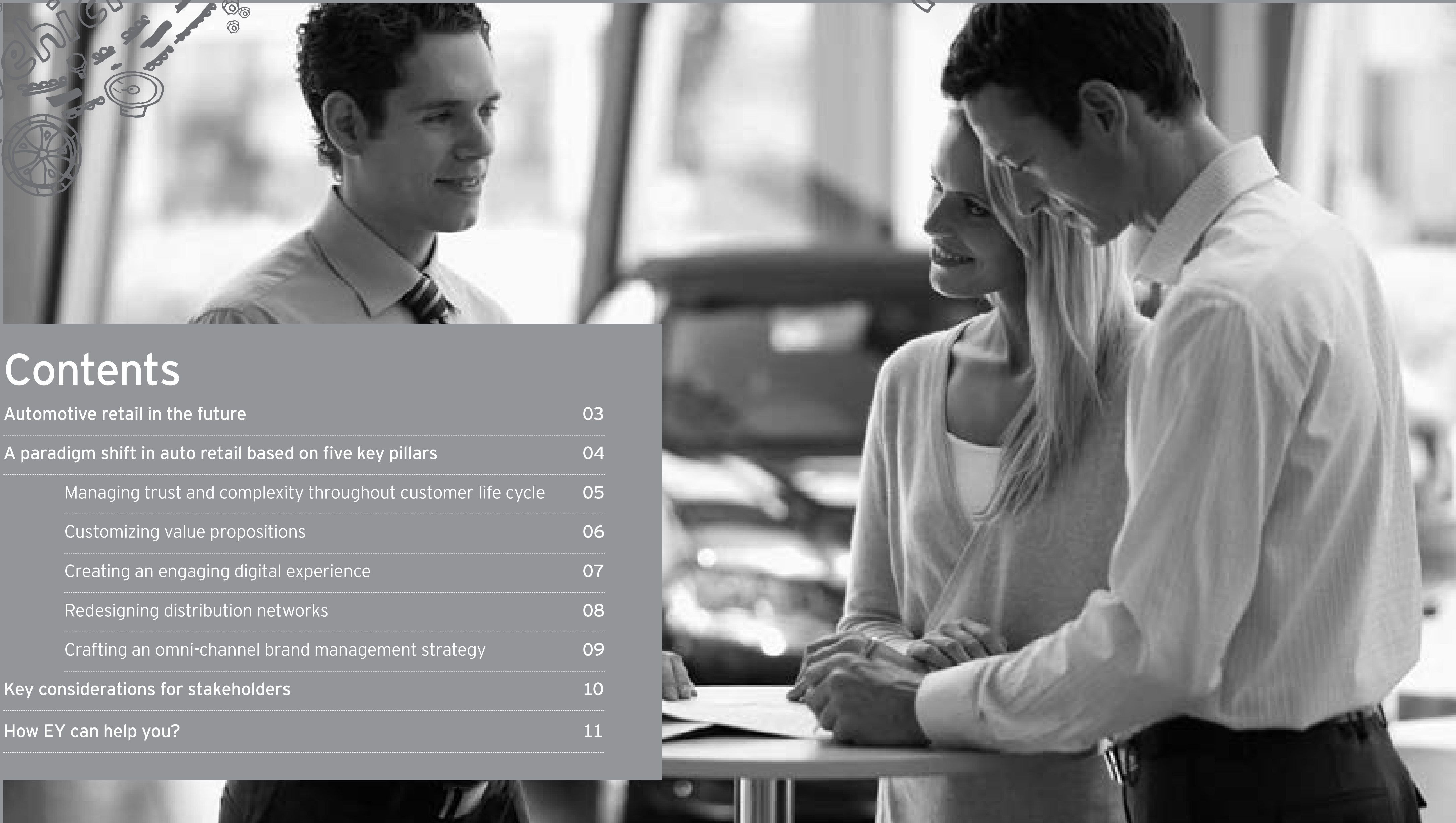
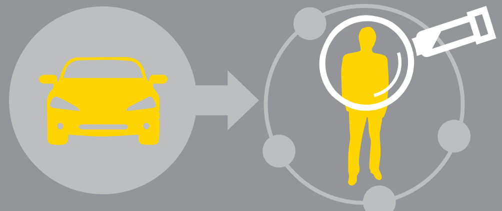


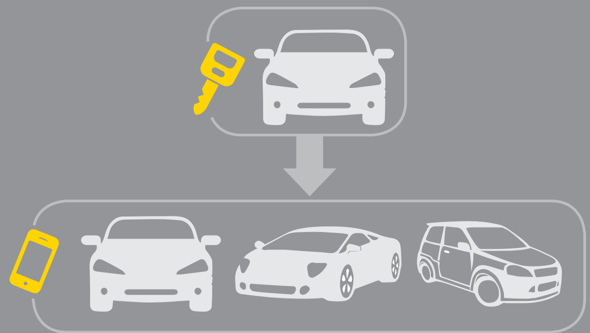
Contents

Automotive retail in the future

Evolving from bricks-and-mortar to an omni-channel strategy

Automotive retail will shift from a product-driven to a customer-centric approach to drive customer loyalty and to adapt to changing customer behavior and expectations.





The rise of new mobility concepts and shifting mobility preferences of private and commercial customers (e.g., private- and business-car sharing, electric vehicles and an increasing role of used cars and fleet) are causing automakers and automotive retailers to rethink their current business model.

Customers are able to quickly interact and easily access information across media and devices — anytime, anywhere. This needs to reflect in the customer experience and marketing strategies.

"Achieving this transformation in automotive retail will not only require a concerted effort from both automakers and dealers, but will also demand an unprecedented level of collaboration with other stakeholders in the ecosystem, particularly insurance companies, auto finance and aftersales market participants.

- For automakers, they have an opportunity, for the first time, to not only build a relationship with the customer by leveraging connected vehicles, but also to deliver a rich brand experience through seamless integration across all customer-facing channels.
- For dealers, the transformation is a significant opportunity to streamline their operations by shedding non-value-adding functions and unlocking capital from redundant infrastructure, while taking on a wider service portfolio that contributes to better margins.

In the short term, there is a clear need for stakeholders across the automotive retail ecosystem to undertake significant change management to catch up with the broader retail industry.

This is an executive summary of our analysis of the future of automotive retail, where we discuss the key forces at play and steps that stakeholders in this ecosystem should take to meet the needs of customers, and remain relevant and competitive."

Randall J. Miller
Global Automotive and Transportation Sector Leader, EY

Paradigm shift in auto retail

Digitization, regulations, evolving customer needs and new competitors necessitate a rethink of the retail model

Significant changes in the operating environment and within the auto retail ecosystem are forcing automakers and dealerships to rethink their model. We believe this will drive a major paradigm shift in auto retailing over the next decade, based on five key pillars.

Retail sector changes

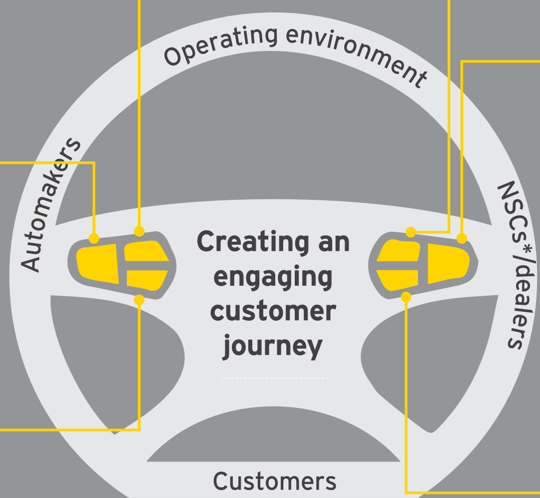
- Retailers moving from multi-channel to omni-channel
- Online and boutique stores
- Increasing use of big data and analytics

Product evolution

- Increasing vehicle complexity
- Faster replacement rates
- Rapid technology evolution

Increasing stakeholder influence

- Auto-leasing and insurance companies
- Vehicle comparison sites
- Online comparison sites and configurators
- Financial institutions



Increasing competition in auto retail and aftersales

- Independent fast fitters
- Original equipment supplier (OES) workshops

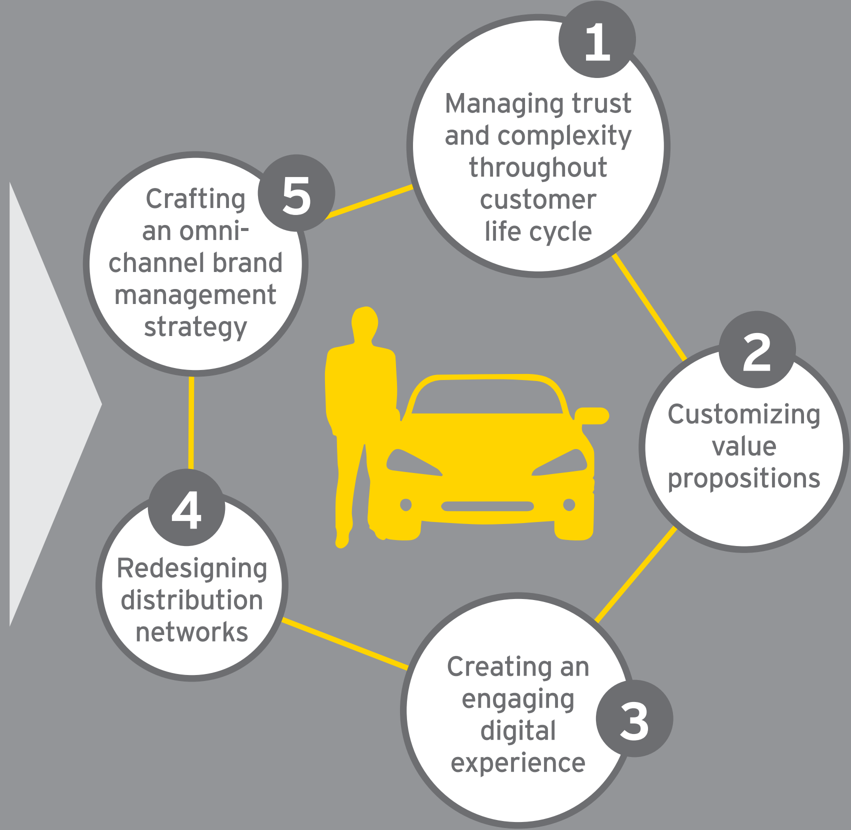
Changing customer behavior

- Digital becoming the starting point for a purchase journey
- New mobility preferences
- Need for customization
- Higher demand for used cars and fleet service

Regulations

- CO_2 emissions standards
- Repair legislation
- Direct sales legislation
- Safety standards

Five pillars of the paradigm shift



*National Sales Company

Managing trust and complexity throughout the customer life cycle to maintain customer loyalty

Market indicators

Consumers feel that an improved buying process would motivate them to visit dealerships more often

Organizations believe that an increasing emphasis on customer experience is driving business growth strategies

Source: *Car Buyer of the Future*, AutoTrader, 2015; *The perfect landing: an engaging customer experience*, EY, 2014.

We believe automakers and dealers must focus on transforming the overall customer experience and ultimately develop into a trusted organization. An integrated customer experience strategy is key to building loyalty, retention, and consequently higher profit margins in sales and aftersales. In order to transform a customer from a buyer to a brand advocate, trusted relationships need to be built by injecting trust-building attributes into every customer interaction.

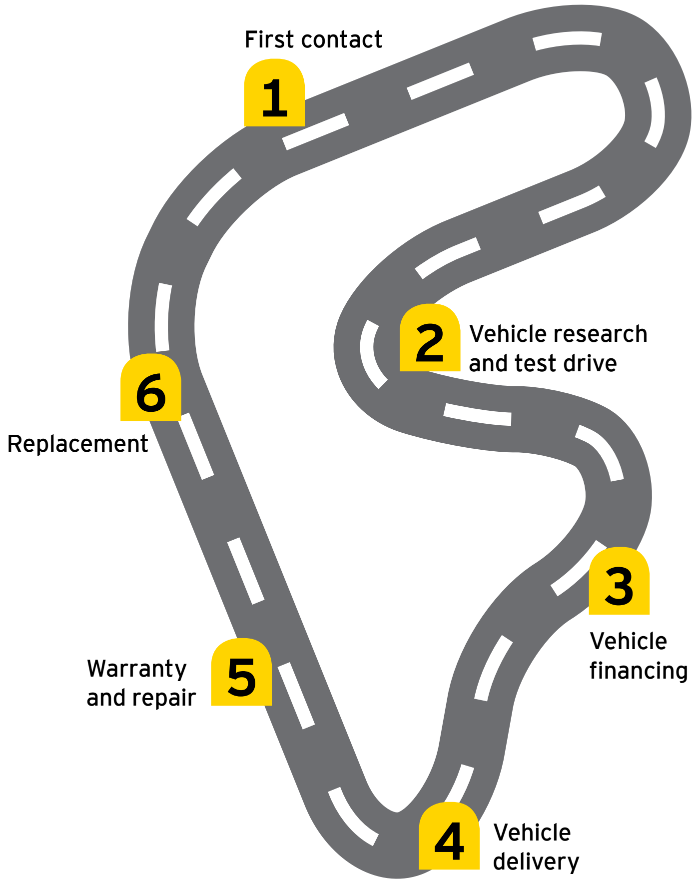
Building blocks for the new auto retail agenda

- **Knowledgeable customers:** with the mobile, digital and social media proliferation, customers can now access diverse information ranging from vehicle performance, to cost of ownership and financing, to ownership and aftersales experiences. This will drive the need for a personalized and relevant customer experience throughout the customer journey.
- **New customer relationship management (CRM) considerations:** huge data generated from multiple customer touch points will result in various CRM considerations. These include better customer insights, better segmentation, and proactive sales and service initiation. Consequently, it will also be critical to be transparent with customers on how their data is being handled and used, with clear opt-out options.
- **Customer life cycle management:** to increase customer retention, customer experience will be managed consistently across the customer life cycle, from vehicle research to aftersales moving to replacement.

What can automakers, NSCs and dealers do?

- **Design customer experience:** design and implement a customer experience that is consistent with the brand identity and establishes trust across touch points
- **Transform processes and systems:** transform processes and systems that impact sales, service, marketing and CRM to enable a seamless customer experience
- **Manage change and realign incentive structures to focus on trust:** drive change management to enable employees to deliver the envisioned customer experience
- **Focus on key trust drivers:** launch specific programs to build authenticity, transparency and consistency

Managing customer experience across multiple touch points is critical to build a trusted relationship

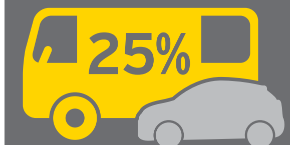


2 Rethinking value propositions to meet changing mobility preferences of customers and growing aftersales competition

Market indicators

24%–44%

Consumers in Germany, the UK and Russia consider car sharing a viable option to vehicle ownership



Survey respondents consider car ownership "not important" and are willing to shift to access and use alternative mobility services

Source: *Multi-channel distribution – key success factors for automotive dealerships and captives*, EY, 2014

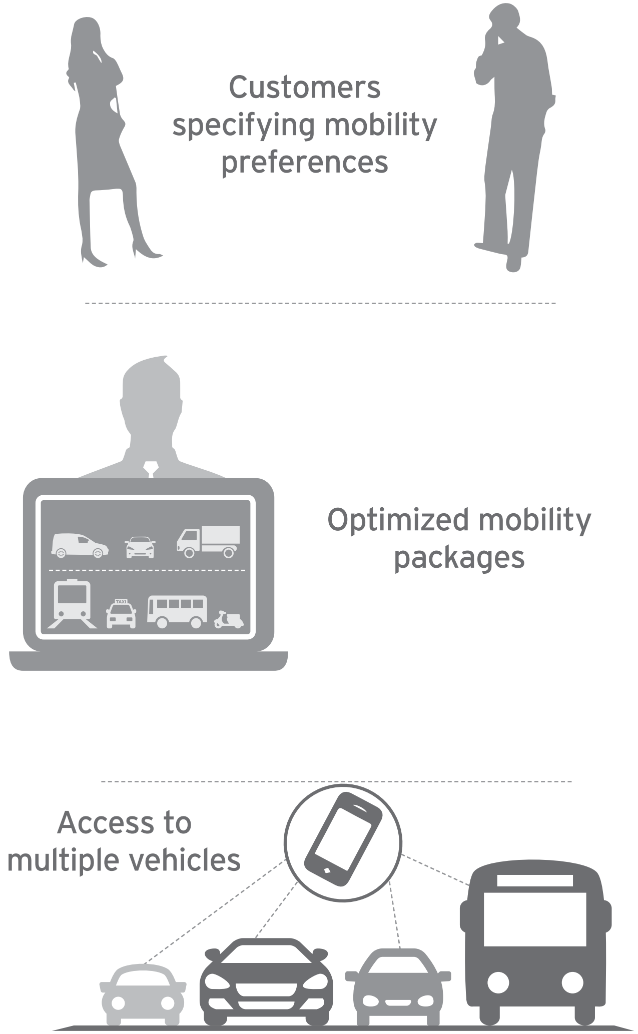
For automakers and dealers to continue to be relevant, it will be critical to create value propositions that help customers tailor their mobility packages. This could involve offering choices ranging from buying vehicles to designing a package involving access to multiple vehicles and modes of transport. Thus, the focus shifts from the experience of driving the vehicle, to experiencing the brand. In addition, with regulations pushing for greater competition from independent repair market, an integrated aftersales value proposition may be the only way to create repeat customers.

Building blocks for the new auto retail agenda

- **A market for mobility services:** the shifting preference from vehicle ownership to access will require the industry to create new value propositions offering mobility services and follow a service-centric approach to automotive retail.
- **Making alternate powertrain vehicles as attractive as conventional fuel vehicles:** the evolving regulatory landscape and increased customer awareness of clean energy vehicles have generated interest, but translation into volumes will require the retail network to be well-equipped in terms of skills and key tools. In particular, sales and aftersales teams will need to be trained on the right competencies, including the ability to package mobility services, and also create smart tools to give customers transparency on ownership economics.
- **Increasing competition in the aftersales market:** regulatory requirements related to aftersales will result in several new entrants in aftersales giving vehicle owners multiple options for vehicle service and repair.

What can automakers, NSCs and dealers do?

- **Reconfigure services, portfolio and processes:** introduce and establish tools to create customized mobility solutions and integrated service packages
- **Identify new business models:** automakers and dealers will need to collaborate with key aftersales participants to create complementary service offerings that will differentiate, attract and retain customers
- **Manage skill-gap of sales and services personnel:** launch specialized training for sales and service personnel and monitor performance
- **Rethinking revenue streams:** dealers need to supplement or replace high margin finance and insurance revenue stream



Creating an engaging digital experience and leveraging customer analytics to proactively address opportunities and mitigate risks

Market indicators

10
Hours spent on average by automotive customers on the web to search for information and to decide when and where to buy

46%
Buyers willing to finance a car purchase online

Source: *Changing lanes*, EY, 2015; *Multi-channel distribution – key success factors for automotive dealerships and captives*, EY, 2014

While customers currently prefer to purchase a vehicle offline, a large part of the purchasing journey is already digital. While we believe online purchase will certainly pick up significantly, customers need to be given the confidence through an engaging digital experience. Crafting a holistic social media and digital strategy has, therefore, become imperative. The need to efficiently use customer analytics to improve operational performance across sales, marketing and customer service is also critical for automakers and dealers.

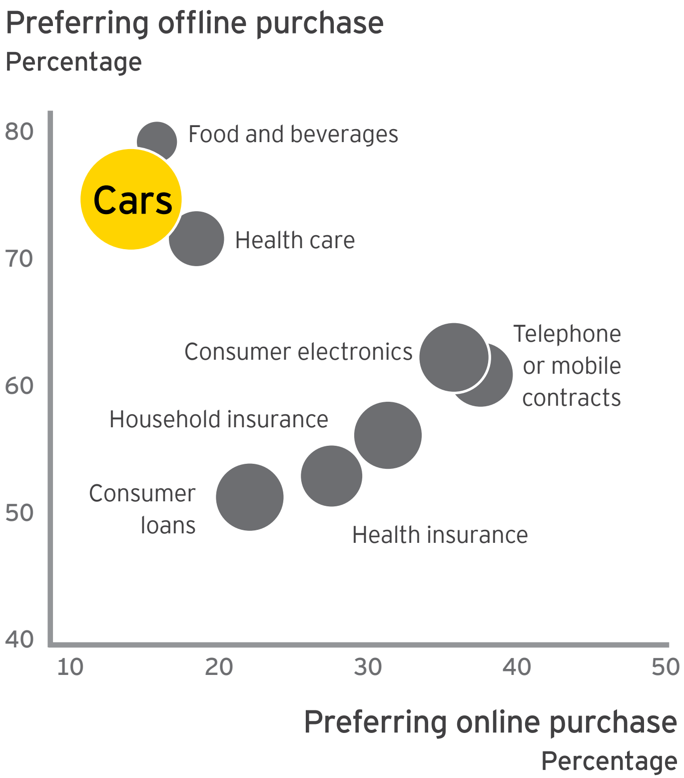
Building blocks for the new auto retail agenda

- **Enhanced customer experience:** digital and social media allow the capturing of consumer sentiment, which is likely to influence customer care and service strategy, leading to higher customer satisfaction.
- **Customer analytics driving performance:** large amounts of data generated from customer interactions will be analyzed to impact all facets of the retail organization, ranging from identifying relevant customer touch points to marketing campaigns and sales forecasting.

What can automakers, NSCs and dealers do?

- **Define objectives:** identify a specific set of objectives and targets for each activity in implementing a digital strategy
- **Review dealership processes:** conduct a holistic review of dealerships' current processes and organizational structure to identify key sources of critical information and areas of application
- **Identify customer engagement KPIs to measure performance:** establish a specific set of measures to assess the performance of digital and social media campaigns

Consumers spend more time for online research per-purchase of a car than for any other product.



Size of bubble = time spent online looking for information

4 Redesigning distribution networks to improve flexibility and increase relevant touch points

Market indicators

80%

Customers will use multiple devices to research a vehicle purchase

52%

New and used car customers visit the dealer's website during the purchasing process

Source: *Car Buyer of the Future*, AutoTrader, 2015; *Changing lanes*, EY, 2015; *Multi-channel distribution – key success factors for automotive dealerships and captives*, EY, 2014

Although dealerships will continue to play a significant role as primary channels for building personal contact and relationships with customers, we believe they will need to redesign their infrastructure to improve flexibility and accessibility. Consumer preferences necessitate the development of market-specific mixes of physical and digital presence along with new distribution models. These new distribution models will enable the industry to interact closely with customers, providing them with specific services and ad-hoc product experiences.

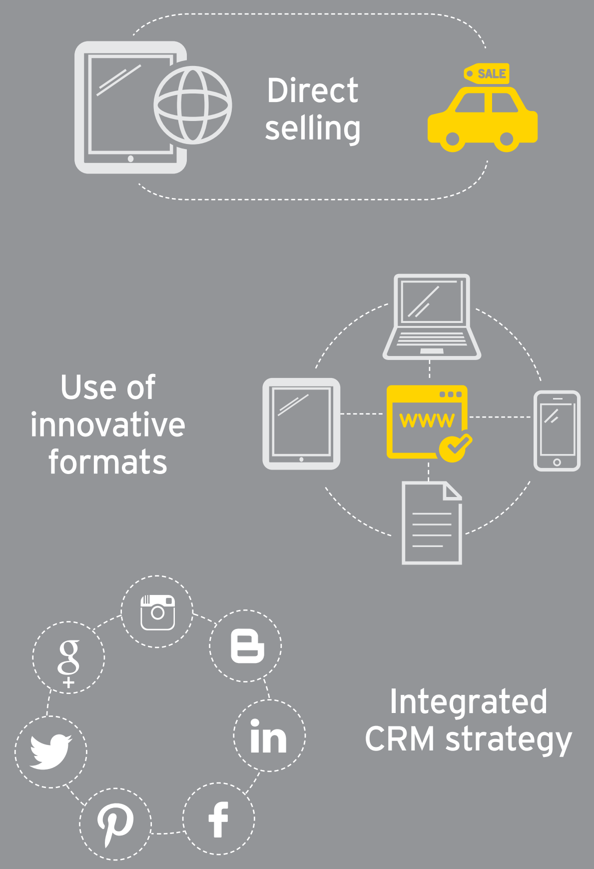
Building blocks for the new auto retail agenda

- **Streamlined retail networks:** to maintain profitability, traditional retail networks may need to be pared down, with investment focusing on reorganizing the floor space to complement the digital experience. Most expansion is expected to occur in emerging and high growth markets where network reach is still vital.
- **Improved flexibility through new formats:** new distribution strategies, such as direct selling, mobile stores, test drive centers, boutique stores, mega dealers outside city centers and online platforms, will gain importance.
- **Impact on dealer infrastructure:** the new models will impact all facets of dealer infrastructure in terms of reduced sales force, new roles, real estate, flexible CRM systems, and a right mix of physical and virtual experience.

What can automakers, NSCs and dealers do?

- **Identify and roll out new distribution formats:** identify, design and roll out innovative retail formats that suit specific markets and customer profiles. Invest in new, non-traditional retail locations to gain access to more customers
- **Provide balanced physical and virtual experience:** develop market-specific mixes of physical and digital presence to reflect the brand, individual models and customer expectations

Targeted marketing through new distribution and CRM strategy



5 Implementing an omni-channel strategy to enable a seamless brand experience

Market indicators

31%

C-suite executives consider delivering seamless digital/ in-store experiences, and leveraging online resources to influence choice, as critical to win and retain customers.

88%

Survey respondents say they can no longer rely on traditional sales channels to drive growth

Sources: *Changing lanes*, EY, 2015; *How to copilot the multi-channel journey*, EY, 2015; *Re-engineering the supply chain for the omni-channel of tomorrow*, EY, 2015

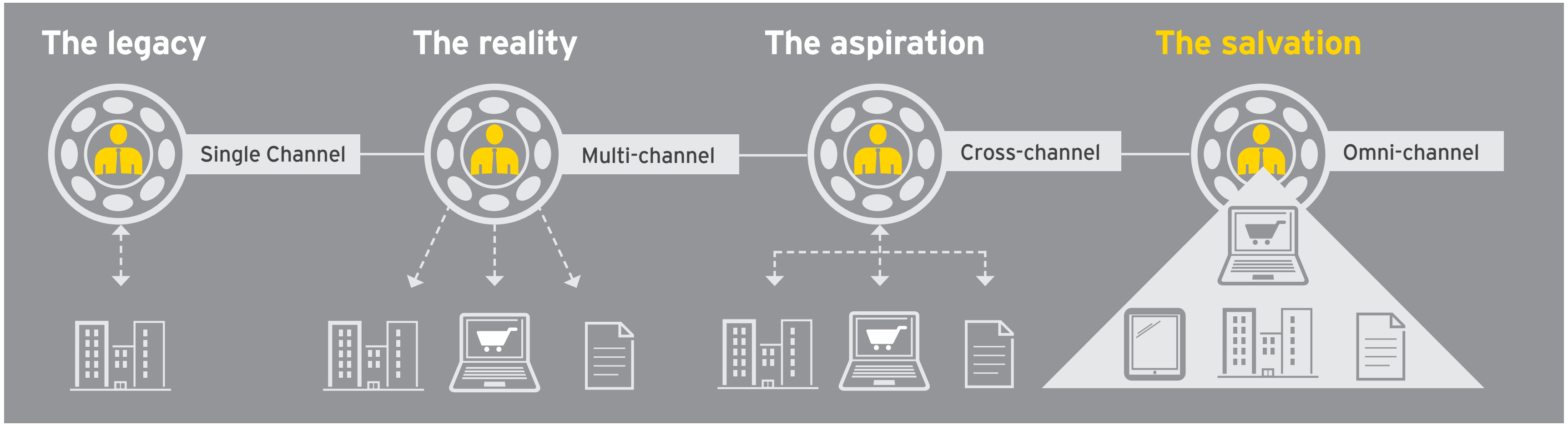
Currently, automakers and dealers interact with customers using a multi-channel approach, which allows for different sources and ways to collect information. However, these channels often provide an incoherent customer experience. Customers want the freedom and flexibility to move between numerous information sources and receive a similar brand experience across all channels. Retailers need to evolve to an omni-channel strategy to deliver a seamless customer experience at every level of the customer life cycle.

Building blocks for the new auto retail agenda

- **Offering seamless customer experience:** automotive retailers will ensure seamless and consistent customer experience throughout stationary, mobile and virtual sales and communication channels.
- **Active management of all communication channels:** automakers, NSCs and dealerships will have advanced integrated CRM systems that ensure access to holistic customer data and information to all employees at each level of the customer journey.

What can automakers, NSCs and dealers do?

- **Assess technology readiness:** analyze technology requirements and define the future distribution technology landscape
- **Collaborate:** partnerships with aftersales service providers, marketers, etc., will help influence customers' perception of the brand
- **Make omni-channel a strategic priority:** introduce and implement an omni-channel strategy for the sustainable, long-term success of all parties
- **Personalize:** provide personalized content and interactivity based on customers' preferences



Key considerations for stakeholders

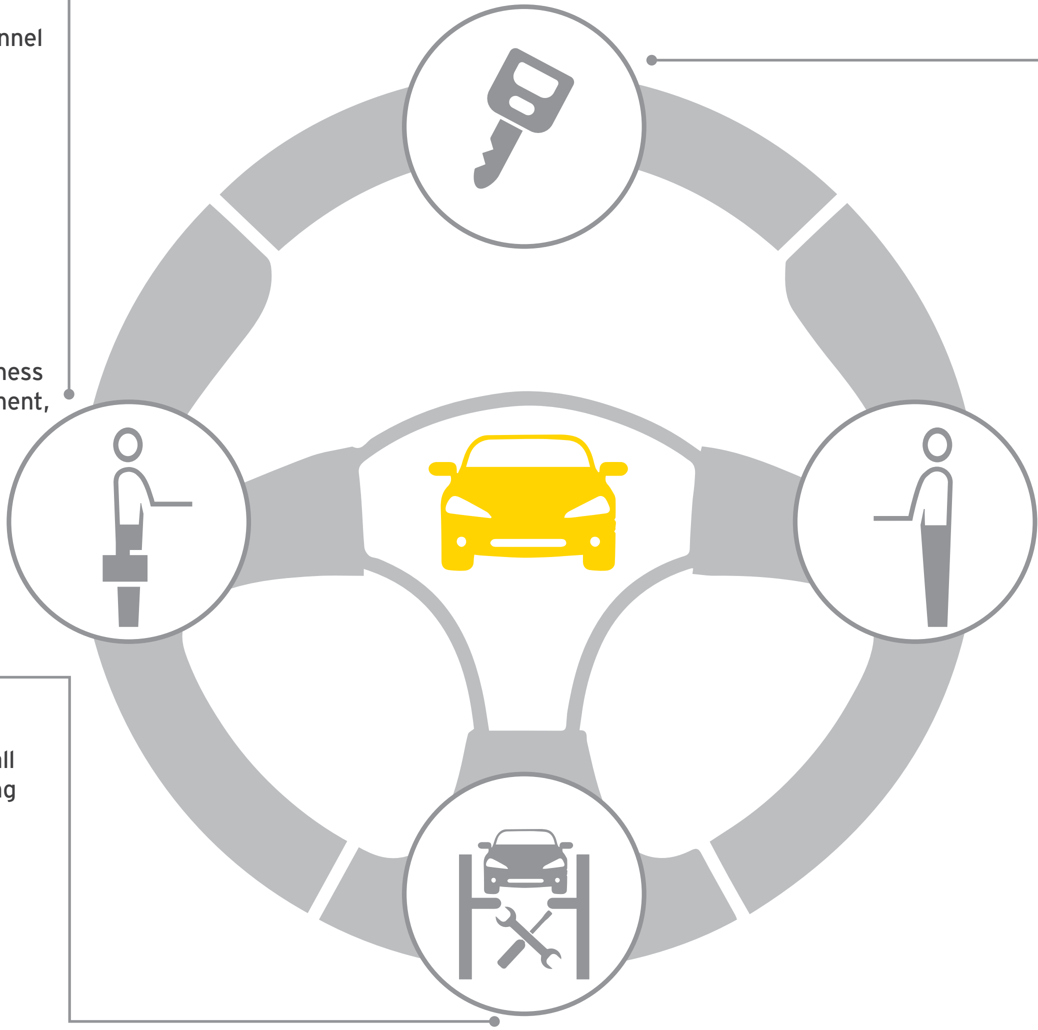
Achieving customer centricity, transforming customer experience and business models

Dealer network

- Manage transformation into a multi-channel approach, such as direct online sales, flagship stores, pop-up stores, network consolidation, etc.
- Establish subscription or usage-based business models to offer mobility as a service
- Effective usage and management, including the interfaces, of all different available systems (Dealer Management System, CRM, etc.)
- Ongoing process management and business improvement in all areas (lean management, customer churn rate, etc.)
- Training, coaching and consulting of dealer network employees (e.g., sales, aftersales, used cars, systems and processes)
- Effective organization and incentive structures for automakers and dealers

Aftersales

- Increased ability of dealers to increase customer satisfaction, loyalty and overall profitability by assessing and (re)defining roles within aftersales
- Leverage mutual potential of sales and aftersales touch points
- Professionalize the genuine accessory and parts business to impact dealers' profitability, as well as customer satisfaction and loyalty



Sales

- More proactive and better managed customer contact from automakers and dealers (inbound and outbound)
- Sales processes, technologies and channels to be adjusted to new customer behavior patterns
- Need to balance global standardization and local adaptation of sales processes
- Sales performance management and sales process improvements due to a more "customer-driven approach" at the dealer and the automaker
- Proper use of sales performance KPIs to achieve targets
- Transparency in pricing

Customer experience

- Establishment of new roles (technical and financial experts, mobile sales force, etc.) to respond effectively to changing customer needs and new technologies
- Improvement of the customer experience at the dealer
- Big data management (CRM, social media analytics, connected car data, DMS, etc.) to fulfil customers' expectations, effectively manage their life cycles, and steer the overall sales funnel

How EY can help you

Why EY?

Strong global network	Deep regional expertise	Change management experience in diverse environments

EY Automotive Customer Solution portfolio

Dealer Operations	Dealer Management System Performance Improvement	Customer Relationship Management Tools	Distribution Cost Assessment and Reduction
Dealer Risk Management	Dealer Risk Assessment & Management	Data Analytics	Dealer Audit Services
Dealer Performance	Dealer Performance Improvement Program	KPI Enhancement and Improvement	Customer and Sales Satisfaction Improvement
Financial Advisory	Incentive Modelling	Financial Recovery Plans	
People & Organizational Change	Dealer Training and Coaching	Skill Assessment	
Dealer System, Process Integration	Aftersales and Sales Systems/Processes Definition and Review	Optimization, Integration, Implementation, Roll Out	
Mobility Strategy	Operational Design	Business Model Evaluation	

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What we deliver

Higher margin	Higher customer loyalty	Sustainable results

Want more?

Contact one of our global automotive and transportation professionals

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In the Automotive and Transportation Sector, we're doing our part to enhance human mobility, getting people and products where they need to go – better, faster and smarter – in a rapidly changing environment. Through our globally expansive sector network, we bring a strong point of view on the emerging issues across automotive and transportation, connecting more than 13,000 professionals with deep industry and technical expertise who understand what the trends of the future mean for the present. We work with our clients to deliver innovative yet pragmatic solutions to address their imperatives and deliver tangible business value around the disruptive trends and transformational challenges shaping tomorrow's industry, today.

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