

# Online B2C Sales for Automotive Suppliers



There is strong consumer interest in online purchase of automotive parts and equipment, particularly in growth markets. This looks likely to become a key aspect of how the industry operates, giving Tier 1 suppliers (Tier 1s) an important opportunity to strengthen their position. A number of challenges need to be tackled first, but these can be overcome provided the supplier thinks carefully at the outset about customer requirements, the most appropriate business model, and how to resolve conflicts with existing channels. Benefits include a stronger market position, access to additional feedback and information, improved customer satisfaction, and better use of working capital.

Given the unknowns in the marketplace and the tight margins to which automotive suppliers operate, there is a need to look for opportunities to strengthen the market position. One way to do so is by establishing direct relationships with the end-consumer, and online sales offers a way to do so.

In many industries, e-commerce has revolutionized the way consumers purchase products and services. For the automotive industry, however, digital channels are primarily used for research in the “interest” phase of the purchase cycle, unlike, say, consumer products and retail where buying online is common.

While OEMs still rely on the traditional dealership model for the bulk of new vehicle sales, suppliers of vehicle parts have been quicker to adopt online sales channels. Studies indicate that the B2C online auto parts market will become a \$20bn business in North America and Europe by 2020<sup>1</sup>.

## Challenges of online sales

As we’ve just seen, there are many reasons to sell online. However, it requires a significant investment of time and effort. At a strategic level, sales and marketing processes must transform from a predominantly B2B approach to a hybrid approach where B2B and B2C co-exist. The specific details will vary between enterprises, but suppliers will probably have to deal with the challenges listed below.

### Logistics services and distribution management

Logistics services providers are likely to play an important role in online sales of automotive parts. Customers will expect to be able to track shipment of parts they’ve ordered. As the volume of online sales increases, suppliers should consider partnering with logistics suppliers to rationalize transportation costs and to provide customers with options such as express

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Customers in growth markets are... keen to buy parts and accessories online, although those in mature markets are less so. Transaction speed and a wider selection of parts, along with lower price, are the main attractions for those in growth markets. There is an increasing sales opportunity for those who can meet these expectations.

Capgemini, Cars Online 2015 - The Selfie Experience  
[www.capgemini.com/cars-online-2015](http://www.capgemini.com/cars-online-2015)

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<sup>1</sup> <http://www.forbes.com/sites/sarwantsingh/2015/06/02/future-of-automotive-aftermarket-and-car-servicing-consumers-will-have-more-channels-to-shop-around/>

delivery and ship-to-store (see “Anticipate and manage channel conflict” below).

Quick delivery of parts and accessories is a strategic lever that can differentiate a company from the competition. Order-to-delivery cycle time and other business process performance indicators can be tracked to ensure continuous improvement of logistics. Special packaging and logistics will be required for temperature control units, oil level indicator units, and other fragile parts.

Modifications to the distribution chain will also be required to address the needs of consumers ordering online. Ideally, order fulfillment would be from regional warehouses located in cost-efficient areas. However, Tier 1s should consider partnering with selected existing wholesalers until volumes justify dedicated warehouses.

### Returns management

One aspect of e-commerce that makes customers hesitant to buy online is the returns policy. To overcome this obstacle, it's necessary to make sure that returns processes are transparent and convenient, with any financial charges or fees made clear before purchase. If the parts delivered are not the ones that were ordered, or if they are defective, quality-assured replacements should be provided.

Providing an online chat option for customers to verify part numbers and confirm order details can help to ensure that the right items are delivered on the first attempt, minimizing returns. Similarly, monitoring customer feedback will increase the supplier's understanding of evolving marketing needs and gaps in the product portfolio.

### Dedicated IT infrastructure

It will probably be necessary to introduce a dedicated sales portal with real-time support for payment processing and expert advice to address customer queries. This will require its own infrastructure, distinct from the existing infrastructure used for managing sales via distributors and retailers.

However, the new features need to be integrated with existing order management, production management, and inventory management systems. Along with this integration, up-to-date parts information and high system availability are key factors for avoiding lost sales.

Hand-held devices will be increasingly used in the future. However, a “mobile only” strategy is not recommended as people will still expect to be able to carry out transactions via web portals.

### Parts installation services

After purchasing parts online, customers will need to arrange installation services, including fitting of the parts, vehicle performance checks, problem diagnosis, and miscellaneous advice. By providing information about these services, or

arranging them on customers' behalf, it becomes possible to develop unique value propositions.

The supplier itself could deliver the services, either directly or through tie-ups with garages, retailers and other service providers. India's TyreOnWheels.com, for example, is a service that delivers and fits replacement tires. During order placement, consumers are asked to choose between (a) delivery only, (b) delivery and free service at a fitting center, or (c) delivery and service through a mobile tire-fitting team, for an additional charge.

Another option is offered by new business models based on “service aggregation”: connecting customers with service technicians on the basis of geographic proximity and estimated costs. Examples include RepairPal.com in the US and WhoCanFixMyCar.com in the UK.

In the long run, online sales of parts is likely to be more successful if it is supported by a fully connected digital service value chain. This will need to include tools like digital repair guides, computer-assisted remote diagnostics, predictive maintenance, and location-based service.

### Regulatory requirement fulfillment

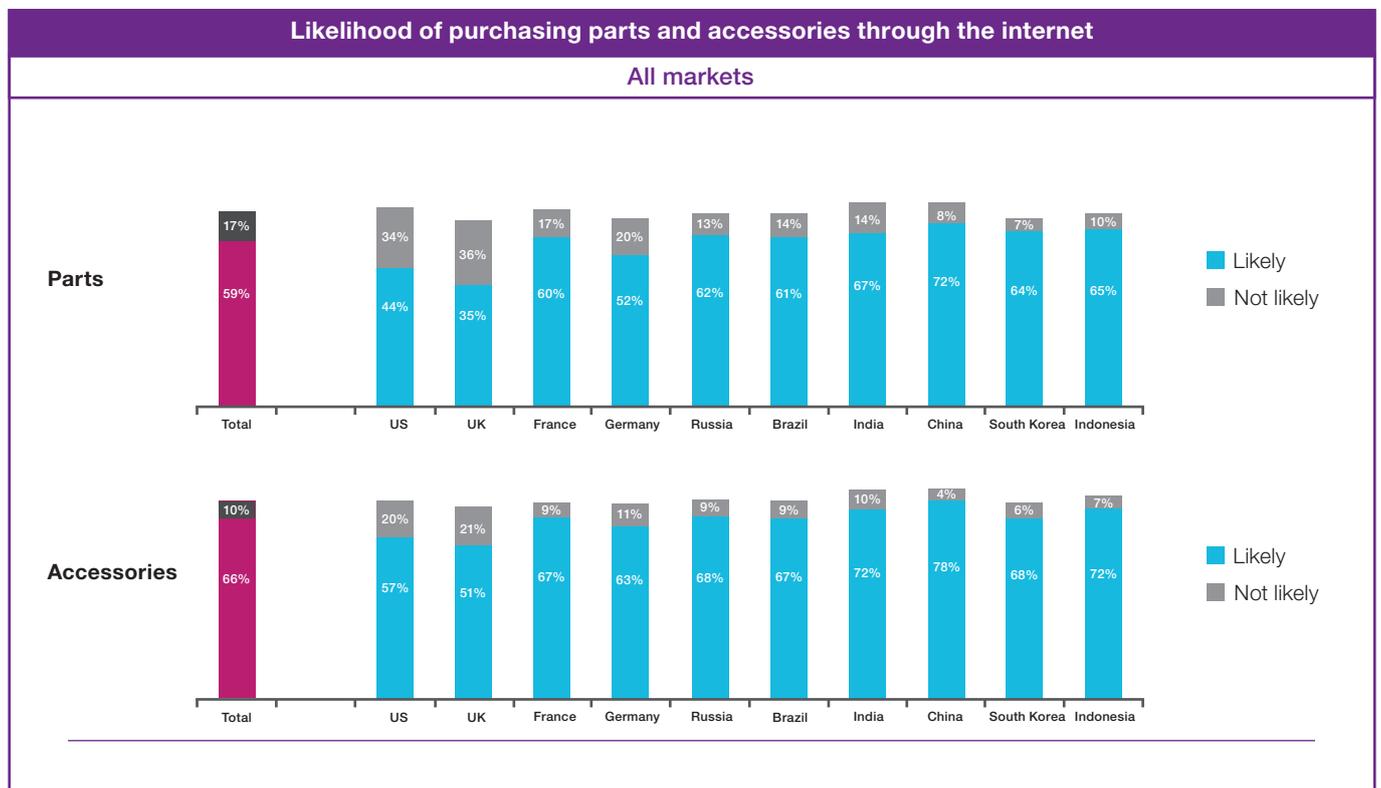
Suppliers need to comply with existing regulatory frameworks for e-commerce. For example, Germany imposes a 14-day take-back obligation, guaranteed by law when purchasing online. The China Compulsory Certification (CCC) is required for selling automotive parts like safety belts, tires and windshields in China.

### Environmental sustainability

An additional way to create a distinct brand identity is to provide facilities for recycling used parts. These could be collected from dedicated pick-up points or shipped back to the supplier through a partner network. The returned part can be recycled, i.e. remanufactured for future use. A part of the purchase cost can be refunded to the customers depending on the condition of the reusable core. For example, Napaonline.com provides a refund for returning acceptable used cores for water pumps, air conditioning compressors etc.



Figure 1: Likelihood of buying parts and accessories online



Source: Capgemini, Cars Online 2014 - Generation Connected: <https://www.capgemini.com/cars-online-2014>

## How to tackle the challenges

Online B2C auto part sales presents a number of challenges and requires significant investment. Before embarking on this journey, it's important to understand customers and their motivations, so as to be able to choose the right business model and (where applicable) the right partners. Consideration must also be given to managing potential conflicts between direct sales and traditional channels.

Below we discuss ways to resolve some of these issues.

### Know your customers

Capgemini's Cars Online<sup>2</sup> research shows that interest in purchasing parts and accessories online is high (figure 1). At

a global level, approximately 60% of survey participants say they are likely to purchase parts online. This increases to 66% when the question refers to accessories. Only around 10% of participants are unlikely to purchase accessories online.

Geographically, interest in online purchase is highest in China and India for both parts and accessories. In contrast, around 33% of US and UK participants are unlikely to buy parts online and 20% are unlikely to buy accessories.

It's also vital to understand customers' reasons for buying online. Our research shows that the primary reason customers want to buy online is to get price discounts – mentioned by about 50% of survey participants (figure 2). However (and perhaps more significantly for parts suppliers), speed and

<sup>2</sup> Capgemini, Cars Online 2014 - Generation Connected: <https://www.capgemini.com/cars-online-2014>

Figure 2: Reasons for purchasing online



Source: Capgemini, Cars Online 2014 - Generation Connected: <https://www.capgemini.com/cars-online-2014>

ease of transactions is cited as the primary reason by around 25% of participants. This finding emphasizes the value of website and customer journey design, and also of channel development and parts pricing. Having access to a wide selection of products and accessories is identified by another sizable group of respondents as their top reason.

### Choose the right business model for e-commerce

Consumers can be reached through multiple channels. For example, a supplier can start selling online by creating a dedicated portal, listing products with an online-only retailer such as Amazon, partnering with a dealer or automotive retailer, or acquiring an existing online retailer. Each option offers unique benefits, but also has specific constraints.

**Creating a dedicated portal.** This option offers the freedom of developing customized workflow and messaging, enabling quick and easy purchasing with undivided profits. It offers the important benefit of brand equity, which would build over time and help to attract and retain customers. Equally important is access to detailed customer information, which is critical for

circulating newsletters and running promotions. A possible downside is the amount of time required to attract sufficient business to break even; another is the investment in time required to keep the site up to date, fresh and free of errors.

**Listing with an online-only retailer.** The benefits of this approach include availability, global reach, and a large amount of online traffic. The largest online retailers also provide an element of trust and credibility, and the reassurance of a repeat shopping experience. The predominant way to compete with other businesses using the same channel is price, which would have an adverse impact on margins. There are costs in the form of the monthly subscription, and the closing and referral fees levied by these retailers.

**Partnering with an automotive retailer.** The Cars Online research shows that customers purchasing parts and accessories are most likely to use an automotive retailer website (figure 3) rather than independent sources, or manufacturer and dealer websites. Disadvantages include the fact that profit margins are reduced by the retailers' share, pressure on working capital due to the trade credit offered to retailers, and a risk of diminished brand equity if the retailer doesn't position the product correctly with respect to the competition.

**Acquisition.** Another way to embark on the e-commerce journey or further strengthen an existing online presence is through inorganic methods such as acquisitions; for example, Michelin has bought a 40% stake in the French online tire retailer Allopnus.

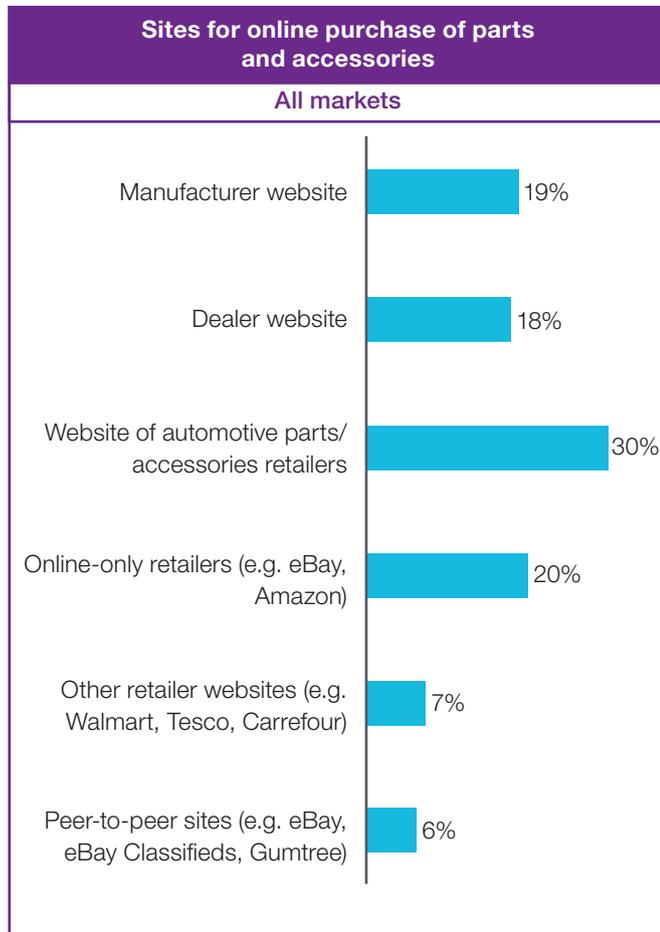
Whatever channel is chosen, online shopping needs to be fast, straightforward and integrated. Purchasers want to find the parts they need quickly, get comprehensive product information, and pass smoothly through the checkout. Performance indicators such as bounce and conversion rates, and the cost of acquiring new sales, can be monitored to guide the evolution of the online sales channel.

### Differentiate your company from the competition

E-commerce can help a company reach a wider, perhaps global, audience. However, because online options reduce switching costs, the risk of customer attrition increases. Hence it is essential to build a differentiated business model that will enable an improved user experience and bring back customers for repeat sales. This can be done by:

- Partnering with logistics providers like FedEx, UPS or DHL who could store quantities of popular parts to enable faster shipment. This would help reduce warehouse overheads and improve margins.
- Applying data analytics to customer history, to provide intelligence on parts promotion and on cross-selling and up-selling opportunities. Analytics could also be performed on sales data to uncover insights into buying patterns and

Figure 3: Sites for online purchase of parts



Source: Capgemini, Cars Online 2014 - Generation Connected: <https://www.capgemini.com/cars-online-2014>

value drivers for consumers; such insights could be offered as a commercial service.

- Innovating on parts delivery and installation. Customers could choose to receive parts at their preferred location within a specified time frame, or collect them from local stores at a convenient time. Optional extras could be offered, such as an installation service for purchased parts. These could be proposed to the customer at the time of purchase, or separately via a promotional voucher, along with satisfaction guarantees.

- Providing technology tools that make ordering easy. The tools could be in the form of smartphone and tablet apps. For example, apps that help with automatic recognition of automotive parts would reduce the amount users need to know about the parts, and hence increase the potential customer base.
- Generating insights on the basis of vehicle performance data. The rise of connected vehicles has made the vehicles into nodes on the network<sup>3</sup>. A vehicle constantly generates data about various aspects of itself, including its health. By leveraging this data, it becomes possible to alert customers when a part needs to be replaced, and at the same time to send them purchase offers.

### Anticipate and manage channel conflict

Tier 1 suppliers use multiple sales channels. OEMs and vehicle dealers comprise the direct sales channel, addressing new car sales and service center repairs respectively. The indirect sales channel consists of wholesalers/distributors and retailers. Online sales would affect both direct and indirect channels, but the impact would be low for OEMs and dealers, and high for the wholesalers/distributors and retailers.

Consequently, online auto parts sales raises the possibility of conflict with existing indirect sales channels (wholesalers/distributors and retailers) and the direct sales channel of e-commerce. As we've seen, customers' primary motivation for shopping online is often price discounts, but it is also necessary to consider existing relationships with retailers and distributors.

Finding the right balance can be a challenge. Providing deep discounts through online channels is likely to increase the product's market share, but can also antagonize existing indirect channel partners, who may stop recommending the brand to customers. On the other hand, if the online price is not sufficiently attractive, customers are likely to choose rival products.

One way to address the concerns of retailers and distributors is to make them partners in the online sales process. For example, retailers can offer customers the convenience of ship-to-store, cross-sell additional items, and offer services for replacing or changing parts. They can also serve as a node for collecting used parts. These can be shipped back to the manufacturer via distributors for recycling.

<sup>3</sup> <https://www.capgemini.com/resources/automotiveconnect-driving-digital>

## Current examples of online sales

- **Bosch's online sales portal** at Chinese e-commerce site TMall.com has a product catalog that includes batteries, bulbs, lamps, filters, spark plugs, brakes, drive belts, horns, starters and alternators.
- **Amazon.com** currently offers automotive products in a wide range of categories including Performance Parts & Accessories, Replacement Parts, Tools & Equipment, Interior Accessories, Exterior Accessories, and Wheels & Tires.
- E-commerce already exists for tires and for parts involved in vehicle maintenance such as filters and brakes, and is likely to achieve greater market penetration in the next few years. Examples include **Allopneus** in France and **Blackcircles** in the UK.

## Next steps

Developing online sales does require some planning and effort, but we believe that tackling this now will pay dividends in the future. With an ever-increasing digital target market, and growing consumer demand for a more streamlined service, there should be a rapid return on investment. Digital channels have the power to transform product value chains by connecting the parts supplier directly with consumers. Suppliers who understand the unprecedented opportunities available through digital transformation, and who are willing to initiate online sales, are likely to benefit tremendously in future.

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