The Future of Automotive Retail

The path towards mobility provider

Survey of car dealers and customers in Germany

Executive Summary

The future role of dealers holds many great opportunities – if those responsible get it right

1. PwC has jointly with Autohaus conducted a survey with approximately 1,800 Autohaus Panel brand-dependent and brand-independent dealers from Germany as well as an online survey with 1,000 consumers.

2. The objective of the automotive retail study is to describe the future of car retailing and the way customer expectations affect the business model of dealers in particular.

3. Dealers already feel the pressure and the majority expects that their role will change in the next five to ten years, but feel ill prepared for it. Dealers also see direct sales by OEMs and third parties as the greatest threat to their business model.

4. While half of customers still see the dealer visit as most important source of information when purchasing a car, two out of three would buy a new car online and half of them through third party providers.

5. Overall, fundamental changes in the automotive retail sector will further happen over the next five years, but more as an evolutionary step.

6. However, in 10 years from now, the automotive retail sector in Germany will look substantially different with a network of “mobility service partner” that will then be based on a agent-model driven by an incentive system focused on customer centricity and mobility services.

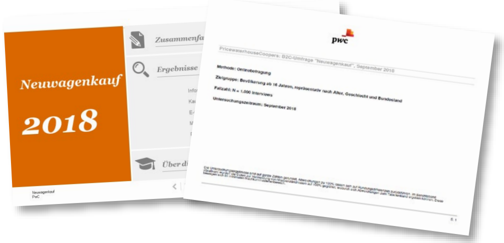
The Future of Automotive study was carried out in two stages

Dealer survey

- PwC and Autohaus Panel jointly conducted a dealer survey in June 2018 to find out more about the role of dealers in the future.
- The survey was based on approximately 1,800 Autohaus Panel brand-dependent and brand-independent dealers from Germany.
- All surveys were carried out by Autohaus compilers in cooperation with the renowned research institute PULS, through the Autohaus Panel platform.
- The survey was conducted with all relevant premium and volume brands in Germany.

Customer survey

- An online survey was conducted to interview members of households, aged 16 and above, who have their own cars and who make or at least participate in the car purchasing decision themselves.
- The survey covers a sample of n = 1,000 respondents.



Several factors defined four focus topics for the survey framework in our study

External factors

Competition **OEMs** **Technology**

Input ⌄ Implication ⌄

Focus topics

1 **Change in the traditional sales channel**
How important is the traditional dealer to the customer?

2 **Digital distribution in the car trade**
How is digitisation changing the role of the retailer?

3 **Brand loyalty and customer behaviour**
How do retailers reach and retain their future customers?

4 **Importance of car sharing and mobility**
What is the role of dealers in the mobility sector?

Insights ›

Customer & retailers study

Key findings of customer and retail study

Implications ›

Automotive retail business

How does the business model look like medium term (2023) and long term (2028)?

Input ^ Implication ^

eascy

Electrified **A**utonomous **S**hared **C**onnected **Y**early updated

PwC study how dealers should position themselves in the future

Background

The traditional car trade distribution scheme from OEMs to the dealer and on to the customer seems to have become an outdated model, driven by different trends. The eascy factors: electrified, autonomous, shared, connected and yearly updated are spinning the automotive wheel of transformation. The dealer landscape is already changing, due to ongoing consolidation, the use of new sales channels and the emergence of new forms of mobility.

Customers, inspired and influenced by their experiences of other industries, expect at the very least an equivalent experience of the car trade. This applies not only to the range of products available at local car dealerships but also, to a significant extent, to the online and e-commerce presence of the car industry as a whole.

Very soon car buyers are going to expect manufacturers and dealers to offer convenient, transparent and dynamic concepts that allow them to select and buy their new cars online.

Objective

The objective of the automotive retail study is to describe the future of car retailing and the way customer expectations affect the business model of dealers in particular. It examines the conflicts between OEMs, new digital competitors and changing customer behaviour.

As a first step, a dealer survey was conducted to understand which topics and areas of conflict are of particular importance to dealers and how dealers see the future of the car trade.

Secondly, a customer survey was conducted to validate and review the dealers' and customers' points of view. The findings of the two surveys were compared in order to establish the implications for the dealers' future business model.

Future challenges put the automotive retail model under pressure

Disruptive trends in the automotive sector

1	2	3
▪ Digitization ▪ Online channel	▪ Connected ▪ Yearly updated ▪ Shared	▪ Electrified ▪ Autonomous ▪ Shared
Sales Channel	**Vehicles sales**	**Aftersales service**
Customer – Local retailer	Customer – Ownership	Customer – Local retailer

INDIRECT › **DIRECT** *customer interaction*

Digitisation bears the risk of third party online providers taking over

Digital sales ...

... offer the **CHANCE** to ...

OEMs

Retailers

Own digital platform …interact directly with the customer

... bear the **RISK** of ...

OEMs

Retailers

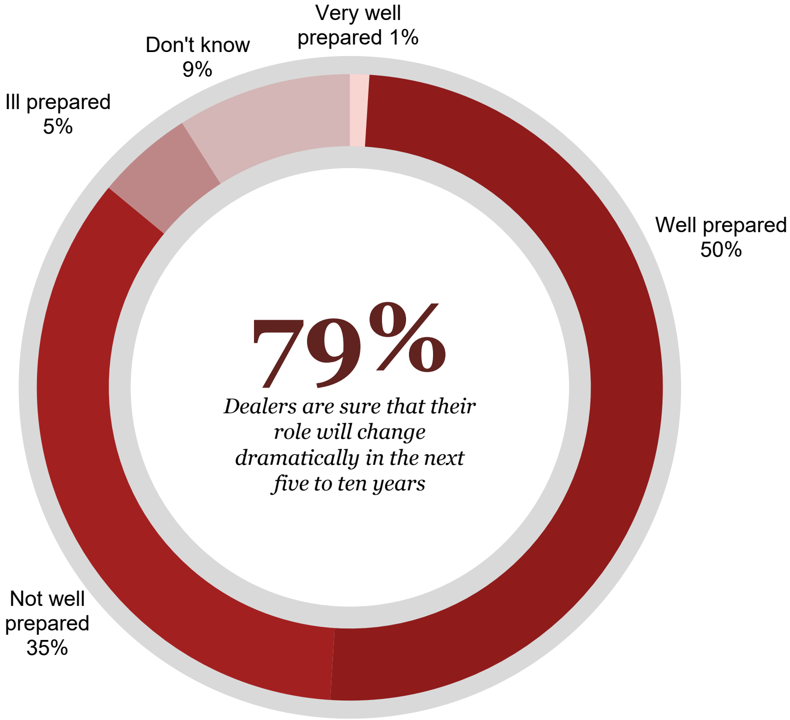
Third-party players …loosing the customer interface

MeinAuto.de
mobile.de
AUTO SCOUT24
autohaus24.de …

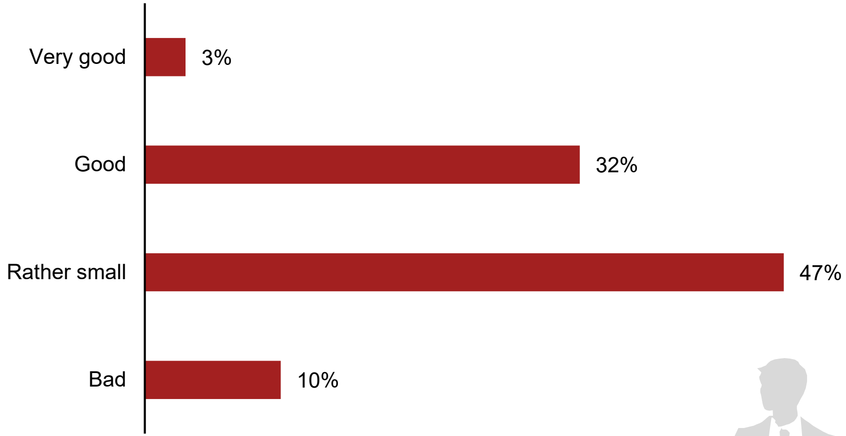
Customers

The majority of dealers are sure that their role will change in the next five to ten years, but feel ill prepared for it

How prepared do you feel as a dealer for the next ten years?



Dealer survey: How do you asses your current skills as an online sales retailer?



57%

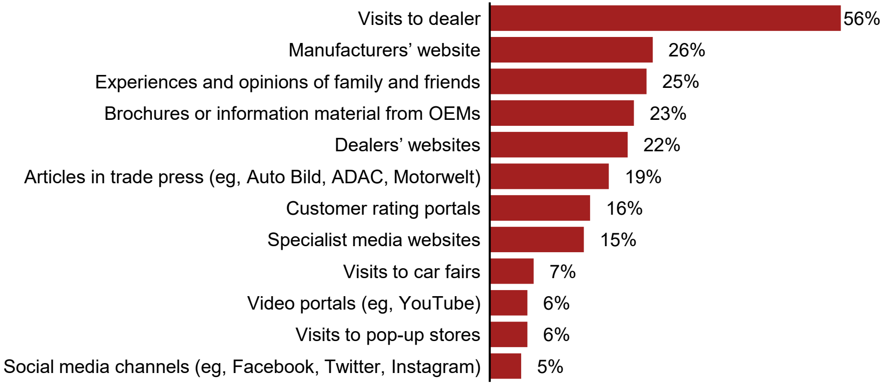
Expect that they are lacking the basic skills required for online sales

Difference to 100%: Not known

Physical retail
How important is the traditional dealer to the customer?

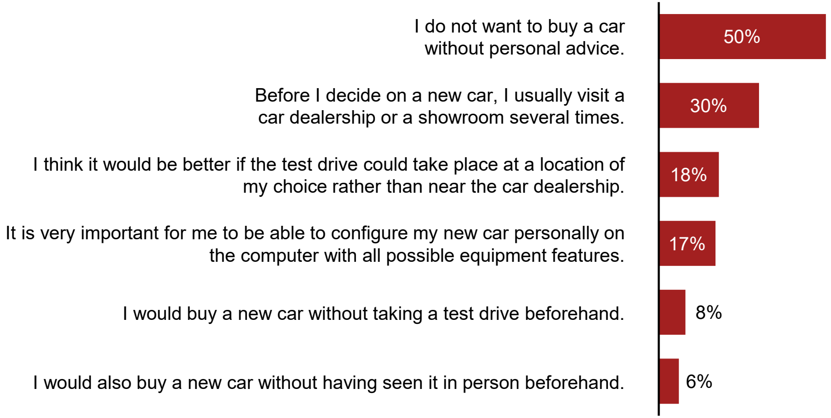
We see and hear a lot about the way increased customer expectations, disruptive technologies and new players are transforming the automotive retail industry, questioning the future of dealers. As a result, 58% of dealers expect the traditional local sales channel to lose importance. On the contrary the customer survey shows that personal visits as well as personal advice on-site at the dealership is still a very popular choice. Additionally, 50% of customers state that they do not want to buy a car without personal advice and 30% still visit a car dealership or showroom several times before buying a car.

Customer survey: Where do you get information before buying a new car and what is important?



When buying a new car, the most important source of information is the visit to the dealer.

Customer survey: What is important when buying a new car?



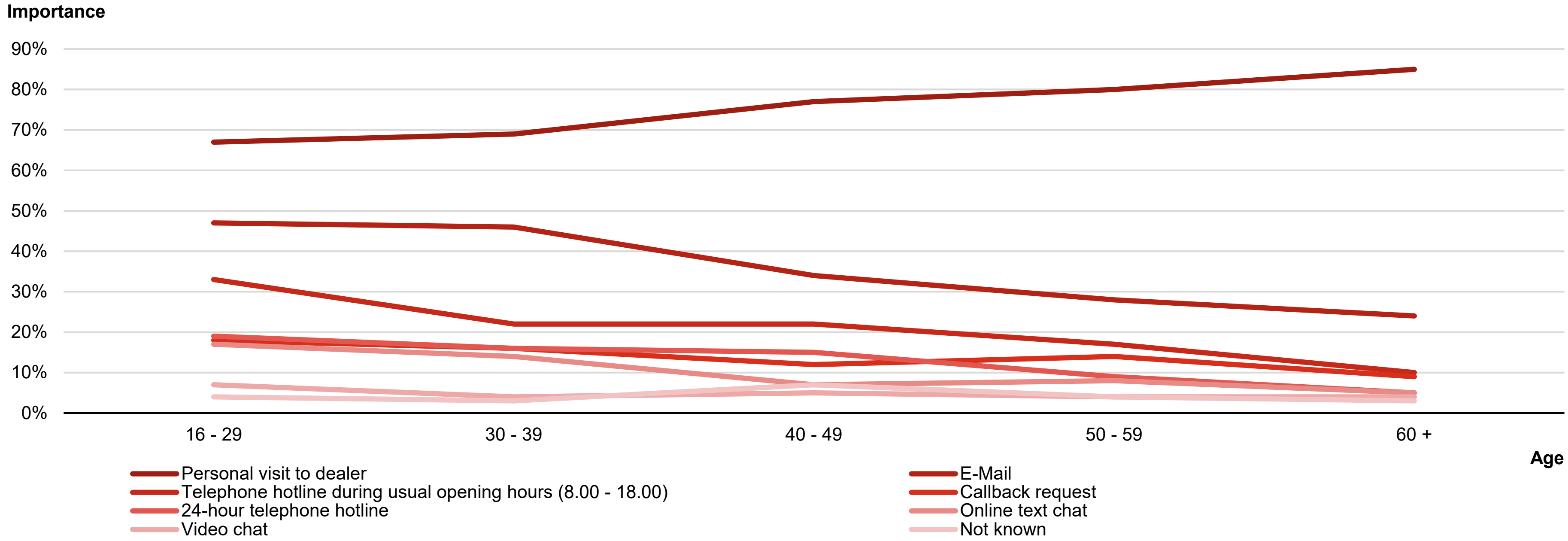
Personal advice is the highest priority for customer when buying a new car.

Physical retail
How important is the traditional dealer to the customer?

In the case of new vehicle purchases, dealer visits are the most important source of information (56%), especially for those over 50 years of age (62%), but half of those under 40 (47%) also show great trust in dealers during the vehicle information search. The importance of the traditional dealership is also supported by the fact that 77% of customers prefer a personal visit to the dealer as the most important contact option.

In conclusion, we see that the traditional sales channel is still of great importance to many customers, especially when it comes to obtaining information prior to purchasing a vehicle.

Customer survey: What contact options are important when buying a new car?



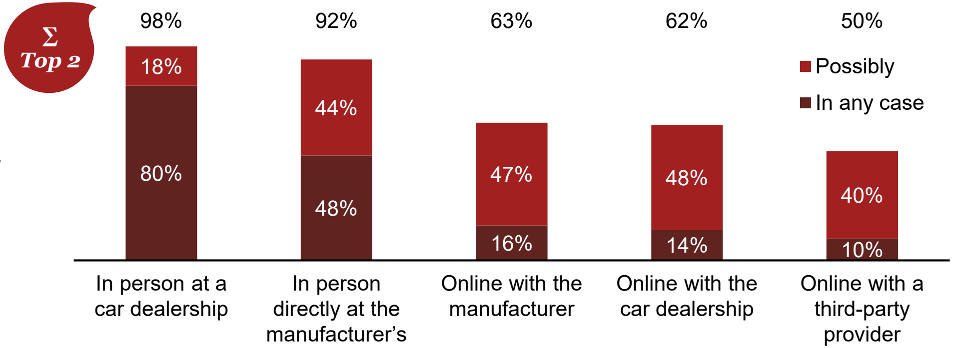
Digital retail
How is digitisation changing the role of the retailer?

For dealers, direct sales by OEMs (82%) and online sales platforms run by third-party providers outside the industry (73%) are seen as the greatest threat to the traditional car retail model. This threat seems to be valid since 63% of customers would buy directly online from OEMs and 50% via a third party's online platform. The good news is that 62% consider dealers for their online purchase.

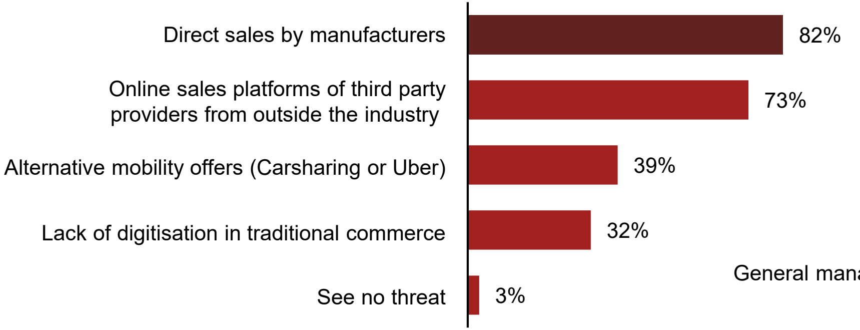
Overall, we can see that online car purchases will continue to gain importance. The greatest benefits for customers are the opportunity to 'search around the clock' (34%), ease of comparison of offers (34%) and lower prices (33%). For 50% of potential new car buyers, however, the main disadvantage of buying a car online is the lack of a test drive and the possibility of actually not seeing the desired vehicle.

Customer survey:
Which sales platforms are particularly popular?

Two out of three buyers would buy a new car online, half of them through third party providers.



Dealer survey:
What do dealers see as the greatest threat to the traditional car market?

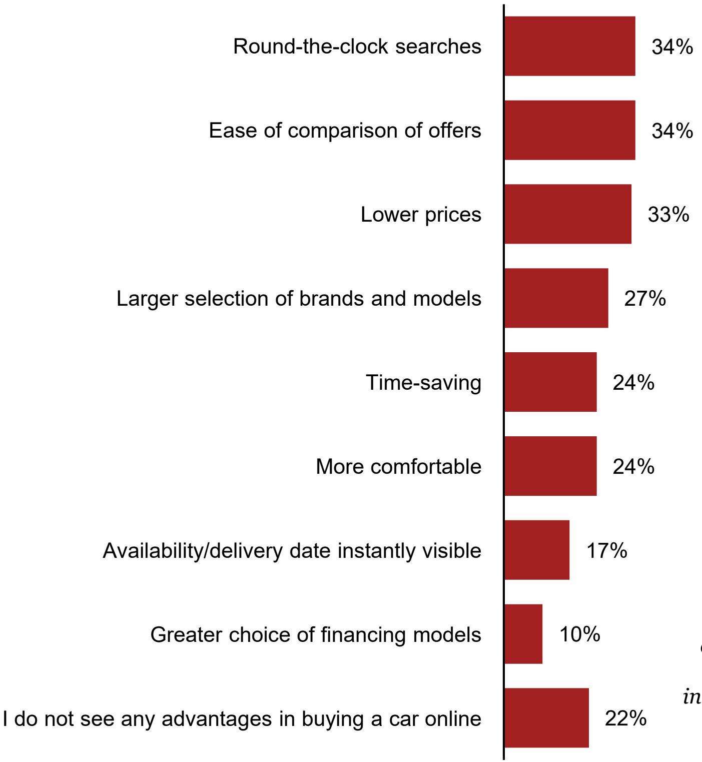


"I thought I knew what was coming – but so far, I don't have the slightest idea. There is no concrete (digital) strategy."

General manager, large dealership in Munich

Digital retail
How is digitisation changing the role of the retailer?

Customer survey:
What are the advantages of buying a new car online?



The greatest advantage of online shopping is time-independence and the ease of comparison of offers.

Customer survey:
What are the disadvantages of buying a new car online?

For half of potential new car buyers, the lack of a test drive is the main disadvantage of buying a car online.

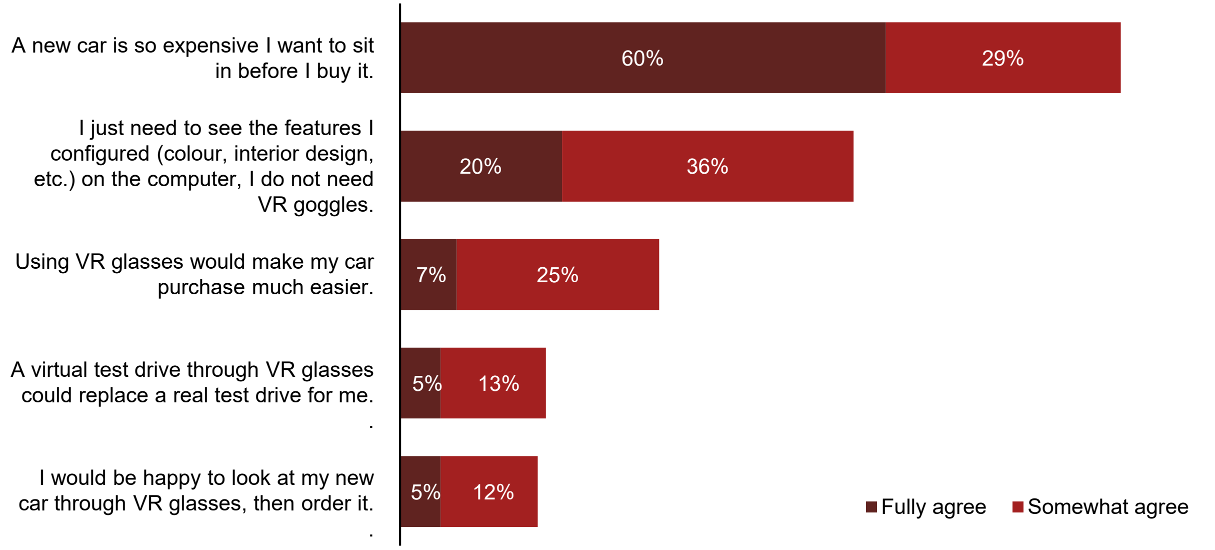
Digital retail
How is digitisation changing the role of the retailer?

Despite missing the opportunity to take test drives, 23% of under 30s see the use of VR technology as an existing alternative to physical test drives. They state that VR glasses would provide sufficient information for decision-making when buying a car.

30% of all age groups would buy a new car without taking a test drive while 17% would even be willing to buy without having seen the car beforehand. And in particular the younger more tech affluent generations would buy a new car without taking a test drive and without having seen it beforehand.

Customer survey: What role does virtual reality technology play in your car purchasing decision?

Σ *Top 2*



Customer behavior
How does the retailer reach and retain his future customers?

Customers are becoming more sophisticated and expectations are often raised as a result of other industry experiences. Also, the amount of available information and comparable products and services places the customer at an advantage when it comes to purchase decisions.

Dealers are particularly aware of this in their day-to-day business. As a consequence, 50% of dealers see as the biggest challenge the fact that customers are less loyal to brands (48%) and dealers overall (46%).

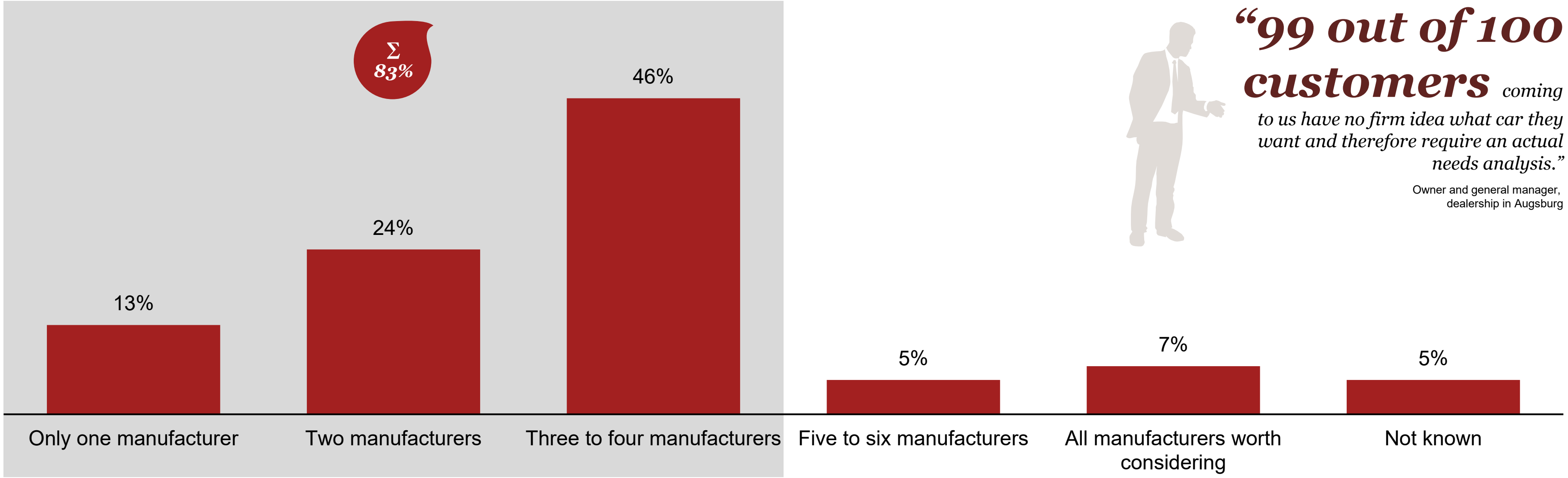
Dealer survey:
Which of the following customer behaviors presents the greatest challenge for dealers?

Customer behavior
How does the retailer reach and retain his future customers?

Many customers are initially quite indecisive when it comes to brand selection. 46% of new car customers consider three to four brands before buying a car. This puts dealers in a difficult position when attempting to attract and reach potential customers.

Also social media plays a big role, as one third obtains information through video portals and one in five through social media. For 25% of people, the experiences and opinions of family and friends are considered the most important source of information when buying a new car.

Customer survey: How strong is the brand loyalty when buying a new car?



"99 out of 100 customers coming to us have no firm idea what car they want and therefore require an actual needs analysis."

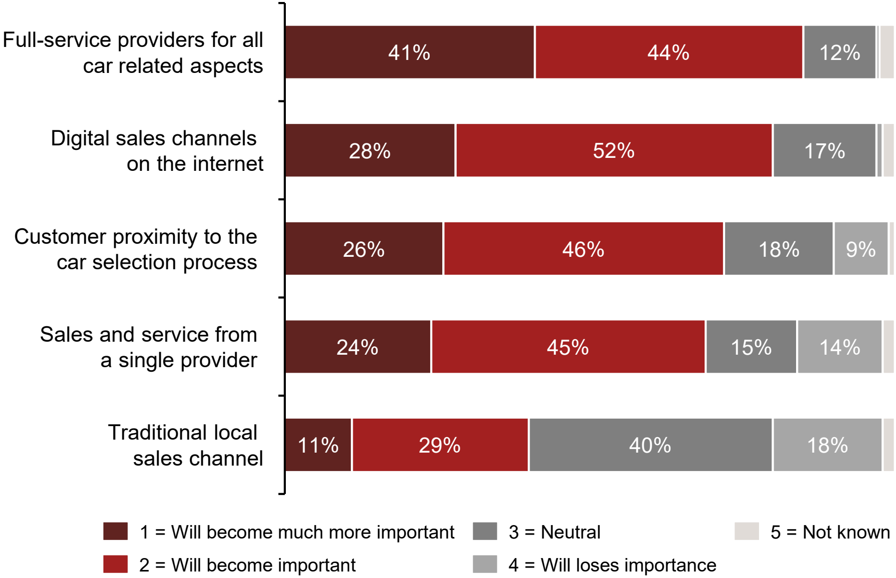
Owner and general manager, dealership in Augsburg

New mobility
What is the role of dealers in the mobility sector?

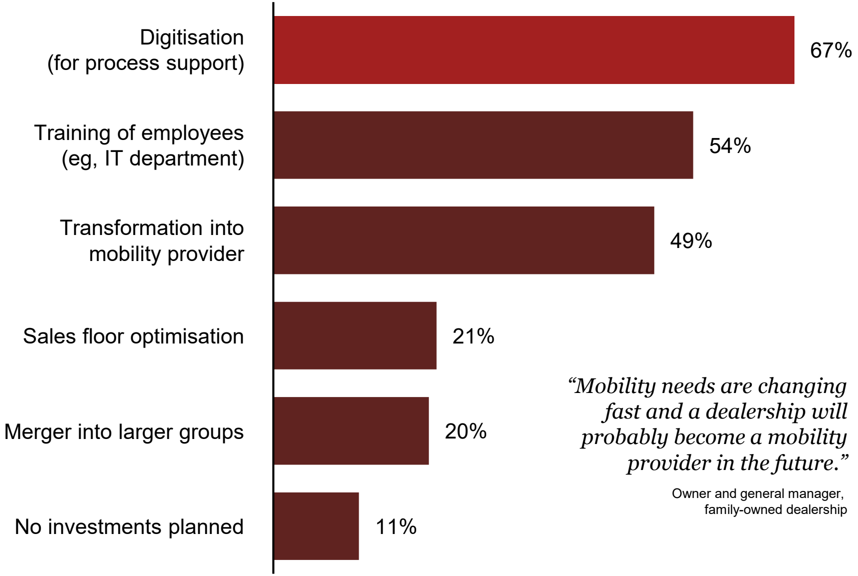
What role does the dealer play in the car sharing and mobility sector? A fair question could also be if dealers have a role within this sector at all. During our survey, dealers have expressed mixed feelings around this topic.

On one hand, 39% of dealers see a threat for traditional retail, in car sharing and ride-hailing offers. But on the other hand, 85% of the surveyed dealers expect that the topic "full-service provider" gains importance and 49% of dealers are also considering to invest within the next 5 years to establish themselves as a mobility service provider.

Dealer survey: To what extent will the following topics gain importance in the future?



Dealer survey: In which areas should you invest in the next five years?



"Mobility needs are changing fast and a dealership will probably become a mobility provider in the future."

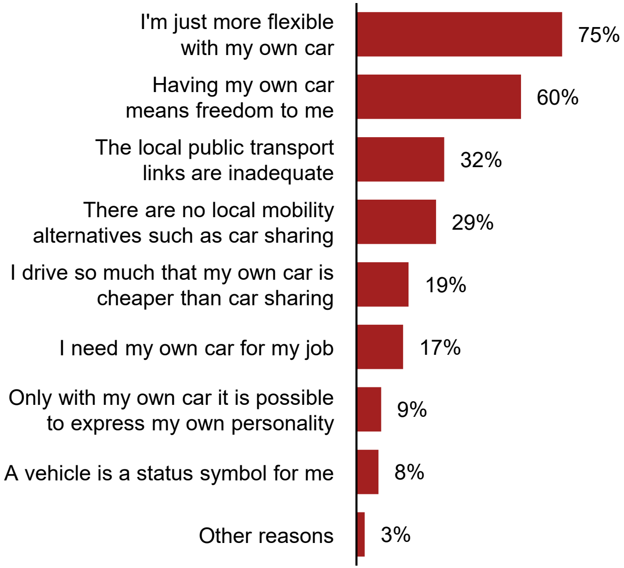
Owner and general manager, family-owned dealership

New mobility
What is the role of dealers in the mobility sector?

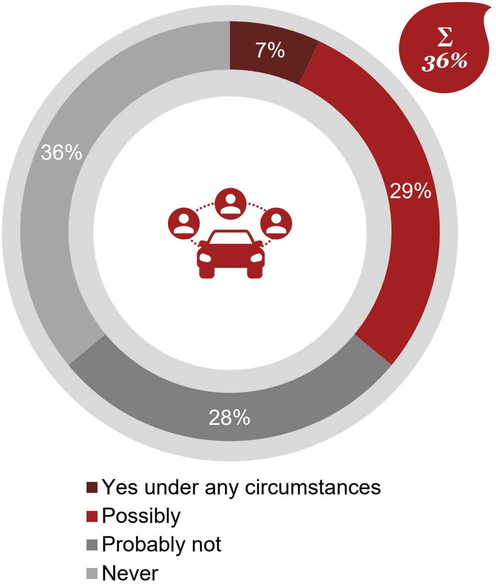
For customers one in three consider car sharing to be an alternative to owning a car. 51% under the age of 30 can envisage managing without their own car in their household over the next five to ten years and will use car sharing or similar services instead.

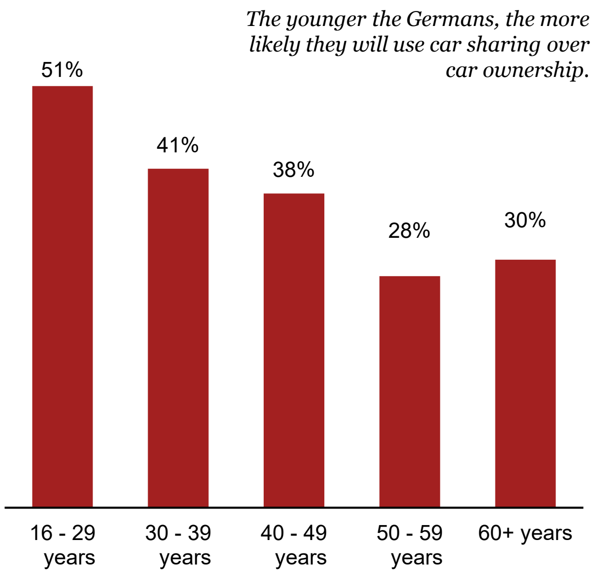
However, owning a car means flexibility (75%) and freedom (60%). One out of four under the age of 30, considers car ownership a status symbol compared to other age groups (8%) and one in three believes that owning a car is cheaper than car sharing and does not want to do give up their own car in the future.

Customer survey: What are the advantages of owning a car?



Customer survey: Can car sharing replace one's own car?





Comparison of key findings show more consensus than contradiction between dealers and customer

	Dealers…		For customers…
1 **Physical retail** How important is the traditional dealer to the customer?	… expect the traditional sales channel to lose importance		…more than half see dealer visits as most important source of information
2 **Digital retail** How is digitisation changing the role of the retailer?	…see direct sales by OEMs and third-party providers as biggest threat	=	…two out of three would buy a new car online, half via third party providers
3 **Customer behaviour** How do retailers reach and retain their future customers?	…feel that customers are less loyal to brands and retailers	=	…half of them consider three to four brands when buying a car
4 **New mobility** What is the role of dealers in the mobility sector?	… expect the full-service provider model to gain importance	=	…one in three considers car sharing as alternative

We expect further fundamental changes in the automotive retail sector over the next five years, but more as an evolutionary step

Based on research and the key findings of the survey we expect dealers to remain a focal point for customers over the next few years. Customers will continue to visit a physical dealership. Nevertheless, customer behaviour and digitisation will further transform automotive retail and we expect to see the biggest impact on the dealer network in the following areas:

Sales and distribution model:
Customers are already interested in buying directly from OEMs (63%). This is picked up by OEMs testing and applying direct sales models in selected markets to get direct access to valuable customer data and insights.

Third party online providers:
50% of customers are interested in buying a car through a third-party platform online, as they offer a more user-friendly and transparent platform than OEMs and dealers.

Customer journey:
Customers focus on the best deal (33%) and convenience (34%), will result in a more complex and fragmented customer journey that switches between online and offline channels. This is influenced by video portals (30%) and social media (20%) where customers look for feedback and reviews.

OEMs start paving the way for the future

- *VW announced a new dealer contract model for 2020, starting with direct online sales in collaboration with retailers. This model was driven by changing customer expectations and increased online competition.*
- *Daimler is already selling selected models directly online, allowing the company to focus especially on changing customer needs and to attract customers with personalised offers in a multichannel environment.*

Technology applications:
'New' technologies such as VR/AR will change the way OEMs and dealers communicate and interact with customers. 30% of people under the age of 40 already consider this an alternative for test drives when buying a car.

Mobility offerings:
One in three customers can envisage car sharing more often and even replacing their own car in the future, threatening traditional revenue streams. With car sharing, too, the brand also plays an important role for customers (39%).

The future role of dealers holds many great opportunities – if those in charge get it right

The implications for dealers and OEMs are complex and manifold, and often only manageable when tackled together. Yet there are many great opportunities out there for dealers, allowing them to define their role in future automotive retail.

Sales and distribution model:
If OEMs apply the direct online sales channel, thus affecting sales and distribution model, a sound and mature strategy with dealers will be required. However, dealers need to make investments and be willing to support the transformation.

Third party online providers:
Dealers and OEMs need to enhance their joint efforts on omnichannel management/integration to avoid losing customers to third party online providers. This requires a comprehensive CRM system and an overarching lead management process between OEMs and dealers.

Customer journey:
Dealers and OEMs need to ensure a seamless customer journey that combines both the physical and digital world. This requires a single view of the customer which can only be achieved jointly by the OEM and dealers. In addition, dealers need to enhance their competencies in social media.

Technology applications:
Technologies such as VR/AR have to be anchored in relevant processes at the dealership and along digital touch points. Dealers need to ensure that employees have adequate skills using these technologies with their customers.

Mobility offerings:
In order to play a role in this area, dealers need to transform themselves more as mobility service providers in collaboration with OEMs. Employees will have to become customer and mobility advisors and no longer purely sellers of products.

Dealers will be required to take relevant actions in adjusting their current business model

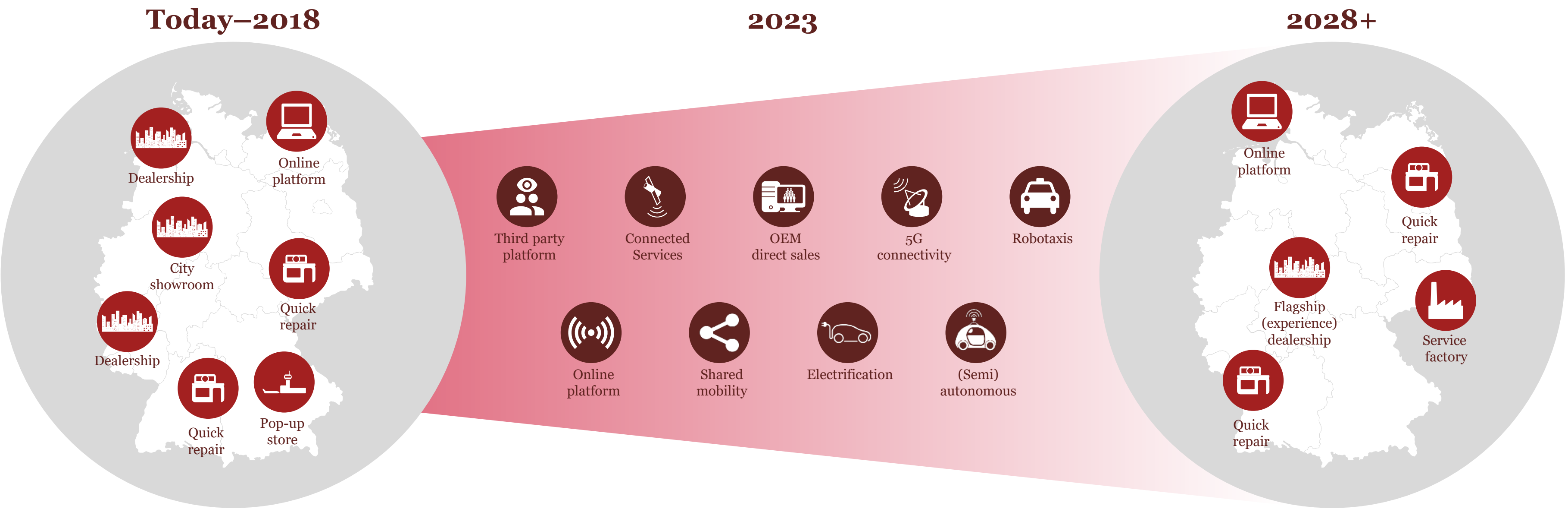
	Impact on business model		Need for action by dealers
Sales and distribution model	Online sales customer acceptance pushes OEMs to introduce direct online sales channel	›	Need to align with OEMs on a joint strategy to establish new sales and distribution model
Third party online providers	New online players challenge existing OEMs/dealers by offering a more transparent and convenient sales process	›	Support omnichannel integration with OEMs to establish a comprehensive CRM/IT infrastructure and lead management
Customer journey	Complex and fragmented customer journey with strong influence from social media channels	›	Link physical and digital touchpoints to ensure a seamless customer journey leveraging social media channels
Technology applications	Use of VR/AR technology has direct impact on test drive and buying behaviour	›	Invest in employee qualification to leverage use of VR/AR technology
Mobility offerings	Increasing acceptance of car sharing replaces personally-owned car revenue stream	›	Collaborate with mobility providers and become a trusted mobility service advisor

The automotive retail sector in Germany will look substantially different in the next 10 years

Dealers will remain relevant but need to adjust their business model due to a changing market environment. This evolution has been in progress for some time now. We expect the role of the dealer to undergo a substantial change with a clear trend towards selling more services.

Therefore dealer needs to become more customer-focused especially when it comes to physical retail touchpoints. ‘Point of sale’ stores need to develop into ‘point of contact‘ stores where personal advice to customers is of primary importance alongside brand experience elements to provide a truly personalised customer experience.

Over the next five to ten years the role of the dealer and the current dealer franchise system will be called into question, with OEMs selling direct to customers. So far, OEMs are only testing direct sales and many challenges remain, particularly the legal situation and identifying the right pricing strategy. But as soon as these challenges are ironed out, the specific role of the dealer must be redefined.



Outlook for the automotive retail

In our future scenario OEMs and dealers need to establish an even more collaborative and integrated sales model to be successful. Rising competition means OEMs and dealers will have to act in an agile and flexible way.

This potentially requires a change from the current dealer franchise network to an agent model. The dealer will become a mobility service partner focusing on tasks such as test drives, vehicle handovers, mobility service offerings etc., acting as the direct link between the OEM and customers. The OEM will be in charge of car sales and marketing activities, pricing concepts, branding and shared back office services.

That could mean less profit for the dealer as mobility service partner, but also reduced costs and risks. In this scenario, the incentive system in particular would look different than in the current model and could include:

- Lower base margin covering core operating costs (in combination with smaller, more flexible formats)
- Higher service fee for customer-centred services (eg, test drive at home) based on customer feedback and satisfaction
- Focus on the incentive of qualitative bonus payments, eg, lead management, data management, etc.

Ultimately, the customer will be the biggest winner of all. And if OEMs and mobility service partners fail to make relevant changes today, customers will turn elsewhere in the future.

	Today–2018 Traditional retail dealer	**2023**	**2028+** Mobility service partner
Business model	• Traditional retail dealer • Bonus/margin structure		• Agent model • Qualitative incentive/bonus structure
Channel approach	• Multichannel sales approach	**Ongoing change towards an 'agent model'**	• Integrated omnichannel sales approach
Products/ services	• Product-driven • Focus on selling cars and related products		• Service-orientated • Mobility advisor focusing on personalised services
Customer data	• Non-unified CRM view • Individual customer data		• Holistic CRM view • Shared customer data

Contact and Further Information

Core team

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