

# Automotive online sales: curse or blessing for the industry?



Just as consumers' expectations about vehicles are evolving and driving disruptive industry change, so are their expectations about their relationships with vehicle suppliers. Capgemini's *Cars Online* research tells us that consumers will increasingly want to buy cars online<sup>1</sup>.

OEMs realize that they need to harness digital channels to meet consumer expectations, but the area of online sales has seen relatively little impact so far. Barriers include a lack of clarity about the roles to be played by both OEMs and dealers; the transformational change that would result in terms of dealer footfall, cross-selling, up-selling, etc.; the need for a new legal and commercial framework for online sales, and the financial burden of making the necessary process and IT changes. Even from the consumer's point of view there seem to be difficulties – if they buy online, how will they arrange a test drive or negotiate a trade-in? On such a high-value purchase, won't they miss the reassurance of talking to a human being?

However, these barriers can be overcome. The experience provided by the dealer can be delivered in other ways, and the dealer network will continue to exist alongside e-commerce channels, though not necessarily in exactly the same form. A step-by-step approach to e-commerce implementation – as discussed later in this paper – enables OEMs to launch and develop an online sales channel with minimal risk and disruption.

Today, online sales executed directly by OEMs are still a niche market. But OEMs need to start on this journey now if they are to protect their market position when the floodgates of consumer demand for online sales open, as they surely will soon. There are major benefits to doing so – not just increased margins from disintermediation, but a closer relationship with customers leading to better profitability and retention. In this way, companies can simultaneously develop a reputation as digital masters and deliver the experience that customers expect.



<sup>1</sup> Capgemini, *Cars Online* 2014, page 20

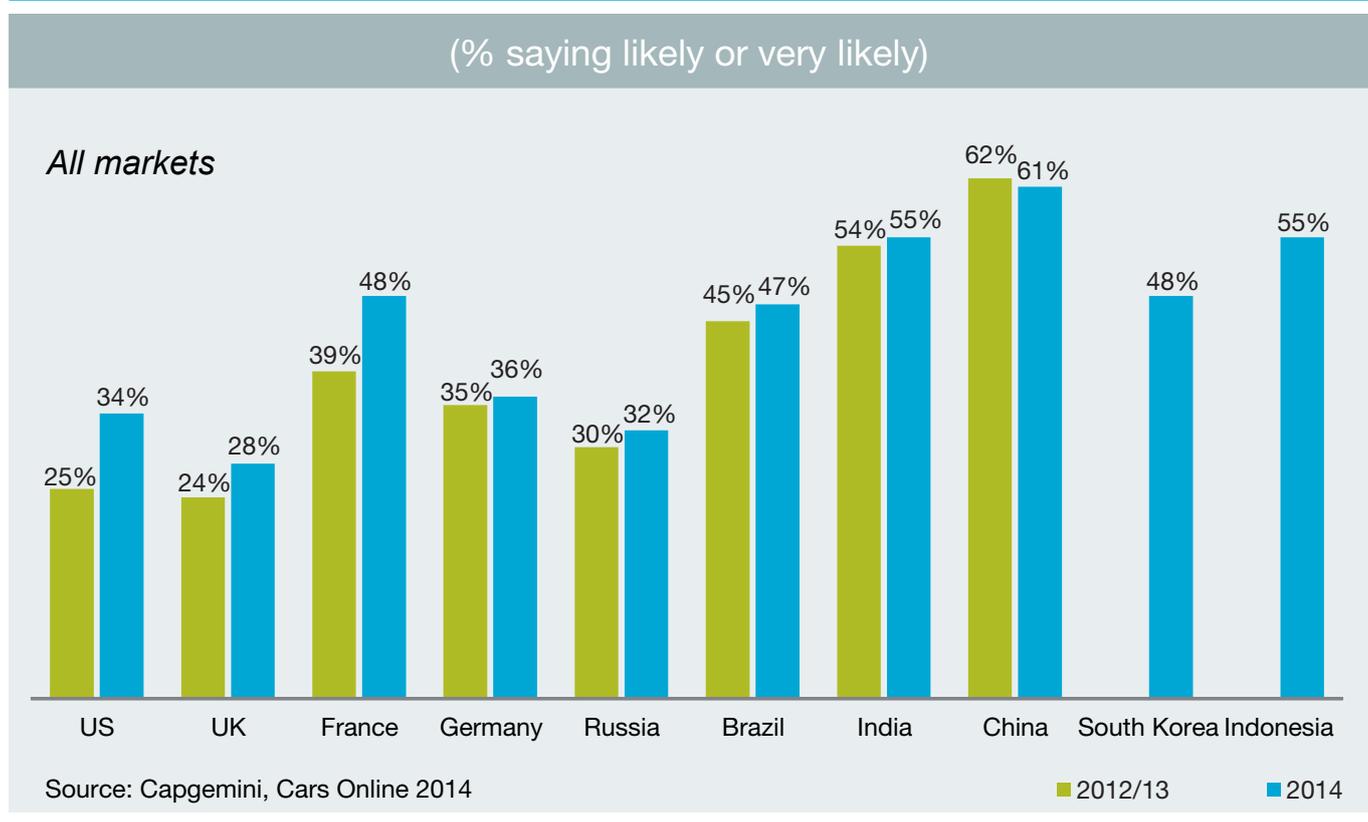
# E-commerce: is the automotive industry missing an opportunity?

The automotive industry's customers are showing increasing interest in buying cars online, as opposed to just researching options or specifications there. The closer a shopper gets to the buying moment, the greater their attraction to the online channel<sup>2</sup>. Reasons given include better price (45%) as well as easier and faster transactions (23%).

The enthusiasm for buying cars online is especially noticeable in growth markets – almost two-thirds of Chinese consumers would buy a car online – but significant in more mature markets too. For example, in Germany the figure is over a third (36%). (See figure 1.)

Despite this growing interest, online sales remain a niche area for the industry – certainly for new cars (used cars are another story, with significant activity in many markets). The online channel is mainly used to gather information during the buying cycle: A customer configures a car online and then a local dealer picks up the configuration and concludes the sale. With a few exceptions, such as Volvo or BMWi, OEMs give much higher priority to their traditional sales models than to online channels.

Figure 1: Likelihood of purchasing a vehicle online



<sup>2</sup> Capgemini, Cars Online 2014, page 20

This picture contrasts strongly with some other industries. E-commerce has been the standard in retail, for example, as all age groups access the internet more and more. Although new access methods such as smartphones and tablets have accelerated the move online, it's over 15 years since retailers started driving their business to a new level by offering products to a much wider audience. They have done this because it's what consumers want – those that failed to act lost out to new entrants such as Amazon, which went on to establish such a dominant position in the retail e-commerce market.

The retail experience suggests that there may be untapped potential for the automotive industry in online sales. There are reasons for caution, admittedly. For one thing, e-commerce is price-driven when automotive companies are moving towards a more service-driven model. Then again, e-commerce has brought casualties to the retail industry – for example, to those players that overestimated the need to invest in bricks-and-mortar stores.

Nonetheless, many OEMs now feel the time is right for them to embrace e-commerce, and are looking to transform their sales model accordingly. This paper will address the challenges of this transformation, starting with the difficulty of moving away from the current dealer-oriented model. We'll then discuss a way to overcome these challenges.

## Potential benefits of online selling

Online selling has significant benefits for OEMs. It can help them to bring a dated sales model into the modern age, ensuring its appeal for an upcoming generation that expects its preferred channels to be utilized in a way they are used to from other industries. For OEMs who have a mature customer base, it is particularly valuable to reach these younger customers in their natural habitat – the internet.

The new model will offer OEMs other major benefits. First, they will be able to introduce richer, more entertaining showrooms that elicit greater enthusiasm from customers:

- The futuristic Audi City in Beijing provides an early example of how these might look; it offers virtual vehicles for customers to experience and interact with.
- Another example is Tesla. Its showrooms in prime big-city locations are designed to convince potential customers of the brand's appeal before they decide which car to buy next, or even think about buying a new car. In contrast with the traditional scenario where people only visit showrooms after deciding what brand to buy, Tesla wants to plant an impression that will reactivate once the consumer thinks about buying a new car, even if that's months or years after the showroom visit. Tesla showrooms have no sales targets; they're all about brand experience.

The new approach will mean that OEMs can make a more comprehensive range of products available for test drives. In addition, they can reduce delivery times to as little as one to two weeks, particularly where they are selling from stock (step one in the staged approach proposed later on).

OEMs can also obtain higher margins by selling online – the cost of each sale could be as little as 3-4% of the car's price whereas selling via the dealer network costs 10-13% of the price. This is an important consideration at a time when margins are on a downward trend.

In the longer term, companies can forge a closer relationship with customers, leading to better profitability and retention. They can develop a reputation as digital masters while delivering the experience that customers will increasingly expect.

# The role of the dealer and the potential for change

## Complexity and emotion – reasons consumers are sometimes reluctant to buy new cars online

Obviously, buying a car online is not the same as buying a book. The first big difference that comes to mind is price, but this cannot be the only reason why some customers hesitate to buy cars online. After all, plenty of expensive furniture is sold online without the purchaser ever having touched the object, or directly experienced it. With a car, however, there is often a lot of extra emotion in play; particularly in the case of premium models, people often pick car models on an emotional rather than a rational basis. Crucially, the emotional aspects are not as easy to communicate through the online channel as via a skilled sales person.

## The value of dealers to OEMs

One reason for OEMs' caution with regard to online sales is that they set a high value on their dealers, and are committed to continuing to work with them, using their established sales model of decentralized dealer networks and national sales companies.

There are two major reasons for this. First, dealers are among OEMs' most important sources of information. **Cars Online** found that 55% of OEMs in all markets relied on them for vehicle research<sup>3</sup> – the highest figure for any source.

Second, the dealer plays a crucial role in the sales process. Most consumers want to experience a car before they buy it (see panel on “complexity and emotion”) and – at least today – the only way to do that is usually to contact a dealer and arrange a test drive. In addition, dealers create trust because they are directly related to the brand and also support the customer throughout the whole lifecycle by offering service.

## Support for the status quo

Both dealers and OEMs have reasons for preferring the status quo. Dealers want to remain the customer's primary point of contact, and argue for the status quo by citing the unique sales experience that can only be delivered by local, hands-on sales techniques and with the product available onsite.

OEMs find it difficult to put their confidence in other channels. They must ensure that their highly emotional product is being presented in a way that justifies the pricing, especially if it is a premium product. Many OEMs argue that an online channel can never create the customer-friendly experience that a real person at a dealership can – or communicate the same reassurance.

## Potential for change

From many consumers' point of view, however, dealers are not irreplaceable; 42% of **Cars Online** respondents would buy directly from the manufacturer<sup>4</sup>.

In fact, a rapidly growing number of consumers are already buying cars via independent online portals, though these are usually used cars. Popular portals include mobile.de in Germany, TrueCar in the US, and AutoTrader in the UK. This route has the greatest appeal for those consumers who have already done their own research (using a range of online and other sources) and do not feel in need of additional advice. The portals are strictly for buying, and do not provide an “immersive” experience in any sense.

It is not only buyers of used cars who do their own research. Increasingly, potential buyers of new cars are well informed when they contact a dealer. They will have researched online and read reviews and talked to people on social networks and forums.

<sup>3</sup> Cars Online 2014, page 13 –14

<sup>4</sup> Cars Online 2014, page 25

**This means that the dealer's role is transitioning from an information provider to an experience provider.**

Increasingly, they enrich information already gathered by the customers and use that to create emotion to finally trigger the purchase.

This evolution of the dealer's role suggests a way for OEMs to design an online sales model that meets their concerns and objectives. We'll say more about how to do this later in the paper.

## Hurdles to overcome in online sales

Apart from the importance they attach to dealers, OEMs have had other reasons for hesitation. First, some OEMs do not perceive any significant force driving sales of new cars online – they see no possibility of reaching a bigger market that way, for example. After all, anyone who wants to buy a car can come to a dealer, so (according to this reasoning) everyone is already catered for.

Another hurdle is the legal and commercial framework required. At the moment, OEMs rarely sell directly and so they do not have much of a sales framework in place; even if they do, the requirements for the online channel are different.

In addition, OEMs know that they face many specific practical challenges if they decide to change the classical sales model. These include the need to:

### **Create an attractive and comprehensive proposition for consumers:**

- Design attractive offers for the consumer that still generate profit for the OEM.
- Integrate test drives – which many consumers still require – into the process, for example via a test drive center that enables customers to test a car with similar or better features (to leverage the potential for up-selling).
- Handle trade-ins, estimating the credit that will be given for existing vehicles with a timely and unobtrusive process that is integrated with the online sales experience.
- Make realistic delivery promises – without a dealer, it could be hard to communicate and manage the uncertainty about delivery time that is inherent in automobile manufacturing.

### **Reconcile e-commerce with their wider business model:**

- Establish an online channel that can coexist with the dealer network – particularly challenging because of potentially conflicting interests.

### **Develop the necessary IT support:**

- Integrate existing IT systems, e.g. order management and production, into online systems – this is likely to be complex and time-consuming.

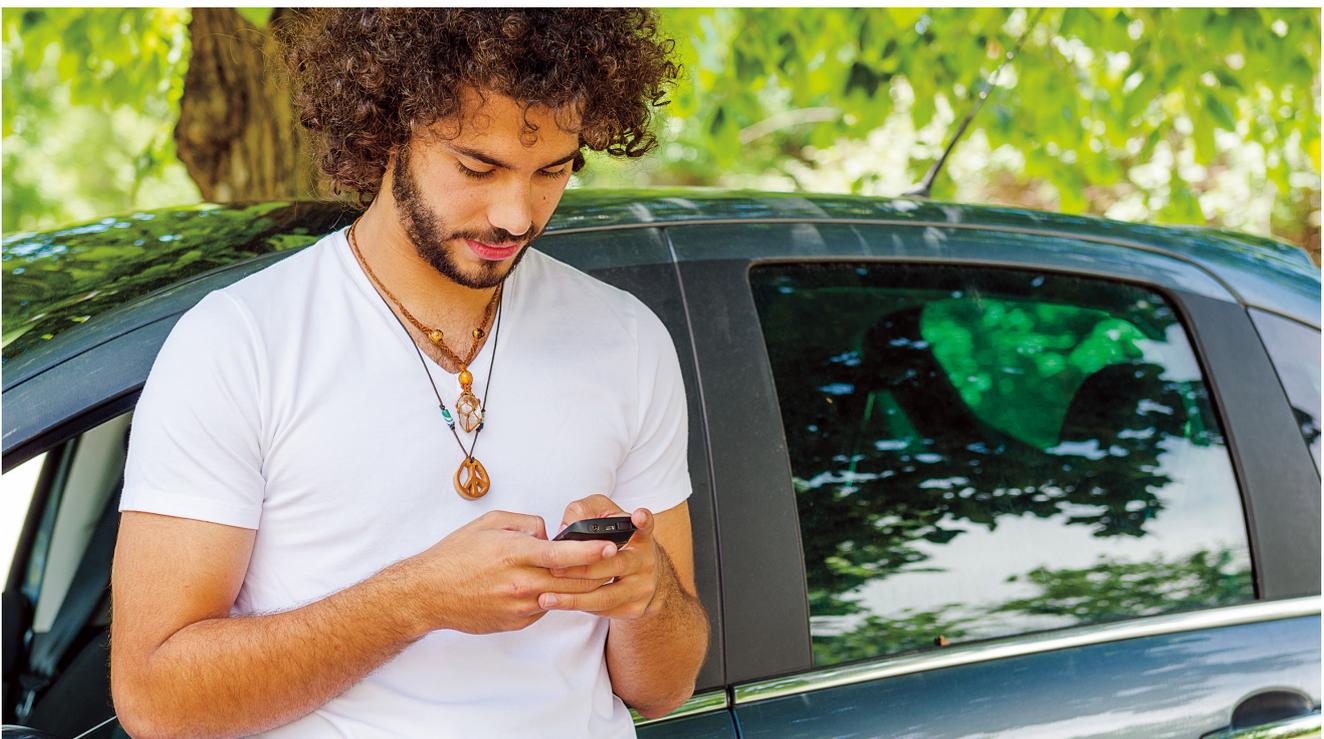


- Put in place payment processing: one of the most significant challenges. Standards used in e-business (such as PayPal or credit cards) are not adequate for high-value transactions such as car sales, and so new methods may need to be established after detailed investigation of the requirements.
- Incorporate financing and leasing options into the online process, since most consumers do not pay for cars with cash.

**Meet legislative and regulatory requirements:**

- Deal with local laws. For example, in the US there are Federal requirements to sell through dealerships, while Germany imposes a 14-day take-back obligation for the consumer, guaranteed by law when purchasing online. OEMs would have to take back cars that had been used for two weeks, and roll back the contract, even if the car had traveled thousands of miles during those two weeks.
- Comply with demanding regulations regarding the security and privacy of customer data; those relating to online sales can impose especially high standards.
- Obtain the necessary permissions and licenses. For example, in China a separate license is needed to sell cars online.

All in all, adoption of online sales has been a difficult proposition for many OEMs to contemplate. However, many realize they must act soon, and fortunately there are ways to go forward. We outline one approach below.



# Making online sales part of an end-to-end experience: one approach to a solution

Volvo Cars launched the All-New XC90 First Edition exclusively online. This launch aimed to re-position Volvo to compete with top-tier premium brands. A digital commerce solution was established and launched in 29 markets. All 1,927 uniquely numbered cars sold out in an astonishing 47 hours<sup>5</sup>. Alain Visser, Senior Vice President, Marketing, Sales and Customer Service of Volvo Car Group, said at the time: “We are creating an online ecosystem that simplifies the process of shopping for, buying and owning a Volvo. We also see the introduction of the new XC90 as the perfect platform for introducing a new, outstanding customer experience, which we are rolling out globally.”<sup>6</sup>

There is no doubt the hurdles just discussed can be overcome, and in fact some companies are showing that automotive e-commerce can work in today's consumer landscape.

## Alternatives to services currently provided by dealers

Early experience shows that the advantages of dealers can be translated into services that the OEM can offer directly. In fact, what consumers trust is not the dealer, but the OEM's brand. This means that the OEM can create the same level of confidence as the dealer by creating an intelligent multi-channel experience reflecting all of the brand's emotional aspects. E-commerce experience from other industries can suggest additional ways to build trust.

A number of specific services that are currently provided by dealers need to be catered for differently in the online model (figure 2).

In each case shown in the diagram, there is an alternative, described below:

**See the vehicle in real life:** This can be achieved by showrooms in good central locations.

**Test drive vehicle:** This need can be met by well-stocked test drive centers located somewhat outside the city. The test drive can be booked online based on the configuration of the desired car so that it's part of the overall experience.

**Negotiate price:** This might need to happen face-to-face or over the phone.

**Get personal advice, and get additional and detailed information on the car and services:** These can be provided by a sales agent who acts as a single point of contact for the buyer via online chat – discounts could be offered to encourage people to choose the online option.

In addition, **the delivery of the vehicle and the handover to the customer** are highly specialized services, not comparable with standard e-commerce processes. They can be performed by a dealer or an independent party as an additional service.

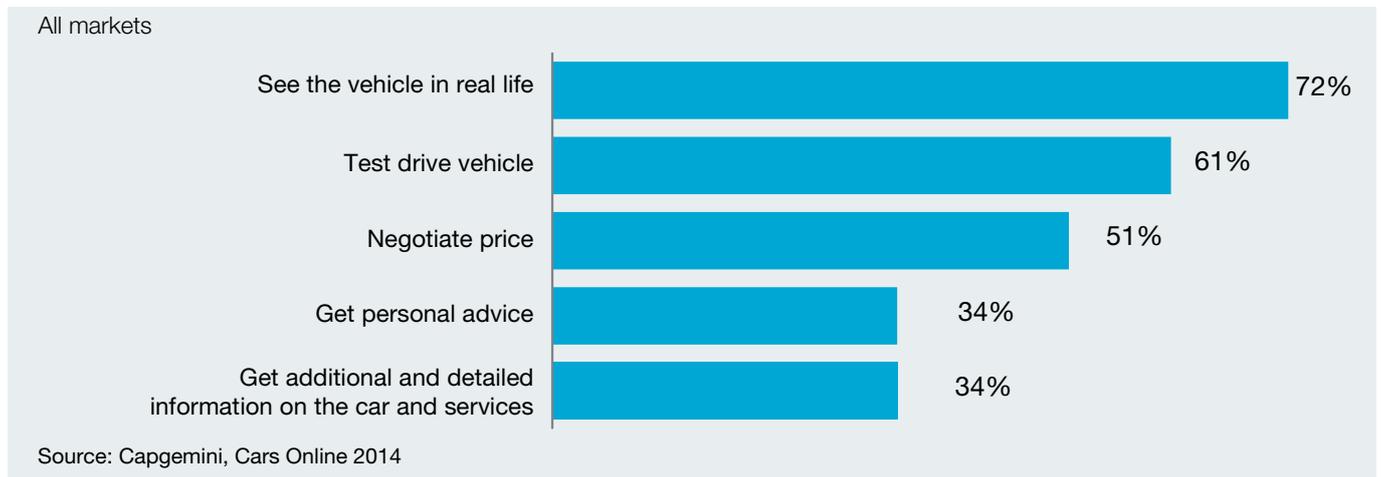
## A hybrid sales model

We do not expect to see dealers disappear – instead online sales will be an additional option within an expanded sales model. The way dealers work with customers will change as a result – they will act less as advisers and more as intermediaries and agents for the OEMs. Some dealers may continue to provide experiences such as test drives and delivery, but probably not own the entire

<sup>5</sup> <http://www.leftlanenews.com/volvo-xc90-first-edition-sells-out-in-47-hours.html>

<sup>6</sup> <https://www.media.volvocars.com/global/en-gb/media/pressreleases/149590/all-new-volvo-xc90-1927-limited-first-edition-cars-available-only-via-digital-commerce>

Figure 2: Main reasons for visiting a dealer other than the actual purchase



handover process. They might participate in big city showrooms that provide more of an “emotional sale”. The way they are remunerated may also shift away from reselling at a markup and towards a commission-based agreement.

There is a range of possibilities here and OEMs and dealers will need to work together to decide how they can continue to collaborate for mutual benefit while improving customer experience.

### A staged approach to introducing online sales

Capgemini recommends a staged approach to implementing both business and IT aspects of online sales, which helps to address many of the challenges outlined above.

By focusing first on a limited selection of preconfigured cars, the order process is kept relatively simple and delivery times can be speeded up. There is an opportunity to bundle vehicles with leasing, insurance, service contracts and so on, making them very attractive to consumers. The model can then be refined over time.

The exact sequence of events will depend on the individual situation, but what follows is one possible approach to staged introduction of an online channel. It is obviously important to choose the right market in which to launch an offer like this. It is likely to work best in, for example, Asian markets where two conditions are met: first, demand for online sales is high; and second, consumers are also more willing to buy from stock.



### **Step 1: Online sales for stock vehicles that have already been produced**

First the OEM can make more standardized or preconfigured cars which can be sold online from stock. Discounts on the car or on service contracts can be granted to encourage online purchases.

The business challenge here is to create enough product variety to meet customer demands and provide the right attractive offers but at the same time minimize storage cost. It will also be necessary to adjust or clarify the legal and contractual framework for online selling.

The IT challenge is to set up a stock platform, or adapt an existing one, to enable an online front-end system to search for available cars, and to integrate payment processing systems into the front-end.

It's also worth thinking about providing compensation for dealers, to encourage them to participate in the process even though they are selling fewer cars. For example, if a car stored by a dealer is sold online, they could be paid an incentive.

### **Step 2: Add stock vehicles that are in the manufacturing pipeline**

In addition to selling finished vehicles, the OEM can start to offer unfinished stock vehicles that are still in the manufacturing process but will be ready in three to five days. These vehicles have a high adherence to the delivery date, because they are already being built and can be provided relatively quickly. The OEM takes no additional risk but enlarges the supply for customers to choose from. Storage requirements are minimal.

From the IT point of view, this would require integration of order systems with the online sales front-end so that the order systems know when the vehicle has been sold and do not sell it a second time through the normal offline channel.

### **Step 3: Build to order completely online**

Next the OEM can enable individual online customers to order vehicles to be built to their specification. This would bring the customer the ultimate flexibility of being able to customize a vehicle fully, maybe drawing on the experience of a test drive (see below).

A challenge here is to determine the delivery date. As noted earlier, today dealers give just a rough estimate; the online system would have to be able to manage customers' expectations in a similar way. From the IT viewpoint, this would require deep integration of ordering systems, including this ability to make an immediate statement about the delivery date.

### **Integration of test drives**

At some point in the progression described above, the ability to provide test drives would need to be added. By connecting the process of configuring a vehicle online with the ability to book a test drive with a vehicle that has similar features, the OEM creates a huge opportunity for upselling. The vehicle provided for the test drive can demonstrate features that the customer is not aware of but that they may want to add to their order after experiencing them. After the test drive the (perhaps modified)

configuration of the car can be used to search for vehicles that are already in stock and may therefore be available at a discounted price.

The IT requirement here is to develop a central booking system for test drives and perhaps integrate it with dealer systems, since dealers may provide the vehicles, for example via special test drive centers.

### **The best of both worlds**

The approach just described leads to a solution that integrates regional presence, including service and contact personnel, into an online buying experience, so that the OEM and its customers realize the benefits of online sales but lose none of the “personal touch” associated with the current model.

## Why now?

We believe that OEMs now have the opportunity to make online sales part of their next-generation sales model – and that they must start doing so now. While some OEMs may feel there is no significant force driving them to act, there is no doubt that customers increasingly want to buy online. As e-commerce as a whole progresses, consumers will increasingly come to expect the same type of service when they buy cars that they already can get from retailers and financial services providers.

Companies still have time to position themselves so that they are among the first to meet this demand, and so gain a major advantage over their competitors – some of whom may move in from outside the industry. In particular, each OEM must take advantage of its unique ability to leverage its brand online. The OEMs must also find ways to embed an emotional, expensive, complex product in an immersive online sales experience.

The question therefore is not “Why now?” but “How much longer can OEMs put it off for?” The answer is “Not long if they want to retain their market position.” The necessary technology platforms will take time to implement, and there will be a turning point where time will run out. If this happens, third-party players, acting outside the OEMs’ value chain, may rush in to fill the gap – as has already happened in industries like retail.



For more information on how our approach can help you start preparing for online sales, please contact:

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