

DIGITAL REROUTES THE AUTO PURCHASE JOURNEY AND OEM STRATEGIES

By Marco Gerrits, Sylvain Brun, Karen Lellouche Tordjman, Hadi Zablit, and Lara Koslow

ARE DIGITAL TECHNOLOGIES ON the verge of rendering the automobile showroom obsolete?

There's no question that digital channels (including mobile and social networks) have fundamentally redrawn the map of the automobile purchase journey. New BCG consumer research in four countries—China, France, Germany, and the US—indicates that 50% to 70% of auto buyers (depending on the country) choose the make and model that they ultimately buy before they visit a dealer's showroom and that 40% to 50% form their choice on the basis of online information. (See Exhibit 1.) For most consumers, especially in Western countries, the principal purpose of a prepurchase dealership visit today is to validate their initial decision, most importantly by experiencing the car in person.

In the meantime, while automakers have sought to address customer expectations with such innovations as online car advisors, trade-in value calculators, and support, many companies are still trying to

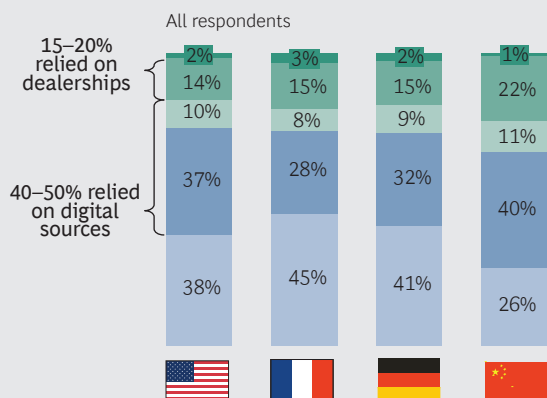
move the metal the old-fashioned way—using traditional media and other long-time methods to draw consumers to dealerships so that sales personnel can work their magic. OEMs need to rethink their approach as digital's expanding influence on the purchase journey transforms the role—and potentially the business model—of the dealer from sales center to on-demand advisor and service provider, both pre- and postsale. OEMs must learn to use digital interactions more effectively to engage consumers early in and throughout the purchase journey, and they must adapt brand, distribution, and marketing and communication strategies suitable for the digital age.

Digital's Impact on Auto Sales and the Purchase Journey

Competition for car customers' attention is fierce. Manufacturers and dealers provide digital information, advice, and tools, but so does an expanding ecosystem of new players that are eager to create a role for themselves in the vehicle-buying process—and often move more quickly than OEMs

EXHIBIT 1 | Most Car Buyers Know the Make and Model They Want Before Visiting a Dealership

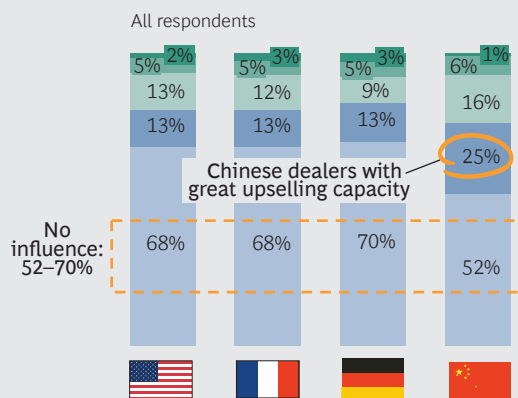
MANY CAR BUYERS USE ONLINE SOURCES TO NARROW DOWN THEIR CHOICES.



Q: Did digital and online sources of information help you narrow down your set of model options during your research time? [single answer]

- My model choice was almost made already
- I used internet to narrow down options
- I had no idea before research and relied on online sources
- I used dealership visits to narrow down options
- I had no idea and did not rely on online sources at all

MOST BUYERS ARE UNINFLUENCED BY DEALERS, AND RELATIVELY FEW TRANSACTIONS INVOLVE UPSALES.



Q: Did you know exactly which model you wanted before entering the dealer, or did the dealer change your opinion? [single answer]

- No influence: model already chosen
- Influence: customer bought different, more expensive model
- Influence: customer bought different model or style
- Influence: customer bought different, less expensive model
- No visit to dealership to purchase

Source: Auto survey conducted with SSI in April 2016, based on a sample of 5030 respondents. (Respondents split: US, 1521; China, 1504; Germany, 1005; France, 1000.)

to embrace digital opportunities. From the research phase (at-home and multibrand test-drive scheduling) to the conversion phase (price comparison sites and apps) to the ownership and win-back phase (used-car platforms), digital channels have emerged as car buyers' primary source of prepurchase information. Indeed, two of the top three consumer auto information sources—OEM and dealer websites, and digital automotive sites and apps (such as car “comparators” in Western markets and social networks, blogs, and online forums in China)—are online. Buyers first look online for price and product specifics, devoting 4.5 to 6 hours (depending on the country) to online research.

The digital revolution is just revving up. Evolving business models such as the sharing economy and disintermediation are opening new channels of disruption, and the prospect of connected cars will lead to further fundamental change.

OEMs have rapidly incorporated digital advances into product development with multiple innovations in vehicle design, driving experience, features, and safety. But they've been slower to use digital channels to engage consumers early in and throughout the purchase journey, though such engagement would give them a much better chance of making—or at least influencing—the sale.

Prepurchase. Thanks to the wealth of information available today through digital and traditional channels, consumers are better informed than ever—even before they actively look into buying a car. Our research shows that substantial majorities of consumers (57% to 67%, depending on the country) settle on not only the make but the actual model they want to buy in the prepurchase phase. As a result, OEMs need to work hard to stand out. Brands need sharp, clear images, whether they stand for reliability, safety, performance, fun, or something else; otherwise, they risk

not being considered at all. Also, for many car buyers, researching makes, models, features, and prices is largely a digital exercise. Salespeople and dealer visits continue to play a role, but it is more often one of confirming than of influencing choice and direction. In our research, more than half of customers in the US, France, and Germany bought their cars after no more than one research-phase visit to a dealer of the brand ultimately purchased. (Chinese customers are much more likely to visit two or more dealerships.)

Across all four markets, dealerships remain relevant as places for consumers to confirm their purchase choice by experiencing the “touch and feel” of the car and by having face-to-face discussions with salespeople. Customers select dealerships primarily on the basis of convenience: the dealership’s location and the on-premises availability of the vehicle they want. But even at the dealer, most consumers appreciate having access to digital tools that provide a self-paced interactive experience, such as tablets, touchscreens, or 3D virtual configurators.

Purchase. Digital channels are making inroads into the actual purchase phase of the buying journey. Between 10% and 20% of customers have bought cars entirely online (with no dealership visit); and among those that have not, approximately a third to a half say that they are ready to do so (51% in China). Digital purchases are highest for premium brands—20%, compared with 8% for mass-market vehicles.

The main reason customers give for not buying online is lack of touch and feel—a gap in the digital process that is attracting venture funding. TRED.com, a US startup, seeks to facilitate peer-to-peer auto sales (peers include dealers) in part by delivering cars under consideration to potential customers’ homes. Purely online customers have the highest brand loyalty of all car buyers: more than 40% of such customers in Western markets buy the same brand at replacement time. In all markets, the decisive criteria influencing the final choice were price and the extent to which the car matched the buyer’s expectations.

Postpurchase. OEMs can use digital interaction to maintain ties with their customers after the automobile purchase. Digital channels (such as online access systems and mobile apps) are already among the modes of communication that customers use most frequently to contact dealers and to receive information on their car and its maintenance needs. Customers are especially interested in having online access to owner’s manuals (66% to 84% of respondents) and to instructions on regular maintenance they can perform themselves (79% to 91%). Demand for repair videos is particularly strong in China, where 90% of respondents have sought them.

Customers are willing to experiment with digitally enabled service scheduling, although they are more interested in receiving discounts for accepting off-peak appointment times or using relatively remote service locations than in paying a premium for convenience. Besides using digital channels for storing vehicle-specific information (such as maintenance records, maintenance reminders, and appointment scheduling), OEMs can encourage customers to make car apps part of their everyday lives by expanding the apps’ functionality to include GPS, internet entertainment features, secure payment options, and other popular capabilities.

Digital Strategies for Automakers

Automakers need to adjust their strategies for the digital age, starting with shifting their attention to earlier stages of the purchase journey. Consumers’ auto shopping lists are getting shorter, and brands need to stand out if they want to be considered. The role of the dealer is evolving, too, and the dealership business model is under stress, with major implications for sales and distribution. Brand engagement, distribution, marketing and communications, and sales performance measurement are candidates for rethinking from a digital perspective.

Brand Engagement. Although digital channels undercut traditional means of consumer engagement, they offer powerful new ways for OEMs to connect and interact

with consumers. In particular, they help solve an issue that automakers have struggled with for years: the on-and-off nature of their relationships with consumers. Through an integrated approach that includes various forms of digital engagement, OEMs can stay in continual contact with customers and thus be front-of-mind when a customer is ready to consider a new car purchase. Because consumers actively consider fewer brands than they used to, OEMs need to sharpen their brand image to ensure that consumers know, without having to think about it, what the manufacturer's products stand for.

Automakers may want to follow the example of more-advanced retailers and consumer goods companies, which have crafted omnichannel strategies that use mutually reinforcing digital and offline channels to interact with the consumer seamlessly at multiple points through the purchase journey. Some forward-looking automakers are already developing strategies and programs for engaging consumers early—even before they start thinking about buying a new car. For instance, Daimler's She's Mercedes platform appeals to female consumers by providing a "place where women can connect and exchange ideas, share experiences and learn from one another; a hub for sparking conversation, offering new perspectives and supporting ambitions." The platform serves at least two purposes: it helps Mercedes to build relationships with female consumers so that its brand is in the mix when those potential customers get ready to buy a new car; and it supports an algorithm that works with data from users to provide prospective buyers with the most suitable array of cars, adapted to their preferences. BMW's "product geniuses"—noncommissioned product and customer relationship specialists—link the online and offline brand experience for customers at local dealers.

As they experiment with the role of digital channels, OEMs should rethink the role of offline channels as well, developing new formats that are more differentiated than traditional dealers and that generate leads by engaging consumers. New possibilities in-

clude brand centers and city showrooms that centralize an OEM's presence and put advanced technologies, such as virtual test drives and interactive tools, to work; pop-up stores at large events and other venues; and mobile sales forces and after-sale services that bring the product and the service to the customer at customer-determined locations.

Tesla has been a leader in new retail formats, including Tesla brand centers and city showrooms, Tesla on Tour pop-up stores, and Tesla Rangers (which provide mobile after-sale service). Tesla city showrooms are the equivalent of brand boutiques that generate awareness by setting up shop in areas with heavy consumer traffic and providing highly interactive technology to explain the brand and products. Tesla's showrooms also highlight the company's position at the forefront of technology. Similarly, Audi has launched pilot showrooms with an innovative digitalized format that emphasizes the brand's premium universe, including vehicle configuration at multi-touch tables, life-size projections onto "power walls," and high-end acoustic systems that reproduce engine sound.

Distribution Strategy. Digital technologies offer OEMs the opportunity to devise customer-centric distribution strategies that turn the traditional dealer-based model—"the customer has to come to us"—on its head. Just as "build to order" supplanted "build to stock," "virtual build to order"—which uses advanced computer models to predict customer demand and then matches production to that anticipated demand—is the next step in the evolution of stock vehicle production and sales.

The role of dealers will continue to evolve as customers rely less and less on dealerships for information and purchase, having already made their decision and determined the right price to pay. Some outlets will cease to be traditional sales centers and instead become primarily experience centers, where customers can confirm their decisions by directly experiencing the car and talking with on-demand advisors. Other outlets will focus on providing after-sale services. Up-to-date product expertise will

become a key skill for salespeople, and new sales models—such as a centrally directed mobile sales force, equipped with digital “showrooms” supported by 3D technology and fleets of demo cars that visit customers at their preferred location with the car of the customers’ choice—may emerge.

Changes in the sales process will exert pressure on the current sales model and on the OEM-dealer relationship. As dealers exercise less and less influence on the purchasing decision, the value they add in the sales process diminishes—and profits shrink. At the same time, the ability to offer the customer the right car at the right moment becomes more important to closing the sale.

At some point, OEMs and dealers will have to ask whether it makes sense to maintain a small number of sales outlets that provide a strong brand experience in places of high consumer traffic (such as at shopping malls), supported by teams of traveling sales representatives who can visit customers at their convenience. This model envisages stocking vehicles and demo cars in a regional pool that can deliver any car at any time to any location the customer specifies, rather than stocking them at the dealer.

This would be a significant change from the traditional dealer-centered business model, and it would shift the risk of unsold inventory back to the OEM. Over time, the predominant model may shift from one based on margins and price arbitrage to one driven by service fees, in which OEMs pay fees to dealers for offering customers the crucial touch-and-feel experience for new cars, and dealers make most of their money from after-sales service and sales of used cars.

At the same time, more and better OEM access to customer data (including data from connected vehicles) will strengthen automakers’ position relative to dealers and will likely foster greater cooperation and data sharing between them.

Marketing and Communications. Already, automakers have access to a vast array of consumer data—from internal and external sources, and from dealer networks—

that permits far more detailed and precise identification of customer segments than was possible in the past. They will gain access to even more data as connected cars enter the mainstream. Aggregating this data and applying advanced analytics to it can reveal highly specific customer segments for digital targeting at each stage of the purchase journey. Among the categories of relevant data are these:

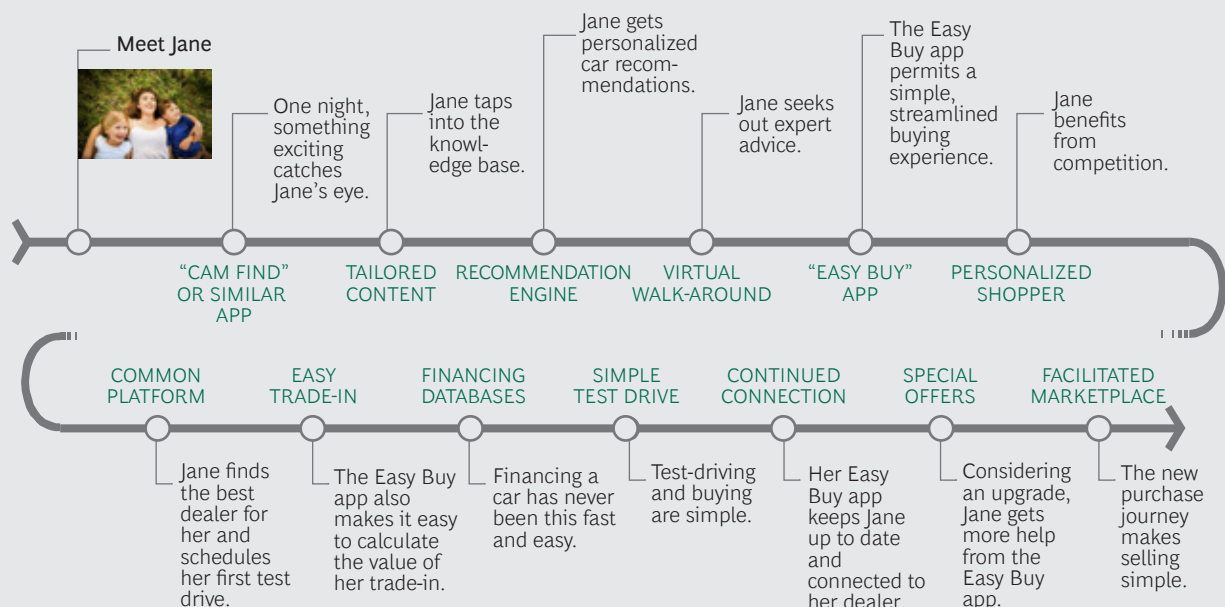
- Customer profile (including gender, age, occupation, and interests)
- Car usage (model, maintenance history, and accessories)
- Customer life-cycle phase (first car, first new car, second purchase, repurchase)
- Purchasing rationale and behaviors (such as pleasure versus efficiency)
- Purchasing priorities (brand loyalty or opportunism, price or pleasure)
- Sources of information and influence

Data-based marketing allows OEMs to approach customers directly and indirectly (such as through online, mobile, and social media advertising and content) when they are likely to be considering a new car purchase. More-advanced OEMs are already starting to pursue customer-centric personalization strategies based on new digital platforms that deliver an individually tailored customer experience. (See Exhibit 2.)

OEMs need to shift their digital marketing efforts from generating clicks on banner ads to using various digital channels to actively participate in the decision-making process—by influencing opinions through social media, enabling prospective customers to test and compare makes and models, and engaging consumers in an ongoing dialogue, for example. Manufacturers also need to build better links for sharing data that might steer sales with regional sales forces.

Digital engagement opens a host of opportunities for OEMs to interact with customers on a continuing basis. Occasion-based

EXHIBIT 2 | Smart OEMs Will Deliver a Personalized Experience to Auto Buyers



Source: BCG analysis.

contact (service notices, vehicle anniversaries, and changes of address, for example) initiates interactions with customers when discrete events or occasions arise, and enhanced CRM tools make possible a personalized approach that OEMs can adapt to evolving customer preferences. Big data and advanced analytics provide increasingly precise and cost-effective customer targeting at all stages of the purchase journey; they lower the cost of reach, focus spending on the right segments, increase conversion, and improve the relevance of messages. Social media offers its own opportunities for consumer engagement through sponsored stories, differentiated ad formats, and different targeting mechanisms.

Sales Performance Measurement. To assess the effectiveness of digital-channel sales performance, automakers can use dedicated key performance indicators at different steps of the purchase journey. These KPIs may include awareness and brand building (number of unique visits, number of page views, number of likes); lead generation and conversion (cost per click, cost per engagement, conversion rate); and retention and advocacy (cost per Facebook fan). OEMs can also use digital

tools such as web-based surveys and real-time satisfaction metrics to strengthen their customer satisfaction measurements.

THE AUTO SHOWROOM won't disappear completely, but it will evolve—and so will its overall impact on the purchase process. OEMs that want to reposition themselves for the changes already underway will look for ways to engage consumers early in the purchase journey, including ways to use consumer data to interact personally with customers and potential customers. They will sharpen their brand image and its delivery through digital and offline channels. And they will begin to plan for a very different future with regard to dealership model, showroom role, and after-sale interaction. OEMs that want to strengthen current customer relationships and build new ones will move quickly to fortify their digital presence at points all along the auto purchase journey.

About the Authors

Marco Gerrits is a partner and managing director in the Munich office of The Boston Consulting Group. You may contact him by e-mail at gerrits.marco@bcg.com.

Sylvain Brun is a project leader in the firm's Paris office. You may contact him by e-mail at brun.sylvain@bcg.com.

Karen Lellouche Tordjman is a partner and managing director in BCG's Paris office. You may contact her by e-mail at lellouche.karen@bcg.com.

Hadi Zablit is a senior partner and managing director in the firm's Paris office. You may contact him by e-mail at zablit.hadi@bcg.com.

Lara Koslow is a partner and managing director in BCG's Atlanta office. You may contact her by e-mail at koslow.lara@bcg.com.

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8/16