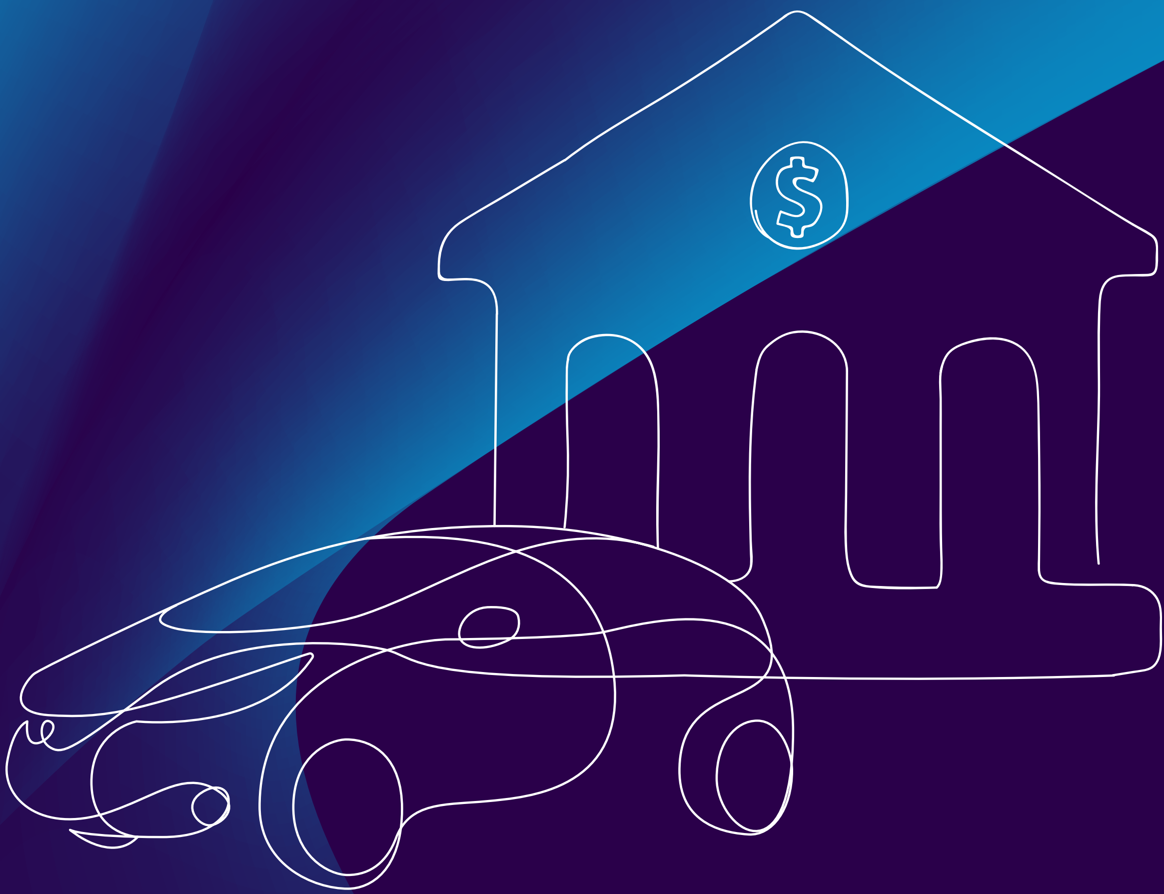
CAPTIVE FINANCE STUDY 2.0

TAKING A GLANCE AT THE FUTURE AUTOMOTIVE FINANCE BUSINESS MODEL



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EXECUTIVE SUMMARY

Evolving customer mobility preferences, new business models, and emerging technologies have the potential to fundamentally change the automotive finance industry, implying major challenges but also opportunities for automotive finance providers.

To seize those opportunities, providers must progressively **evolve their portfolio**. They need to support the shift from ownership to mobility services, including subscription models, though existing financing arrangements will remain relevant. Providers need to move towards greater digitalization, introducing new digital products and services and digitalizing existing ones.

Providers must collaborate with OEMs to **support the changing customer journey**, making it possible, for example, to complete an entire purchase online, including finance arrangements. OEMs and finance providers first need to define a shared roadmap and business models, pooling customer data where possible to achieve a 360° view.

Providers and OEMs also need to **adapt the sales model** to accommodate direct sales. Dealers will play an essential, though changed, role. Their remuneration model must be updated to secure their continued commitment.

In this dynamic environment, providers need to find effective ways to **embrace and steer innovation**, embedding it firmly within business processes.

Companies should define a **clear target position** – for example, a captive bank could become a mobility partner for its OEM, a multi-brand captive, or a digital mobility platform provider for the industry – then work systematically and flexibly towards that position.

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INTRODUCTION

What does the future hold for automotive finance?

Automotive finance providers know only too well that they are facing a changing marketplace. How individual companies will fare in this unfamiliar world is hard to predict. Some will probably be squeezed out by new entrants such as technology companies and startups with the flexibility to react to changing customer needs. Some smaller providers may merge with larger companies, perhaps moving from captive into non-captive business. Other providers will thrive, adapting to the new environment and achieving continued growth.

Capgemini has been investigating this area in order to help our clients rise to the challenges of the new environment. Our 2017 study on Automotive Captive Finance[1] identified a number of specific industry trends that threaten to disrupt the automotive finance business. We launched the present study to find out more about how automotive finance providers perceive some of these trends, as a basis for discussion about how companies can best respond. This time, we extended our scope to include automotive finance providers of all types, not just captives.

To complement our thorough subject expertise and daily project experience fueling this report, we conducted a series of interviews with experts, who are predominantly senior or middle managers in automotive finance organizations. In addition, we interviewed CxOs and Capgemini subject-matter experts. We would like to thank all our participants for their time and valuable input.

It is interesting to note that most industry experts estimate their companies' level of digitalization as medium to good, but hardly any are yet close to full digitalization. Digitalization is something we regard as a key driver of the future of automotive finance, but it is not the only driver.

In this report, we paint a picture of the future that draws on all of these sources. In addition to describing current trends, we look at some of the factors that could enable automotive finance providers to stay relevant and thus strengthen their market position.

[1]Capgemini, Automotive Captive Finance: Trends 2020; https://www.capgemini.com/consulting-de/wp-content/uploads/sites/32/2017/08/automotive_finance_trend_study.pdf

THE CHANGING PRODUCT PORTFOLIO

How can finance providers best accommodate evolving customer and industry needs?

"Car ownership, for a long time, has symbolized freedom and independence. But in the future, it may be akin to owning a horse today – a rare luxury."

Tim Higgins,
The Wall Street Journal

From ownership to mobility

The results of our Cars Online research for 2017 and 2018 confirms that, increasingly, customers value flexible access to mobility over car ownership. Traditionally, a car was a status symbol, and ownership felt like the safest way to ensure access to a car, but now these values are giving way to a desire for personalized products, relevant offers, flexible contracts, and transparent terms and conditions.

It's not hard to see why ownership is getting less popular, particularly in cities where people face a range of difficulties, such as finding somewhere to park. The trend away from car ownership is particularly strong among younger customers: In Germany, for example, we have seen compelling evidence that those under 30 are less and less likely to own a car. Younger customers are particularly likely to have become accustomed to flexible, personalized, and transparent access to a wide range of products and services through offers such as Netflix, Spotify, and Amazon. This experience means that they are attracted to the idea of using a car without the responsibilities that ownership brings.

Familiarity with the new models, combined with growing awareness of the inconvenience and cost of car ownership, is making car users increasingly open to new mobility services, that give flexible access to public transport, bikes, taxis, and car sharing.

These expectations about service provision will also have a profound impact on the way finance is provided. In the panel on page 7, we discuss how automotive finance providers could respond by providing and supporting subscription-based services.

It's worth noting that, at present, people mostly see mobility services as an addition to, rather than a replacement for, car ownership. Capgemini's 2017 Cars Online survey found that 56% of respondents see mobility services as complementary to owning a car, while 34% see them as an alternative to ownership[2]. This picture may change if people become more aware of the total cost of ownership (TCO) of their vehicles.

[2]*Capgemini, Cars Online 2017; https://www.capgemini.com/wp-content/uploads/2017/12/carsonline-2017_report.pdf*

Deep dive – subscription models

Automotive finance providers need to adapt their portfolios as a matter of urgency in order to defend their customer bases from new sources of competition, such as mobility service providers. Moving into this area will also position finance providers to realize new opportunities presented by changing customer expectations and emerging business models.

The pressure for change comes largely from changing customer expectations. In the case of **private individuals,** these expectations are about flexible, personalized offerings with fast access to mobility and transparent terms and conditions. Clearly, such expectations are not satisfied by traditional financial services, which are characterized by long-term contracts, static products, long delivery times, and sometimes hidden costs.

Employees of **corporate customers** have other lives as private individuals, and therefore bring to work the same expectations about flexibility, personalization, and so on. But corporate customers have additional expectations about scalability, control, and adaptability. Again, current products don't meet their expectations: they are not adaptable enough and are contractually limited. In addition, off balance sheet financing of leased vehicles will be prohibited by the new IFRS16 regulation from 2019, making leases less attractive. Many corporate customers will soon be stepping back from leases and, if they don't get the flexibility they want from existing finance providers, will look elsewhere.

Flexibility in this context often means subscription-based mobility services, as mentioned on the previous page. The models can be tailored to individual customer requirements. However, typical elements include access to mobility through a digital platform; a flexible contract environment at a fixed monthly rate; car flipping; variable contract length; and upgrades. There may also be personal comfort features such as a concierge or parcel-to-car delivery. The fixed rate may include insurance, maintenance, and roadside assistance as well as access to the vehicle.

"Subscription is the logical next step after full-service leases."

Clearly, automotive finance providers urgently need to embrace subscription models if they are to protect their customer bases and respond to the threat from companies specializing in mobility services. But there are opportunities here as well as threats, because these models bring potential advantages for the finance providers themselves. In terms of customer communication, the frequent touchpoints may facilitate a stronger relationship with customers, better branding, and shorter feedback loops. In addition, there can be more efficient utilization of used cars as a result of better forecasting.

Experts we consulted are generally convinced of the long-term potential of subscription models, and of the market's drive towards them. To make this vision real, companies will need to tackle various implementation challenges across logistics, legal and accounting, partner management, and IT. In addition, they may need to educate their customers about the relative costs of subscriptions and car ownership. At present, some customers feel subscription prices of current offers are too high – a view that probably reflects an inaccurate perception of TCO. However, there are signs that customer interest in subscriptions is increasing: Almost half of respondents to a 2017 survey indicated that they prefer subscription-based services to car ownership.[3]

Some automotive finance providers are already experimenting with subscription models, with around 45 offers at various stages in mature markets such as Germany, the UK, the Netherlands, or the US. However, most providers are in "wait-and-see" mode until customer perceptions develop further and models evolve. We believe, however, that companies that take a lead in this area could gain competitive edge.

"Flexible renting will account for the majority of the product portfolio."

[3]*Statista; https://www.statista.com/statistics/868513/vehicle-subscription-preference-over-buying-respondents-worldwide/*

Product digitalization

The move away from vehicle ownership and towards mobility services is one of several factors compelling automotive finance providers to adapt their product portfolio. Around half of the experts we interviewed mentioned this portfolio adaptation as one of their biggest challenges in meeting customer expectations. Other, even greater challenges cited were the need for flexibility of products and services and integration of online and offline processes. Subscription-based services arguably present all three challenges, since they involve offering offline products through an online channel.

We believe a major tool in tackling all these challenges is digitalization. This includes both digitalization of existing products and the development of new digital products that will enrich the portfolio to strengthen customer relationships and loyalty.

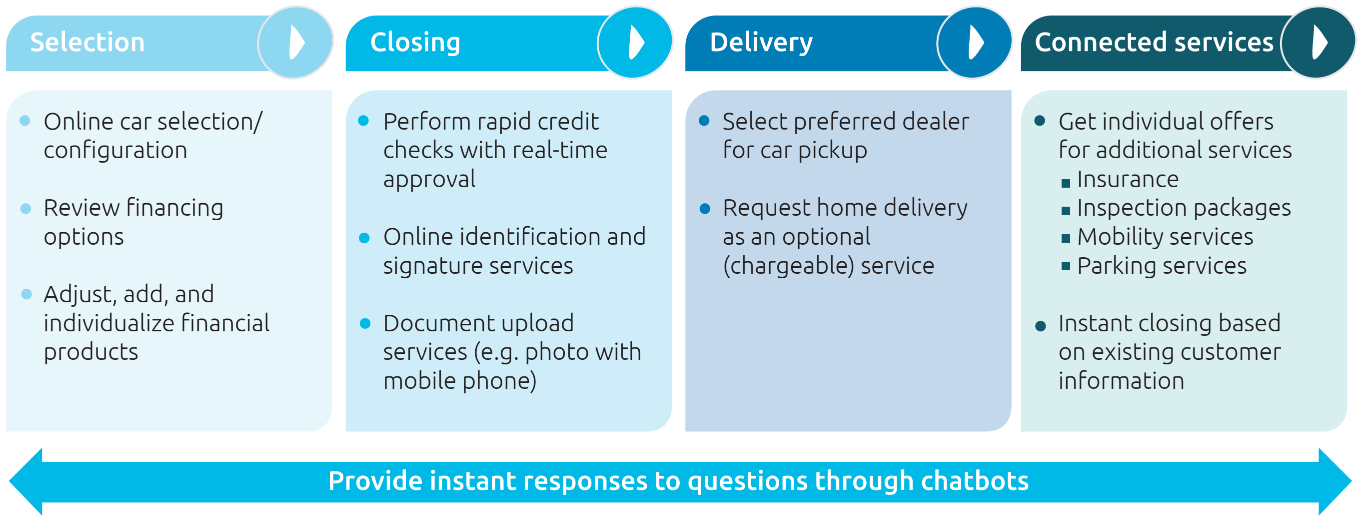
Digitalization of existing products and services

Automotive finance providers can take existing offline products, optimize them, and offer them online. For example, if someone needs a car loan, instead of having to go to a dealer and complete a contract, they can be allowed to complete the whole process online. This is particularly desirable in cases where the rest of the purchase process can be completed online. Moving a process online is an opportunity to optimize it, particularly in terms of the online and offline interactions. For example, the new version of the process could:

- Provide instant responses to questions through chatbots
- Perform rapid credit checks, without the hassle of waiting for a decision
- Seamlessly integrate the online portions of the journey (e.g. selection of the car and getting information about finance, then completion of the order and financing contract) with the offline portion (e.g. visiting the dealer for a test drive)
- Offer personalized connected services based on existing customer information.

Figure 1 shows what the future journey might look like.

Figure 1: Future customer journey with most elements performed online



Companies' current digitalization status

Our respondents report a wide range of maturity with respect to digitalization. Not many automotive finance providers are taking full advantage of this opportunity at present, though the number is steadily increasing; we expect to see many publishing their online journeys within the next year.

Our current Digital Maturity Assessment 2018 shows that only a few of the companies analyzed currently offer a full online application process. Most companies have digitalized just a few initial steps, such as online quotation and filling in application forms – the customer still has to go to a dealership to sign and submit the forms. Finance providers participating in our interviews for this study seem aware of this limitation: Roughly a quarter of them said that only 25% of their current portfolios are digitalized, and most respondents said that they have focused so far on the front end and the company's external image.

If they get the timing right, automotive finance providers now have an opportunity to differentiate themselves from the competition by digitalizing back-end processes. Not only will they be able to create a superior customer experience, but they will at the same time be able to improve their own operational efficiency by automating back-office processes like credit checks and billing.

We should note that there may be good reasons for not rushing the process of digitalization. Strategic decisions must be made about how far to go, given the risk of alienating dealers if digitalization happens before new and profitable roles are agreed for those dealers (see our later section on *The future sales model*).

In terms of other aspects of digitalization, some companies have narrowed down their product portfolio to identify candidates for digitalization, while others have reached the stage of launching pilots. Others again have already implemented at least one complete process, such as eSignatures or Revised Payment Service Directive (PSD2) access.

[4] *Capgemini, Wie digital sind Automobilbanken aus Kundensicht? https://www.capgemini.com/de-de/2018/06/wie-digital-sind-automobilbanken-aus-der-kundensicht/*

Developing digital products and services

As well as digitalizing existing products and services, companies can also create new digital offers, such as parking services allowing customers to buy and pay for a parking permit on a mobile device. It's important that these products and services are geared to genuine customer situations – for example, there wouldn't be any point in creating a spending check for customer accounts if customers are not willing to share information about their personal expenditure.

The most important area of digital innovation for automotive finance providers, however, will be the subscriptions and other mobility-oriented services discussed in the previous section. This is likely to comprise a mixture of digitalization of existing services and the creation of new ones.

"Mobility packages will increasingly come to the fore – and here there are no limits to our imagination."

Evolution, not revolution

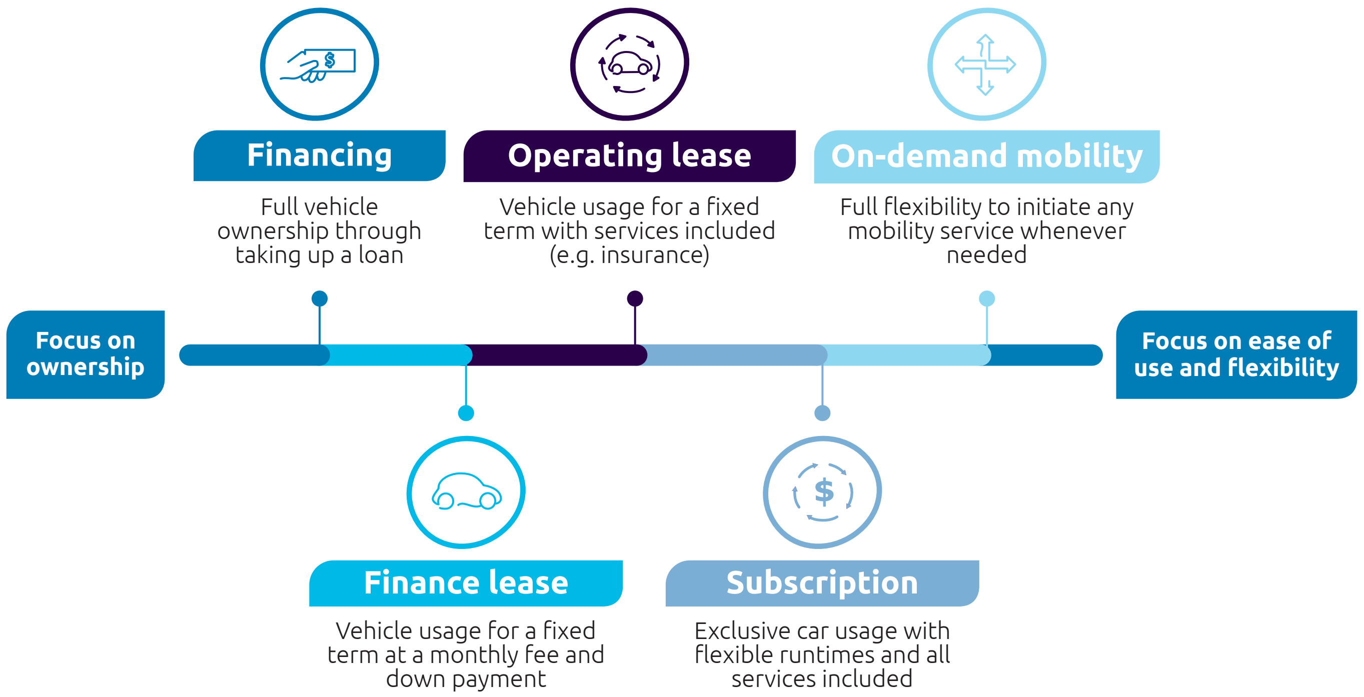
We aren't talking about an overnight transformation here, of course. Most of our respondents expect their existing finance and lease products to remain in the portfolio, but gradually to be overtaken in importance by other products, including rentals and new subscription-based services that better meet evolving customer expectations and mobility preferences. Existing products may also change: For example, shorter leases may become prevalent.

It's also likely that there will be a spectrum of mobility services (as illustrated in figure 2) to meet the needs of different customer groups. On the one hand, companies will probably need to cater for rather traditional products serving the desire to own a car, and on the other hand, generate new offerings for short-term and on-demand mobility.

In rethinking their portfolio, automotive finance providers need to observe customers closely and ideally involve them in product ideation and development. This way, they'll ensure that they only develop the products that are really wanted and meet the full range of customer needs.

Companies must collaborate with external partners to create effective products and enhancements, and with OEMs to make sure that these fit seamlessly into the overall customer journey. We'll discuss this last challenge in more detail in the next section.

Figure 2: Bandwidth of mobility services



THE NEW CUSTOMER JOURNEY

OEMs and finance providers must collaborate even more closely in the future

"I want to subscribe flexibly online to a vehicle that can be easily changed, because I want my vehicle to match my current lifestyle. I don't like being locked into long contracts, or paying a bunch of money all at once."

Peter, 29

"I need a powerful and high-quality vehicle to drive to work every day, but I also need to be able to fit our two kids and their buggy into it. My partner also needs a car to be handy for everyday jobs like supermarket shopping."

Carrie, 45

Defining the roadmap

Based on our dialogue with industry experts, we expect the existing journey model to be replaced by a new, integrated customer journey, which will only be possible through tight collaboration between OEMs and finance providers.

Today, customers typically complete their purchase of financial products during their visits to dealerships, receiving assistance from staff that is trained and experienced in financial products (though sometimes overburdened by having to deal with large numbers of products that only differ in small details).

In the future, however, some customers will choose to complete the transaction themselves, online at home, just as they will complete the rest of the vehicle purchase process online. This shift will apply not just at the sales phase but throughout the customer journey. For example, some customers want to be able to change the terms of their contract or payment arrangements themselves, online, during the life of the contract.

Importantly, not all customers will choose this self-service approach to financial products – some will still want to visit a dealer and get specialist help. Here, as in other respects, automotive finance providers need to focus on the customer and provide each one with a journey to suit their preferences and lifestyle.

These changes to the customer journey pose similar challenges for both automotive finance providers and OEMs – challenges that the two types of organization will often need to tackle together:

- **Enabling customers to perform tasks previously performed by dealers.** For online sales of both vehicles and financial products, the complex process of configuration, previously carried out by specialists within dealerships, needs to be accessible to a member of the public with no special training or experience. To ensure a smooth sales process, customers need ready access to explanations of all the relevant options, plus instant support if they need it. Products themselves need to become more easily understandable, as well.
- **Shifting information and knowledge from dealers to finance providers and OEMs.** Dealers used to be the customers' primary contact and provider of support regarding both vehicles and financial products, but in a direct selling model, more service elements will be provided by finance providers, and by OEMs in the case of vehicles. Dealers will still be essential, however, and we expect them to take on new roles, with associated revenue streams. (The implications of this type of model for dealer relationships are discussed later in this report, in the section on The future sales model.)
- **Providing an integrated experience via new online channels.** Automotive finance providers and OEMs alike will need to provide outstanding online customer experiences enabling customers to use the channels of their choice in an integrated way for buying and owning both vehicles and financial products. Finance providers and OEMs need to agree on the best way to communicate with customers – for example, which brands to use and what content to provide. Some of the required online channels have yet to be created. Where online channels do exist already, customers may need encouragement to use them. Our observation is that take-up tends to be low at present.

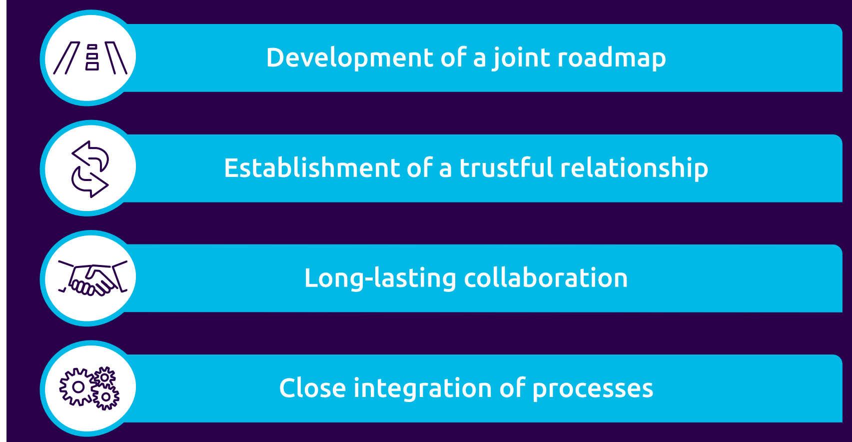
Our study shows that automotive finance providers are already well aware of the need to converge with OEMs. The vast majority of respondents expect increased collaboration, with the main reasons given being overlap in new areas, the need for joint products, distribution channels and customer care, and the breaking down of traditional barriers.

In particular, they realize that they must define a collaboration model and a joint roadmap for achieving it (figure 3).

"Closer integration between captive and OEM is necessary."

"We are already experiencing much closer collaboration with the manufacturer."

Figure 3: Key success factors for cooperation between automotive finance providers and OEMs mentioned in expert interviews



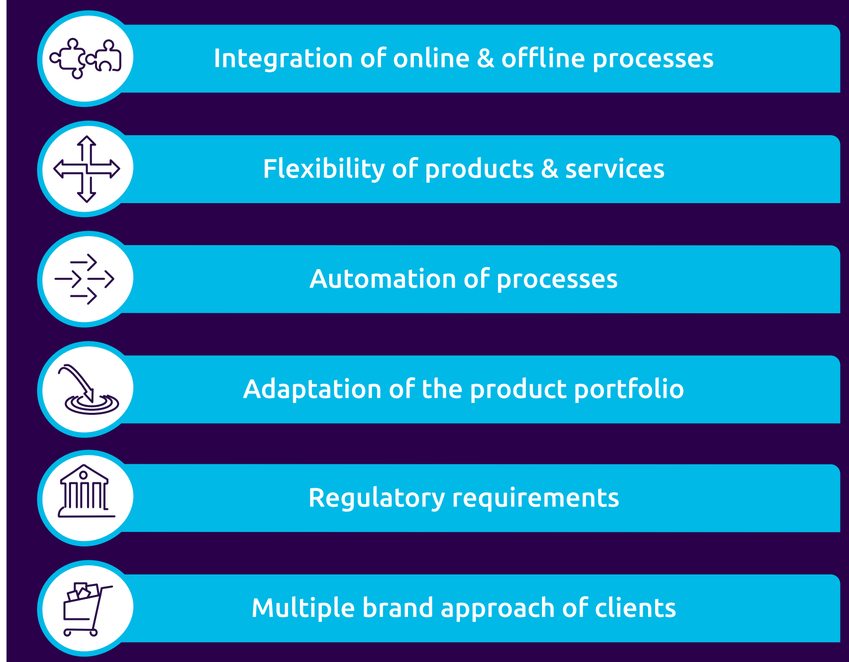
Defining a joint roadmap is a key success factor for cooperation between automotive finance providers and OEMs.

Not only are finance providers aware of the need for convergence with OEMs, but some have already embarked on the process. Of course, the process of cooperation brings challenges of its own. Respondents mostly want to position themselves as their group's mobility provider and orchestrator of mobility services, while some expect only to continue as sales support and loyalty provider for the OEM's brands.

It will be important to define the roles of the automotive finance provider, OEM, and dealer in the new ecosystem. One possibility, for example, would be to integrate a captive's products into the OEM's portfolio to create a one-stop shop, with the captive remaining separate to satisfy regulatory requirements (otherwise the OEM would need to conform with banking regulations). IT systems will need to be harmonized to enable the necessary process flows and data transfers. Collaboration and partnerships with third parties also need to be defined. Products will need to be redesigned to be online-ready, i.e. comprehensible by customers with no sales person at hand, as discussed in the previous subsection on *Defining the roadmap*. Figure 4 summarizes participants' views on the main challenges of meeting customer expectations in the current market.

Organizations that tackle these challenges successfully will be in a strong competitive position. The 360° understanding of the customer that they acquire based on consolidation of financial and vehicle data will enable a tailored, seamless experience that builds customer loyalty and drives other desirable behaviors. It will enable those groups that are new to the mobility business to compete on equal terms with established players.

Figure 4: Biggest challenges of meeting customer expectations in the current market according to interview partners



The biggest challenge of meeting customer expectations is the integration of online and offline processes.

Identifying new joint business models

As we have seen, automotive finance providers expect to converge with OEMs. This expectation reflects a growing belief that separating the two areas of business no longer makes sense: In fact, around half of our interview partners state that there is now no clear strategic separation between OEMs' and finance providers' business.

It's easy to see why this view has emerged. Traditional financial products such as leases were clearly the responsibility of finance providers, while vehicle services including connected car services, belonged to the OEM. However, in the case of new business models such as mobility services it is not clear who should be responsible for innovative products, service components, and direct sales – they seem to relate to both OEM and finance provider, and neither could profitably offer them independently of the other.

The new services are already demanding closer collaboration. For example, OEMs expect finance service providers to handle micropayments for mobility services on their behalf, which requires a high level of information sharing. Furthermore, the future of electric vehicles, with all the related services such as charging, requires fast and easy transaction and settlement management – preferably integrated into the car itself as an automotive finance application.

The new collaborative models may open up promising new revenue streams for automotive finance providers. For example, the finance provider could handle all the payments for content and services delivered in the in-car ecosystem, together with the processing and handling of the customer data. The OEM could focus on using its platform and hardware knowhow. Both could then capitalize on their well-established brand images and exploit joint data pools, as discussed below.

To take advantage of this opportunity, automotive finance providers and OEMs need to work together to identify, define, and implement new business models around mobility by leveraging their respective expertise and assets.

Building on joint data pools

To achieve the necessary 360° customer view, the finance provider and OEM must jointly review and harmonize their data and the associated IT landscape – all of which is typically highly fragmented for historical reasons. As well as sharing their respective data, the two organizations should consider complementing it with data from newer sources – such as portals, devices, and connected vehicles – that can paint a more complete picture of a customer's behavior and expectations. They should also consider whether they need new systems and/or interfaces to support the new "business model."

Once again, there are challenges to be resolved before data can be pooled. For instance, decisions need to be made about how the data is physically organized: whether it should be moved into a single bucket or left in separate stores and integrated by a separate software layer.

A more significant challenge, though, is the legal and regulatory hurdles to data pooling. Players will need to conform scrupulously with banking laws, as well as privacy regulations such as the GDPR. While OEMs can share vehicle data with captives, the OEMs are not allowed to see the account data held by their captives, since only the captives are subject to banking laws. This challenge remains regardless of how the data is physically organized.

THE FUTURE SALES MODEL

The role of the dealer is also evolving

The move to direct sales

There is a general expectation in the industry that sales models will increasingly emphasize direct sales, so that automotive finance providers and OEMs will be aiming to "be where the customers are," instead of expecting the customers to come to them via a dealership, as is the case in today's model. Eventually, we expect that a full range of products, including leases, financing, insurance, and other add-on products and services, will be sold directly by finance providers to customers who will buy them online.

From a finance provider's perspective, as well as an OEM's, direct sales have major benefits (figure 5), such as increased customer focus arising from increased contact and margin optimization. Direct selling puts finance providers on a par with the mobility services companies, who already have much more direct contact with customers.

Automotive finance providers must, however, anticipate and deal with a major potential drawback of direct sales – they need to find ways to safeguard the emotional brand value created by the dealership experience. Dealers are the "local heroes" who really know the customers (individual and corporate) and own the trusted relationships that will probably be needed to convince customers to try new offers such as mobility services. In addition, we don't expect all products to move to direct sales – more complex and expensive products will probably continue to be sold through traditional channels for the time being (see panel). Survey participants' views of the challenges of direct sales are shown in figure 5.

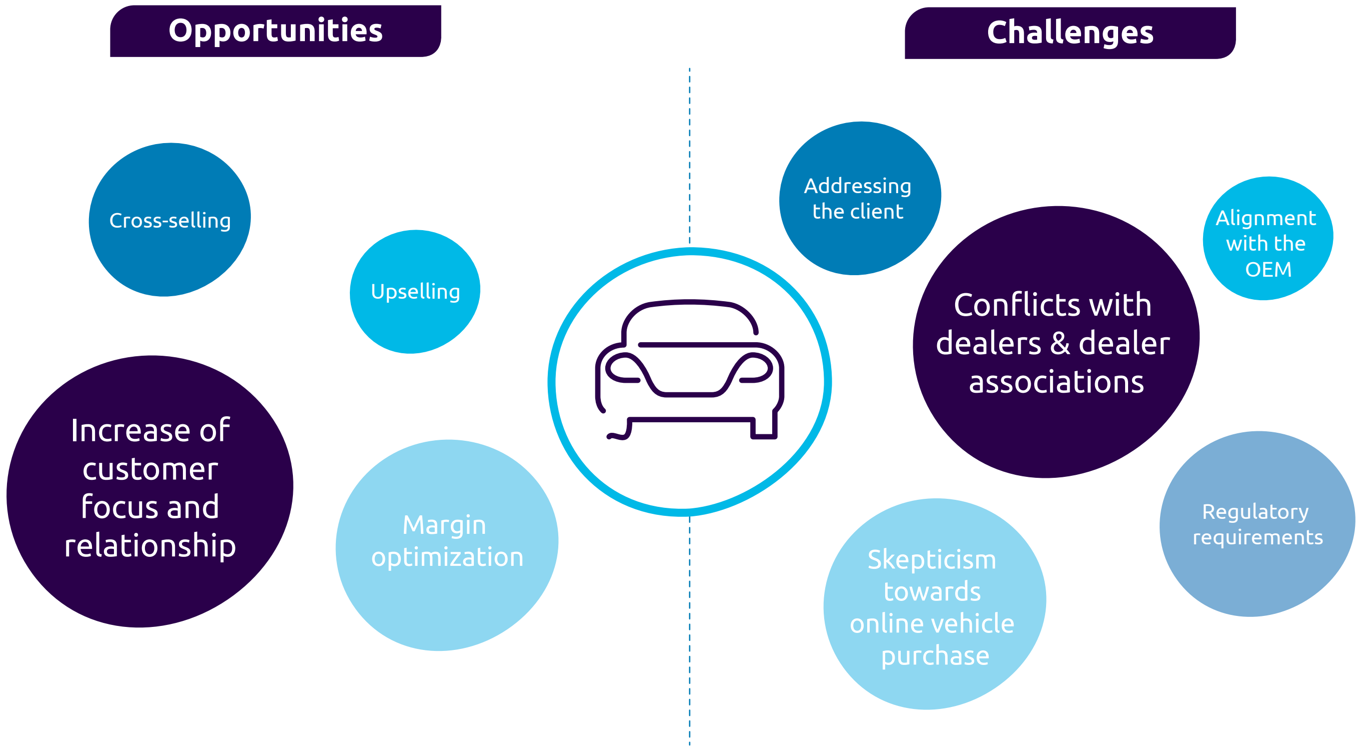
It will be vital to offer dealers an attractive new remuneration model that provides them with additional value. As dealers' incomes from sales commissions reduce, these reductions must be offset by new income streams. The rest of this section addresses the challenge of sustaining and leveraging dealer relationships as new sales models emerge.

The product portfolio content will affect the sales model

Our respondents had widely varying views about the future sales model, ranging from a world where online channels are only an information source, not a sales channel, to one where all sales take place online. Some also believed that new products would be more likely than existing ones to be sold online.

We expect the future to reflect these varied views. Complicated or high-value products such as vehicle financing are likely to be sold via legacy channels for the foreseeable future, while new products such as mobility services and digital products will be sold directly to the customer. After the initial purchase, customers will be able to buy some asset-based services directly via their vehicles, which as noted earlier will involve close collaboration between OEM and finance provider.

Figure 5: Expected opportunities and challenges of the direct sales model for automotive finance providers



How will the dealer's role evolve?

Within our interviews all experts emphasized that they see a continuing role for dealers, though the majority think they will move into more of a supporting role. That agrees with our view that although dealers will continue to fulfill their traditional role for the most part over the next few years, after that they will begin moving into new roles.

It's likely they will gradually change from being primarily a sales agent to being a service provider, for example arranging vehicle delivery and selling mobility services. The dealer will also become a customer ambassador: a two-way channel between brand and customer, providing the right brand experience for the customer and also transmitting customer feedback to the brand. Change will not happen as a "big bang", but gradually, and it could be accompanied by a further consolidation of dealer networks.

> *"In five years' time, the dealer's role will be pretty similar to what it is now. In eight to nine years we will see the first changes, as the product portfolio will be shifting and today's products are likely to account for only 60-80% of sales."*

Deep dive – the need for new dealer remuneration models

However the sales model evolves, for the foreseeable future finance providers will need dealers – to present a human face for customers who want one, to act as a service agent, to provide advice and information, and to give customers a feeling for the cars and services available (whether with real cars or via technologies such as augmented reality). This will be alongside the dealer's vital customer ambassador role, described above under *How will the dealer's role evolve*?

Clearly, then, it's in automotive finance providers' interest to make sure that dealers' new roles are sufficiently attractive. If a dealer's loyalty is lost because their commissions aren't replaced by adequate alternative incentives, they could decide to start offering alternative financing and contracts, or a different brand of car.

The new model should therefore enable the dealer to add new revenue streams that at least compensate for any reduction in existing ones. For example, the model could offer increased opportunities for dealers to interact with customers, so that they have the opportunity to cross-sell – perhaps a bit like telco sales agents, who offer services that add value for customers. There could be increased incentives for these customer interactions, with the dealers remunerated for each test drive and, similarly, at other touchpoints. Additional services such as pickup and delivery (PU&D) and products in the mobility area will increase the potential for new revenue streams.

Automotive finance providers need to create a win-win situation where they themselves take over more of the customer relationship, but their dealers are also happy to work with them. Those that do this successfully will be protecting not only their dealer network but also their customer base. They'll gain an advantage over their competitors – not just other finance providers but also banks, old and new, and providers of mobility services.

APPROACHING INNOVATION

Effective ways to create novel products, services, and ways of working

The current status of innovation

In view of all the current and imminent changes to the portfolio and to business models and relationships, the ability to innovate is now a key success factor for automotive finance providers. Each company will need to determine and implement an innovation strategy to suit its situation and ambitions.

During our interviews, we determined varying levels and maturity of innovation management across all types of automotive finance providers. For example, the majority of participating companies have established an innovation management function; around a quarter have started creating one, and only a small proportion do not have one. (Of course, not every company needs a separate innovation management function – everything depends very much on size and strategy.)

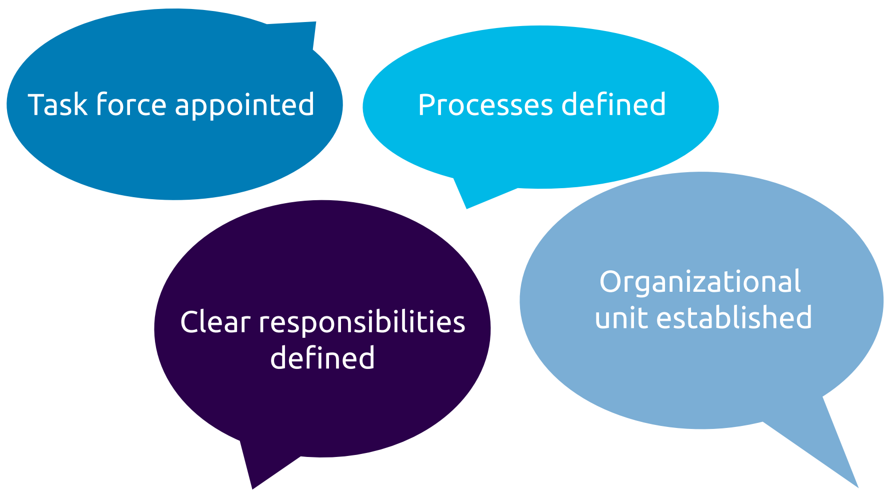
Many automotive finance providers have already established an organizational innovation unit.

We also asked about the specific steps that participants had taken so far towards improving their management of innovation (Figure 6). Encouragingly, the majority have established some kind of organizational unit for innovation and/or have defined clear responsibilities. Fewer have created processes for innovation as of yet.

Unsurprisingly, given the variation in maturity with respect to innovation management, there is no consistency about the approach for identifying relevant innovations. A wide range of sources are used, including social media, conferences, universities, external support, and the company's own market research. Larger companies are more likely to do their own research, while smaller ones rely on external sources.

In terms of the areas of innovation on which companies are focusing, again there is a wide variety of approaches, a few of which are illustrated in figure 7. Artificial intelligence is a focus area. Target areas for innovation include all aspects of the application process, particularly credit checks. Chatbots for automating aspects of customer service are another key area, along with the "next best offer" process.

Figure 6: Steps taken towards innovation management in the companies of interview participants



Embedding innovation in the business

Companies know that they can only truly benefit from innovation if they anchor it to their business process and embed it in the organization. On the other hand, there is little agreement about the right approach to doing so, or to the governance required. Figure 6 illustrates exemplary steps that have already been taken in our participants' companies to establish innovation management.

A key question is how innovation should be structured – should it be integrated into existing business units, assigned to a separate, independent unit, or something in between? The answer depends very much on the corporate culture. If a company is not, in general, open to new ways of doing things, then it may make sense to create a separate unit that has the freedom to experiment.

Two key points to take into account when approaching innovation are customer involvement and the optimal use of technology.

Customers, internal and external, should be integrated into processes – from product design ideation to development. Traditional approaches such as surveys and panels won't achieve this, so companies need to look at new tools for continuous customer integration, such as social listening, netnography, and moderated online panels. Only by listening intently to customers, learning about their needs and expectations, does it become possible to make sure that innovations meet the needs of the business.

As for technology, the greatest gains are probably to be made by focusing on back-end process optimization as well as the front end. These processes are often labor intensive, and automating them therefore offers major cost reduction opportunities.

The majority of respondents in our survey have, in fact, embarked on process optimization in the back office and many have their first pilots in place.

In general, our interview partners feel that they have more to do in this area, mostly stating that technology innovations are not yet sufficiently implemented. They are working on it, however, with around half having implemented robotic process automation (RPA) and customer-facing bots – usually as pilot initiatives.

This, in fact, is the approach that we usually recommend to our clients. Pilot simple processes that currently involve significant manual effort, then iteratively extend the approach to more and more standard processes. At the same time, gradually extend your use of machine intelligence to automate more complex processes.

Figure 7: Innovation in automotive finance

Technology	Potential field of use
Artificial Intelligence	Credit decisions
Chatbots	Customer service, dealer interactions
RPA	Backoffice processes
Big Data & Analytics	Next best offer
VR/ AR	Dealership experience, sales process
IoT	Connected car & services
Blockchain	Smart contract, vehicle status tracking
Open Architecture	Ecosystem integration & collaboration

NEXT STEPS

Mapping your future role

The research described in this report shows that the disruptions in the current marketplace offer a range of opportunities for automotive finance providers, but also present certain threats. To ensure continued success, providers must determine what role they want to play in the future. For example, as figure 8 shows, there are four different roles available for captives. The roles are:

- Internal innovator and partner for mobility – driving new business models and services in close alignment with the OEM
- Digital mobility platform – developing and offering new innovative services, not just for one OEM but as a platform for the industry
- Traditional captive – improving operations across the business to stay competitive
- Multi-brand captive – the captive might offer financial products for a different brand in addition to those for its own OEM.

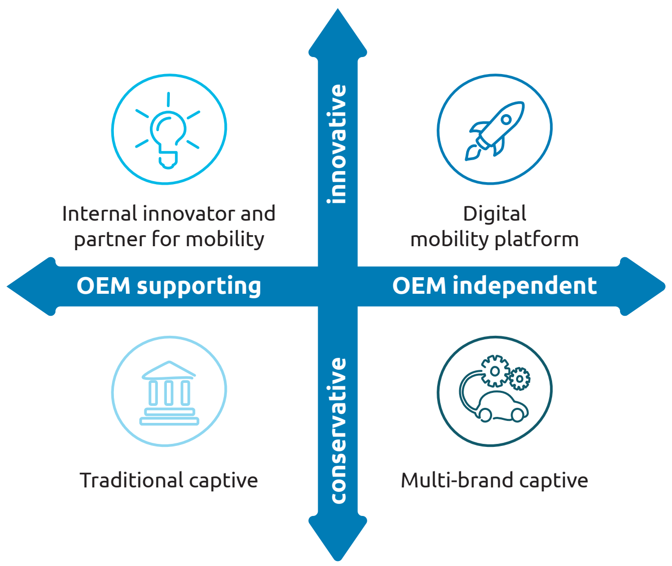
An individual company's choice of role will be influenced first by its level of innovation and second by its level of dependence on an OEM (see figure 8).

Having determined its target role, each company needs to embark on the journey outlined in this report. Specifically, they must:

1. Define the new product portfolio. How will they respond to the demand for subscription-based mobility services? What products and services must be digitalized and what new digital products must be added?
2. Understand the new customer journey and its implications for the sales model and for their business. What should be the future relationship between finance provider, OEM, and dealer? How can the new model be made commercially attractive for all parties? What is the best way to use data, and to tackle the obstacles to data sharing?
3. Decide how they will achieve the necessary innovation – whether internally or with partners. Do they need an innovation management function? What are the target areas for innovation and how should these be prioritized? How will innovation be embedded in the business?

Answering these questions at an early stage and revisiting them regularly will position automotive finance providers to achieve their desired role and to succeed in an unpredictable future.

Figure 8: Thriving in the evolving market place requires clear positioning



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