CAR DEALER OF THE FUTURE
Reinventing the distribution model
You’d have had to be hiding under a large rock to miss the changes happening in the automotive industry. In fact, it is probably one of the most exciting industry sectors right now, as it is experiencing an intense period of innovation, arguably only witnessed previously some 80 years ago when Henry Ford started mass production.

A gap of $116bn* between current automotive experience and best-in-class retail has been identified.

There are new market realities that are challenging the conventional dealer model.

The auto industry can respond to the challenge by **switching on growth**.

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Research suggests that the gap between best-in-class retail experience and the current automotive experience is worth $116bn (10% of the Automotive Manufacturers combined Enterprise Value)*

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*Source: HBR 2015 - Why strong customer relationships trump powerful brands and BrandZ tracking data
Over the last 80 years, enhancements in technology and engineering have transpired, resulting in anti-lock braking systems, satellite navigation, and fuel efficiencies, to name but a few.

Over this same time period, there has been little innovation in the distribution of vehicles, with traditional dealerships still being the dominant route to market. The way we finance a car (e.g. growth of leasing rather than buying) has shifted but the basic model of large car manufacturers selling their stock to dealerships who then sell to consumers, has remained broadly static.

Yet the world around dealerships has changed significantly.
Three Shifts That Challenge the Conventional Dealer Model:

**SUSTAINABILITY**
The negative impact that non-sustainable technologies have on the planet is increasingly visible in people’s personal lives and experiences. In turn, policy is steering people to take sustainability seriously. It’s likely that the younger generations won’t want to be associated with a car unless it is fuelled by green energy.

*Will dealers be ready for the onslaught of new greener energy?*

**CHANGING VALUES**
The definition of status and success is changing. New symbols of success are emerging, like health and experiences, which are throwing into question traditional ways of expressing success, such as through material possessions. A more complicated and nuanced understanding of status is created as consumers have access to an increasing number of success symbols. This would suggest that future generations may not see the car as a status symbol and therefore impacting the value that they place on them.

*How will dealers create experiences that meet these new consumer needs?*

**ACCESS, NOT OWNERSHIP**
The focus has shifted away from the car towards the benefit it gives. In a world of digital networks, people can access many of the benefits of transport without having to travel. Online buying and telecommuting are two obvious examples. We are already seeing shifts in the dealership model as customer’s move from ownership to leasing, changing the decision making for the vehicle in the aftermarket – consumers increasingly become less engaged with the vehicle, and this is likely to create the greatest chance for a channel disruption as the lease companies seek new ways to maintain vehicles. For dealerships, they will need to consider what business they are now playing in.

*Will it be transport or connections?*
AUTOMOTIVE TECHNOLOGY

**ELECTRIFICATION**
The dawn of a new era is now in sight with three in every five cars likely to be electric by 2030*. Growth has accelerated as consumers become more accepting of battery operated cars, largely due to its sustainable credentials and government incentives. Auto manufacturers can also produce these cars more efficiently due to the falling price of the battery itself. The difficulty for the auto industry will be transitioning to this new powertrain, as some markets will move faster than others. The charging infrastructure will need to be robust, easy and efficient for consumers and particularly for those on long journeys. Travellers will have at least 20 minutes of downtime whilst their vehicle charges.

*What role could the dealerships play at these charge points?*

**CONNECTIVITY**
Cars that connect to the internet give the driver access to music, movies, traffic updates, and also hold valuable information about the individual. Car manufacturers are certainly looking to embrace this change; “We’re moving from being just a hardware provider to being a hardware, software, and experiences provider.” says Don Butler, Head of Connected Vehicle and Services for Ford Motor Company. By 2040, 65 percent of the world’s population will be living in cities which will be connected via sensors and networks**. Drivers will be able to manoeuvre their way around the city more efficiently with real-time transit data and instant notifications on parking spots.

*How can car dealers be the conduit between car data and connected city data to improve the overall driving experience?*

**AUTONOMOUS DRIVING**
As urbanisation makes our cities even larger and the sharing economy allows new mobility models to prosper, autonomous vehicles offer a valid alternative to congested roads and overcrowded public transport. Technology advancements and improved safety, suggest it could be a reality sooner than we think, with most of the leading car manufacturers hoping to offer their version by 2020. The implications on city transport, congestion, ride sharing and deliveries are huge.

*Could autonomous vehicles eventually replace public transport and what implications would this have for the auto industry?*

**SMALL BOX**
Larger format stores in retail are struggling to grow and as more of their sales move to online, they have too much space in store. Retailers are being inventive to try and utilise their space more efficiently. It’s the smaller stores in urban and neighbourhood centres that are thriving. We are all shopping more often, preferring to buy a little and often rather than the traditional ‘big shop’. Shoppers are seeking convenience and solutions rather than products. The vast majority of auto dealers sit on the outskirts of towns and suburbs, not necessarily where the people are.

*How could auto dealerships use their real estate more efficiently and implement a smaller more urban format?*

**ONLINE**
Seamless, frictionless and all done by a few taps of a mobile phone is how today’s shoppers expect their experience to be. Online continues to sky rocket, albeit from a small base for some industries. Paperwork is a thing of the past with next day and hourly deliveries fast becoming the norm. The auto industry has a long way to catch up.

*How can the dealer network leapfrog these new norms and truly delight their customer base?*

**MICRO RETAILING**
Consumers are constantly connected. Dependent on time, urgency and need, they expect solutions that grant access to their preferred brands however, whenever and wherever they choose. This has given rise to a plethora of on-demand services that satisfy the need for instant gratification. The result is speed wars. This is a new era, the era of micro retailing. Whoever develops scalable and sustainable solutions that satisfy these high expectations, will win shopper loyalty.

*How can the dealerships create a micro model to service their customer base?*

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*Source: Bloomberg - New energy finance report 2017  **Source: UN organisation statistics - Jul 2014*
HOW CAN WE RESPOND TO THE CHALLENGE?

The implications for the dealership model are clear. The retail landscape has moved on and so have shoppers expectations. The current distribution model for the automotive industry is dated and needs to transform quickly.
How can the auto industry navigate such high levels of change in an economic environment where growth is hard to come by? It is certainly getting harder to find growth in conventional places.

Switching on growth means the real story is that growth has shifted. The problem is not a lack of opportunity but the continued reliance by many companies on business models built for yesteryear are unsuited for tomorrow’s growth.

Previously growth was all about mass opportunities that only big companies could profitably capture and scale. Growth was big, but now growth looks small. Growth is about niche opportunities that small companies can better and more agilely respond to and capture. The advantage of size has been lost to outsourced production, expanded retail options and digital marketing channels.

The auto industry has up until now, largely focused on consumers, retail and technology in isolation. By combining these three elements the industry could switch on significant growth. At Kantar Consulting, we believe in W.H.O.L.E Demand; a way to switch on growth in even the toughest of industries.
INTRODUCING THE W.H.O.L.E DEMAND FRAMEWORK TO UNLOCK GROWTH

There are 5 ways to help switch on growth:

**WIDE-ANGLE LENS**
Seeing the whole marketplace, especially the future ahead

**HUMAN CENTRIC**
Focusing on the whole person, especially lifestyles not just consumption

**OPTIMISING VALUE**
Turning the whole enterprise into an engine that unlocks power for growth

**LEARNING OBSESSED**
Building a whole understanding using rapid, smart systems

**EXPERIENCE CENTRIC**
Centering the whole value proposition on experience

Key Growth Initiatives for the Auto Industry:

**WIDE-ANGLE LENS**
From Going Solo to Working With Partners
Cultivate curiosity about bringing things together. But don’t think you can go it alone. Stick to your core skill set and use a partner’s expertise to complement and enhance your products and services.

An example from the wider world: **IKEA and UBER**:
For Thanksgiving this year in the U.S., IKEA extended its partnership with Uber to provide customers with everything they would need to host a Thanksgiving dinner; from IKEA plates to the turkey with all the trimmings, Uber delivered.

**HUMAN-CENTRIC**
From Dealer to Mobility Advisor
Look to humanise connections, personalising the linkages between the consumer’s world. When we no longer own a car and seek mobility solutions that vary by day, the dealer needs to take a more active role as trusted advisor for their broader lifestyle needs.

An example from the wider world: **Rapha**:
The Rapha Cycle Club is a serious shopping spot for biker enthusiasts looking to get their fix of style-conscious yet still performance-ready apparel. It blends retail with leisure seamlessly, hosting events in store. It has successfully created a cycling community that offers value far beyond the products being sold including organising holidays for bike enthusiasts as well as community led events.
OPTIMISING VALUE
From Traditional Models to New Thinking

Becoming efficient and inventive on how to deliver real customer service will be critical. The recent evolution of the ‘sharing economy’ enables people to get more value out of the things they own by lending and renting them to each other. Whilst many will still need transport, they will want it on their terms, when they need it, without having the long-term running costs of owning a car. This means the traditional role of the dealership will need to change, with a focus on fleet and logistics management.

An example from the wider world: Alibaba:
Alibaba’s entry into Russia may seem unimportant if you are selling drinks or snacks, but consider the fact that in just 18 months they have become the number one retailer for automotive parts in Russia. They are dominating B2B cross-border trade from China (number 1 by a long distance), but increasingly from the U.S.A., UK, Germany, Spain, France, Italy and Australia.

LEARNING OBSESSED
From People to Person Free

Learn faster than humans by focusing on automation algorithms and Artificial Intelligence (AI). Auto firms should consider offering their customers consistently high value services but not necessarily needing this to be delivered by a real human being.

An example from the wider world: BingoBox:
Tech start-up BingoBox’s staff-free, 24/7 store is entirely facilitated by the WeChat platform. Completely automated, designed for easy relocation it can be digitally programmed remotely. Assortment is also managed by WeChat A.I.

EXPERIENCE CENTRIC
From Painful to Effortless Experiences

This involves making the experience joined up in every way possible, and removing the pain points along the customer’s path-to-purchase. Bringing the service to the customer will become the norm, making it hassle free, paper free, quick and easy.

An example from the wider world: Monzo:
The new breed of “fintech” players are disrupting the strict and formal rules of the financial services category. They are engaging in a fun and playful approach to banking, removing the red tape and making it simple and easy, offering smart and simple solutions to optimise everyday life. You can have a credit card in your hand in less than 48 hours with very little paperwork.
STANDING STILL IN THIS SECTOR IS NOT AN OPTION

Best practice retail already exists in other segments. Consumer and societal expectations are changing. To switch on growth the current dealership and distribution model must adapt.

If you’d like to know more, we can help. Here are some questions that we could help answer:

- **BUSINESS/CATEGORY VISION & STRATEGY**
  - What business are we in today and what business will we be in tomorrow? How do I evolve my business model in this environment? What impact will new ‘access’ not ownership models have on our industry?

- **ORGANISATION CAPABILITY**
  - How do we recruit and retain the right talent in an industry changing exponentially?

- **GO TO MARKET STRATEGY & EXECUTION**
  - Are we delivering the right mobility solutions in the right place and at the right time? What do I do with my current dealer model? What new distribution models could we use?

- **BRAND STRATEGY**
  - Does our brand still appeal to the right audiences?

- **INNOVATION**
  - How do we approach innovation in a category that is changing radically?

- **ORGANISATION CAPABILITY**
  - Is our brand represented consistently across channels? How do we improve customer service and improve brand experience?